

MEETING

STATE OF CALIFORNIA

HORSE RACING BOARD

In the Matter of:                    )  
  )  
Regular Meeting                        )  
  )

ARCADIA CITY HALL

240 WEST HUNTINGTON DRIVE

ARCADIA, CALIFORNIA

THURSDAY, OCTOBER 26, 2006

9:00 A.M.

Reported by:  
Troy Ray

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

APPEARANCES

COMMISSIONERS

Richard B. Shapiro, Chairperson

Marie G. Moretti, Vice Chairman

John Amerman

John Andreini

William A. Bianco

John C. Harris

Jerry Moss

STAFF

Ingrid J. Fermin, Executive Director

Jacqueline Wagner, Staff Services Manager I

Wendy Voss, Assistant Chief of Administration

Derry L. Knight, Deputy Attorney General

John Reagan,

ALSO PRESENT

Ron Charles, Magna Entertainment Corporation

Rick Caruso, Magna Entertainment Corporation

Frank Dimarco, Vice President & General Counsel, Santa Anita

Jack Liebau

Ed Halpern, California Thoroughbred Trainer

Ron Bloenig, Los Alamitos Race Course

Joe Barkett, Solano County Fair, representing CARF

Drew Couto, Thoroughbred Owners of California

Forrest White

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APPEARANCES CONTINUED

ALSO PRESENT

Terry Fancher, Hollywood Park and Bay Meadows

Rick English, CPA

Scott Daruty, Magna Entertainment Corporation,  
Santa Anita Park

Shane Gusman, Law Offices of Barry Broad, on behalf of the  
Teamsters, Unite Here and the Jockeys Guild

Lee Hall Sr., 1877

Craig Fravel, Del Mar

Richard Mandella, Horse Trainer

Rod Blonien, Hollywood Park and Los Alamitos

Jerry Jamgotchian

Charles Champion, Youbet.com

David Nathanson, TVG

John Hindman, TVG

Ron Turovsky, TVG, Outside Counsel

Cathy Christian, TVG, Outside Counsel

Scott Solomon, Youbet.com

Albert Cristofano, Southern California Horse Racing Fans  
Committee

Dr. Ed Allred, Los Alamitos

Dan Schiffer, Pacific Coast Quarter Horse Racing Association

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## PROCEEDINGS

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EXECUTIVE DIRECTOR FERMIN: We are going to start the meeting. We are not going to start with closed session this time. We are going to go right into the meeting so if we could please have everyone sit down. Ladies and gentlemen, will the meeting please come to order. This is a regular meeting of the California Horse Racing Board on Thursday, October 26, 2006, at Arcadia City Hall, 240 West Huntington Drive in Arcadia, California.

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Present at today's meeting are Chairman Richard Shapiro, Vice Chairman Marie Moretti, Commissioner John Amerman, Commissioner John Andreini, Commissioner William Bianco, Commissioner John Harris, and Commissioner Jerry Moss.

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We will not be going into the executive or closed session first. We have decided that we are going to handle that after the meeting. So I would just like to remind everyone that we would like to have you be sure to state your name clearly for the record and also if you have business cards it is always helpful that you submit those. And I'd like to turn it over to Chairman Shapiro.

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CHAIRPERSON SHAPIRO: Good morning, everybody. We obviously have a pretty full agenda today and therefore I am going to try to move the meeting along as quickly as possible. There are two items that will not be heard on the

1 agenda today. And for the record those items are the  
2 withdrawal of the safety vest item, which is number 11, it  
3 will not be heard, and also number 15. The discussion on  
4 the code of ethics we are going to defer to another, a later  
5 meeting. Otherwise we will try to get through this agenda.

6 The Board invites comments from the public about  
7 items on its agenda. It also invites public comment about  
8 items not on the agenda that are related to horse racing  
9 during the open comment period.

10 In order to assure that each individual who wishes  
11 to comment will have an adequate opportunity to do so, and  
12 also to assure that the meeting as a whole will be completed  
13 in a timely manner so that the individuals wishing to  
14 comment on multiple matters will not be required to stay for  
15 an unreasonable length of time I will strictly enforce the  
16 five-minute time limit for each person wishing to speak on  
17 any agenda item. The goal of this rule is to assure that  
18 each person's right to make their views known is not  
19 disrupted by another person's conduct.

20 In order to expedite the comment process there is  
21 a public comment sign-in sheet or cards for each agenda item  
22 on which public comment will be taken, as well as a sheet  
23 for comment about anything, or cards, related to horse  
24 racing that is not on the agenda. The sheets are located --

25 ASSISTANT CHIEF OF ADMINISTRATION VOSS: Right

1 here.

2 CHAIRMAN SHAPIRO: At the podium. Thank you,  
3 Wendy.

4 After the initial statements from staff and  
5 interested parties I will ask for public comment. When I  
6 call your name please come to the podium to speak. I will  
7 let you know when your time has commenced, when there is one  
8 minute left and when your time is up. When your time is up,  
9 you will be expected to return to your seat so that I may  
10 call the next person waiting to the podium.

11 When all the names have been called, I will ask if  
12 anyone else has a comment on the agenda item who has not  
13 already spoken. At that point, the Board will not take any  
14 further comment on any item unless the Board has specific  
15 questions it wishes addressed.

16 In the interest of time and fairness to those  
17 wishing to speak repetitive statements are not desirable.  
18 Thus if a particular point has previously been made, please  
19 simply state that you agree with the prior speaker.  
20 Further, statements that are off the point of the agenda  
21 item or which address another agenda item will not be  
22 permitted.

23 If the time is up, I will ask the speaker to  
24 please take his or her seat. If it appears that the speaker  
25 is repeating what has previously been stated I will ask the

1 speaker if he or she has any additional comments to make.  
2 If not, I will ask the speaker to allow the next speaker to  
3 come to the podium, irrespective of the time remaining,  
4 unless a Board member indicates that he or she still wishes  
5 to hear from the individual.

6 If it appears that a speaker is not speaking to  
7 the agenda item or speaking to another agenda item I will  
8 ask that the speaker please return to his or her seat and  
9 address his or her comments at the appropriate time, either  
10 on the specific item or at public comment.

11 Having said that I now will move to item number  
12 one on our agenda, which is the minutes of the regular  
13 meeting of September 20, 2006. I ask if there are any  
14 comments from any members of the Board, any changes? If not  
15 then I am going to entertain a motion to approve them.

16 COMMISSIONER AMERMAN: So moved.

17 CHAIRPERSON SHAPIRO: It's moved. Is there a  
18 second?

19 COMMISSIONER BIANCO: Second.

20 CHAIRPERSON SHAPIRO: Second. All in favor?

21 (Ayes)

22 CHAIRPERSON SHAPIRO: They are approved.

23 Item number 2 on the agenda. This is a report by  
24 representatives of Magna Entertainment Corp. on proposed  
25 plans and improvements of its California owned racetracks.

1 Is somebody here from Magna? I guess not. There he is.

2 MR. CHARLES: Thank you. Ron Charles, MEC. Today  
3 we, we have been asked and are proud to present Rick Caruso  
4 with the project that he is working on, the Shops at Santa  
5 Anita, and so I'd like to introduce Rick Caruso.

6 MR. CARUSO: Thank you. Good morning,  
7 Commissioners, and thank you for the time this morning. I  
8 am going to try to make a brief presentation on what our  
9 plans are for the Santa Anita Racetrack called the Shops at  
10 Santa Anita. And to give you just a two second background,  
11 this project started about four years ago when Frank  
12 Stronach gave me a call after he had seen a project that we  
13 had recently completed called The Grove.

14 And I think in addition to the fact that he was  
15 impressed with the architecture and the layout he was most  
16 impressed and taken with what it had done for the original  
17 farmers market. If you have been there, it was built in the  
18 '30s on the corner of Fairfax and Third. At the time the  
19 farmers market, albeit a great place, had declined  
20 substantially in revenue and declined substantially in  
21 customers. The customer profile had changed. The new  
22 generation was not visiting the old farmers market and the  
23 retailers and the vendors in the old market were financially  
24 struggling.

25 Today the market is up over 200 percent in

1 business. There is a new generation of Californians and  
2 people around the country that now visit the farmers market  
3 and a new life has been breathed into it, which we are very  
4 proud of. Many of the people that have businesses in the  
5 old market have been there since the '30s in the same family  
6 so they have seen the success; they also saw the decline.

7           What Mr. Stronach said to me is he wants to do the  
8 same thing for his tracks, in particular Santa Anita. It is  
9 to breathe this new life and expand the stay in the  
10 racetrack, which will enhance the revenues, enhance the  
11 wagering, enhance the handles that go on in the track.

12           And so with that in mind that has been the guiding  
13 light. It is to build a project that would complement the  
14 track, support new business into the track and extend the  
15 stay at the track, which obviously would extend the amount  
16 of dollars flowing to the track, to the breeders, to the  
17 owners, to the trainers and extending enjoyment to the  
18 public.

19           So with that let me take you quickly through who  
20 we are because I think it's a little bit important. We are  
21 nationally recognized as being an industry leader in outdoor  
22 centers of properties such as The Grove. We have a company  
23 that is privately owned. I tell you that because I think  
24 it's important from the standpoint our decision-making  
25 process is very quick. At the end of the day it begins and

1 ends with me. I don't have any outside partners or  
2 investors. But Magna will be a partner in this project the  
3 way it is structured.

4 We focus on unique retailers. We are more upscale  
5 in what we do. We focus on flagship stores. If you come to  
6 our properties many of the stores are unique. We propose  
7 the same thing out here for Santa Anita. A good example is  
8 American Girl Place at The Grove, is one of three in the  
9 world and it will be the only one on the west coast. And  
10 we'll be opening a Barney's Co-op, which will be a first in  
11 the area at the beginning of the year.

12 In terms of performance, which is important how it  
13 relates to the track and how our properties do, compared  
14 against the national REITS, the publicly traded companies  
15 which are all the indoor malls, our average expenditure in  
16 our property is nearly double that of an enclosed regional  
17 mall. Our sales per square foot are 75 percent higher than  
18 industry averages. And the important part also is that our  
19 average length of stay at our properties is three times that  
20 of a conventional shopping center.

21 That's important because, again, the whole notion  
22 and idea behind this property is to extend the stay of the  
23 guest at the track on the property and also so the guest at  
24 the track can go between the track and shopping and dining  
25 and back to the track again. And allow not only the guest

1 but the family to enjoy and discover the beauty of racing.

2           Each one of our properties reflects the fact that  
3 we listen to the community and we respond to it. What's  
4 important is we build places that are safe. This is a  
5 project we did out in Calabasas. We believe they are all  
6 beautiful. They are well-maintained. They have a sense of  
7 community. They become the downtowns for local communities  
8 in many of these areas and they are places where people want  
9 to visit and bring their family and friends.

10           I'll show you a little bit about what we have done  
11 just in the event you haven't been to one of our properties.  
12 This is The Grove. It is a very unique property in the  
13 heart of Los Angeles. This actually pulls from about 78 zip  
14 codes, which is actually unheard of in the retail business.  
15 This property will have about 20 million visitors this year.  
16 This is a place that used to be an empty parking lot five  
17 years ago. That's more than what Disneyland has; Disneyland  
18 has about 13 million visiting it. It is now ranked the  
19 number two center in terms of volume for the state just  
20 behind South Coast Plaza, which had about a 30 year lead on  
21 us.

22           The Commons in Calabasas was built about seven or  
23 eight years ago. I think it is fair to say it has been or  
24 has become the downtown for that area. It also has created  
25 a nexus to their old town, which was important for the city

1 to make sure the old town of Calabasas was enhanced. And  
2 again, it has been a very successful property.

3 The Promenade at Westlake, the same thing in the  
4 Thousand Oaks area. It literally is their downtown. We now  
5 have three projects in Thousand Oaks because of the success  
6 of this. And our other one out there is The Lakes, which is  
7 next to the Civic Arts Center.

8 All of these properties have a common theme, that  
9 we want to attract people on the property for no other  
10 reason than to hang out and be our guest. Here the city  
11 gave us the challenge at The Lakes to build this series of  
12 small lakes and have one during the winter months turn into  
13 an ice skating rink, which it does. And last year for the  
14 first year when we had ice skating during the holidays we  
15 had 20,000 people come out and enjoy the ice skating rink.

16 So again, what we are trying to do with Santa  
17 Anita, similar to these, is build beautiful properties that  
18 attract families. Because one of the things we want to hear  
19 are families and kids saying, let's go to Santa Anita. And  
20 the mom or the dad can enjoy the racing, the kids can come  
21 in and see the beauty of the horses, and also the mom can  
22 take the kids and then go shopping or the dad can take the  
23 kids and go grab a bite and go shopping. It extends the  
24 stay and makes it a family event.

25 The Waterside at Marina Del Rey. We reopened an

1 old center that we redid and reopened about a year ago down  
2 in the Marina and it has become very successful. And the  
3 Americana Grand, which is in Glendale, now under  
4 construction after a somewhat lengthy battle with our  
5 neighbors that owned the mall, similar to what is occurring  
6 out here, unfortunately, with Westfield with their mall.  
7 But we were able to gain all of our entitlements and  
8 significant amount of community support. And certainly the  
9 local fathers, council members' support, and we'll be  
10 opening this project in about 16 months.

11           The shops at Santa Anita. Let me give you a  
12 little bit of a snapshot. You know the property well. One  
13 of the most beautiful and majestic pieces of property in  
14 Southern California. Highly under-utilized parking lot for  
15 most of the year. And the area around and in front of the  
16 track is currently zoned for commercial development to allow  
17 about 1.1 million square feet.

18           There is a legitimate concern about the viability  
19 of the track by the residents of Arcadia. They love their  
20 track and they want to see the track stay. Even though many  
21 of them may not go to the track today they love the  
22 architecture, they love the history. And given a good  
23 reason to come back they would. Next slide, please.

24           The project today is about 825,000 square feet. A  
25 little bit larger than The Grove, about half the size of the

1 mall next door, to put it in perspective. It is all  
2 outdoor. It will have a series of great boutiques and shops  
3 and restaurants. It covers about 60 acres to the south of  
4 the track, in front of the track.

5           Twenty-four of those acres are going to be  
6 dedicated to open space, including about three and a half  
7 acres of a great water feature that is surrounded by a  
8 boardwalk and restaurants that you'll actually be able to  
9 dine on the water feature. Then there is a series of lushly  
10 landscaped parks, promenades and plazas. We also are  
11 including about 10,000 square feet of a community performing  
12 arts center. We want to make it a community space. We want  
13 to make it a great space for the community to enjoy.

14           And we are going to dedicate 22,000 square feet of  
15 office space for the Arcadia School District because it is  
16 important for us to support Arcadia High School and the  
17 school district. By moving their office off the campus they  
18 are going to be allowed to build more classrooms since they  
19 are short of land.

20           The parking, the current parking at the track is  
21 about 15,500 stalls. Santa Anita Park after the project  
22 will have 14,500 stalls. The shops will use about 4,000 of  
23 those stalls for the retail guests. This is well above  
24 industry standards. What we do know is that a majority of  
25 the guests that come to shop and dine and hang out will also

1 be going to the track back and forth. And we certainly  
2 thought the design will encourage that.

3           This is an aerial, obviously, that shows the  
4 track. You see the existing mall in the bottom left hand  
5 corner and you see the parking field adjacent to that where  
6 the Shops at Santa Anita are proposed to be built. The site  
7 plan, and hopefully you have hard copies if you can't see  
8 this. What it does it literally connects the project to the  
9 paddock area. The paddock area, in my opinion, is one of  
10 the most beautiful areas that is not seen by the majority of  
11 Southern Californians. And between the paddock and the  
12 fountain and the grandeur of the architecture in the back  
13 it's a spectacular area.

14           So we are building a new park adjacent to the  
15 paddock, relocating the saddling barns back to their  
16 original, historic location, which was to the other side of  
17 the fountain, as you can see on the little red dot up there.  
18 Which will allow the new park and the paddock area to be  
19 opened on non-race days so people can enjoy and traverse it.  
20 During race days it will be gated and protected but you will  
21 still be able to see the horses parade out and the grandeur  
22 of the racing. And we want to do that because we want to  
23 get more people inspired and interested in racing and seeing  
24 the beauty of the horses.

25           Down the middle, similar to The Grove in terms of

1 concept, will be what looks and feels like a real street.  
2 It will have the authenticity of a street that was built  
3 around the same time of the track in the '30s but it will  
4 not carry any cars. It will just be for pedestrians because  
5 we like keeping cars and people separate. And then along  
6 that will be a series of great shops and restaurants, a  
7 movie theater.

8           And it will terminate with the water feature at  
9 the end with restaurants around the water feature and a  
10 boardwalk so people can go for walks. And then to the south  
11 of that will be a large lawned area softening down the look  
12 of the asphalt, taking away the asphalt, but still being  
13 allowed to be used as overflow parking for heavy days. Next  
14 slide, please.

15           This is the current view looking west. This is  
16 looking towards the existing mall over the parking field.  
17 And if permitted by the City of Arcadia to build this  
18 project that will be the view. Overlooking the Boardwalk,  
19 the water feature, the shops and a restaurant in the  
20 distance. It will be one of the most spectacular and unique  
21 retail properties, certainly in the United States. This is  
22 the view looking north to the track. And this is the view  
23 of the new street looking down. You see the track in the  
24 distance, the grandstands in the distance, in the forefront  
25 of the mountains with the shops and the dining along the

1 street.

2           And this is the view looking towards the northwest  
3 towards Clocker's Corner. And once built this will be the  
4 view over the new expanded park adjacent to the paddock.  
5 The movie theater that lets out onto that park surrounded by  
6 restaurants. And again, the whole idea is creating this  
7 nexus for people to be able to logically feel connected to  
8 the track. And this is the view, again, towards the paddock  
9 area.

10           And once built this will be a second floor dining  
11 patio with two-level restaurants similar to what we did at  
12 The Grove. We have found them to be very successful.  
13 People enjoy dining outside. They enjoy dining on a raised  
14 terrace looking down over the expanded park, the paddock and  
15 the grandstand in the distance.

16           How will this impact Santa Anita? In many great  
17 ways. Santa Anita, obviously, is rich in heritage and  
18 history. It is a regional attraction. It is an icon of the  
19 racing industry. And we want to take advantage of all that  
20 history and frankly celebrate it on an ongoing basis from  
21 design and through marketing and operations.

22           They will be designed, the shops will be designed  
23 to complement the track and its historical significance. We  
24 promise, based on our experience of all of our properties,  
25 to have a broader, younger audience who is going to

1 rediscover the track.

2           My personal experience is bringing my wife and my  
3 four kids out to the track. They had never been out there,  
4 my wife hadn't been out there. And frankly, on the way out  
5 there she was questioning the wisdom of spending a Saturday  
6 going out to the track.

7           And when we got there we sat in Front Runners and  
8 were dining and the kids were excited to see the horses.  
9 They were excited to see the grandeur of the racing. We  
10 spent about three hours there and my wife said, you know,  
11 this is great. If the shops were outside I could go  
12 shopping. You could hang with the kids. I would have free  
13 time. I could come back, pick up the kids.

14           And the whole idea of all of our properties is to  
15 give a reason for people to stay. When you come to The  
16 Grove or The Commons or The Promenade or any of our  
17 properties it is so pleasant to be there. The one commodity  
18 we are trying to give people that they can't buy is time.  
19 It's to slow it down a little bit. Go back to a better year  
20 where there was a graciousness to your day. And that's the  
21 beauty of having this project here. It's going to give them  
22 the day, and we think also the weekend to enjoy this  
23 beautiful property.

24           And we will create, together with the track and  
25 with Magna, a very exciting destination that will enhance

1 shopping and enhance the horse racing experience for the  
2 guest. And now we're stuck. There we go. Well, if we can  
3 just stick with this.

4 One of the things that is raised and we feel very  
5 strongly about is the ancillary benefit and the spill over  
6 benefit that our properties have to the surrounding areas.  
7 Now when you take a look at The Grove, if you know the area,  
8 a very dense area. Third Street, which is running to the  
9 south of The Grove is a little known street, frankly in  
10 disrepair when The Grove opened.

11 When we studied the sales tax receipts from the  
12 City of Los Angeles since the opening of The Grove, but not  
13 including The Grove itself, the surrounding streets had  
14 increased their sales tax receipts by 66 percent. That's  
15 huge. So what it says is that the project is not only  
16 bringing additional business but there is a spill over  
17 effect. That spill over effect in this case is not only  
18 going to go to our good friends that own the mall but it is  
19 also going to go into the track, which we know will have a  
20 very positive impact on the financial status of the track.

21 I talked about the draw that our properties have  
22 up to 78 zip codes. The rediscovering of the area that's  
23 been forgotten about and the vibrancy that it is going to  
24 bring back to racing in a very elegant and classy way.

25 Now what I want to show quickly and then I am

1 done, as I am obviously aware of the agenda you have and  
2 your time constraints. We did a little fly-through. We  
3 built a model so you can see if the project was built the  
4 experience and how it lines up to the track. And then  
5 certainly if there's any questions I'm more than happy to  
6 answer them.

7           One thing I'll tell you just to give you a quick  
8 update. As of Monday we issued our draft EIR, that is out  
9 for circulation. Our schedule is to be in front of the  
10 Arcadia City Council in March. Then we hope for approval in  
11 March. And assuming that that's the end of the process,  
12 unless Westfield intercedes with lawsuits, we will be under  
13 construction within about eight months from March. And with  
14 that here is the fly-through and I'll open it up to  
15 questions.

16           So I'll just sort of narrate. You can --  
17 Obviously the paddock and the grandstand as we're pulling  
18 back. The new park and additional water feature. We have  
19 been asked to put a trolley in this project similar to what  
20 we have at the Grove. We have agreed to do that. It's one  
21 of the things the community has wanted.

22           Everything in our properties are real materials,  
23 real brick, real stone, real limestone, real granite pavers.  
24 There is nothing synthetic or phoney. Mature landscaping  
25 from day one when it opens. It is important to have this

1 feel real. We spend an enormous amount of time and energy  
2 and money on the details to make it feel that way.

3           Because we want to touch every sense that you  
4 have. That what you see, what you feel, what you touch,  
5 frankly what you smell, the fragrance of the trees and the  
6 planting and the gardens that are throughout the property.

7           And again done in a way that is very safe, very  
8 pleasant and very family oriented. A shot of a little bit  
9 of the edge of the water feature, the Boardwalk and some of  
10 the shops along the water feature. And again going back  
11 down the main street that connects to the paddock and the  
12 grandstands.

13           All the buildings are either one or two stories.  
14 They're designed to keep the views that are important to the  
15 city and their residents to the grandstands and completely  
16 staged within the underlying entitlements of the property.

17           It will probably take about two years to build the  
18 property once we start construction. The majority of the  
19 parking will be in a parking structure that will be  
20 computerized similar to what we've done at the Grove, very  
21 customer friendly and we will have all the services and the  
22 programming similar to what we do in all of our properties  
23 in terms of jazz concerts, amenities and all the things that  
24 provide it to be a community space.

25           And with that I want to thank you for the

1 opportunity to address you. And I appreciate your time. If  
2 you have any questions I'd be happy to answer them.

3 CHAIRMAN SHAPIRO: Thank you very much. We're all  
4 of us in southern California I think we're probably very  
5 familiar with your properties. I have to tell you I live  
6 out in Calabasas and we lived at your property. I would  
7 like to get a parking space though.

8 MR. CARUSO: Yeah, --

9 CHAIRMAN SHAPIRO: Seriously, it's a wonderful  
10 project. You do incredible work. And if anybody has not  
11 been to the Grove or Commons or the Promenade they should  
12 go. Because the workmanship is amazing that you do and it's  
13 very appreciated. I do have a couple of questions however.

14 And those concerning that would be how will this  
15 project affect the barn area? And how will it also, I'd  
16 like to better understand the parking. My concern about  
17 this is how many parking places are there now at Santa  
18 Anita? How many will be left for racetrack customers? And  
19 what is happening at the barn area? Is the barn area being  
20 affected by this project?

21 MR. CARUSO: The barn area is not being affected  
22 by the project. And I should probably turn over anything  
23 that has to deal with the barn area to you, Frank or Ron.  
24 So we're not involved with that.

25 CHAIRMAN SHAPIRO: Great.

1 MR. CARUSO: In terms of the parking, there's  
2 currently 15,500 stalls on the property today. Obviously a  
3 significant amount are unused. Once the project is built  
4 there will be 14,500. About 4,000 of those will be used for  
5 retail. Okay, I'm sorry the 4,000 will be in addition to  
6 that. So the net loss to the track is a thousand.

7 What that does not take into account is that we  
8 believe that the shared use between the consumer going to  
9 shops and then going to the track, there's going to be many,  
10 many multiple trips of the same people going to both.

11 So actually from a trip standpoint or a parking  
12 count standpoint we think the parking is going to be more  
13 efficient and better. And the retail parking is in the  
14 parking structure that will be built adjacent to the shops.

15 So the track Magna Santa Anita management had been  
16 very, very clear on their needs to the operation of the  
17 track and to make sure there is adequate parking. And we  
18 have designed the project around that. Bryan did I miss  
19 anything? So 18,500 total.

20 CHAIRMAN SHAPIRO: So there will be 18,500 parking  
21 spaces in total. Of which you're estimating 4,000 of those  
22 will be retail spaces related to the shops.

23 MR. CARUSO: Right.

24 CHAIRMAN SHAPIRO: And the balance will be  
25 available to the racetrack for use on big days. We all

1 agree that you know today you don't need them. But if it's  
2 Big Cap Day or it's one of the Derby Day that's when there  
3 will be a concern that we would have enough parking so that  
4 we can get the, the racetrack can accommodate the big  
5 crowds.

6 COMMISSIONER HARRIS: I think one issue too is,  
7 I'm not sure how many currently there is a lot of unused  
8 parking on most days on the Colorado Place lot which is on,  
9 you know, adjacent to the back stretch. How many spaces are  
10 included over there?

11 CHAIRMAN SHAPIRO: I think that was included in  
12 the count. And I think the number is something like 6,000.  
13 But --

14 MR. CARUSO: That is included in the count.

15 CHAIRMAN SHAPIRO: That is included in the count.

16 COMMISSIONER HARRIS: How many over there though?

17 CHAIRMAN SHAPIRO: I think the number is like  
18 6,000. But let somebody from Hollywood Park or Santa  
19 Anita --

20 MR. CHARLES: Roughly 6,300 parking slots in the  
21 north parking lot.

22 CHAIRMAN SHAPIRO: In the north parking lot?

23 MR. CHARLES: In the north parking lot.

24 CHAIRMAN SHAPIRO: Right.

25 COMMISSIONER HARRIS: Okay so that would just --

1           CHAIRMAN SHAPIRO:  And those spaces aren't being  
2 touched by this project.

3           COMMISSIONER HARRIS:  But --

4           CHAIRMAN SHAPIRO:  Are those spaces being --

5           MR. CHARLES:  No they're not being touched.

6           CHAIRMAN SHAPIRO:  Yes, they're not affected by  
7 it.

8           VICE CHAIRMAN MORETTI:  So Ron are there any  
9 worries on your part at all in terms of the parking or the  
10 that the less --

11           MR. CHARLES:  This has been obviously, you know, a  
12 major issue for us.  We feel very comfortable.  Obviously on  
13 one or two days we could have, you know, we could have a  
14 problem and Rick has agreed to work with us on those days  
15 with regard to the parking, facilities that he will already  
16 be developing.

17           And so right now they are at extreme comfort  
18 levels and we have enough parking.

19           CHAIRMAN SHAPIRO:  And does Santa Anita now on  
20 those big days, I mean I know there's the Arboretum, are  
21 there other places where people can park and ride or do you  
22 make any arrangements for them?

23           MR. CHARLES:  Yeah, in fact in years gone by when  
24 we used to get 60, 70, 80,000 people there were arrangements  
25 made with some schools bus transportation so on and so forth

1 and we are looking at that for those days.

2 CHAIRMAN SHAPIRO: Let's hope you have many of  
3 them.

4 MR. CARUSO: If I could just add to that quickly  
5 what Ron was saying. The project will also spend about \$12  
6 million in area street improvements. So that there will be  
7 updates to the signal system. There will be street  
8 widening, left hand turn lanes to have traffic flow more  
9 freely.

10 So in addition to getting the customer parked, the  
11 track's concern and our concern is the experience of just  
12 getting to the track. And then in addition to all the  
13 street improvements we have agreed to underwrite a tram that  
14 will connect to the Gold Line and bring people down. So  
15 we're going to try to be encouraging even more people to not  
16 even get into their car to come to the track but actually  
17 take the Gold Line, hop into a tram and they'll be brought  
18 right down to the track.

19 So all of those different layers we believe give  
20 us more than enough capacity and certainly the problem that  
21 we're hoping for is that we're overwhelmed by the amount of  
22 people there, going to the track. And there's a whole bunch  
23 of things that we can do to solve that problem also.

24 COMMISSIONER AMERMAN: Could you describe what the  
25 problem might be in the two years of construction as it

1 affects Santa Anita Park?

2 MR. CARUSO: Well, you know, whatever the concerns  
3 the track is going to have I would imagine will be similar  
4 with what the residents are. It's going to be the hours of  
5 the construction. It's going to be making sure that on  
6 heavy race days we'll probably not be doing a lot of heavy  
7 construction.

8 We're going to have to mitigate and minimize all  
9 the dust that gets created on a construction site and have  
10 proper barricades around it. So, you know, those are not  
11 unusual. I'm sure there will be things that are particular  
12 to the track that we're going to have to deal with.

13 But our commitment to the track is to make sure  
14 that there is no impact to the operations or the safety of  
15 the track or the horses that are stabled there.

16 COMMISSIONER AMERMAN: If all goes well what would  
17 you say would be the start of the operation? What, when  
18 would you open the doors?

19 MR. CARUSO: Well I think we open the doors two  
20 years after March. So that would be '09.

21 CHAIRMAN SHAPIRO: But you're not calculating into  
22 that schedule most likely an appeal by Westfield, which is  
23 going to delay you six months to a year.

24 MR. CARUSO: Right, right. There was a comma in  
25 that sentence.

1           CHAIRMAN SHAPIRO: Yeah.

2           COMMISSIONER HARRIS: Is there a referendum on  
3 this now? I see these signs around. Is there some  
4 referendum going on in the city of Arcadia now on this?

5           MR. CARUSO: Well what Westfield has done to try  
6 to stop this project is to have two referendums. One  
7 against billboards in the city and a second against paid  
8 parking for retail. And the reason they're doing that  
9 they're trying to, they believe if they hurt the financials  
10 of the project that they take away the parking income it  
11 won't be able to build the project.

12           Unfortunately the indoor mall business is  
13 different than the outdoor mall business. And the parking  
14 revenue although it would be nice to have is not necessary  
15 for the financing or the success of the project. So they're  
16 sort of smoke screens. They won't affect us. They are on  
17 the ballot for November 7th.

18           After March I would suspect that Westfield will  
19 file a lawsuit under CEQA to stop the project saying that  
20 the EIR is inadequate. Then I would also suspect if it  
21 follows the pattern of Glendale that they will collect  
22 signatures for a referendum. And have a referendum to  
23 overturn the approvals as soon as we get this which I think  
24 is pretty likely. And that will delay us probably about a  
25 year and a half.

1           So you're probably looking at more like 2011. We  
2 would love and have made every attempt to meet with  
3 Westfield and try to work together and they're just not  
4 interested in having competition in the trade area.

5           COMMISSIONER HARRIS: You know one issue that I'd  
6 heard this presentation before and I think it's a very  
7 exciting project. But I was a little bit concerned.  
8 Because at that point I think the concept would be that you  
9 actually charge admission to get into the track.

10           And I think to really make it work, to draw the  
11 people over from the shopping there needs to be some version  
12 of free admission to the track to really make that work.  
13 And can Magna agree to that?

14           MR. CARUSO: I probably shouldn't spend Magna  
15 money. So Ron --

16           COMMISSIONER HARRIS: Ron will.

17           MR. CHARLES: Yeah, I don't think I will. It's a  
18 great question John. Rick and Frank Stronach and I sat down  
19 and actually discussed this. In addition to the parking  
20 it's something that we're going to have to work out.

21           Certainly getting the people into the track from  
22 the facility, from the project is important to us. By the  
23 same token as we all know we're trying to maximize the  
24 amount of daily handle, daily attendance. And so it's  
25 something that we're going to have to work out as to how we

1 can allow those people and how they can get into the track  
2 for a first time experience with either a reduction or some  
3 type of --

4 CHAIRMAN SHAPIRO: Well let me just help you out  
5 then. I'll give you an idea, okay. I know you really  
6 appreciate them sometimes. Why don't you just give general  
7 admission for free at all racetracks. And then if people  
8 want to upgrade they can pay for clubhouse or turf club and  
9 we'll get more people that way.

10 COMMISSIONER HARRIS: That's right we can see  
11 some, everyone will be crowing about their attendance gains.

12 CHAIRMAN SHAPIRO: There you go.

13 MR. CHARLES: I want to thank you both very much.

14 CHAIRMAN SHAPIRO: Just here to help. That's all  
15 we are. (Laughter) Mr. Caruso thank you so much.

16 MR. CARUSO: Thank you very much.

17 CHAIRMAN SHAPIRO: And I'll expect that free  
18 parking space for me (laughter). Thank you. All right,  
19 moving on. Item number three under the agenda which is  
20 discussion regarding the racing programs and the feasibility  
21 of adjusting entry times at California racetracks. And Mr.  
22 Charles hasn't left the podium yet.

23 MR. CHARLES: I'm sorry you did ask Mr. Caruso two  
24 questions. One, how will it impact, how potentially this  
25 will impact the barn area?

1 CHAIRMAN SHAPIRO: Yes.

2 MR. CHARLES: And I wonder maybe we should, could  
3 we address that --

4 CHAIRMAN SHAPIRO: Well okay, we can address that.  
5 I was actually going to bring it up in a later part of this.  
6 But why don't we because since you brought it up I'll let  
7 you have it (laughter).

8 COMMISSIONER HARRIS: It's going to be right up  
9 so.

10 CHAIRMAN SHAPIRO: Okay.

11 MR. CHARLES: It's going to be very short. But we  
12 would like the Board to understand exactly what is happening  
13 in the city and how we're trying to work with the city in  
14 the situation. So I'd like to do is introduce Frank Dimarco  
15 to explain exactly where we are.

16 CHAIRMAN SHAPIRO: Okay.

17 MR. CHARLES: Okay?

18 CHAIRMAN SHAPIRO: All right.

19 MR. DIMARCO: Good morning Mr. Chairman and  
20 members of the Board. I'm Frank Dimarco. I'm vice-  
21 president and general counsel at Santa Anita. First of all  
22 you asked a question there at the end of how we're going to  
23 handle the track patrons through the construction period.

24 Yesterday we had about a four hour meeting with  
25 all the Caruso people, worked out that plan. That basically

1 the entire east part of the track that presently exists will  
2 remain open for our patrons. We're going to channel all the  
3 construction activity, the big trucks, the deliveries  
4 through gate one of the present configuration off of  
5 Huntington Drive. That will be isolated from the rest of  
6 the track. There should not be any problems with respect to  
7 construction.

8 Now, let me address for a moment this contention  
9 about the barns. In the current struggle there has been a  
10 lot of thought about the uncle Bill promises by Frank  
11 Stronach at Santa Anita. And I'd like to give you just a  
12 little bit of history.

13 This may take a couple of minutes but I think  
14 you'll better understand what's happened here. In 1998  
15 Santa Anita was owned by Meditrust. We were all very much  
16 afraid that Meditrust was about to go into bankruptcy.

17 It was a New York Stock Exchange company that knew  
18 absolutely nothing about racing. We remembered that Frank  
19 Stronach was interested at one time. We called Frank on a  
20 Saturday. He was out here on a Tuesday. We made a deal  
21 that sold Santa Anita to him. He fulfilled all his promises  
22 and connections with that. I think of all the things said  
23 about Frank you cannot accuse him of being reluctant to  
24 spend money on racetracks.

25 After the Santa Anita deal he was approached to

1 buy Golden Gate. The same story in northern California.  
2 They were about to go under. We would lose Northern  
3 California racing. But good old Frank steps up, buys that.  
4 Also makes a commitment to invest \$5 million additionally  
5 into the track, which he did.

6 Next year the same thing happened with respect to  
7 Bay Meadows. He steps up for \$20 million, buys a two year  
8 lease which bought him absolutely nothing, but at least kept  
9 Bay Meadows going for another two years.

10 And also at Gulfstream. He promised all kinds of  
11 renovations which he did put in. Some people think maybe  
12 the grandstand is a little too small. But he did put in the  
13 state-of-the-art barns.

14 All right, now let's get to Santa Anita. With the  
15 record of fulfilled promises why did nothing happen at Santa  
16 Anita? Now at this point I want to suggest that Jack  
17 Liebau, I'm sure he's here. He's a good friend of mine. He  
18 and I have worked together for years in the legal community  
19 here.

20 My son at one time worked for him. I worked for  
21 Jack at Santa Anita for two years. And he's an amazing man  
22 and a good track man.

23 But I think in this particular issue he's  
24 developed a very slight case of selective amnesia. After  
25 Frank bought the track, we worked desperately with the city

1 of Arcadia to adopt and get an approval of a plan to put new  
2 barns and new living quarters in the back side.

3 We had ten different presentations to the city.  
4 Generally we'd meet with the city manager and at least one  
5 of the mayors. I met with three different mayors in the  
6 city of arcadia in attempt to sell this plan.

7 The plan was to utilize the vacant north lot that  
8 you have been talking about today which at that time and  
9 still is, just a vast asphalt sea of nothing. The plan was  
10 to put the new barns back there, entirely new living  
11 quarters for backside people. It was a beautiful plan.

12 Unfortunately the city said no. This just won't  
13 work. You've got R1 zoning back there. You've got other  
14 problems with the neighbors. We will have too many problems  
15 with the neighbors, about noise, about smells, about this  
16 that and the other thing. So they totally rejected it.

17 Okay so we hiked back to the drawing board and  
18 came out with two or three different plans. And Jack was in  
19 on most of this stuff with the city at the time. But they  
20 still rejected it.

21 We offered greenbelts, berms to shelter the whole  
22 thing from the homeowners, noise abatement, odor abatement,  
23 whatever. But the bottom line was there was just no way the  
24 city could accept that.

25 Now at this point along comes Rick Caruso. And

1 now it's a whole different story. Rick, you saw the  
2 approach he has taken. At that particular time it made  
3 absolutely no sense for us to try to do anything with the  
4 barn area until his plan was complete. So that we would  
5 know what he was going to do, what we would have left and  
6 where we were going to go with the barns and other things.

7           And that's probably where we are right now.  
8 Except our friends next door from Westfield early this year  
9 started another campaign. They went out and in effect got a  
10 hired gun who doesn't live in Arcadia, has nothing to do  
11 with Arcadia to file an application with the Office of  
12 Historic Preservation of the state of California to have our  
13 track declared a national, historical monument.

14           We fought that vigorously all spring. We had a  
15 all-day argument in Sacramento on the issue. And we were  
16 voted down four to three by that Board, in effect declaring  
17 our track eligible for registration on the national,  
18 historic register of historic monuments.

19           Just a month ago in September we received the bad  
20 news. The final vote from the national, historic,  
21 preservation department declaring Santa Anita Park and  
22 particularly the barn area a historical monument. Now what  
23 does that mean?

24           It means according to their letter that we still  
25 have the right to sell the property if anybody wants to buy

1 it. But we cannot do anything to make any substantial  
2 adverse changes in the barn area unless we comply with local  
3 ordinances and the California Environmental Quality Act.

4 So we're back to square one. We can hopefully  
5 make an application to it permit us to tear some of these  
6 things down and build new ones. And I don't see that  
7 happening until after the Caruso project's EIR is approved  
8 and we go from there. That's really where we are.

9 The only point I'm really trying to make is that  
10 we want to make sure you understand that we have tried.  
11 There's been no reluctance on the part of Frank Stronach to  
12 spend the money to get this job done.

13 CHAIRMAN SHAPIRO: Well let me ask a couple of  
14 questions there.

15 MR. DIMARCO: Sure.

16 CHAIRMAN SHAPIRO: I flew up and met with Frank  
17 Stronach a couple of weeks ago.

18 MR. DIMARCO: Right.

19 CHAIRMAN SHAPIRO: And I sat with him and I said  
20 that it was absolutely imperative that the barn area at  
21 Santa Anita be redone. And it is and I've said numerous  
22 times that it's just unacceptable the way it is.

23 I don't think anybody argues that. I don't hear  
24 you arguing with it.

25 MR. DIMARCO: Sure, not at all.

1           CHAIRMAN SHAPIRO: All right, and at that meeting  
2 he told me in front of other people that were there that  
3 they would immediately move forward to rebuild ten barns and  
4 two dormitories. And you can certainly check with anybody  
5 that that was his statement. Now --

6           MR. DIMARCO: I don't need to check with anybody.  
7 I know exactly what was said, yes.

8           CHAIRMAN SHAPIRO: Okay. So if that's the case,  
9 you know, fine about the north parking lot. It's not going  
10 to happen on the north parking lot.

11          MR. DIMARCO: That's correct.

12          CHAIRMAN SHAPIRO: We all know that, okay. Are  
13 you saying that you cannot now go in and knock down ten old  
14 barns and build ten new barns?

15          MR. DIMARCO: Not without the consent of the city,  
16 and without approaching CEQA and getting some kind of  
17 permission from them.

18          CHAIRMAN SHAPIRO: Okay, well are you doing that?  
19 Have you approached the city and have you gone to CEQA  
20 because --

21          MR. DIMARCO: Yes I have.

22          CHAIRMAN SHAPIRO: -- because you know horse  
23 racing and while as much as I am in favor of and like the  
24 Caruso project we have to take care of our own. We have to  
25 take care of his horses and those people that live back

1 there. So I don't see why and I do understand EIR's and I  
2 understand that this is perhaps included in an EIR and if  
3 you went to change it then it would delay the whole project.  
4 I do understand that process. But what I don't know is have  
5 you gone to see if you can rebuild the existing barns so  
6 that there isn't a problem.

7 If you could go in and rebuild them on the exact  
8 same foundations and the same locations.

9 MR. DIMARCO: Not necessarily, the other problem  
10 is that once you start --

11 CHAIRMAN SHAPIRO: Not necessarily you can't do  
12 that or not necessarily you haven't tried to do that?

13 MR. DIMARCO: We haven't turned any earth yet.  
14 That's what I'm about to explain to you. That once you  
15 start that you have to do an entirely new subsurface  
16 treatment of everything out there. You've got pipes, wires,  
17 everything out there that's been there since 1934.

18 There's earthquake problems. There are a lot of  
19 problems. Now to answer your question specifically, yes we  
20 can try. I've already talked to the city. We might be able  
21 to get permission to tear down. I don't know if we can go  
22 up to ten but some number of them and replace them with  
23 temporary barns now. And then possibly when we do get CEQA  
24 approval and this, that and the other thing rebuild them in  
25 the style we want.

1           CHAIRMAN SHAPIRO: Well, Mr. Dimarco, I just have  
2 to tell you I mean, I appreciate that you've made attempts  
3 and Magna made attempts. But unfortunately it doesn't feel  
4 to me that the right attempts have been made and that  
5 they've been pursued vigorously enough.

6           MR. DIMARCO: What would you suggest sir?

7           CHAIRMAN SHAPIRO: Pardon me?

8           MR. DIMARCO: What would you suggest?

9           CHAIRMAN SHAPIRO: Well I suggest that you go in  
10 and you find a way to get those horses and those horsemen in  
11 habitable conditions.

12          MR. DIMARCO: Okay.

13          CHAIRMAN SHAPIRO: And if that means tearing down  
14 what may be buildings, I mean my concern is that somebody  
15 inadvertently could start a fire in one of those barns and  
16 when I walked through them and I've got horses in them and I  
17 have friends that are there that I see them as a fire  
18 hazard. And it's very concerning to me.

19          MR. DIMARCO: Well I understand that. I'm not  
20 trying to be facetious here. I'm looking for a solution as  
21 well as you are. I will immediately start with the city and  
22 find out what we can do.

23          CHAIRMAN SHAPIRO: Well why don't you find out  
24 that perhaps maybe what you could do is replace those barns  
25 and put prefab barns similar to what Bay Meadows did on

1 their infield or something --

2 MR. DIMARCO: That's exactly what we're talking  
3 about.

4 CHAIRMAN SHAPIRO: -- like that which at least  
5 would be habitable for the horses and not be a fire hazard.

6 COMMISSIONER HARRIS: I think it's important too  
7 that the city realize that the horsemen and the trainers and  
8 the whole backside community has a stake in this.

9 CHAIRMAN SHAPIRO: That's right.

10 COMMISSIONER HARRIS: This isn't just some little  
11 project that Santa Anita is doing. It's a health and safety  
12 thing for those people and horses.

13 VICE CHAIRMAN MORETTI: Is there an appeals  
14 process for this historical --

15 MR. DIMARCO: Historic thing, no. Unfortunately  
16 in free America today your neighbor can decide to declare  
17 your property a historic monument. That's what has happened  
18 here.

19 COMMISSIONER AMERMAN: I can remember a couple of  
20 years out probably more than that, five, six, seven years  
21 ago. We went down to Del Mar where there was a similar  
22 problem to what we have in the back stretch at Santa Anita.  
23 And we suggested that you take several barns and replace  
24 them and move on. They have been very successful in doing  
25 that.

1           MR. DIMARCO: Well okay, one of the problems with  
2 that is under CEQA you cannot do piecemeal development. Now  
3 once this Caruso project is finished and the EIR is  
4 approved, part of the situation will be that they'll be two  
5 separate parking. One Santa Anita track parcel, one  
6 shopping center parcel.

7           We might be able to proceed at that time to file  
8 our own EIR and get the whole thing cleared up. But in the  
9 meantime for immediate remedy, yes, I'm working with the  
10 city to see if we can't tear down the ten barns and put in  
11 temporary barns.

12           COMMISSIONER ANDREINI: By the time the Caruso  
13 thing is over we'll have whiskers down to our knees.

14           COMMISSIONER AMERMAN: What you're saying is that  
15 by 2011 we'll get around to what is so important to  
16 thoroughbred racing. And that is not acceptable.

17           MR. DIMARCO: Well I understand that and I'll say  
18 it again. Tomorrow morning I'll be back over at the city  
19 and see if we can't do something --

20           COMMISSIONER AMERMAN: Don't leave until you get  
21 the approval.

22           MR. DIMARCO: -- on a temporary basis.

23           CHAIRMAN SHAPIRO: Mr. Dimarco I think that you  
24 can get the sense of this Board that, A, we're impatient and  
25 that B, we're very frustrated to see where the circumstance

1 is --

2 MR. DIMARCO: I've been working with this Board  
3 since 1988 I understand that sir.

4 CHAIRMAN SHAPIRO: I know that Mr. Dimarco. And  
5 what I'm also saying to you is that I think we are offering  
6 that if we need to come in and help you with the city in any  
7 way that we can so that they can best understand the need of  
8 horse racing and I would assume that the city of Arcadia  
9 enjoys some benefit from horse racing being there.

10 MR. DIMARCO: Absolutely.

11 CHAIRMAN SHAPIRO: That they should understand  
12 that this is not a want this is a need. And we have to push  
13 this forward.

14 COMMISSIONER AMERMAN: Have the people who are on  
15 the city council toured the backstretch with you?

16 MR. DIMARCO: Not with me, I don't know if they  
17 ever have.

18 COMMISSIONER AMERMAN: Have they gone with anyone  
19 at all? I would suggest that you take them and go through  
20 the barns and see what is there and the necessity of  
21 changing in the near-term future.

22 MR. DIMARCO: Well we might be able to approach it  
23 on that kind of health and safety basis. I would agree that  
24 that's --

25 VICE CHAIRMAN MORETTI: I think that's an

1 outstanding idea. Bring the fire department with you, the  
2 health and safety organizations with you, the state and  
3 local --

4 MR. DIMARCO: The fire department tours of all  
5 the --

6 COMMISSIONER AMERMAN: You want to keep them away  
7 I know but --

8 CHAIRMAN SHAPIRO: All right, okay, look I think  
9 the point is mainly that we need to see more action. We  
10 need to see more vigorous action and in fact what I'd like  
11 to do is have a report on this at the next Board meeting to  
12 know what progress has been done in the 30 days between this  
13 meeting and the next meeting.

14 MR. DIMARCO: All right sir.

15 CHAIRMAN SHAPIRO: And I think that this Board  
16 should be more demanding on this issue to see progress. And  
17 again, we will go with you if, you know, you want one of us  
18 to come with you and explain the problem, we will do that.  
19 Perhaps you could get your good friend Sammy to your left to  
20 help advocate for the needs since he certainly understands  
21 it. And Mr. Liebau there is --

22 MR. LIEBAU: Just one short comment about my  
23 amnesia okay (laughter).

24 CHAIRMAN SHAPIRO: You know what, we've got a long  
25 agenda.

1 MR. LIEBAU: I understand.

2 CHAIRMAN SHAPIRO: Go ahead.

3 MR. LIEBAU: It'll only take a minute. I think  
4 that one thing that my friend here has forgotten is that  
5 both of us tried to tell Frank Stronach that there was no  
6 way in hell that those barns were going into the north  
7 parking lot.

8 CHAIRMAN SHAPIRO: Okay, well --

9 MR. LIEBAU: And that's there's no way in hell  
10 that the dorms are going to be built on the college.

11 CHAIRMAN SHAPIRO: That, that --

12 MR. LIEBAU: But be that as it may, I would as  
13 having an interest in this as far as Hollywood Park is  
14 concerned, I really don't know whether it's a good idea to  
15 have everybody go over there in that backstretch because I  
16 got to tell you, I've got to store, have horses training  
17 there and I don't want it shut down.

18 CHAIRMAN SHAPIRO: Your point is well taken  
19 Mr. Liebau.

20 MR. LIEBAU: Okay, thank you.

21 CHAIRMAN SHAPIRO: All right but, okay. I think  
22 Mr. Liebau's point is well taken.

23 MR. DIMARCO: Okay, just one more comment on this.  
24 The fire marshall inspects the place regularly. There are  
25 no problems. We can't get our licenses without the fire

1 marshall's inspection. So I --

2 CHAIRMAN SHAPIRO: All right, let's not argue over  
3 that Mr. Dimarco.

4 MR. DIMARCO: I will get out there and do my best.

5 CHAIRMAN SHAPIRO: All right, thank you  
6 Mr. Dimarco.

7 MR. DIMARCO: What else --

8 COMMISSIONER HARRIS: Before you page through this  
9 point though, because actually the agenda items are kind of  
10 what all they're doing, which referred to the shopping  
11 center and some of the backstretch. But could we also get a  
12 report on where they all are on the synthetic track.

13 VICE CHAIRMAN MORETTI: Exactly, someone read  
14 that.

15 CHAIRMAN SHAPIRO: Okay.

16 MR. DIMARCO: That's not my department so somebody  
17 else will answer that.

18 COMMISSIONER ANDREINI: Mr. Chairman.

19 CHAIRMAN SHAPIRO: Yes.

20 COMMISSIONER ANDREINI: Look before we go to the  
21 track let me ask Mr. Charles --

22 CHAIRMAN SHAPIRO: Go ahead.

23 COMMISSIONER ANDREINI: You know, Mr. Charles, my  
24 first meeting was in November of 2006. And at that time  
25 Chairman Shapiro castigated Santa Anita for having a

1 deplorable backstretch and that sort of thing. And you were  
2 there and I was here. Thank you. And you, and you said  
3 that by April of 2006 you were going to come back with your  
4 plans about what was going to happen. And then at that time  
5 you said you were going to go full speed ahead and build  
6 these two new barns and blah, blah, blah.

7           And nothing has happened. Nothing has happened.  
8 I mean I hear what everybody says and the Caruso project is  
9 wonderful, it's beautiful. But nothing has ever come from  
10 the comments that you have made here. And it's, it's so  
11 important to me as a commissioner here for you and Santa  
12 Anita to fulfill those promises. Or what are we talking  
13 about, about this synthetic track? When are you going to do  
14 that? Next year or the year after, I mean, why can't these  
15 promises be fulfilled? That's my, the glaring question that  
16 bothers me.

17           MR. CHARLES: And that's a fair question and I  
18 appreciate it. Certainly at the time when I made the  
19 commitment to begin to do two new barns we had every  
20 intention to do it. Frank Stronach had approved the funds  
21 to go ahead. Unfortunately we ran into the city.

22           The problems that were faced with the city that we  
23 really didn't understand were out there. I did inform Ed  
24 Halpern that we would not be able to at least until we could  
25 get by these hurdles.

1           Number one, with regards to the synthetic surface  
2 we are on record as saying we will comply. It will be going  
3 during Del Mar of next year just as Hollywood put in their  
4 synthetic track this year. We will be putting in our  
5 synthetic track next year during the Del Mar Race Meet.

6           CHAIRMAN SHAPIRO: Well --

7           VICE CHAIRMAN MORETTI: Could I ask --

8           CHAIRMAN SHAPIRO: Can I ask a follow up question  
9 to that? I read in Owner Circle Magazine. There was an  
10 article written by Mr. Couto that said that it wasn't going  
11 to happen until 2008. Now I don't know, are you, are we  
12 hearing here that Santa Anita will in fact install the  
13 synthetic track in conformance with the mandate of this  
14 Board by the end of 2007?

15          MR. CHARLES: That's correct.

16          CHAIRMAN SHAPIRO: Okay.

17          MR. CHARLES: Unfortunately I spoke to Mr. Couto.  
18 Whether there was a miscommunication or the article that he  
19 wrote I can just clear it up right now by saying we are  
20 clearly and we are going to put in a synthetic surface in  
21 2007 and will have to be during the time of Del Mar as  
22 Hollywood did this year.

23          VICE CHAIRMAN MORETTI: Ron could I just ask you,  
24 I understand what you just clarified and that's good. But  
25 apropos Mr. Dimarco's comments, and I too was very impressed

1 with the Caruso project. I mean it's absolutely stunning  
2 and beautiful. And I can't wait for it. However, are the  
3 problems that he is encountering with the permits for the  
4 backside, are those permitting problems going to affect the  
5 synthetic track?

6 MR. CHARLES: None whatsoever.

7 VICE CHAIRMAN MORETTI: So it's separate?

8 MR. CHARLES: The synthetic surface will go in.  
9 They have nothing to do with the problems that we're faced  
10 with the EIR and dispute between the Caruso project and the  
11 Westfield.

12 VICE CHAIRMAN MORETTI: Do you have the permits  
13 for your track already or are you on tap to get them?

14 MR. CHARLES: No. There again, we wouldn't even  
15 begin putting in the synthetic surface until July. We're  
16 meeting up at Golden Gate tomorrow. And we'll be discussing  
17 along the lines of starting the preparation for the  
18 synthetic surface going into Santa Anita.

19 CHAIRMAN SHAPIRO: Have you selected a vendor yet  
20 for Santa Anita?

21 MR. CHARLES: No we haven't.

22 COMMISSIONER HARRIS: What would the concept be  
23 that you do that while Del Mar was going on to make a --

24 MR. CHARLES: It's the only time John that you can  
25 do that because this year we actually was the year that we

1 were supposed to be closed. Well when Hollywood stepped up  
2 and put in their synthetic surface we did agree to take, to  
3 allow the horses to come over to Santa Anita. We had all of  
4 our were to be closed. However, you know, in the spirit of  
5 trying to help the industry and certainly Hollywood putting  
6 in a synthetic surface is going to help the industry. We  
7 agreed to stay open. Next year Hollywood will be open and  
8 we'll put it in during that time.

9 CHAIRMAN SHAPIRO: All right.

10 COMMISSIONER AMERMAN: I'd like to hitchhike on  
11 the Chairman's idea of next month you come back and report  
12 to this Board about what's been done in the past 30 days.  
13 But more important than that is what your timetable is going  
14 forward for the backstretch. It just strikes me, it has  
15 been a long time and we need a plan that has to be approved  
16 by the city or whatever. Who can help us do this. It's got  
17 to be put together so that we all understand where we are.

18 MR. CHARLES: And that's a fair statement. And we  
19 will come back to you at the next Board meeting and let you  
20 know exactly where we are with the city, where we are with  
21 the historical society and what we believe we can and can't  
22 do so at least you'll understand that at no time from this  
23 point moving forward will be anything that we do that slows  
24 this project down. We will keep you fully abreast as to  
25 exactly what the situation is.

1           CHAIRMAN SHAPIRO: Well please don't wait until  
2 the 29th day before the meeting. You know, keep us abreast.  
3 And again, I invite you if you need somebody from the Racing  
4 Board to explain to the city of Arcadia the importance of  
5 this to them and to us, you know, you should avail yourself  
6 of our help. Because they need to understand how important  
7 this is.

8           MR. CHARLES: I appreciate that and we will, we'll  
9 take you up on that.

10          CHAIRMAN SHAPIRO: Okay, all right. Thank you.

11          MR. CHARLES: Thank you.

12          COMMISSIONER AMERMAN: Is the state of California  
13 if they have to make any live up to some requirements  
14 relative to storm water runoff?

15          MR. CHARLES: Yes, yes.

16          COMMISSIONER AMERMAN: That that's going to cost a  
17 considerable amount of money.

18          MR. CHARLES: Well and it's rather than getting  
19 into the details it's very complex. Part of the reason that  
20 we are, you know, in addition to, at the same time of  
21 putting in all new stables that will also cure the problem  
22 so that the water won't run off which will be an additional  
23 20 million. So it's more of an incentive for us to put all  
24 new, brand new, state-of-the-art stables, barns that are  
25 similar to what are at Gulfstream right now.

1                   COMMISSIONER AMERMAN: That's a \$20 million  
2 problem. And a synthetic track, is that an \$8 million  
3 problem?

4                   MR. CHARLES: Roughly.

5                   COMMISSIONER AMERMAN: Or whatever. I mean, the  
6 finances of, I mean I'm not interested in it. I mean,  
7 there's a lot of money that has to come out.

8                   CHAIRMAN SHAPIRO: Commissioner Amerman I think we  
9 ought to, at this point why don't we let them come back to  
10 us and see what we've got. And no doubt it is expensive and  
11 I think that they'll have to explain that. But at this  
12 point let's see that they can't give us a plan and come back  
13 and report to us and try to move along.

14                   MR. CHARLES: Yeah, and we will keep you informed,  
15 you know, well before the next hearing so that you'll know  
16 exactly where we are prior to the meeting.

17                   CHAIRMAN SHAPIRO: Okay, thank you. I'd like to  
18 move along to agenda item number three on the agenda which  
19 is discussion regarding racing programs and feasibility of  
20 adjusting entry times at California racetracks.

21                   COMMISSIONER HARRIS: I was the one that suggested  
22 that we put this on here and we've got a big agenda and I  
23 don't want to spend too much time on it. My point of  
24 looking at it was I felt that further ahead entry times may  
25 well have some positives relating to medication and the

1 planning the horse's training schedule and publicizing races  
2 and all kinds of reasons.

3 I was a little dismayed that when I put it out to  
4 the racing secretary that they sort of acted like any change  
5 for the 40 hour entry was akin to a nuclear disaster or  
6 something. But apparently they have come around and with  
7 counseling how the park is now going to go to a 72 hour  
8 entry which I think is a big step forward.

9 I think we need to look toward forwarding it, even  
10 maybe 96 hours would be better. But I thought it would be  
11 good to have on the agenda to get people thinking outside  
12 the box and the traditional ways and look at the pluses and  
13 minuses and to be analytical rather than dismissing it out  
14 of hand. Which is what has happened.

15 CHAIRMAN SHAPIRO: Do any of the commissioners  
16 have any other comments? Mr. Halpern.

17 MR. HALPERN: Ed Halpern, California thoroughbred  
18 trainer. Good morning commissioners. Mr. Harris took the  
19 words right out of my mouth so I don't need to say very  
20 much. I will add to that that Del Mar has indicated that  
21 they plan on going to a 96 entry, hour entry time, five days  
22 a week. And because of the schedule on this I just  
23 necessarily go to a 72 hour entry time one day a week. But  
24 at the moment that's the plan.

25 We have been having meetings and will continue to

1 have meetings bringing the vets and the racing secretaries  
2 together. A lot of progress has been made. And we are  
3 moving forward to extend the entry time. And I think we're  
4 going to see that happen.

5 CHAIRMAN SHAPIRO: Okay, thank you. Item number  
6 four on the agenda is a report of the strategic planning  
7 committee. Earlier this week I distributed to the Board a  
8 report on the strategic planning committee meetings. I will  
9 just read that for the rest of the audience so that there  
10 can be full knowledge of what took place.

11 This year unlike past years the strategic planning  
12 and race dates committee met on numerous occasions with the  
13 vision of pushing the stakeholders in the industry to accept  
14 change in the traditional racing calendar.

15 As expected with change comes uncertainty and  
16 difficulty to some. In northern California the primary goal  
17 was to reduce the number of days during the inclement time  
18 of the year and also to try and create a combined racing  
19 fair program that would result in less racing events and  
20 larger field sizes.

21 Recognizing that 2007 is likely the last year of  
22 operation for Bay Meadows we accepted that the process of  
23 change will be a series of steps and 2007 is the first step  
24 in the process. A total of eight racing days were  
25 eliminated in northern California at Golden Gate and Bay

1 Meadows. Additionally either four days will be eliminated  
2 from combined racing fairs. Or 45 less thoroughbred events  
3 will be conducted.

4           We also eliminated more of the overlap during the  
5 fair racing period. Those fairs that were previously  
6 overlapped or portions of their meetings and which have  
7 proved to be the weakest performers in the past have been  
8 told and have acknowledged and accepted that if they do not  
9 significantly improve in 2007 they will not be awarded dates  
10 thereafter.

11           Further the fairs understand that they need to  
12 make an invigorated effort to improve their facilities,  
13 adjust their racing dates all to the benefit of racing.  
14 Racing cannot be dictated by fair activities. And they need  
15 to produce for the benefit of racing.

16           In southern California essentially the same  
17 calendar that exists in 2006 has been recommended in 2007  
18 albeit with a few less days in the winter months.

19           Again a conscious effort was made to try some four  
20 day weeks to see if that would provide larger fields and  
21 better racing during the inclement periods. As stakeholders  
22 and entities refined the calendar -- all stakeholders and  
23 entities refined the calendar except for Bay Meadows  
24 Operating Company on behalf of Hollywood Park.

25           Hollywood Park felt that they should have the 17th

1 week of the Santa Anita season. Essentially Hollywood has  
2 taken the position since they installed cushion track first  
3 they deserve to be rewarded with what they call the swing  
4 meet.

5           The race dates committee voted unanimously that  
6 Santa Anita should continue to operate with additional 17  
7 weeks and weekends they have had since 1980 with only two  
8 exceptions.

9           As Chairman of the Strategic Planning and Race  
10 Dates Committee I believe that we deliberated over all the  
11 issues to come to a fair, the most fair recommendation as  
12 possible. We felt that it is critical to the success of  
13 racing to put racing dates at venues that are most desired  
14 by live fans and will attract the most wagering and the  
15 highest purses.

16           Santa Anita clearly demonstrated that in 2006.  
17 While we are hopeful the cushion track will rejuvenate  
18 racing interests at the Hollywood Park that has yet to be  
19 seen and should not come at the expense of Santa Anita in  
20 2007.

21           The committee voted unanimously to recommend these  
22 calendars for full adoption to the Board. Now this agenda  
23 item actually leads into the next agenda item which is the  
24 race dates issue.

25           First, do the members of the committee wish to add

1 anything to that report? If not so then I suggest that what  
2 we do is we go into item number four on the agenda which is  
3 consideration of race dates.

4           Clearly there has been a tremendous outpouring of  
5 e-mails and calls and letters with respect to the issues  
6 pertaining to the southern California racing calendar.

7           So for that reason I'd like to at least try to  
8 dispense with the northern California racing calendar, the  
9 harness racing calendar and the quarter horse racing  
10 calendar first.

11           COMMISSIONER MOSS: Yeah I'm sorry, Mr. Chairman.  
12 I believe I have to recuse myself from this discussion only  
13 because I have been on a horse with Mr. Stronach. So would  
14 you call me when you're --

15           CHAIRMAN SHAPIRO: Absolutely, thank you  
16 Commissioner Moss.

17           COMMISSIONER MOSS: Thank you, thank you.

18                   (Commissioner Moss exited the  
19 meeting room.)

20           CHAIRMAN SHAPIRO: So if we can I would like to  
21 address for the race dates if we could just start with the  
22 southern California night industry calendar.

23           Included in everybody's packet is a calendar that  
24 shows Los Alamitos quarter horse racing a total of 208  
25 nights during the year. Beginning on December 26th and

1 continuing through December 23rd (sic). If there is no  
2 objection I would entertain that this calendar be adopted by  
3 the Board.

4 VICE CHAIRMAN MORETTI: I would move to --

5 COMMISSIONER AMERMAN: I second it.

6 CHAIRMAN SHAPIRO: Second, all in favor --

7 COMMISSIONER HARRIS: I would just -- I  
8 unfortunately probably wasn't at all the meetings but was  
9 there any thought by the quarter horse community of they  
10 wanting a Christmas break or --

11 CHAIRMAN SHAPIRO: There was no discussion of it.  
12 And this the calendar that they advocated. And I believe  
13 that this is what the night industry has had historically.  
14 And they all seem to be happy with it.

15 COMMISSIONER HARRIS: Okay.

16 COMMISSIONER AMERMAN: There was no suggestion at  
17 all of having a long Christmas break.

18 CHAIRMAN SHAPIRO: As our one quarter horse  
19 aficionado I assume that this is what the quarter horse  
20 people --

21 VICE CHAIRMAN MORETTI: Ron's here.

22 CHAIRMAN SHAPIRO: Well perhaps Mr. Bloenig on  
23 behalf of Los Alamitos is that what --

24 MR. BLOENIG: Mr. Chairman, as a member, Ron  
25 Bloenig on behalf of Los Alamitos Race Course. This is the

1 calendar that we would prefer and our horsemen and  
2 horsewomen would prefer as well. Thank you.

3 CHAIRMAN SHAPIRO: Great, thank you.

4 COMMISSIONER HARRIS: Maybe we can get Ron Bloenig  
5 to sing, I'll Be Home For Christmas. (laughter)

6 CHAIRMAN SHAPIRO: Okay, therefore there's a  
7 motion, there's a second, all in favor of adopting the  
8 quarter horse calendar --

9 (Ayes)

10 CHAIRMAN SHAPIRO: Okay, looking at the northern  
11 night industry calendar, which is the harness racing  
12 calendar, the harness calendar shows a total of 202 dates.  
13 There was no comment to this calendar as well. I see that  
14 Mr. Reagan is there.

15 MR. REAGAN: Mr. Chairman and commissioners just  
16 this week the harness folks in Sacramento let us know their  
17 actual intentions for the first half of 2007. And it was a  
18 little different from what you see in your package.  
19 Essentially they're going to start on the 28th of December.  
20 Run the 28th, 29th and 30th of December and then run the  
21 rest of the schedule through July. That's as far as they  
22 get, through July.

23 And what it is next month you're going to see an  
24 application from them for those dates. So I thought rather  
25 than having something to prove today that wasn't copacetic

1 with what they're going to be asking for next month.

2           What they've actually done is they dropped all of  
3 the Sundays in January, February, March, April, May and June  
4 and July. And they will actually be asking you for 118 days  
5 from December 28th through July 28th. I have an updated  
6 calendar here with me but that is what they're going to be  
7 asking for next month. And I thought it might be useful if  
8 that was addressed today.

9           CHAIRMAN SHAPIRO: Well Mr. Reagan do you know why  
10 we had all these meetings. They didn't participate. They  
11 didn't come. And now on the day of the meeting that we're  
12 going to adopt this they're giving us a revised calendar?

13           MR. REAGAN: I cannot explain that sir.

14           COMMISSIONER HARRIS: I agree it's not correct  
15 procedure but can we just table that the night of --

16           CHAIRMAN SHAPIRO: Yeah, we will --

17           COMMISSIONER HARRIS: -- approval, if they accept  
18 the night harness at the table the next meeting.

19           CHAIRMAN SHAPIRO: -- I agree with Commissioner  
20 Harris. We will table it. But would you please let them  
21 know that, you know, that in the future we're not going to  
22 accept things that are just handed to us the day of the  
23 meeting. And this is not your fault I understand. But we  
24 don't appreciate that.

25           MR. REAGAN: That's fine --

1           CHAIRMAN SHAPIRO: We will defer the matter of the  
2 night harness racing calendar.

3           MR. REAGAN: Very good.

4           CHAIRMAN SHAPIRO: Thank you. All right, in the  
5 north as I recall from the meetings that we had for the  
6 northern thoroughbred calendar we had two options.

7           One was a total of 276 race dates, which included  
8 45 events cut out of the thoroughbred calendar and the other  
9 one was that there would be 272 race dates. And we were to  
10 hear back from the applicable Northern California fairs and  
11 horsemen as to what their, their pleasure was.

12           COMMISSIONER HARRIS: Was there two different? I  
13 didn't really --

14           CHAIRMAN SHAPIRO: Yes, there were two different  
15 calendars. And if you look in your packet the first one  
16 should show a total of 77 racing fair dates and the one  
17 behind it should show 73. You got it? John, are you ready  
18 to go?

19           COMMISSIONER MOSS: Yes.

20           CHAIRMAN SHAPIRO: Okay.

21           COMMISSIONER MOSS: I'm okay.

22           CHAIRMAN SHAPIRO: Mr. Barkett.

23           MR. BARKETT: Yes, good morning, Mr. Chair,  
24 Commissioners. Joe Barkett, general manager of the Solano  
25 County Fair representing the California Authority of Racing

1 Fairs. At the strategic planning meetings, as Mr. Shapiro  
2 just indicated, the fairs after meeting with the major  
3 associations and the thoroughbred horsemen's group came up  
4 with a plan for 77 dates of fair racing. The strategic  
5 planning committee recommended 73 dates of fair racing. And  
6 that, the difference between those two proposals was one day  
7 of racing at San Mateo Fair, one day of racing at Stockton  
8 Fair, one day at Vallejo and one day at Pleasanton.

9 We asked the committee at that time if we could go  
10 back and work with each other to try to come up with a plan  
11 to reduce by the equivalent of four days of racing. It  
12 might have included those four days, it might have included  
13 reduction of actual racing events at fairs.

14 The calculation by the way of the number of  
15 thoroughbred races at fairs per day when you do not count  
16 the Humboldt County Fair is 7.9.

17 CHAIRMAN SHAPIRO: Can I ask the people that are  
18 talking off to the side or wherever it is to go on out of  
19 the room so we can hear. Thank you. Go ahead, I'm sorry.

20 MR. BARKETT: We took the Humboldt County Fair out  
21 of the calculation. If you put Humboldt County Fair in the  
22 fairs average 7.4 thoroughbred races, without Humboldt  
23 County Fair they average 7.9.

24 The fairs, without belaboring this, the fairs met  
25 and have come up with an agreement as to how they wanted to

1 approach your wishes. Basically Stockton has agreed that it  
2 will give up the date June 13, Vallejo has agreed that it  
3 will give up the date July 13, San Mateo Fair has agreed it  
4 will give up the date August 20, just as was proposed by the  
5 strategic planning committee.

6 The one difference is that for Pleasanton we did  
7 not think it was in the best interest of racing to give up  
8 the day on July the 2nd and in lieu of that we propose that  
9 we will reduce at the Santa Rosa Fair, the Pleasanton Fair  
10 and the Fresno Fair a total of eight races, the equivalent  
11 of one more day. And that is what our proposal is, that is  
12 our response to the strategic planning committee's  
13 recommendation.

14 CHAIRMAN SHAPIRO: Okay, thank you, Mr. Barkett.  
15 Are the horsemen in favor of this?

16 MR. COUTO: Good morning, Drew Couto on behalf of  
17 the Thoroughbred Owners of California. Mr. Bachman has  
18 advised me that this plan is acceptable to the Northern  
19 California contingency and therefore we recommend that it be  
20 approved.

21 CHAIRMAN SHAPIRO: Thank you. Any comments?

22 COMMISSIONER HARRIS: I'm a little concerned on  
23 the races per day or the races per meet or whatever. So  
24 most of it just depends on the inventory of any given race  
25 the secretary has. Particularly at Fresno this season they

1 had very big field sizes and they did have a need to run  
2 more races, which I think they requested to do and they got  
3 it.

4 But it just doesn't seem right that a meet like  
5 Fresno that is having a successful season is restricted on  
6 how many races they can run a day because they're the end of  
7 the fair circuit. A lot of the people that are racing there  
8 need the money to ship out someplace and it doesn't really  
9 impact other, you know, subsequent meets that much. So I  
10 would hate to see Fresno included in that cut just because  
11 CARF thought that was a good idea.

12 MR. BARKETT: In response to your comments,  
13 Mr. Harris, I think the fairs would very much agree that  
14 they would prefer not to eliminate eight races from Santa  
15 Rosa, Pleasanton and Fresno. We are not comfortable at all  
16 but that is in the best interest of fair racing or horse  
17 racing.

18 COMMISSIONER HARRIS: Why did you propose it then?

19 MR. BARKETT: We proposed it because we were  
20 basically instructed by the strategic planning committee  
21 that we should come back with either those four days gone or  
22 the equivalent somehow of those four days.

23 COMMISSIONER HARRIS: Well I don't think you were  
24 instructed, were you?

25 COMMISSIONER AMERMAN: Do I understand you

1 correctly that you end up with 74 days as the recommended  
2 plan at the present time?

3 MR. BARKETT: We would end up with 74 days and  
4 then eight races reduced.

5 COMMISSIONER HARRIS: And I personally think that  
6 cutting some of the days might make more sense. Like for  
7 instance the Bay Meadows Fair, which is really not that tied  
8 into the San Mateo County Fair anyway. I just can't see the  
9 logic of giving them six day weeks, you know, other than the  
10 fact that it overlaps Del Mar. But if we're cutting a lot  
11 of the racing associations to five day weeks why should Bay  
12 Meadows Fair get six day weeks?

13 MR. BARKETT: Well we did cut one day from the San  
14 Mateo Fair.

15 COMMISSIONER HARRIS: Yeah, but why not two.

16 CHAIRMAN SHAPIRO: The notion here was that we  
17 look at these various, you know, field sizes in the north  
18 and in the fairs that have been struggling.

19 COMMISSIONER HARRIS: They aren't at every fair.  
20 Some fairs do and some don't.

21 CHAIRMAN SHAPIRO: I agree with you, I agree with  
22 you. And it was designed so that those fairs that are not,  
23 are struggling would be cut. It was not designed to, for  
24 instance, cut any races from the Fresno, which had a great  
25 meeting and had a lot of horses.

1                   COMMISSIONER HARRIS:  But CARF came back with  
2  that.

3                   CHAIRMAN SHAPIRO:  Yet CARF is coming back and  
4  saying, I think, that they want to cut out of fairs where  
5  they can, they can do it.

6                   COMMISSIONER HARRIS:  It seems like the ones  
7  you're cutting are the ones that probably had some of the  
8  better meetings.  We need to really see the data on it but  
9  it seems like you're sort of shooting the survivors.

10                  MR. BARKETT:  The four days that were proposed to  
11  be cut arguably were target days that if days had to be cut  
12  those probably would be the best days.  As I said, three of  
13  the four fairs went along with that.  Pleasanton felt very  
14  strongly that it was not in the best interest of their fair  
15  or racing for that day to be cut and we came up with the  
16  best alternative to that we could.

17                  CHAIRMAN SHAPIRO:  Well isn't that day, the day  
18  that was proposed for Pleasanton is a day that they are the  
19  only track operating in the state?

20                  MR. BARKETT:  Well that was true when we were  
21  talking about it.  Now I understand that may not be true.

22                  CHAIRMAN SHAPIRO:  Well, I don't know if that's --  
23  I mean right now as we sit here they are the only track  
24  operating in the state.  So there is no simulcasting and it  
25  was purposely chosen to be a date because in likelihood the

1 revenue generation was not going to be tremendous. And it  
2 would, again, provide future racing opportunity and  
3 hopefully larger field sizes for the fairs that followed.

4 MR. BARKETT: We understand and it was an issue of  
5 significant, lengthy discussion on the part of all the  
6 fairs. I will let Pleasanton speak for their --

7 CHAIRMAN SHAPIRO: Well hold on. What I would  
8 suggest is perhaps what we should do is adopt a combined  
9 fair racing calendar and not get bogged down in this detail  
10 and let there be further discussion and tweaking of the  
11 calendar as we move on. Perhaps if Commissioner Harris'  
12 suggestion is a good suggestion or somebody else wants to  
13 weigh in on it. But what I would suggest is that we adopt  
14 these dates but we reserve the right to come back and modify  
15 them if there is a demonstration of a reason to do that.

16 COMMISSIONER HARRIS: Which ones? The alternate  
17 ones or the --

18 CHAIRMAN SHAPIRO: No, the 73. The calendar that  
19 has the 73 race dates on it.

20 COMMISSIONER HARRIS: So we're adopting those. I  
21 mean, it just seems tough to give, say, Pleasanton, which is  
22 one of the major fairs up there, fewer days than they have  
23 had and absent some data showing that they're not putting on  
24 a good program, which maybe you have.

25 MR. COUTO: Again, Drew Couto, Thoroughbred Owners

1 of California. If I could share with the Commission how  
2 much time and effort was put in by everyone involved in this  
3 process, both the racing associations, the fairs and the  
4 horsemen.

5 CHAIRMAN SHAPIRO: And us.

6 MR. COUTO: Yes, absolutely, and the Horse Racing  
7 Board. And I think we were shepherded quite well by the  
8 dates committee and the strategic planning committee and we  
9 appreciate that very much. But they gave us a task and we  
10 sat together on numerous occasions and worked through a  
11 number of iterations of calendars. Everyone conceded dates  
12 they didn't want to but we worked together for the greater  
13 good.

14 The idea was to reduce some of the racing  
15 opportunities in the hopes of consolidating inventory and  
16 increasing field size overall for everyone, not simply a  
17 certain fair or a certain racing association but for the  
18 entire circuit.

19 We came down to this issue on the fairs and there  
20 were varying views about how to solve it. When I think the  
21 collective wisdom of the group was to leave some flexibility  
22 to the fairs because they actually understood their system  
23 better than the rest of us. To leave some flexibility to  
24 the fairs to develop this model that they put in front of  
25 you.

1           Which again, given the assignment, we all felt, we  
2 still feel that it is the best calendar for Northern  
3 California for 2007. Time will tell if we made the right  
4 assumptions or not but no one is completely happy. That's a  
5 good sign of a compromise and I think we've got one that we  
6 hope the Board will support. We think it will improve  
7 racing overall in the northern zone for next year, thank  
8 you.

9           COMMISSIONER HARRIS: Am I understanding this  
10 correctly that Stockton will run completely non-overlap this  
11 year?

12           CHAIRMAN SHAPIRO: Yes.

13           MR. COUTO: That's correct. That was one of the  
14 primary objectives was to get fairs that had traditionally  
15 been overlapped out from under the overlap to give them an  
16 opportunity to prove how viable they are on their own. And  
17 in order to accomplish that other concessions and other  
18 manipulations had to be undertaken. But yes, Stockton is  
19 out from under overlap.

20           COMMISSIONER HARRIS: It just seemed inconsistent.  
21 I know there's counter-arguments that you completely non-  
22 overlapped Stockton but you didn't change the overlap of  
23 Fresno at all.

24           MR. COUTO: Well it may look inconsistent but the  
25 question was the continued viability of two fairs in the

1 north, one of which is Stockton. Fresno is not one of those  
2 in which the continued viability is in question. So we know  
3 that Fresno is going to be around. We wanted to give  
4 Stockton its greatest opportunity to succeed on its own if  
5 it's possible and that meant we had to clear it and not  
6 Fresno.

7 CHAIRMAN SHAPIRO: John, Commissioner Harris, if I  
8 can just add. The logic was, put up or go away and we dealt  
9 with this. In the case of Vallejo and Stockton this is  
10 their year to show that they can be viable. We took away  
11 all the obstacles. We said, okay, you've said it's because  
12 of overlap, you've said it's because of this. And they have  
13 agreed that if they do not have significant improvement they  
14 are not coming back to ask us for dates.

15 COMMISSIONER HARRIS: I wouldn't bet on that.

16 CHAIRMAN SHAPIRO: Well, then let's have them come  
17 up and --

18 COMMISSIONER HARRIS: Can we get a commitment from  
19 somebody on that?

20 MR. BARKETT: Mr. Shapiro, putting on my Vallejo  
21 hat. Stockton has made commitments in the nature of what  
22 you stated.

23 COMMISSIONER HARRIS: Can you restate that.

24 MR. BARKETT: And they, you know, Mr. White is  
25 here.

1           CHAIRMAN SHAPIRO: Perhaps Mr. White can come up.

2           MR. BARKETT: The characterization of Vallejo is  
3 not accurate. Vallejo is in the process of trying to  
4 determine whether it can make significant investments in its  
5 facilities or not.

6           CHAIRMAN SHAPIRO: I stand corrected.

7           MR. BARKETT: Okay.

8           CHAIRMAN SHAPIRO: You are correct. I believe the  
9 commitment from Vallejo is that by this time next year you  
10 will be in the position to demonstrate a plan of action to  
11 improve your facility such that it can be a viable player.  
12 If you cannot prove and show a plan of action that includes  
13 the money then you are not going to ask for dates at that  
14 time until you can do it for racing at Vallejo. Is that  
15 correct?

16           MR. BARKETT: That is pretty close to correct. We  
17 commit we are going to come back with a plan. The reason,  
18 the reason that I am equivocating is because words can be  
19 used to mean things that weren't understood between the  
20 parties.

21           CHAIRMAN SHAPIRO: Okay.

22           MR. BARKETT: We have committed to coming back  
23 with a plan for significant improvements to our facility.

24           CHAIRMAN SHAPIRO: Okay, but wait a minute. That  
25 commitment must include an action plan that shows that it

1 isn't just a nice rendering that is on an a piece of paper  
2 but rather we have the money, here is the source of the  
3 money, this is what we are going to do and this is when we  
4 are going to do it by. Because if you are just going to  
5 come back with some beautiful renderings that is not going  
6 to fly with us.

7 MR. BARKETT: We agree. We will have an action  
8 plan if we are going to go forward.

9 CHAIRMAN SHAPIRO: Okay. And if you don't have an  
10 action plan then you understand and you are accepting that  
11 this Board may likely not award or entertain dates at  
12 Vallejo until there is such a plan or we can see that  
13 Vallejo can contribute to the betterment of horse racing  
14 better than it does today. Is that correct? That would be  
15 a yes, thank you.

16 MR. BARKETT: Yes, that's correct. And I would  
17 say, Mr. Chairman, that I am hopeful that we will be here  
18 even sooner than you would anticipate with something.

19 CHAIRMAN SHAPIRO: And we are too. And we are  
20 too. Now perhaps Mr. White can weigh in. Mr. White, did I  
21 not characterize it properly that what we agreed was to give  
22 you 2007 un-overlapped. This is your chance to show that  
23 Stockton is going to do great things. But if you don't you  
24 are agreeing that you understand that we are not going to  
25 look to allocate dates to Stockton in 2008.

1 MR. WHITE: Yes and -- Yes, but.

2 CHAIRMAN SHAPIRO: Yes. Let's not do that yes and  
3 no thing.

4 MR. WHITE: Yes, and it's just a question of what  
5 is significant. But I will say that this is the commitment  
6 and I will agree with you.

7 CHAIRMAN SHAPIRO: Right.

8 MR. WHITE: That we're going to, you know, get un-  
9 overlapped. We're going to make a commitment to do the best  
10 job we can. If it is acceptable then we hope to stay in our  
11 same dates. If we're marginally successful, we've talked  
12 about that we would move if Bay Meadows went away possibly  
13 to the September dates to free up the early summer. And if  
14 we are not marginally even better or if it's bad then we  
15 would look at some sort of consolidation and then going out  
16 of business as a live track, yes.

17 CHAIRMAN SHAPIRO: All right. Then I am going to  
18 assume that was a yes.

19 MR. WHITE: Yes.

20 CHAIRMAN SHAPIRO: Thank you.

21 MR. WHITE: And we have also pledged that any  
22 additional revenues that we do make from this year forward  
23 if we stay in business will automatically be put back in the  
24 facility. So we will be revenue neutral. Whatever we  
25 generated last year will be our base. Anything above and

1 beyond that will automatically go back into improvements  
2 against a loan for major improvements.

3 CHAIRMAN SHAPIRO: Right, thank you.

4 COMMISSIONER HARRIS: I'm not sure that the Board  
5 is aware of this but so much of the revenue from any track  
6 is derived from the hosting, of being the host for all the  
7 other revenue going on in their zone. That's the reason  
8 that tracks don't like to be overlapped is they either don't  
9 get any of it or they don't get part of it. So it's a huge  
10 revenue swing if you get overlapped or you don't get  
11 overlapped.

12 VICE CHAIRMAN MORETTI: Well I think that's why, I  
13 mean we asked the fairs, we told them we want to work with  
14 them, we want some creative thinking. We wanted to give a  
15 block of time to the fairs so that they could make some  
16 suggestions as to what would be best for them. And I thank  
17 you for coming back with your calendar and I would be  
18 willing to support their 74 days.

19 MR. BARKETT: Well thank you. And I thank  
20 Mr. Harris for reminding me of something I forgot to make  
21 clear. And that is, of those three days that the fairs have  
22 agreed to not race they will be considered as the host for  
23 that day, the host signal. I just wanted to clarify that.

24 CHAIRMAN SHAPIRO: Right and that's true.

25 MR. BLOENIG: Mr. Chairman and members, Ron

1 Bloenig on behalf of the Alameda County Fair at Pleasanton.  
2 I am here to ask that Pleasanton not be reduced to ten days  
3 but to stay at eleven days, which would be, in effect,  
4 endorsing the plan offered by Mr. Barkett. Pleasanton is in  
5 a different situation, I believe.

6 CHAIRMAN SHAPIRO: Mr. Bloenig?

7 MR. BLOENIG: I believe that Commissioner Moretti  
8 just made a motion that would allow that to occur. So why  
9 don't you hold on a second and let me see if there is a  
10 second. You may not have to go into your --

11 COMMISSIONER AMERMAN: I second the motion.

12 CHAIRMAN SHAPIRO: There is now a second.

13 COMMISSIONER HARRIS: What was the motion?

14 CHAIRMAN SHAPIRO: The motion was --

15 VICE CHAIRMAN MORETTI: My motion is to adopt  
16 the --

17 CHAIRMAN SHAPIRO: To adopt the plan that  
18 Mr. Barkett brought forward.

19 VICE CHAIRMAN MORETTI: As an adjustment to the  
20 two, the proposed Northern California fairs and the  
21 alternative. The adjustment made by the fairs. The  
22 suggestion is to give them the 74 days, which would allow  
23 Pleasanton to have their days.

24 COMMISSIONER AMERMAN: It's what you proposed.

25 COMMISSIONER HARRIS: But not -- I didn't like the

1 cap on total races run part of that. Can we take that out?

2 CHAIRMAN SHAPIRO: i'm willing to take that out  
3 and I would just ask that there be prudence used in the  
4 number of thoroughbred races that are scheduled. I don't  
5 think we are going to sit here and argue over eight races a  
6 year.

7 COMMISSIONER HARRIS: No.

8 CHAIRMAN SHAPIRO: And I don't want to get bogged  
9 down in that.

10 COMMISSIONER HARRIS: That could well be part of  
11 the horsemen's agreement.

12 CHAIRMAN SHAPIRO: Right.

13 COMMISSIONER HARRIS: They could put it back in if  
14 they want to but it's not a Racing Board thing.

15 VICE CHAIRMAN MORETTI: I'm willing to amend the  
16 motion.

17 CHAIRMAN SHAPIRO: Okay, the motion is now  
18 amended. I am going to call for the question, Mr. Couto.

19 MR. COUTO: I just want to clarify. Unfortunately  
20 we are not able to make it a term of the contract, it's  
21 prohibited by law. It's prohibited by law, thank you. And  
22 we already do have caps in every, in every application and  
23 every license you already have a cap in there on the average  
24 number of races that are permitted to be run So by  
25 agreement of the industry we have agreed that we were going

1 to eliminate those dates.

2 And again, you can second-guess us but it is  
3 something that we felt was going to help the inventory issue  
4 and everyone has worked out an arrangement where we'll do  
5 this. And God bless us if we have too many horses next  
6 summer. I think we'll all be thrilled to know that we did  
7 the right thing. But we're, again as a group, as the  
8 industry, we are very comfortable with the proposal we put  
9 forward, including the caps.

10 CHAIRMAN SHAPIRO: Thank you. Is there any  
11 other --

12 COMMISSIONER AMERMAN: Make the motion again.

13 VICE CHAIRMAN MORETTI: I'm amending it back,  
14 thank you, Drew.

15 CHAIRMAN SHAPIRO: All right. Are you withdrawing  
16 your motion?

17 VICE CHAIRMAN MORETTI: I'm withdrawing the second  
18 motion and coming back to the first one.

19 COMMISSIONER HARRIS: Could I do an amendment to  
20 the second one? (Laughter)

21 COMMISSIONER AMERMAN: Essentially what we're,  
22 essentially what we're saying, we're accepting what the  
23 horsemen came back to, and so forth.

24 COMMISSIONER HARRIS: It just seems inherently  
25 unfair. There is no one here from Fresno. They don't make

1 enough money to afford to even get down here because they're  
2 never hosts. (Laughter) But it just seems inherently -- I  
3 would go for the plan if Fresno is excluded from any caps.  
4 We don't believe in quotas in Fresno.

5 CHAIRMAN SHAPIRO: Fine, I tell you what, okay,  
6 all right. I believe that there is a motion, and God  
7 willing I get this right. That we will accept that there  
8 will be 74 days of fair racing along with the calendar that  
9 incorporates Golden Gate and Bay Meadows that are presented  
10 and that there will be six less thoroughbred races so that  
11 Fresno does not have to cut any race dates. Is that okay?

12 COMMISSIONER HARRIS: Well that Fresno racing is  
13 not subject to the cap.

14 CHAIRMAN SHAPIRO: Fine, Fresno is not subject to  
15 it and we will adjust the number of races that are cut to  
16 six, not eight.

17 COMMISSIONER HARRIS: Other places, other places  
18 if you want.

19 CHAIRMAN SHAPIRO: Okay? Is that acceptable to  
20 everybody? I'll call for the motion. All those in favor?

21 (Ayes)

22 Opposed? There are none.

23 COMMISSIONER HARRIS: Thank you.

24 CHAIRMAN SHAPIRO: Hopefully the court reporter  
25 will get that.

1 MR. BLOENIG: What about my speech?

2 CHAIRMAN SHAPIRO: You've got your day, you've got  
3 your day, okay. Okay, all right.

4 Now we are going to deal with the Southern  
5 California thoroughbred calendar. And I would ask on this  
6 that given the amount of dialogue that has taken place on  
7 this I would prefer that unless somebody has something new  
8 to offer that we try to limit the discussion on this item so  
9 that we are not just repeating what I believe everybody has  
10 seen or heard and that this doesn't go on for hours.

11 I am not looking to restrict anybody from their  
12 ability to discuss it but the committee came forward and put  
13 together a calendar. I would like to, however, amend the  
14 calendar that is under consideration. And therefore if you  
15 have a calendar I suggest you take it out. I would like to  
16 amend the committee's calendar so that the calendar that the  
17 calendar that would be adopted would read as follows:

18 Santa Anita, in addition to all of the dates that  
19 the committed recommended would also be allowed to race on  
20 December 28, January 10, and they would retain the week of  
21 the 18th, 19th, 20th, 21st and 22nd.

22 VICE CHAIRMAN MORETTI: Of what?

23 CHAIRMAN SHAPIRO: Of April, sorry, thank you.  
24 Hollywood Park would also race on Wednesday, May 23rd, July  
25 2nd, July 16 and December 17th. The reason for these

1 modifications are an effort to try and lessen the financial  
2 harm to either Santa Anita or Hollywood Park. And clearly I  
3 want to acknowledge the great appreciation I personally  
4 have, and I believe all of us have, with respect to  
5 Hollywood Park moving forward and putting in the cushion  
6 track. It is unfortunate that there is a squeeze week. It  
7 is unfortunate that we cannot in this year accommodate all  
8 of the traditional 17 weeks allocated to Santa Anita and 13  
9 weeks allocated to Hollywood Park.

10 I would also like to include in the motion that as  
11 we look to 2008 that if Santa Anita has not installed a  
12 synthetic surface by this time next year, or if they have  
13 not commenced construction or replacement of barns, of ten  
14 barns in their barn area, that this week, the week that has  
15 been subject to the controversy, be allocated to Hollywood  
16 Park in 2008. And I would like to make that in the form of  
17 a motion and if there is a second and then we can discuss  
18 it. Is there a second for that?

19 VICE CHAIRMAN MORETTI: I'd be happy to second.

20 CHAIRMAN SHAPIRO: Second. Is there anybody that  
21 now wishes to comment on the motion for the --

22 COMMISSIONER HARRIS: Could we on the Santa Anita  
23 portion? It seems like we have made a big effort to  
24 eliminate some of these six day weeks and I agree that the  
25 dates re-inserted make sense for Santa Anita, the 28th and

1 the 10th. But I think we should consider dropping January  
2 the 17th, which is the Wednesday after Martin Luther King  
3 Day, and also January 24th, which is the Wednesday after  
4 Presidents Day.

5 Because generally the weather, you know, can be  
6 pretty rainy in January and February and we do get short  
7 fields about that period. I just think it would take a  
8 strain off of the population to just have five day weeks  
9 rather than six day weeks. And especially if Santa Anita is  
10 picking up what is now called the swing week. They in the  
11 total picture aren't really damaged by going to five day  
12 weeks.

13 CHAIRMAN SHAPIRO: Okay. We can take that under  
14 advisement. Again, I am not trying to preclude anybody from  
15 addressing this issue. All I am doing is saying that the  
16 Board has received an enormous amount of input from  
17 everybody concerned. On the other hand, if anybody feels  
18 they have the need to present their case they should not  
19 feel unwelcome to do so.

20 COMMISSIONER HARRIS: I am not clear on -- I  
21 basically understand your proposal, which I think has got  
22 merit. But on the covenant that we are putting on Santa  
23 Anita, I'm not sure if we can really do that other than just  
24 the goodwill of the Board.

25 CHAIRMAN SHAPIRO: Well I think that, as I've

1 learned from going through this process, that I think that  
2 we, if it's included in a motion it will provide the Board  
3 next year some guidance in terms of determining what the  
4 Board's intention was. And I believe that it would be  
5 helpful and I would like, in fact, to see that there is  
6 support for this from everybody so that there is a clear  
7 understanding for 2008.

8 COMMISSIONER HARRIS: It's a good idea if they, if  
9 we could --

10 COMMISSIONER AMERMAN: It really doesn't put any  
11 pressure on Santa Anita that they haven't put on themselves.  
12 Mr. Charles stood up there and said that he was going to put  
13 in the synthetic track during the Del Mar Meet this coming  
14 year so that part of it is done.

15 And the other side of it is the age old question  
16 of the barns and I do think there has to be some carrot and  
17 some stick in here. If we don't tackle this issue it keeps  
18 getting pushed out and out and out. This goes back far  
19 beyond Magna. It certainly is now 2006 and Magna has had  
20 this operation for eight years and now we're just saying  
21 we've got to go to the city council to explain what the  
22 problems are and get their approval. It seems to me we need  
23 to have something in place that we can look at and say, well  
24 you did it or you didn't do it.

25 COMMISSIONER HARRIS: It would be good if we could

1 define what the ten barns -- I was just a little concerned  
2 we'd get down the road and they'd say, well we're thinking  
3 about ten barns. But it's got to be something defined that  
4 they really do --

5 CHAIRMAN SHAPIRO: Well that's why I tried to  
6 articulate it very carefully, which was that they must have  
7 pulled permits, they must have commenced construction on ten  
8 replacement barns by this time next year. This is not going  
9 to be where, you know, well we're down there and we're in  
10 the planning department. Well too late.

11 Hollywood Park stepped forward this year, they put  
12 in the cushion track. They have demonstrated very good  
13 faith in doing that. I feel very badly that we have a  
14 squeeze week this year. But nonetheless I want to really  
15 put the pressure on Santa Anita to perform. And if they  
16 don't perform then this should clearly demonstrate in the  
17 record that it was the intent of this Board that next year  
18 this would go to Hollywood Park.

19 COMMISSIONER AMERMAN: And I think as a token of  
20 our commitment to what Santa Anita says they are going to do  
21 and will do I think we should leave the dates in in January  
22 that were proposed. We've got to give them the opportunity  
23 to build on what they did last winter season, which was up  
24 substantially. None of us clearly are weathermen, we don't  
25 know what's going to happen, and obviously weather does

1 affect us to some degree. But I think the challenge is on  
2 Santa Anita's shoulders to continue the upward -- And if we  
3 take away their -- because I think it's going to hurt us.

4 COMMISSIONER HARRIS: Maybe in total. But I think  
5 clearly that going to five day weeks will increase the  
6 average handle and attendance, not decrease it. That argues  
7 for taking it away.

8 COMMISSIONER AMERMAN: Yes.

9 COMMISSIONER ANDREINI: Well, you know, the swing  
10 week is a swing week. I mean, but, you know, I have a  
11 suggestion. In the spirit of compromise why don't we just  
12 give -- I don't have the schedule here. But why don't we  
13 give Santa Anita December the 28th, the January the 10th and  
14 the January the 24th and April the 16th and give Hollywood  
15 Park the 21st of April, the 22nd, May the 23rd and July the  
16 3rd. I mean, it's a simple way to do it. You cut that week  
17 up. You give Santa Anita their days and Hollywood Park is  
18 taking their's. It's a simple way to do it and then there's  
19 no more swing week, we don't have to argue about it.

20 VICE CHAIRMAN MORETTI: I'm sorry, John, could you  
21 just repeat those dates.

22 COMMISSIONER ANDREINI: I'm sorry, yes. If you  
23 added to Santa Anita December the 28th.

24 COMMISSIONER HARRIS: Right.

25 COMMISSIONER ANDREINI: January the 3rd, January

1 the 10th, Wednesday, February the 14th and April the 16th.  
2 And you'd delete from Santa Anita April the 20th, April the  
3 21st and April the 22nd. That would give them at 86 days.  
4 If you add to Hollywood Park April the 21st, April the 22nd,  
5 May the 23rd and July the 3rd that would give them 64 days.

6 VICE CHAIRMAN MORETTI: And not December 17th?

7 COMMISSIONER ANDREINI: December the 17th, excuse  
8 me. Yes, that would be added too in 2006.

9 COMMISSIONER HARRIS: I guess the big issue is the  
10 weekends.

11 CHAIRMAN SHAPIRO: Yeah. I think that with  
12 respect to that, I appreciate that, Commissioner Amerman,  
13 but I think the big issue here is the weekend. And  
14 unfortunately I can tell you that, you know, I have had  
15 lengthy discussions with the good people at Hollywood Park  
16 and Santa Anita trying to find a way to do what you talked  
17 about. The part that is coveted is the weekend because they  
18 get three or four times as many people and thus the profits.

19 And so what I would suggest is there is a motion  
20 and a second, we are in discussion. If it fails and you  
21 want to come back and consider that then we certainly can.

22 COMMISSIONER AMERMAN: All right.

23 CHAIRMAN SHAPIRO: Is there any discussion from  
24 the audience? I have a lot of cards here. So, Mr. Fancher.

25 MR. FANCHER: My name is Terry Fancher. I head

1 the company that is the owner of Hollywood Park and Bay  
2 Meadows and I would like to take a moment to address and  
3 really frame the discussion we're having a little bit. And  
4 I think the comments that I'd like to make I think will  
5 fulfill your request. It really probably will bring a  
6 little different perspective or a new perspective from what  
7 you may have already taken into account. So I'd appreciate  
8 -- And then after I get done perhaps Mr. Liebau could also  
9 address the situation a little bit.

10 I want to take a moment to explain how it is I  
11 happen to be standing here today on behalf of Hollywood  
12 Park. Because I think it speaks so much to what you are  
13 considering today and I think it would be so helpful if you  
14 could be thoughtful of the context of all of this.

15 We became the owners of Bay Meadows almost ten  
16 years ago in 1997. And through the early part of our  
17 ownership I had a relatively small role in all of this other  
18 than being in charge of the company but the racing side of  
19 things was really under Mr. Liebau. And I would take  
20 exception, and I won't take us too far off track, but our  
21 wonderful friend Mr. Dimarco to suggest that Magna came to  
22 rescue Bay Meadows from closing in 2000 was really not an  
23 accurate portrayal whatsoever of what happened. But that's  
24 a little footnote and we'll come back to that at some other  
25 point.

1           What I want to explain to you is that during the  
2 year prior to our purchase of Hollywood Park, and we  
3 purchased Hollywood Park, we announced the purchase July a  
4 year ago. So in July of 2005 and we actually closed the  
5 purchase in September of 2005. In the year prior to that I  
6 was very active in Sacramento in public affairs activities  
7 with other owners and other constituents in the racing  
8 industry trying to do things that we could do to help the  
9 racing industry. It's been no secret for some number of  
10 years that the racing industry here in this state has been  
11 very troubled.

12           And during those years I forged a relationship  
13 with Rick Baedeker, who is the senior person in charge of  
14 Hollywood Park. And through Mr. Baedeker with others back  
15 at Churchill Downs, the owner of Hollywood Park. And  
16 something became apparent to me and that is, they had given  
17 up on the state of California. They really had developed a  
18 point of view -- And, you know, we hear so much that is  
19 talked about how hard it is to do business in the state of  
20 California. And for those of you who only do business here  
21 you perhaps can't appreciate it. But for those of us who do  
22 do business in other states, this is a tough place to do  
23 business.

24           And that is very much what Churchill Downs had  
25 developed a point of view of. And when I observed that, the

1 way I observed it was that some of the initiatives we were  
2 taking to press the industry, the racing industry's goals  
3 and needs and so forth where we needed the support of other  
4 owners we found that Churchill Downs wanted to be there.  
5 They wanted to be helpful but they were just giving up.  
6 They just thought it was hopeless. And I found that I  
7 didn't think we could be effective if we didn't have a very  
8 enthusiastic and strong commitment by the owners of  
9 Hollywood Park to press for some of these initiatives that  
10 we were after.

11           And it was really for that reason that I flew to  
12 Kentucky and that I met with Tom Meeker and I met with the  
13 leadership there. And I said, you know, this isn't going to  
14 work if you guys aren't behind it. And if you aren't behind  
15 it why don't we take over your track. And if you're worried  
16 that you're going to be leaving something on the table in  
17 terms of some kind of thing that might save racing, you know  
18 what, if we can get it done come back in, you can buy our  
19 interest back from us.

20           That is the genesis of the whole idea of why we  
21 have a buy-back arrangement. Because I was concerned that  
22 through their lack of confidence, and frankly their being  
23 just, becoming increasingly displeased. I'll just choose my  
24 words carefully, with their experience of doing business in  
25 California, that they were throwing in the towel. And by

1 throwing in the towel they were going to take our whole  
2 industry down because we needed somebody on behalf of that  
3 important, major track to be willing to step up, to put  
4 their checkbook on the table, to put their senior executives  
5 on the table and to show up in Sacramento and say, this just  
6 won't do.

7           And as it turned out we ultimately did effectuate  
8 a transaction where we did purchase Hollywood Park. As I  
9 said last July, July 2005. Not this July but July a year  
10 ago. And we did have an arrangement with Churchill that  
11 very much was part of our purchase. That we said, provided  
12 we receive our historical allocation of race dates, provided  
13 we receive our historical allocation of race dates. Which  
14 is what you are talking about not doing today.

15           We will commit to run the track for a minimum of  
16 three years. We didn't say a maximum of three years, we  
17 said a minimum of three years. And what we also said is we  
18 are going to be a leader during that time period in trying  
19 to save the racing industry. We will be at the forefront of  
20 trying to save the racing industry.

21           And that is what we have done. There is no issue  
22 here about unfulfilled promises and unkept promises. You  
23 are not talking today about Hollywood Park not having a  
24 synthetic racetrack. We said that day, long before you  
25 enacted anything requiring it. We said that day we would

1 install a synthetic track. That was part of our public  
2 announcement when we announced the purchase in July 2005 for  
3 any action you have taken. And we just fulfilled that  
4 promise. We just went and did it. And we said that day  
5 that we would be leaders in Sacramento.

6 Now why am I telling you this? There is a point,  
7 of course, that we will come to in a moment, but I want you  
8 to understand a little of what we have been doing. We have  
9 spent -- I couldn't even begin to tell you how many millions  
10 of dollars trying to help the racing industry in California.  
11 And I really take umbrage, Mr. Shapiro, at the references  
12 you repeatedly made that Bay Meadows will close on such and  
13 such a date or Hollywood Park will close on such and such a  
14 date. You have no idea. You just really don't know when we  
15 are going to close.

16 We have said that Hollywood Park will not close  
17 before such and such a date. And we have said that exactly  
18 so that people understand we have a period here where we  
19 should all work together and see what we can do to help  
20 racing. Now why on earth would we spend eight, nine million  
21 dollars that we didn't have to spend on a synthetic  
22 racetrack? Why would we spend the millions of dollars we  
23 spent on independent expenditure committees, on various  
24 lobbyists, many of whom are in the room, and frankly, many  
25 of whom aren't in the room here today. Why would we do that

1 if we were committed to closing this racetrack or closing  
2 these racetracks for a dead certainty?

3 Now I'll tell you what we are committed to. If  
4 the racing industry economics don't improve the racetracks  
5 in all likelihood will close. That is a very likely thing.  
6 But the point we are trying to make is, we're going to give  
7 it everything we have. And we are going to give it  
8 everything we have with or without your support and with or  
9 without the support of the TLC and with or without the  
10 support of Magna or the unions or anyone else. We're going  
11 to try to save the racing industry. We put our money where  
12 our mouth is.

13 Now what are you talking about doing today?  
14 You're talking about kicking in the teeth the one ownership  
15 that has been up here pushing things as hard as they can  
16 push it. And I don't mean that we are the only people. I  
17 don't mean that other people haven't done things as well,  
18 they have. But there is no one who has more. There is no  
19 one who has done close to what we have done.

20 We filed a lawsuit. I'm a personal plaintiff in a  
21 lawsuit. I'm the only person in the racing industry that  
22 was willing to personally put his name on the line to  
23 challenge the compacts, the Indian compacts that were  
24 enacted several years ago now that would have, that would  
25 have impeded the racing industry in detailed ways. I was at

1 the forefront in Sacramento personally in August when the  
2 session was coming to an end and we formed an alliance with  
3 labor. And between the racing industry and labor we managed  
4 to block these Indian compacts that would have done great  
5 damage to the racing industry.

6           And there was a considerable pressure put on me to  
7 back down I just thought about, well how do we do business  
8 here at our company? We're not going to back down at the  
9 moment right here when we are going to be creating great  
10 harm to our friends in labor who are, frankly, one of the  
11 only reasons we were there getting the attention we were  
12 getting, because we had an alliance. I figured if there was  
13 a time to compromise the time could come later.

14           And by the way, when I asked what was being  
15 offered to us it wasn't enough. Now by the way, despite the  
16 fact that there is some fairly public tensions between our  
17 company and the TOC I would say at this point they have  
18 probably gone beyond institutional tensions and have a  
19 personal dimension to them. And not by me toward them, let  
20 me just say.

21           But despite all that, when we were up in  
22 Sacramento and we were in I believe either the Governor's  
23 Office or one of the offices we were in and people said,  
24 well where would you have the mitigation payments go I was  
25 the first to say, well they should go first to purses.

1 We've got to get purses up. At that point there was a talk  
2 of, you know, I don't even know if it's appropriate to use  
3 the numbers but fairly large, round numbers.

4           And I said, let's have the first third go to  
5 purses, the second third go to tracks and the last third  
6 split so that hopefully we end up 50/50. But it was on a  
7 percentage basis and you know if the percentage never gets  
8 above a certain level the purses will get the money.  
9 Because you know what, if we don't fix the purses we aren't  
10 going to have tracks anyway.

11           And I said that and I took that position despite  
12 the fact that we had all this tension with the TOC. And I  
13 think they were surprised and frankly they've -- and I  
14 appreciate that they thanked me for that position and that  
15 is our position today, despite the fact that we continue to  
16 have tensions with the TOC.

17           So as you consider what to do here today. And let  
18 me tell you another, let me give you one other example. We  
19 have organized and have now invited all the new elected  
20 members of the Legislature to a conference that we are  
21 sponsoring during the period, during July -- Not July.  
22 During December, after the elections and prior to the  
23 beginning of the Legislature. So they can be introduced to  
24 the issues involving horse racing. When has that ever been  
25 done before? Who is footing the bill for that? We are.

1 Who took the initiative to do that? We are. And are we the  
2 only person that are going to speak there on behalf of the  
3 racing industry? No, others will be invited as well.

4           These are just examples. There are too many  
5 examples to tell you. Earlier this week I was contacted by  
6 the leadership of the Legislature because they are concerned  
7 because a couple of key races look like they're slipping  
8 away and they may lose people that are supportive of the  
9 racing industry. Or they may have a chance to take out  
10 people that have been opponents of the racing industry and  
11 they needed help. They needed help financially with these  
12 races. Who stepped up? We stepped up, we wrote the checks.

13           So when you consider the swing week, Mr. Shapiro,  
14 you used the term financial harm. Yes, you are considering  
15 imposing financial harm on one of the two companies here,  
16 one of two companies. And the system that was devised  
17 several years ago was that there would be a rotation of this  
18 harm. By the way, why does this all come about? Because  
19 people don't want Del Mar to race after Labor Day, which I  
20 understand. Because the horsemen wanted Christmas week,  
21 which I understand. We're not disputing those things. And  
22 so this notion of the swing week is let's alternate the harm  
23 in alternating years between the two companies that are  
24 affected.

25           The idea today that you would decide not to do

1 that but to impose all the harm on Hollywood Park is a good  
2 example of why the largest racing company in the country,  
3 Churchill Downs, is no longer doing business in this state.  
4 And if that is the way you are going to reward this  
5 ownership you can rest assured we haven't had the last  
6 discussion about this today. Because we are going to be  
7 displeased and we are going to be expressing our displeasure  
8 and using our resources that could be being used for the  
9 betterment of the racing industry to instead call to  
10 attention how much this racing board has lost its way.

11 I urge you, I strongly urge you, please don't do  
12 that. Please take into consideration the role we have  
13 played as good citizens for the racing industry. Please  
14 take into consideration the amount of money you would be  
15 allocating to our company versus Santa Anita is not, is far  
16 exceeded by the amount of money we have been spending to try  
17 to help this industry. At this point it is a matter of  
18 principle, it's not the money.

19 And by the way, I haven't even mentioned the  
20 synthetic track. The fact that you have a chance to have  
21 horses running on a safer track in the year that we stepped  
22 up. There was nothing barring Santa Anita stepping up, they  
23 could have done it. I urge you, please consider what the  
24 impact would be of your decision today and I hope you will  
25 not make the decision to penalize Hollywood Park. Thank

1 you. (Applause)

2 CHAIRMAN SHAPIRO: Thank you.

3 MR. ENGLISH: Good morning, Chairman, committee  
4 members. My name is Rick English. I am a fan, a racing fan  
5 and a CPA. I have been a horse racing fan ever since high  
6 school when I remember reading Herald Examiner and seeing  
7 the pictures of the horses coming in and getting off the  
8 trains and being loaded into Santa Anita to race there.  
9 Even watching the race results and seeing your sombrero in  
10 the Herald from day to day. Taking my Christmas presents in  
11 the day after Christmas to exchange them for cash so I had  
12 money for the Daily Double. I have been a fan for years of  
13 Santa Anita. It is a great race place. But I am not a fan  
14 of Magna.

15 I am also a CPA and I have been reviewing their  
16 financial statements and my following comments are based on  
17 the last two quarters' financial statements that Magna has  
18 filed with the SEC. For the first six months of this year  
19 Magna's losses from continuing operations were \$25 million.  
20 That includes the record Santa Anita meet. That is a \$3  
21 million loss worse than the prior year.

22 Historically their statements say the second half  
23 of the year is worse. Their numbers have been so bad that  
24 the last two quarterly financial statements their auditors  
25 issued what is called a going concern qualification. And

1 that says in part: "Accordingly, the company's ability to  
2 continue as a going concern is in substantial doubt and is  
3 dependant on the company generating cash flows adequate to  
4 maintain operations and to pay its secured and unsecured  
5 creditors."

6           Reading through their balance sheet I note that  
7 Santa Anita is a party to a secured loan that was \$66  
8 million on June 30 of this year. It matures in October of  
9 '07 and it can be extended for two years. It goes on to say  
10 the loan is guaranteed by the Los Angeles Turf Club and  
11 secured by the first trust deed on Santa Anita Park and  
12 surrounding real property.

13           There is another line of credit for \$50 million  
14 that Magna has that says it is a revolving line of credit  
15 that matured in July of '06. They haven't said what they  
16 have done with it. That is secured by a first trust deed  
17 against Golden Gate and a second trust deed against Santa  
18 Anita.

19           During this year the CEO resigned, of Magna  
20 resigned in March, was replaced by Frank Stronach and nobody  
21 has been named in the interim. October 13 of this month the  
22 COO resigned. During the year a member of the audit  
23 committee resigned and the SEC has told Magna that they are  
24 not in compliance with SEC regulations and requirements.  
25 Magna's long-term credit facilities have matured and are

1 being rolled over in three-month increments.

2           Their most recent statements also indicate talk  
3 about Gulfstream and they just received approval for their  
4 slot machines. There is a subsequent event footnote that  
5 says, the Gulfstream financing will be amended to introduce  
6 a mandatory annual cash flow sweep of not less than 75  
7 percent of the cash flow from their operations after  
8 permitted capital expenditures and debt service. Everybody  
9 is squeezing them on their cash flow.

10           Again, the company is in such -- Their own  
11 financial statements say that the company's ability to  
12 continue as a going concern is in substantial doubt. They  
13 can't make representations they will be here three years  
14 from now according to their own financial statements whereas  
15 Hollywood Park just has.

16           And my final comment is, I am not sure, maybe the  
17 company will have comments, but the fact that Magna is in  
18 such bad state, what affect does that have on X-press bet  
19 being an ADW company and holding tens of millions of dollars  
20 of California money? I'd be happy to try to answer any  
21 questions or comments you have.

22           CHAIRMAN SHAPIRO: Thank you.

23           MR. DARUTY: Ladies and gentlemen of the Board, my  
24 name is Scott Daruty. I'm with Magna Entertainment, I am  
25 appearing on behalf of Santa Anita Park. If you indulge me

1 for just one minute I have a PowerPoint presentation.

2 CHAIRMAN SHAPIRO: Are you ready?

3 MR. DARUTY: Yes.

4 CHAIRMAN SHAPIRO: Okay.

5 MR. DARUTY: Thank you for that indulgence. In  
6 preparation for today's meeting we at Santa Anita Park put  
7 together a PowerPoint presentation for you. But I would  
8 like to take a moment before we turn to that and just  
9 mention a few things that we at Santa Anita Park did not do  
10 in preparation for today's meeting. We did not hire a bunch  
11 of lobbyists to go run around Sacramento and try to get  
12 legislators to exert influence over this Board.  
13 Legislators, by the way, who as well-intentioned as they may  
14 be, were only getting one side of the story and who don't  
15 have an understanding of the complexity of the issues this  
16 Board is facing.

17 Another thing we didn't do in preparation for this  
18 meeting is we didn't threaten the industry by saying that if  
19 we don't get our dates it is going to lead to the early  
20 demise of our racetrack. We haven't tried to intimidate  
21 this Board by implying we have the political pull to get  
22 members thrown off if they don't vote our way. We haven't  
23 even threatened a good, old-fashioned lawsuit.

24 And why not? Because those things are all very  
25 divisive to this industry and we are a long-term player in

1 this industry. Now sure, if we were a land development  
2 company looking to squeeze the last dollars out of a  
3 racetrack before we get our entitlements we might be willing  
4 to use scorched earth tactics. But that is not us, we are a  
5 racing company.

6           And as important as this 17th week is to Santa  
7 Anita and as firmly as we believe we should get it we are  
8 not willing to drag this industry down just over a fight on  
9 one week. Now what is this fight about? I mean essentially  
10 the strategic planning committee spent many months and a lot  
11 of effort listening to testimony and analyzing information.  
12 And this committee decided that Santa Anita should open on  
13 Tuesday, December 26 and run 17 full weekends. And that's  
14 key, weekends. Remember, this is a business that is driven  
15 by weekends. There is not a single person in this audience  
16 who wouldn't raise their hand and gladly trade a Wednesday  
17 for a Saturday or a Thursday for a Sunday. This is a  
18 weekend driven business.

19           So the committee's proposal has us running 17 full  
20 weekends. We close on Sunday, April 22nd, for a total of 84  
21 live racing days. That allocation is absolutely consistent  
22 with the historical allocation of race days to Santa Anita.  
23 Now some might have you believe that this is, you know, a  
24 better calendar for us than we deserve but that is not true.

25           In 1980 the Legislature of the state of California

1 passed allowing Santa Anita to expand to a 17-week meet.  
2 And in every year since then for 26 years, with two small  
3 exceptions I'll talk about in a minute, we open on December  
4 26 and we run 17 full weekends. And by the way, over that  
5 26 year period we have averaged 87.5 race days per year and  
6 we have never run fewer than 83 days.

7 Now let's think about -- I recognize there has  
8 been some discussion today about adding some dates but when  
9 we walked into this room this morning we were scheduled to  
10 get 84 race dates for 2007. That's three and a half days  
11 less than our historical average. It is only one more day  
12 than the absolute minimum we have ever run in the last 26  
13 years. This calendar, this proposed strategic planning  
14 committee calendar is no great windfall for Santa Anita. We  
15 accept it, we'll live with it, but it is no great deal for  
16 us.

17 The two exceptions, in 2000/2001 Santa Anita  
18 voluntarily conceded a week in order to create the Christmas  
19 break. Now that was an experiment. We continue to support  
20 the horsemen in their desire for a Christmas break but it  
21 should not come at the expense of Santa Anita.

22 The only other exception was 2005. There was a  
23 big battle over race dates that year. And what we were  
24 arguing, what Santa Anita was arguing in 2005 was that we  
25 should get 17 and a half weekends. See, there was a quirk

1 of the calendar in 2005. Christmas Day fell on a Saturday  
2 so our opening day was a Sunday. And we wanted to open on  
3 that Sunday and we wanted to run 17 additional full  
4 weekends. And the Board ultimately decided that was not  
5 appropriate, that we were asking for too much. The Board in  
6 a compromise that year allowed us to open on our Sunday and  
7 run 16 full weekends. In essence we ran 16 Saturdays and we  
8 ran 17 Sundays. We ran 16 and a half weekends.

9 Now that compromise came at a significant cost to  
10 Santa Anita and a significant cost to the industry. And as  
11 much as we would all like to find a compromise, and I say  
12 that in all seriousness, we would love to find a compromise  
13 this year. That particular compromise will not work because  
14 it only works in years where December 26 falls on a Sunday.

15 Now let's get one thing straight. We have heard  
16 talk about a swing week. There is no such thing as a swing  
17 week. There has never been a swing week. There is  
18 absolutely no historical precedent for the swing week.  
19 There was one statement thrown out by the TOC at a race  
20 dates committee meeting that maybe this week should swing.

21 But if you listen to Mr. Fancher you would have  
22 thought that in 2005 Santa Anita lost the week, in 2006  
23 Hollywood Park lost the week, so in 2007 let's swing back  
24 and Santa Anita should lose it. Hey, they took their lumps  
25 this year, we should take them next year, right? What's

1 fair is fair.

2 Well that's just not the case. Again, 2005 was a  
3 quirk of the calendar. We ran 16 and a half weekends.  
4 Okay, that's not precedent for anything. And last year  
5 during a race committee meeting, a race dates committee  
6 meeting, Mr. Liebau got up to the podium, and his group  
7 hadn't even purchased Hollywood Park yet, but he got up to  
8 the podium and he argued that they should get all of their  
9 weeks last year. He argued against the swing week.

10 I don't blame him for doing that. He was looking  
11 out for his interests. He was trying to get as many dates  
12 as possible. But if there was some protocol, if there was  
13 some procedure that this week always swung we wouldn't have  
14 even had that discussion last year. We had the discussion  
15 last year because there is no such thing as a swing week.

16 Now let's suppose for a minute that this board  
17 decides to just completely ignore the unanimous  
18 recommendation of the strategic planning committee. All the  
19 time, all the effort, all the energy, all the meetings, all  
20 the analysis that they did to reach their conclusion, their  
21 three-to-nothing unanimous conclusion.

22 Let's just throw that out the window and take  
23 Hollywood Park's position. Santa Anita would lose a week.  
24 We would run 79 race days, 79. That's eight and a half days  
25 less than our historic average. That's actually a ten

1 percent decrease in Santa Anita's days. It is also four  
2 days less than the shortest meet we have ever run since the  
3 enabling legislation. Talk about financial impact.

4           Let's look for a minute to the economic effects of  
5 your decision. If you were to take our 17th week and give  
6 it to Hollywood Park -- And by the way, let me say it  
7 because this is important. We don't have anything against  
8 Hollywood Park, okay. We are not trying to steal their  
9 dates. Have they worked hard? Sure. If the calendar could  
10 accommodate everybody's week we would gladly take our 17  
11 weeks and let them have whatever they want.

12           Unfortunately that is not the case and this  
13 industry is faced with a difficult decision. So in making  
14 that decision we think one of the factors you should  
15 consider is the economics. And the appropriate economics --  
16 I saw an e-mail sent around yesterday by Hollywood Park that  
17 tried to compare the end of our meet to the beginning of  
18 their meet and that analysis included import handle.

19           Well, let's talk about that for a minute. Any  
20 comparison of the actual economics of should this meet be at  
21 one facility or the other needs to exclude import handle.  
22 Okay, people are going to go to a Scot-Link facility and bet  
23 on a Churchill import signal whether the live racing is at  
24 Santa Anita or Hollywood Park. That's irrelevant.

25           What we need to focus on is who is putting the

1 better product on the table. Whose product draws the most  
2 wagering on live product, in state, out of state and account  
3 wagering. And using those numbers we analyzed our last week  
4 of the 2006 meet against their first week of the 2006 meet  
5 and we found that we generated over 15 percent more handle  
6 on our live product. And even more importantly, we  
7 generated over 18 percent more purse revenue on our live  
8 product than they generated on their live product.

9           Now I've got some numbers here. You guys have  
10 them in your handouts. I don't want to spend too much time  
11 because I know we've got a lot. But basically we did 46  
12 million in our week of live handle, they did 40 million of  
13 live handle in their week. Again, here's the numbers that  
14 you show, the calculation. We did over 15 percent more  
15 handle, over 18 percent more purse generation. We don't  
16 think that can be ignored.

17           Now how did we accomplish such good things in our  
18 2006 meet? Well first and foremost we spend nearly \$5  
19 million on marketing and promotion last year. We are very  
20 proud of the meet we had in 2006 and we want to keep that  
21 momentum. We want to build on it going into 2007.

22           The money we spent marketing was very specifically  
23 targeted towards live racing. We wanted to bring people out  
24 who were going to watch the races and bet on the races. And  
25 yes, it's great to have a concert on Friday night and bring

1 new people to the track. But we want to bring people who  
2 are going to actually drive wagering, drive revenue into  
3 this industry.

4 We were so successful in our marketing last year  
5 that we were actually able to implement two purse increases  
6 during our meet. Our average daily handle increased 12  
7 percent over our prior year and our average daily attendance  
8 increased 15 percent over our prior year.

9 Let's just quickly look at how our entire meet in  
10 2006 compared to Hollywood Park's spring. I showed you the  
11 information for our final week against their first week. If  
12 you look at the actual entire meet it works out pretty much  
13 the same. We average 9.3 million of average daily handle  
14 versus their 8 for a 15 percent increase at Santa Anita.

15 If you look at the purse generation, again these  
16 numbers are pretty staggering. We generated 18, almost 19  
17 percent more purse revenue from our live product than they  
18 generated from their live product. And this next one in my  
19 opinion really says it all. Our on-track attendance was 50  
20 percent greater at Santa Anita than at Hollywood Park.

21 Now these numbers I think are even, even more  
22 significant when you look at our top days versus their top  
23 days. Our top five days in terms of handle, we generated on  
24 our live product over 23 million, over 20 million, close to  
25 18 million and on and on. Their largest day of handle was

1 16 million on their live product. In fact our fifth day was  
2 just about as big as their first.

3 That becomes even more apparent when yo get into  
4 the attendance days. You look at our Santa Anita Derby,  
5 54,000 people came to Santa Anita to watch the races, close  
6 to 50,000 on Big Cap day. Our opening day, 34 million,  
7 Sunshine Millions. A day that didn't exist a couple of  
8 years ago drew over 30,000 fans. We at Santa Anita had 26  
9 race days with attendance over 10,000, Hollywood Park had  
10 two. I'm sorry, it had 14 and 12. So it's very  
11 significant.

12 We also think, look at the big days that we had.  
13 These are self-made days we like to call them. The Santa  
14 Anita Derby, Big Cap, Sunshine Millions, et cetera. They  
15 had a few freebies in here. The Kentucky Derby, Fourth of  
16 July weekend, the Preakness. Imagine if the Triple Crown  
17 was run during Santa Anita's meet. What would we get?  
18 Forty, 50, 60,000 people to the track.

19 Now listen, we understand that there's people in  
20 this audience who are going to say, and very legitimately  
21 so, it is not all about economics, there's safety involved.  
22 absolutely there is, okay. We at Santa Anita and we at  
23 Magna Entertainment as a company are absolutely committed to  
24 the safety of both the horses competing at our tracks and  
25 the jockeys. We think that is of critical importance and we

1 do commend Hollywood Park on putting in the synthetic track.  
2 But of course, as we know, every racetrack in California is  
3 going to have a synthetic track before too long.

4           Last year in an example to our commitment to  
5 safety we redid, we shut down training for ten days and  
6 redid our racetrack. We opened the track and ripped the  
7 base, totally redid the base. After it was done we went and  
8 took sonar -- you know what, it wasn't as level as we wanted  
9 it so we ripped it up and we did it again. And when we were  
10 done with that and we had the base in a satisfactory  
11 condition we added 1,000 tons of silica sand to make the  
12 safest racing surface we could have.

13           And you know, we did all that knowing that those  
14 improvements were going to be replaced in a very short period  
15 of time with a synthetic surface. Why did we do that? We  
16 could have very easily said, look, we are going to have  
17 synthetic track in a year, let's just go with this one one  
18 more. But that wouldn't have been the safest thing for the  
19 horses so we did what we needed to do. You heard Ron  
20 Charles earlier, he made the commitment, we will comply with  
21 this Board's requirements.

22           Not only are we committed to safety, we are also  
23 committed to the long-term growth, hopefully, of the  
24 California horse racing industry and the national horse  
25 racing industry. Santa Anita Park is owned by a racing

1 company, it is not owned by a land development company. We  
2 are not just biding our time until we get our entitlements.  
3 In fact, you heard from Rick Caruso this morning, the  
4 project we have planned at our facility integrates racing.  
5 It improves racing, it doesn't replace racing. And that is  
6 a key difference. We are committed to racing with or  
7 without subsidies.

8           You know what, Mr. Fancher is absolutely correct.  
9 His organization has made a tremendous investment. His  
10 organization has worked hard in Sacramento to get some  
11 assistance for this industry and we all thank him for that.  
12 But so has every other player in this industry. And you  
13 know what, sometimes when you are in an industry there's  
14 some give and take. And maybe you don't like a particular  
15 idea but the rest of the group does. Well, you know,  
16 there's some compromise and there's some, you know, get  
17 along to go along, or whatever the saying is.

18           That's something that we don't often see from that  
19 organization, unfortunately. There has been, at times, a my  
20 way or the highway type of attitude. So when he made the  
21 comment earlier that with or without the horsemen or with or  
22 without the other tracks they are committed, they are moving  
23 forward. Well you know what, that's true but sometimes they  
24 have chosen to move forward in a different direction than  
25 the rest of the group has chosen. Again I don't question

1 their commitment and the amount of money they have spent, I  
2 just sometimes wonder which way it's channeled. Whether or  
3 not their subsidies were committed to racing.

4           We've spent \$60 million on renovations and  
5 improvements to Santa Anita since we purchased it. There's  
6 a reason for those attendance numbers we just went through.  
7 It's a nice place to be. People want to come out. New  
8 apron, nice new restaurants and bars, the fans enjoy it.

9           Now again this brings me back full circle to the  
10 strategic planning committee recommendation. There was a  
11 tremendous amount of time, energy and effort that went into  
12 that. The recommendation has the support of Del Mar, Oak  
13 Tree and Fairplex, all the other racing associations in  
14 Southern California. What we need to ask ourselves, is  
15 there a reason for this board just to throw that out the  
16 window, to ignore it? I don't think so, absolutely not.

17           What do others think? I mean, it's great for me  
18 to stand up here and talk but what do others think? Well  
19 let's refer to a Daily News article that came out in March.  
20 I'm going to just read the important stuff here but this was  
21 an article on the Santa Anita handicap.

22                       "More than 49,000 people showed up,  
23                       the largest crowd at Santa Anita for a  
24                       non-Breeders Cup day in 16 years. It  
25                       made the 69th Big Cap Day one to

1           remember before the marquee races had  
2           even been contested."  
3 We're bringing excitement back to the track. And you know  
4 what, the Santa Anita Handicap was a wonderful race won by  
5 Lava Man, which provides, I think, a very good example for  
6 what is going on in the California racing circuit. Lava Man  
7 has waged a wonderful campaign towards the Breeders Cup. He  
8 ran in our Sunshine Millions race at Santa Anita before  
9 32,000 fans. He ran one of the Santa Handicaps at Santa  
10 Anita before almost 50,000 fans. Then to continue his  
11 campaign he moved over to Hollywood where he ran in the  
12 Hollywood Gold Cup before about 8,000 people. From there to  
13 Del Mar where he ran in front of a crowd of 32,000 people.  
14 And he completed his campaign just recently at the Goodwood  
15 with 17,500 people.

16           The point here -- And again, this is not a  
17 criticism or a knock on Hollywood Park, they are doing what  
18 they can but their venue is not drawing fans. It's not  
19 drawing handle. They are not producing the project that  
20 they should be. And so back to the Daily News again, an  
21 article in July. The Santa Anita Handicap drew 49,089 fans  
22 and the Hollywood Gold Cup drew 83,008. They were equally  
23 prestigious races, both featuring Lava man. The Santa Anita  
24 meet raised hopes in the local racing industry then  
25 Hollywood Park revived the pessimism.

1           It's harder than ever to tell where this thing is  
2 going. Well where is this thing going? You as a Board  
3 decide where this thing is going. That's the question you  
4 are facing today. Not only, what do you do with this week  
5 but what is the tone we are going to set for this industry.  
6 How are we going to deal with each other within this  
7 community of the racing industry. Threaten and bully and  
8 intimidation? Or putting the facts on the table and letting  
9 everybody made the right decision?

10           We would suggest that in making your decision  
11 today you don't decide based on politics, you certainly  
12 don't decide based on threats. That you look at the facts,  
13 you think about them, you analyze them like the strategic  
14 planning committee did and you make the decision that is  
15 best for the industry. And we think that when you do that  
16 you're going to come to the decision to adopt the  
17 recommendation.

18           Now before I respond to any questions you might  
19 have I did want to ask this Board whether you believe it is  
20 worth my effort in your time to respond to some of those  
21 financial matters that we heard earlier. I am perfectly  
22 happy to address any questions on that that you might have  
23 but I also don't want to take up unnecessary time.

24           CHAIRMAN SHAPIRO: What I would like to do is if  
25 we could take a five minute break at this point and then you

1 can come back to the podium.

2 MR. DARUTY: Thank you.

3 CHAIRMAN SHAPIRO: Thank you.

4 (Off the record)

5 CHAIRMAN SHAPIRO: If you could just grab the  
6 cookies quietly and we'll go, we'll get going. Mr. Daruty,  
7 we'll pick up where we left off. I feel sorry for  
8 Commissioner Moss who is sitting outside so I would like to  
9 move this along.

10 COMMISSIONER HARRIS: He can be inside though, I  
11 think.

12 CHAIRMAN SHAPIRO: Oh, is he inside? Okay great,  
13 I felt bad, okay. Mr. Daruty, I think that you were  
14 concluding your presentation and you said that you -- did  
15 you want to address any of the comments that were made with  
16 respect to the financial situation of Magna? Personally I  
17 think the financial statements are all well known to us and  
18 I personally am aware of it. We have them, we have seen  
19 them. So unless there is something that you specifically  
20 wish to address or a Board Member has a question I don't  
21 know that it's necessary for you to. Okay, it's clearly, we  
22 know you're committed to horse racing.

23 Does any member have any question for Mr. Daruty?  
24 if not then I appreciate it.

25 MR. DARUTY: Thank you.

1           CHAIRMAN SHAPIRO: I am going to now go through  
2 the comment cards from other people. If you don't need to  
3 speak, of course, you don't have to. Mr. Liebau. And I  
4 must tell you that I did, the court reporter was kind enough  
5 to give me this neat little timer gizmo but since you are a  
6 concerned party I am not going to limit you to time.

7           MR. LIEBAU: I think that would be fair.

8           CHAIRMAN SHAPIRO: Mr. Liebau, I try to be fair,  
9 thank you.

10          MR. LIEBAU: I realize that.

11          CHAIRMAN SHAPIRO: I'm glad you do.

12          MR. LIEBAU: Sometimes I wonder but I realize it.  
13 First just to respond to some of the things that Mr. Daruty  
14 brought up. That yes, as a matter of fact Santa Anita  
15 historically has had 17 weeks. But guess what, Hollywood  
16 has historically had 13 weeks, you know. And I know that  
17 Mr. Shapiro continues to refer to Santa Anita having 17  
18 weeks and I have to continually remind him that Hollywood  
19 had 13 weeks and that something has to give.

20          Mr. Daruty said how terrible it would be if Santa  
21 Anita was cut ten percent. But what the hell is happening  
22 here? Hollywood Park is being allocated 60 days and their  
23 average is 66 days. Ten percent.

24          Mr. Daruty says, heavens, Santa Anita shouldn't  
25 have to be -- provide for the Christmas week. Who benefits

1 the most from the Christmas week? Hollywood Park? No.  
2 Mr. Harris would tell you he has a theory about pent-up  
3 demand. That's what happens during the Christmas week. We  
4 talk about having spent \$60 million. There's no question, I  
5 know they spent \$60 million. They spent \$40 million plus on  
6 the Front Runner and whatever. That's great.

7           How much have we spent for the good of the horse?  
8 You get down to it, ladies and gentlemen, we're in the horse  
9 business. What have they spent? I don't know. Mr. Daruty  
10 says, we're committed to racing, we don't need any  
11 subsidies, we'll continue. Well I realize that I don't have  
12 a CPA and I didn't go to biz school and all that but I got  
13 to tell you, all of us are in trouble if the business  
14 doesn't change, including Santa Anita.

15           You can't keep running up the losses that are  
16 being run up along the basic business is changed and that is  
17 exactly what Hollywood Park is dedicated to trying to do, to  
18 change the underlying economics of this industry. And  
19 frankly if the underlying economics don't change there's not  
20 going to be much left.

21           Then we talk about the track. Yeah, they spent I  
22 don't know how much money, how many yards of silica sand and  
23 all that. And that's good. They had to, the track was  
24 terrible. And what's happening now, the horses are moving  
25 right now to Hollywood Park. I look across the Board, at

1 all of you, some of you have got horses at Hollywood Park  
2 and not at Santa Anita.

3           We talked about Lava Man. Where is Lava Man  
4 working? He's working over at our place. I saw Bob Bedford  
5 here a minute ago. And you know, where's his horses, the  
6 top horses working? They're getting shipped over to  
7 Hollywood Park to work.

8           Then we talk about the no swing week. And I think  
9 that Commissioner Moretti can probably vouch for this. When  
10 we allocated, the 2005 dates were allocated what Santa Anita  
11 had asked for was opening on December 26th, which was a  
12 Sunday, plus 17 weeks. They didn't get the 17 weeks, they  
13 got the 16 weeks. It was a huge, huge battle. They got 16  
14 weeks, Hollywood Park got 13 weeks. The next year they got  
15 17 weeks, Hollywood Park got 12 weeks. You know, it seems  
16 to me that fairness dictates that we keep going. That we  
17 share the pain.

18           Hat's off to Santa Anita. There is no question  
19 that they are an important part of the Southern California  
20 scene. I don't begrudge that, you know. All the better  
21 they are doing great. But I will tell you that without  
22 Hollywood Park the Southern California scene is a lot  
23 different.

24           So give us credit for something. We have a  
25 tremendous back side, probably one of the best back sides in

1 California maybe with the exception of Bay Meadows, which  
2 just through coincidence happen to have common ownership.  
3 Hollywood Park has always been thought to have a great track  
4 for people to train over there on a year-round basis. And  
5 now we have the cushion track.

6           When I said, you know, what has Santa Anita done  
7 for the horse? I know that in two years the things at  
8 Hollywood Park are done. We put new stalls in the paddock.  
9 The new turf track that we inherited from Churchill Downs  
10 was not usable. We put in a new turf track immediately. We  
11 are now putting in a chute on the turf track so that we can  
12 have better racing. And we sprung for eight or ten million  
13 dollars.

14           You know, under the circumstances I simply don't  
15 think that Hollywood Park had to do that, even after your  
16 mandate. I think that if we kept going we probably would  
17 have got an exemption for a year or two. But we went ahead  
18 and did what we think is best for the horse.

19           I think that, you know, it all comes down to this  
20 swing week. As far as Mr. Shapiro has said, that the  
21 California Horse Racing Board is charged with the  
22 responsibility of maximizing revenues. That's just not the  
23 case. There is no place in the law that says that. When I  
24 discussed it with him, and I don't think that conversation  
25 we had was off the record, you said, well, it says

1 maximizing racing opportunities and that means revenues.  
2 And I think that he probably agreed with me that that's not  
3 the case because if you interpret it that way I'm sure that  
4 Mr. Knight over there would tell you then you have to apply  
5 it consistently across the board, you can't just be pick and  
6 choose. It's got to be for everybody. And man oh man, if  
7 your charge is to, is to, you know, maximize revenues  
8 there's going to be a lot of changes in that historic racing  
9 revenue, both in the north and the south.

10 I just believe that all these arguments that are  
11 put up there are trumped by one thing, and that is, what is  
12 best for the horse and those who ride and care for the  
13 horse. That's it. If the Board determines that it's  
14 monetary considerations, so be it. I don't think -- you  
15 know, we're talking about one week.

16 Where is it better for the horse, the rider and  
17 those that take care of it? I think the choice is clear.  
18 And I admit that maybe there might be some economic  
19 differences. Although with respect to the economic  
20 differences there's an argument. If you look at what  
21 happened at Turfway when the installation of the poly track  
22 went in at Turfway and their increases in races. That might  
23 be some guide to say that Hollywood's performance is going  
24 to improve.

25 Hell, we've never had our barn area full at this

1 time. We have never had people ship to California like Todd  
2 Fletcher before. I don't know in my lifetime one thing that  
3 has impacted the California racing scene as much as the  
4 installation of this cushion track. And the only thing that  
5 I can think of that might have been the biggest change  
6 before that, which I had a little bit to do with, was  
7 California Cup.

8 But there is no question, we have never had an  
9 influx of horses. And who is that, who is that influx going  
10 to benefit? Not just Hollywood Park. It's going to benefit  
11 Santa Anita probably more so than Hollywood Park because  
12 they've got more days. But you've got about 100 high-  
13 quality, top horses coming here to run for the first time  
14 and it's because of the installation of this track. And I  
15 think that, you know, we should be rewarded.

16 But more important I think you should do what is  
17 in the best interest and well-being of the horse, rider and  
18 those that take care of the horses during that period of  
19 time. And I hope that you won't let our equine athletes  
20 down, both the humans and the horses, in making your  
21 decision. Thank you very much.

22 CHAIRMAN SHAPIRO: Thank you. All right, I am  
23 going to -- go ahead.

24 MR. GUSMAN: Mr. Chairman and members of the  
25 Board, Shane Gusman from the Law Offices of Barry Broad,

1 here on behalf of the Teamsters, Unite Here as well as the  
2 Jockeys Guild. With respect to the first two, the Teamsters  
3 and Unite Here, those two unions fully support Hollywood  
4 Park's position that Hollywood Park and the ownership there  
5 has made a commitment. Certainly you have heard about the  
6 investments that they have made today. It's clear that they  
7 are committed to racing and committed to promoting the  
8 industry here in California.

9 But more importantly to us, they are committed to  
10 its work force. You've heard a lot about the track that  
11 they have installed. It's good for the horse, it's good for  
12 the jockeys. With respect to the Jockeys Guild, we don't  
13 want to take sides in terms of Hollywood Park and Santa  
14 Anita.

15 But I would say that as a matter of fairness it  
16 seems that Hollywood Park, who has put in this track for the  
17 safety of both the horses and the riders, that they should  
18 not be penalized. And that's really what you're talking  
19 about. You're talking about removing a week from their  
20 schedule. They should not be penalized financially. We  
21 want to encourage the kind of behavior that Hollywood Park  
22 has engaged in, which is proactive in going out and trying  
23 to promote safety.

24 So we would urge the Board compromise here. I  
25 know that the committee certainly has worked hard. But just

1 because a committee has worked hard it doesn't mean that the  
2 Board should abdicate its responsibility and ensure that  
3 there's fairness in these racing dates. And so we would  
4 urge that the Board come up with a compromise that is  
5 acceptable to both sides here so that no side is financially  
6 harmed. Thank you.

7 CHAIRMAN SHAPIRO: Thank you. Craig Fravel? You  
8 are not Craig Fravel.

9 MR. HALL: Craig Fravel? Oh, sorry.

10 CHAIRMAN SHAPIRO: No, you know what, I'm looking  
11 at, I'm looking at cards.

12 MR. HALL: Okay.

13 CHAIRMAN SHAPIRO: And there's only four billion  
14 of them here. Go ahead.

15 MR. HALL: Lee Hall Sr. from 1877. I'm here today  
16 to speak on behalf of Hollywood Park and their contributions  
17 to racing. Hollywood Park has not only brought in the  
18 cushion track but Hollywood Park, if you have been up and  
19 down Prairie you see Hollywood Park is trying to tap a brand  
20 new market and bring in more fans by tapping the market with  
21 the oriental group.

22 Also I am here to say and not add too much more to  
23 anything else because for the simple reason everything has  
24 just about been said on it. But I would encourage this  
25 Board to continue to let Hollywood Park to have that week

1 that they are trying to, that they -- thank you.

2 CHAIRMAN SHAPIRO: Thank you. The cards that I  
3 have let I believe are Mr. Couto, Mr. Fravel and  
4 Mr. Jamgotchian. Excuse me, I can't see.

5 MR. FRAVEL: Craig Fravel, Del Mar. I don't want  
6 to get involved in the larger controversy. One of the  
7 compromises I would suggest to have Hollywood closing on  
8 that Monday before we open. We have spent a number of years  
9 trying to get these two day separations between race meets.  
10 Clearly it would not be our preference to have Hollywood  
11 close on a Monday and then us open on a Wednesday. It puts  
12 a great deal of stress on -- more on the horsemen and other  
13 participants in the industry, particularly our employees  
14 trying to get down to Del Mar from Hollywood with a one-day  
15 turnaround. It's difficult turnaround.

16 That's not to say that we can't do it, we've done  
17 it. I think the two day break started about six or seven  
18 years ago and if that is a compromise that makes this work  
19 for the industry then we'll be happy to go along with that.  
20 But my preference would be otherwise. That's really all I  
21 had to say, thank you.

22 CHAIRMAN SHAPIRO: Well before you get away,  
23 Mr. Fravel. One of the problems here is in fact that we,  
24 the calendar has been adjusted so that Del Mar doesn't race  
25 beyond Labor Day and also for the creation of a Christmas

1 break. And that is why I think in fact we have a squeeze  
2 week. I know that we have looked ad nauseam at these  
3 calendars trying to do anything and I'm going to throw it  
4 out there, you know, that if we could make all parties  
5 happy, it is my guess if we slid the calendar down a week.  
6 But I'm assuming that that would harm Del Mar and something  
7 that you would not favor and TOC would have a problem.

8 MR. FRAVEL: You know, I'm all in favor of  
9 fairness and trying to do the right thing to try to make the  
10 industry work. But to be honest with you we've done those  
11 analyses in the past. We clearly believe that the calendar  
12 that has us closing the Wednesday after the Labor Day is not  
13 only good for us from a financial standpoint, our horsemen,  
14 our analysis says that it is worth about \$300,000 in both  
15 commission, revenues and purses.

16 Comparing that week to the week after Labor Day.  
17 We know that a lot of horsemen have kids in school and they  
18 start heading back to the Arcadia and Inglewood areas sooner  
19 and that last week just loses a lot of luster. And in the  
20 interest of, you know, solving a dispute between Hollywood  
21 and Santa Anita I can't concede that we should be the ones  
22 to move it a week; to take the best meet in California and  
23 compromise it so that other people can, you know, settle  
24 their differences.

25 It also creates significant issues with respect to

1 the stake schedule. I'm sure that -- we have currently five  
2 grade one stakes, two of those, the Ramona and the Eddie  
3 Reed are run on the first weekend in order to keep a three  
4 week separation before the Beverly B and the Arlington  
5 Million. And I think Mr. Mandella can tell you that, you  
6 know, those are races that typically draw horses that would  
7 be in both races. And I think you run a risk of  
8 compromising our stake schedule.

9           You also run into problems later on if you push  
10 the calendar back at Oak Tree. That only has three weeks  
11 for its first weekend before Breeders Cup next year and I  
12 don't think that's a -- Chillie can speak for himself but I  
13 think that's a significantly bad development for California  
14 racing.

15           It sounds good and it sounds easy, just slide a  
16 week and you'll be okay. I just don't think -- I mean, if  
17 you were making a business decision about do you give them  
18 the best weeks or give s the best weeks I think that's  
19 pretty -- I could show you some statistics that make us look  
20 pretty good. I'm prepared to do that but I think you know  
21 what they are.

22           CHAIRMAN SHAPIRO: Thank you.

23           COMMISSIONER HARRIS: I don't know. This is  
24 probably going to be better, better revisited at some other  
25 time but it would be good if we could see any data you have.

1 My thought is that perhaps that week after Labor Day is a  
2 better week than it historically has been thought of.  
3 Because all these trainers are getting old, their kids are  
4 out of college by now. We've been talking about this for 20  
5 years it seems like. (Laughter) Yeah, they've got to go to  
6 their retirement homes or something.

7 Because that's really the real problem. We're  
8 trying to squeeze more weeks into a time period we have.  
9 And I obviously don't want to damage unduly anybody else but  
10 I think we just need to have some due diligence on that.

11 MR. FRAVEL: Look, I'm more than happy to get  
12 documentation and numbers and work on that. Candidly, the  
13 first discussion of moving Del Mar's meet came up yesterday  
14 morning or the day before when I was about to get on an  
15 airplane so I haven't up until this point thought it was  
16 necessary to prepare that kind of information.

17 COMMISSIONER HARRIS: Yeah. And I don't think we  
18 have time today but it's just something. Because anything  
19 you do there is always a ripple affect on other things.  
20 But, I mean, there is always a preparation a month out.

21 MR. FRAVEL: We'd be more than happy to present  
22 our views on it and discuss it candidly but, you know, I  
23 think on short notice it's a little hard for me to concede  
24 that's a good idea.

25 CHAIRMAN SHAPIRO: Thank you. Mr. Mandella.

1           MR. MANDELLA: Hi, I'm Richard Mandella, horse  
2     trainer. John mentioned something about retirement home for  
3     trainers and it made me think. That's my main reason for  
4     being up here today. I've had a few lucky years and my wife  
5     and daughter have become so expensive that retirement is not  
6     in my vocabulary (laughter). So when I hear somebody talk  
7     about at least three years, hell, sometimes it takes me  
8     three years to get a horse to the races. That's nothing to  
9     me. I've got to look at 10 or 20 years and I think that's  
10    what the big picture is here.

11           Santa Anita, as far as anybody that I know, there  
12    is no question of disappearing. Even if Magna went away I  
13    remember when Meditrust sold it. Martin Wygott had a group  
14    that offered to buy it. Wayne Hughes had interest in buying  
15    it. There were several options that would have been very  
16    well taken care of to keep Santa Anita going.

17           I think somebody mentioned here a minute ago about  
18    your responsibility and I'm not here to say exactly what  
19    that is. But I do say that it has got to be considered one  
20    of your most important jobs is to protect the future of this  
21    game. And going on a three-year program is not going to do  
22    it. You've got to go with the 10 or 20 year program and  
23    what is going to keep us all here at the highest level,  
24    which Santa Anita has. And I think that's the main topic  
25    today.

1           You know, one other thing is Hollywood Park has  
2 two separate meets. It has its summer meet and it has its  
3 own fall meet. Santa Anita has its own winter meet but its  
4 the landlord, the Oak Tree, who rents the property to run  
5 the Oak Tree meeting. So they don't get quite the same  
6 financial benefits from that. So when you're dealing with a  
7 few days I think that hurts Santa Anita more. Thank you.

8           CHAIRMAN SHAPIRO: Thank you.

9           MR. BLONIEN: Mr. Chairman and members, Rod  
10 Blonien on behalf of Hollywood Park. There are a couple of  
11 things I wanted to clarify. First of all, Mr. Daruty in his  
12 presentation indicated the Legislature had passed a law  
13 allowing Santa Anita to run for 17 weeks. The law is  
14 generic. It says that racing associations in the central  
15 zone may race for 17 weeks. There is nothing that would  
16 compel Santa Anita to have 17 weeks.

17           I'm sure you all have seen the article in the  
18 Blood Horse the last couple of days talking about trainers  
19 coming to California. Todd Fletcher, Richard Durrow, Lisa  
20 Lewis and Christophe Clement. I mean, it's big news the  
21 cushion track. What message is this going be sending when  
22 the next story is, gates at Hollywood Park reduced.

23           We have a swing week. If you go back and read the  
24 transcript from '05 when Mr. Baedeker was representing  
25 Hollywood Park and said, we concede this week to Santa Anita

1 for the '06 year because they had it that year in '05. And,  
2 you know, you can put all the charts that you want on the  
3 Board and go back to 1933 but they don't mean anything  
4 because everything changed when this Board decided there was  
5 going to be a Christmas break and when you decided that Del  
6 Mar would not have racing after Labor Day.

7           The other thing in terms of the statistics that  
8 were put up there and as I think some of the members of the  
9 Board know. If you include all revenues and you compare the  
10 last week of Santa Anita with the first week of Hollywood  
11 Park, Hollywood Park actually had six percent more money  
12 available for purses in that week than did Santa Anita in  
13 their last week.

14           The last thing I would like to say is that there  
15 has been sort of a whispering campaign going around that the  
16 Governor and the Governor's Office would prefer the dates to  
17 go to Hollywood Park because the Governor is mad at --  
18 excuse me, wants them to go to Santa Anita rather than  
19 Hollywood Park because the Governor was upset or angry with  
20 Hollywood Park. Well I'd like you to know that the Governor  
21 signed AB 3068 a few weeks ago that benefits only one entity  
22 in the state of California and that is the Bay Meadows Land  
23 Company, and that is a very firm indication that the  
24 Governor is supportive of that management. Thank you.

25           CHAIRMAN SHAPIRO: Thank you. Drew Couto, are you

1 speaking to this matter? No? Okay, Mr. Jamgotchian.

2 MR. JAMGOTCHIAN: Mr. Chairman,

3 CHAIRMAN SHAPIRO: Jerry, one second, one second  
4 here.

5 MR. JAMGOTCHIAN: Sure.

6 CHAIRMAN SHAPIRO: Okay, go ahead.

7 MR. JAMGOTCHIAN: Mr. Chairman, members of the  
8 Board, Jerry Jamgotchian. And I am here to support both  
9 tracks. Because as well as the owners and the trainers,  
10 many of the trainers that really won't come up here and tell  
11 you their true feelings because of their concerns for  
12 reprisal. So I've kind of turned into the lightening rod or  
13 the board for them to ask questions. And I sit back and I  
14 tell them, you guys have to focus on the business. And if  
15 you don't want to do anything to improve the business then  
16 you deserve what you get.

17 In this particular case I am baffled by the fact  
18 that Hollywood Park and Magna are forced apart, in my  
19 perception, by this Board. They have a common goal to make  
20 money, as does the state, to make money on horse racing.  
21 Why the separation? I ask myself that question all the  
22 time.

23 I think about the problems that relate to race  
24 horses. I have 116 race horses around the world now. Less  
25 in California, a lot less in California than I had last

1 year. I develop shopping centers. In the case of  
2 California tell me what area geographically, weather-wise,  
3 would be better for horse racing than this vicinity. I  
4 mean, there is really nothing that any state has over  
5 California. Disposable income, marketing and entertainment  
6 dollars. There is just no reason that horse racing doesn't  
7 flourish in the state. Now why?

8 I have my issues with the Board and Ms. Fermin and  
9 obviously they're strong issues and I step back and I said  
10 as I was trying to be realistic, what are the problems here?  
11 And I focused on the fact that there is fiscal disrepair  
12 within the CHRB. Now Mr. Shapiro, at the meeting you  
13 challenged that and there is a letter dated July 21st that I  
14 got a copy of from Wendy Voss talking about spending  
15 cutbacks.

16 The CHRB is freezing or reducing in-state and out-  
17 of-state travel, requests for increases in employee time  
18 bases will not be approved. Freeze all discretionary  
19 promotions, reduce accumulation of employee overtime  
20 credits, freeze all new supply and equipment purchases  
21 unless approved from headquarters office. Which why is the  
22 headquarters office in San Diego rather than Sacramento. I  
23 still have never got a response to that.

24 CHAIRMAN SHAPIRO: Mr. Jamgotchian, what does this  
25 have to do with the subject that we're discussing, please?

1           MR. JAMGOTCHIAN: Well let me finish. Okay, you  
2 know what, I won't talk about the fiscal disrepair.

3           CHAIRMAN SHAPIRO: Okay, thank you.

4           MR. JAMGOTCHIAN: But I'm glad that you now  
5 acknowledge it. Additionally though my concern is that this  
6 Board is not listening. It is not listening to the people,  
7 it's certainly not listening to the tracks, it's not  
8 listening to the owners. Not to mention the violations of  
9 my rights and other people's rights by the stewards  
10 allegedly and other people. We're going to drop that.

11           Think about the issues of the improvements of  
12 California racetracks with the exception of Hollywood Park  
13 and Santa Anita. If you go up to Bay Meadows or Golden Gate  
14 or any of the fair tracks you kind of move yourself back  
15 into the '70s and the '80s. So the question is, why. Why  
16 don't they make capital improvements? Why don't they spend  
17 money? Well the reason is because they are not making  
18 money. So when this Board is concerned about field sizes  
19 and horses coming to California, new trainers, new owners,  
20 you need to ask yourself, why. Why is this happening?

21           Mr. Shapiro, you haven't been the most courteous  
22 listener. And I am hopeful that maybe after the last week  
23 or two that you have become a better listener because  
24 there's a lot of people that are telling you things that you  
25 really need and the Board really needs to listen to.

1           Poor purses. I mean, I had a horse that ran here  
2 that is now running at Remington Park. I won a race at  
3 Santa Anita last week and my \$12,000 claimer got a bigger  
4 purse than I got at Remington Park. So I'm saying to  
5 myself, why even race here, and that is why I and other  
6 people, other owners, certainly have cut back racing in  
7 California. And that doesn't help California racing. So  
8 I've kind of isolated some of the problems but I think it's  
9 economics

10           So what are the solutions? Everybody knows the  
11 solutions. Greater purses, new capital improvements,  
12 invigorating the sport, bringing new people to the track,  
13 having new technology like some of the tracks in Canada.  
14 More racing dates. Why not have more racing dates? If you  
15 have more horses you have more racing dates. And I don't  
16 think Magna or Hollywood Park are going to say, dammit, we  
17 don't want any more racing dates. I just don't think you'd  
18 have a problem with that.

19           The issue in this state is leadership. And the  
20 lady that is sitting to your right I don't believe in my  
21 personal opinion --

22           CHAIRMAN SHAPIRO: Mr. Jamgotchian, your time is  
23 up and I appreciate it.

24           MR. JAMGOTCHIAN: Fine.

25           CHAIRMAN SHAPIRO: Thank you very much.

1 MR. JAMGOTCHIAN: I'd like to just say one --

2 CHAIRMAN SHAPIRO: Mr. Jamgotchian, the time is  
3 up. It was five minutes.

4 MR. JAMGOTCHIAN: So Mr. Shapiro, I'm the only,  
5 I'm the only person you are going to cut off from speaking,  
6 correct?

7 CHAIRMAN SHAPIRO: No, I'm not going to but you  
8 are off point also. So I do appreciate your comments.

9 MR. JAMGOTCHIAN: So I will get back on point.

10 CHAIRMAN SHAPIRO: Thank you very much,  
11 Mr. Jamgotchian.

12 MR. JAMGOTCHIAN: Thank you.

13 CHAIRMAN SHAPIRO: With that I am going to  
14 conclude the public comment on this matter and I think it's  
15 time for us as a Board to deliberate and try -- we have a  
16 motion and a second on the table. I would like perhaps to  
17 hear from Commissioners if any of the Commissioners would  
18 like to address this subject.

19 COMMISSIONER ANDREINI: I was coming up this  
20 morning in the dark of night and thinking about California  
21 racing. And it struck me that one of the things we have to  
22 strive to do is to work together to be cohesive and not drag  
23 ourselves apart. The motto I like to use is, together we  
24 can do it, divided we're going to fail.

25 I applaud the action that was taken by Hollywood

1 Park this year in putting in the cushion track. They did it  
2 very quickly, very efficiently and the results are right  
3 before us. Everyone enjoys training at Hollywood Park and I  
4 think they are going to have an excellent meet that is  
5 coming up this fall.

6 But I really think the real credit should be  
7 acknowledged to my six other commissioners because I had  
8 nothing to do with it. But the mandate of putting in  
9 synthetic track in California by the CHRB was true  
10 leadership. We wouldn't have the cushion track at Hollywood  
11 if it hadn't been for that mandate, at least in my opinion.  
12 But Hollywood did it. They took the initiative and they  
13 moved quickly.

14 And I think it's -- I've listened to the  
15 conversations this morning and now it's afternoon. It  
16 strikes me that people aren't listening out there. Because  
17 what was mentioned, and I don't think anyone necessarily  
18 understood it, was there were six additional days that are  
19 proposed for Hollywood Park. And those are good days that  
20 are being proposed. May 23rd, July 2, July 16th and  
21 December 17th through the 19th.

22 Certainly the issue of swing dates have come up  
23 and I don't know if this has been proposed or not proposed.  
24 But it strikes me we are where we are at the present time.  
25 I think the swing date for 2007, if that's the date or week

1 or whatever, should be where it is and the 2008 date we  
2 should consider giving to Hollywood Park to be fair, if  
3 indeed everybody thinks there is such a swing week.

4           Finally, in order to move things forward we talk  
5 about Santa Anita putting in the same track or a synthetic  
6 track, whether it's cushion or whatever it may be, in 2007  
7 and that was agreed to. I thought that was a long step  
8 forward at this meeting. I had never heard that necessarily  
9 before.

10           Also we talked about putting new barns on the back  
11 stretch and had tangible dates. And Santa Anita will be  
12 coming back in 30 days to talk about what they did with the  
13 city council and what the dates are going to be to establish  
14 new barns at Santa Anita.

15           So I think there has been a fair amount of  
16 togetherness this morning that kind of has missed this group  
17 of people out there. I think there's been good compromise.  
18 The dates have gone up at Hollywood Park. Santa Anita is  
19 putting in the synthetic track; they're improving their  
20 barns. And I suggest that together we can do it but divided  
21 we're going to fail. Thank you.

22           CHAIRMAN SHAPIRO: Thank you. Commissioner  
23 Amerman, do you have any comments to this?

24           COMMISSIONER ANDREINI: I think that compromise is  
25 the only --

1           CHAIRMAN SHAPIRO:  Andreini, I'm sorry.

2           COMMISSIONER ANDREINI:  I know, I know.  You have  
3 been calling me Amerman all day.

4           CHAIRMAN SHAPIRO:  The As are over there.

5           COMMISSIONER AMERMAN:  I'm sorry about that.

6           COMMISSIONER ANDREINI:  That's all right, I like  
7 it.  But I think compromise is the only way to get this done  
8 fairly.  As I said, we've come up with some dates here that  
9 I think -- I mean, it takes one day away from Santa Anita.  
10 I just think compromise is the only way that this is going  
11 to get done I think fairly.  And we have to give some  
12 credit, a lot of credit to Hollywood Park and the money  
13 they've expended and they jumped in the pool first.  They  
14 did it first and without any equivocation.  Santa Anita had  
15 the same opportunity, they just haven't chosen to do that  
16 quite this minute.  But they're going to do it next year.  
17 So, those are my feelings.

18           CHAIRMAN SHAPIRO:  Thank you.  Commissioner  
19 Moretti.

20           VICE CHAIRMAN MORETTI:  Yes.  I have a few  
21 comments so bear with me, they might not all flow smoothly.  
22 First of all I too would very much like to commend Hollywood  
23 Park for being the first out of the box in complying with  
24 the CHRB's mandate to install a synthetic track.  I think  
25 it's going to be so much better for all of California

1 racing. I think it's fabulous.

2           Since I was on the committee back in 2005 maybe I  
3 can just add a statement in there about that as well, that  
4 disputed week, because of the calendar, not because we chose  
5 to give it to one before another, but because of the  
6 constraints that we thought were better for the industry  
7 that we put upon ourselves in terms of allowing Del Mar to  
8 close when it wanted to, and making sure that Oak Tree was  
9 not going to be penalized in terms of its ability to prep  
10 for Breeders Cup, and then that Santa Anita still wanted the  
11 traditional December 26th opening. All of that is what  
12 created the squish and the squeeze or the swing, which, by  
13 the way was never a word adopted or used by the CHRB, as I  
14 believe the author of that was Drew Couto at that time.

15           And my recollection of that particular time is  
16 that actually Jack McDaniel I think was the head of Santa  
17 Anita and Scott was there and there were some wonderful  
18 points presented by Santa Anita that actually had me  
19 inclined to be voting for Santa Anita at that particular  
20 point in time.

21           It wasn't until conversations and statements by  
22 Rick Baedeker and Drew Couto that led me to believe as  
23 presented that if we didn't give Hollywood Park those couple  
24 of extra days it was make or break time for Hollywood Park,  
25 they would be closing in the next year or two.

1           So we voted for -- for Hollywood Park for those  
2 extra days. It wasn't necessarily a vote to turn around and  
3 say okay, let's be fair to Santa Anita. The next year, that  
4 was actually again authored by Drew, if my recollection  
5 serves me.

6           So now we're here a couple years later and we're  
7 at the same juncture. Now as I understand it the calendar  
8 after 2009 is going to take care of this dilemma for us. We  
9 will not be presented with this and most of us will be long  
10 gone at that point anyway. But I would like to, if you'll  
11 indulge me, make a couple of other comments.

12           And that is last year, we, the Board asked,  
13 requested, were vehement in asking the industry to try and  
14 revive itself. To come up with more - - to put more money  
15 into marketing. To improve the bottom line. Santa Anita  
16 complied. They put more money into marketing. They did  
17 improve their bottom line. We had an incredible year last  
18 year.

19           This year we asked and demanded that a synthetic  
20 track be put in place. Hollywood Park has stepped to the  
21 fore and is the first of all the tracks to put it in. And  
22 again, I commend them.

23           But because they are the first this year doesn't  
24 mean that I forget that last year we said someone has to  
25 step to the plate and put some marketing dollars in there.

1 And you know what? Santa Anita stepped to the plate and  
2 they put some marketing dollars in there. And we have the  
3 proof of that.

4 Next year at this same time we will hopefully have  
5 the proof that an investment made by Hollywood Park first  
6 will have brought to the fore many, many more horses, many  
7 more trainers, much fewer accidents and incidents for the  
8 horses.

9 So I want to see the numbers next year before I  
10 vote to give something because, because they were the first  
11 to comply. Because next year, by the way, if Santa Anita  
12 doesn't comply they don't get the dates. They don't get any  
13 dates as far as I'm concerned. So having said that --

14 COMMISSIONER HARRIS: That's kind of harsh.

15 VICE CHAIRMAN MORETTI: We said we want synthetic  
16 tracks. There are other, there are other tracks around,  
17 okay? Now let me bring up something because a couple of  
18 people have alluded to it. Mr. Fancher mentioned it. And  
19 it's been very -- it's been a very interesting time on this  
20 dates committee. And unfortunately I've been on, or  
21 fortunately I've been on the dates committee for more than a  
22 few years now.

23 But I have never been so bombarded, so lobbied by  
24 lobbyists and other hired guns, by people in the  
25 associations, by legislators who really know nothing, nor do

1 they care about horse racing, but because they were prompted  
2 by lobbyists they wrote letters, some rather nasty letters,  
3 sometimes threatening, veiled threats, in comments and I  
4 didn't appreciate it.

5 But then I started thinking about it. And I  
6 thought, you know, this is really interesting. Because if  
7 the energy that went into these letters and this campaign  
8 were to be put into a campaign, a pro horse racing campaign  
9 in Sacramento, we could do wonders up there. And I  
10 started -- (Applause)

11 Thank you. I think that this is very, very  
12 important. I started thinking about over the years, the  
13 last 20 or so years, of all the times that the horse racing  
14 industry has come together, and those are very rare times,  
15 come together with the Legislature. Most of the time with  
16 Ken Maddy at the helm. And certain things were done on  
17 behalf of the industry.

18 But most of those things that were done were not  
19 done by the industry, they were done by the Legislature for  
20 the industry. The industry is always going to the  
21 Legislature hat in hand, whether it was, you know, exotic  
22 races, simulcast facilities, breeders awards, sim -- I said  
23 simulcast, obviously ADW, license fee relief.

24 And now I know you're going again trying to go and  
25 get mitigation from the compacts and from others. But my

1 caution to you is yes, go, go as a united industry. Don't  
2 go just in -- as Hollywood Park or Santa Anita or anyone  
3 else. You've got to be united if you want to get anything  
4 up there.

5           And you've also got to step to the plate. I mean  
6 license fee relief was supposed to have brought us back up.  
7 Where are we? ADW was supposed to have brought us back up.  
8 Where are we? We're fighting over ADW now for God's sakes.  
9 I mean, this is not the way to go.

10           I have worked with many industries in Sacramento.  
11 And they're all filled, they're all, they're made up of  
12 natural competitors, whether it's the oil industry, the  
13 technology industry, the biotech industry, the health care  
14 industry. Trust me, they are -- they are competitors, and  
15 heavy duty competitors.

16           But I've never seen an industry so contentious, so  
17 hateful towards each other. And you know what, that's  
18 starting to hurt us up in Sacramento. So my request to you  
19 is stop being predators. Be natural competitors. That's  
20 what you are. That's what will make us great. That's what  
21 makes other sports great.

22           So with that I will stop. I just am asking you to  
23 start working together and we would like to work with you.  
24 And we're not working against you. Thank you.

25           CHAIRMAN SHAPIRO: Thank you. Commissioner

1 Bianco?

2           COMMISSIONER BIANCO: I have some of the same  
3 positions that Marie has. I have never gotten so many  
4 e-mails, so many faxes, so many threatening pieces of paper  
5 by public officials. I think it stinks to be very honest  
6 with you. The only reason we are getting something done on  
7 this board after maybe seven years is taking a hard line on  
8 a lot of things.

9           I like some of the documentation that I did  
10 receive on compromises, compromise dates. It seems that if  
11 these competitors don't give a little bit this industry  
12 gets, you know, more negative publicity than positive. The  
13 safety issue is the big thing for me. On the poly tracks I  
14 see it much safer for my horses, for the jockeys, which is  
15 my main concern.

16           When I first got on this Board there was an awful  
17 lot of labor -- losing jobs that were directly, you know,  
18 direct union labor. I didn't like it, I've seen it  
19 continually happen,

20           The amount of people that I see going to the track  
21 this past year has improved but I still think that as a  
22 Commissioner the race dates are critical, they should be  
23 divided. If nobody can make that decision amongst the  
24 industry then it's up to the people on this Board up here to  
25 come up with some edict, which we did, right?

1           But to get a lot of the, you know, to get a lot of  
2 the industry to mesh together, you know, until that happens  
3 this racing industry is not going to get better. And people  
4 out there are going to continue to, you know, say this about  
5 us, that about us. I even got one of my grandsons telling  
6 me, grandpa, don't you ever get anything positive about this  
7 Board you're on? And I look around and I said, well you're  
8 probably right.

9           But I said, I think we're accomplishing different  
10 things this particular year if this Board has to be hard  
11 line. You can't be a nice guy and get ahead working in a  
12 public domain like we try to do. We've tried to consider  
13 everybody's feelings, even financially and to me it just  
14 doesn't work. You have to have edict and that's what this  
15 Board and the Board in the future will have to do.

16           Because you're getting something accomplished now,  
17 even though there's two different sides here. To me I think  
18 a compromise resolution on this, if we have to dictate it  
19 then we'll dictate it. Thank you.

20           CHAIRMAN SHAPIRO: Commissioner Harris?

21           COMMISSIONER HARRIS: Well I'd agree with much of  
22 what's been said by everyone, really. This is just such a  
23 difficult issue to balance everything. I think if you just  
24 did a poll of a lot of the racing fans they would like to,  
25 you know, race less. I mean, to cut dates pretty

1 dramatically but I don't think that's practical from the  
2 income side and the horsemen side. We'd probably have the  
3 biggest purses in the world and the biggest attendance  
4 arguably in the world if we raced just weekends but all the  
5 horsemen would be out of business because they wouldn't have  
6 enough opportunities to run their horses.

7           There is no simple solution. I think any of us,  
8 if we just sat down and came up with a calendar it might be  
9 slightly different than what the committee has done but the  
10 committee has put much effort into it. I was on the dates  
11 committee one time and that's probably one of the toughest  
12 jobs of any place, it's unbelievable. And then the  
13 frustration is you get here and the whole thing gets hashed  
14 out again.

15           But I don't know. I think I'm persuaded that  
16 Santa Anita, I don't think that we should set any kind of a  
17 precedent of giving Santa Anita that 17th week but I can't  
18 see how to make it work. I think I would be in favor of  
19 some method, which I don't think we can really do this year  
20 because it wasn't really hashed out that much in the  
21 committee meetings is to move Del Mar back a week and just  
22 have Hollywood drop some of their last week. But that  
23 reinvents it too much from what the committee has really  
24 looked at.

25           But I agree too, Marie, on the divisiveness and

1 the contention. Really we're looking at something here.  
2 When people say, it's not about the money, that usually  
3 means it's about the money. Now I'm just kidding there in a  
4 way but, I mean, I think you're looking at maybe four or  
5 five thousand dollars difference between if Santa Anita  
6 makes it or Hollywood Park makes it. And that's significant  
7 money.

8           But I mean, in a good day probably the collective  
9 audience here could make that much money instead of sitting  
10 around fighting about it. You know, if racing was assigned  
11 the task of having a firing squad we would certainly do it  
12 in a circle because that's the way we do things (laughter).  
13 Shoot at each other instead of a common enemy.

14           So I appreciate all the work that's gone into it  
15 and I just hate to make really dramatic changes in what the  
16 committee has recommended. Although I might have done it  
17 differently myself and I can sympathize with all the reasons  
18 that maybe there's better ways to do this and that. I think  
19 I would like to, if we do add to the committee's  
20 recommendation, we do add back a few more dates here and  
21 there to Hollywood Park.

22           CHAIRMAN SHAPIRO: Thank you. This happens to be  
23 the anniversary, the second anniversary of my joining this  
24 racing board in this very location. When I came here nobody  
25 out there really knew who I was and there was a -- and I

1 probably would have been better off today if it was still  
2 that way. Because I came here with a lot of hope and  
3 aspirations to help an industry that I love. I didn't know  
4 that I was walking into the hostile and divisive environment  
5 that this industry succumbed to.

6 Frankly it is very disheartening and it is  
7 extremely frustrating to sit up here, volunteer as much time  
8 as we do to try to help an industry and have to go through  
9 the attacks and the acrimony that we deal with. Frankly I  
10 am personally offended that anybody would either call me or  
11 personally stand here and threaten me. I don't like it, I  
12 don't appreciate it, and like anybody that feels attacked  
13 their natural inclination is to move back or fight back.

14 But that is not my role here. Hollywood Park did  
15 a wonderful thing by installing cushion track. And yes, my  
16 horses are over there and I'm thrilled that they are there.  
17 And I can't wait to see that Del Mar and Golden Gate and  
18 Santa Anita and even Bay Meadows if it's still around  
19 installs these surfaces. Because it is about safety and  
20 it's about the horses and about the riders.

21 But I resent that over the last few weeks I have  
22 heard from the president of the senate, the assembly  
23 leaders, various senators, and even spoken to the Governor's  
24 Office because I was initially challenged that this isn't  
25 our role. And I looked and I went to the rule book and I

1 went to the law book and it was very clear, this is our  
2 role. And it's unfortunate that people feel that by using  
3 lobbyists and bringing political pressure on us that they  
4 are going to influence our decisions in this matter.

5 I agree with what Commissioner Moretti said. It's  
6 a shame that that energy isn't used for positive  
7 improvements in this industry rather than continuing to  
8 perpetuate our image of a completely divided and  
9 dysfunctional industry where we get nothing done.

10 It angers me. The truth of this is I am not  
11 looking to inflict financial harm on any party at all. To  
12 the contrary, I am trying to help horse racing. My views to  
13 this have been looking to help and address the problems that  
14 are endemic to this industry.

15 We all know that we need some form of mitigation.  
16 We all know that we're going to be in a competitive fight  
17 for horses if we cannot find a way to raise purses. So as I  
18 approached this I went and looked at those items that I  
19 thought were prudent in making this decision. It wasn't to  
20 favor one track or another or it wasn't to favor who made  
21 more money. Frankly I don't believe that's our job up here.  
22 Our job is not to look at the special interest of who is  
23 getting what. Our job is to look at the industry and the  
24 stakeholders within it and how we can help the industry as a  
25 whole.

1           And while my view of what our role and our mission  
2 statement may be a bit tilted that it isn't about enhancing  
3 revenues it is about enhancing the industry. So when I  
4 looked at it and I asked our staff to run numbers, in every  
5 instance that I could come up with there was more purse  
6 generation from all sources of handle or from just live, on-  
7 track at Santa Anita.

8           And I am a believer that we must have fans at the  
9 racetrack to make horse racing survive in California. I  
10 don't buy into, let us become a studio sport. Because then  
11 if that is the case we lose not only potentially Hollywood  
12 Park but we'll lose Santa Anita and we might as well go out  
13 to Timbuktu.

14           So I also look at the long term commitment. I  
15 appreciate that Hollywood Park is fighting to make horse  
16 racing viable. And I hope that the rest of the industry  
17 will join with them and can align themselves behind the same  
18 way of doing that. But I also am mindful that Santa Anita  
19 is willing to remain committed for many, many, many years  
20 with no caveats. And I happen to agree with the speaker  
21 that said if Stronach can't make it somebody else will step  
22 up and save Santa Anita as a racetrack.

23           So for me it does come into economics of what is  
24 best for horse racing. What's best for our horsemen, what's  
25 best for our fans. It has nothing to do with one track over

1 the other. And I resent any implication to the contrary.  
2 And for that reason I personally am in favor of the calendar  
3 that has been subject to the motion that was made earlier.  
4 Therefore without any further adieu what I would like to do  
5 is call the question.

6 DEPUTY ATTORNEY GENERAL KNIGHT: Is it clear what  
7 the motion is?

8 CHAIRMAN SHAPIRO: I will be glad to repeat it.  
9 The motion was to adopt the calendar recommended by the  
10 strategic planning committee and race dates committee, plus  
11 adding the following dates for racing: December 28th at  
12 Santa Anita, January 10th at Santa Anita, May 23rd at  
13 Hollywood Park, July 2nd at Hollywood Park, July 16th at  
14 Hollywood Park, December 17th at Hollywood Park. I believe  
15 that was -- there was a motion to approve that and a second.  
16 I will call the question.

17 COMMISSIONER HARRIS: I had a few somewhat minor  
18 modifications to that. Should we vote on this and then go  
19 to the modifications or --

20 CHAIRMAN SHAPIRO: No, why don't you offer if you  
21 want them modified.

22 COMMISSIONER HARRIS: If I could do an amendment.  
23 I would suggest that we drop essentially the six day weeks  
24 that we create except for, yeah, the six day weeks that we  
25 create at Santa Anita by dropping January 17 and January 24.

1 I think that's the only one. And at Hollywood Park though,  
2 to give them the opportunity to run maybe two days. I was  
3 thinking a good option would be that week of December 16,  
4 which is well ahead of Christmas Day and well ahead of  
5 December 26, which is the first day of Santa Anita, that  
6 they could race three days in that week and they'd just pick  
7 the days.

8 VICE CHAIRMAN MORETTI: Instead of?

9 CHAIRMAN SHAPIRO: Okay, let me just clarify on  
10 the January dates. I don't see looking at the calendar if  
11 the racing week starts on Wednesday the 17th, 18th, 19th,  
12 20th and 21st is a five-day week.

13 COMMISSIONER HARRIS: Yeah, but they're racing the  
14 15th? That's Martin Luther King Day.

15 CHAIRMAN SHAPIRO: Yes, they're racing on the  
16 15th. That's why -- Okay, if you add back the 10th then I  
17 agree with you.

18 COMMISSIONER HARRIS: You're adding back the 10th.

19 CHAIRMAN SHAPIRO: If you take the 10th we'll take  
20 the 17th, I would agree.

21 COMMISSIONER HARRIS: Yeah, we're adding back --  
22 Yeah, I'd stipulate that we're adding back the 10th.

23 CHAIRMAN SHAPIRO: And I would amend the motion to  
24 take out the 17th. I would agree with that.

25 COMMISSIONER HARRIS: And then the same way the

1 next week. We're adding back the 14th but you take out the,  
2 the 21st of February.

3 CHAIRMAN SHAPIRO: The 14th? The 14th is a  
4 Sunday.

5 COMMISSIONER HARRIS: No, the 14th of February.

6 CHAIRMAN SHAPIRO: You got me. That's where you  
7 lost me, okay.

8 COMMISSIONER HARRIS: Yeah.

9 CHAIRMAN SHAPIRO: So you are proposing to take  
10 the --

11 COMMISSIONER HARRIS: We have added back the 14th  
12 but we're going to take out the 21st of February. Both of  
13 those would be --

14 CHAIRMAN SHAPIRO: No John, let me go through it  
15 again to make sure. In January -- I will amend the motion  
16 such that they would race on the 10th of January.

17 COMMISSIONER HARRIS: Right.

18 CHAIRMAN SHAPIRO: They would not race on the 17th  
19 of January.

20 COMMISSIONER HARRIS: That's right.

21 CHAIRMAN SHAPIRO: Okay.

22 COMMISSIONER HARRIS: And in February they would  
23 race on the 14th, Valentine's Day, but they would not race  
24 on the 21st because if they did that they would have a six  
25 day week that week.

1           CHAIRMAN SHAPIRO: Okay. Would it be okay with  
2 you that we can let, we can say either/or for those two for  
3 them. I agree with you.

4           MR. LIEBAU: Could I? I know I'm out of order but  
5 could I just interject something that would be of help here?

6           CHAIRMAN SHAPIRO: Sure.

7           MR. LIEBAU: Bay Meadows opens on the 14th. It  
8 would be very important for Bay Meadows --

9           CHAIRMAN SHAPIRO: The 14th of what month, Jack?

10          MR. LIEBAU: Of February.

11          CHAIRMAN SHAPIRO: Okay.

12          MR. LIEBAU: Which is what Mr. Harris is  
13 suggesting. Bay Meadows is closed on the 21st.

14          CHAIRMAN SHAPIRO: Then that would make sense that  
15 they race on the 14th with Bay Meadows --

16          MR. LIEBAU: Right.

17          CHAIRMAN SHAPIRO: And they are closed on the 21st  
18 of February.

19          MR. LIEBAU: Thank you.

20          COMMISSIONER HARRIS: Right.

21          CHAIRMAN SHAPIRO: Okay. I will amend the motion  
22 to do that unless there is an objection from the Santa Anita  
23 folks. I don't see one. I'll accept that amendment. Is  
24 there a second for that?

25          COMMISSIONER BIANCO: Second.



1 Promises were made that new jobs related to ADW would be  
2 created for our union workers such as telephone jobs in  
3 customer service.

4 Now with four years under our belt it appears that  
5 most if not all of our original hopes and desires have not  
6 occurred. This is not the fault of any ADW provider, this  
7 is simply the facts of the situation. Given we now have  
8 this past performance record it is incumbent for all of us  
9 to band together and find a way to improve the use of ADW  
10 for the benefit of all parties, the fans, the owners, the  
11 trainers, the jockeys, the tracks, racetrack workers and the  
12 ADW providers themselves. Not an easy task and it will be  
13 tackled in large part at the end of 2007 when this law  
14 sunsets.

15 Today we are faced with re-licensing these  
16 companies that provide ADW wagering in California. Over the  
17 last year there have been considerable differences of  
18 opinion regarding some issues pertaining to ADW including,  
19 do the horsemen have a right to participate or have  
20 agreements related to ADW? Are exclusive agreements between  
21 tracks and a particular ADW company in the best interest of  
22 California racing as a whole? If there is a dispute between  
23 a licensee and an ADW company can or should the CHRB have  
24 the authority to decide it? And is there a way to divide  
25 the income differently so that the increase of a share goes

1 to horsemen and owners so the purses can increase?

2           While I know some of these issues will be  
3 considered when the law itself is revisited by the  
4 Legislature I believe we should today take steps to ensure  
5 that licenses we are considering for all ADW providers are  
6 issued with the best interest of all stakeholders, including  
7 the public, in mind.

8           Section 19460(b) of the horse racing law states  
9 that respect to licenses granted they are subject to the  
10 rules, regulations and conditions from time to time  
11 prescribed by the Board. Section 19460(c) says that they  
12 shall contain such conditions as are deemed necessary or  
13 desirable by the Board for the purposes of this chapter.

14           With this in mind I hope that we will consider  
15 these issues as we consider these licenses. There is no  
16 doubt in my mind that the television, Internet streaming and  
17 broadcasting of signals is very valuable to expose more  
18 people, or people who otherwise would not be able to come to  
19 the track to our product. I am very thankful to the ADW  
20 providers but we have to find a way to use it to the better  
21 benefit of racing.

22           With that I would like to first hear the  
23 application from XpressBet. So perhaps the people from  
24 XpressBet want to come forward and sit at the table and we  
25 can go through.

1           COMMISSIONER HARRIS: One thing, which maybe was  
2 going to come up in the discussion but maybe to clarify. I  
3 don't think any of these applicants, applications contain  
4 any agreements with tracks or horsemen. I just think that  
5 we should have completed agreements. Not necessarily  
6 completed applications when we review them because we really  
7 don't know. I don't really feel we are in a position to  
8 approve any of these until we get the completed agreements.

9           CHAIRMAN SHAPIRO: I believe that is a very good  
10 posture to take and I tend to agree with you. The question  
11 is perhaps just as we do a racing license application we  
12 should review the agreement, ask our questions. If they are  
13 incomplete I would suggest we defer them until they are  
14 complete.

15           COMMISSIONER HARRIS: Yeah. But I think even -- I  
16 feel the same way on anything that we look at. Sometimes  
17 we'll say we'll approve it subject to getting it and, you  
18 know, at the 11th hour there is a dispute.

19           CHAIRMAN SHAPIRO: We don't get it. Right.

20           COMMISSIONER HARRIS: So I'd just rather get it  
21 out of the way once and for all at one time.

22           CHAIRMAN SHAPIRO: I agree with that but I think  
23 that it would be smart for us to listen to each ADW company,  
24 review their application, ask the questions we have. So  
25 that if we are in the position and the application is

1 complete we can approve it. If not we can revisit it at our  
2 next meeting.

3 MR. DARUTY: I'm Scott Daruty from Magna  
4 Entertainment on behalf of XpressBet and I have here with me  
5 Gene Schebrier with XpressBet as well. Sorry.

6 STAFF SERVICES MANAGER I WAGNER: Jackie Wagner,  
7 CHRB staff. As a means of just introducing each ADW  
8 application I will just give you a little background and  
9 then turn it over to the representatives.

10 XpressBet, they have filed their application as an  
11 out-of-state multi-jurisdictional wagering hub to provide  
12 our ADW wagering. They are currently licensed through  
13 December 31 as an out-of-state multi-jurisdictional wagering  
14 hub. They have applied for a license that will run from  
15 January 1, 2007 through December 31, 2007. At this time  
16 they are proposing to run a full 24 hours a day.

17 They are applying for a one-year license. As you  
18 mentioned Mr. Chairman, that the statutory authority for  
19 advance deposit wagering sunsets in December of 2007.

20 Their current track contracts and horsemen's  
21 approvals that they have right now currently extend through  
22 -- their term, their current term, which extends through  
23 December 31, 2006. My understanding is that they are in  
24 negotiations for the 2007 contracts.

25 This application is missing the contracts for

1 2007, they are missing the agreements from the horsemen.

2 And staff recommends the Board approve the application  
3 contingent upon the completion of those missing contracts.

4 CHAIRMAN SHAPIRO: Thank you. I'd like to ask you  
5 a few questions, if I might.

6 MR. DARUTY: Yes.

7 CHAIRMAN SHAPIRO: First of all, since 2002 it  
8 appears you had an agreement with the horsemen.

9 MR. DARUTY: That's correct.

10 CHAIRMAN SHAPIRO: Correct?

11 MR. DARUTY: Yes, that's correct.

12 COMMISSIONER HARRIS: If we could see that at some  
13 point.

14 CHAIRMAN SHAPIRO: I believe it is included. Not  
15 going back to 2002 but I believe that you may have it in  
16 this package.

17 MR. COUTO: I don't believe they have them yet.

18 CHAIRMAN SHAPIRO: I'm talking about old ones, if  
19 that's what you were asking. And I believe the material  
20 that I have seen, and I have also reviewed all of the staff  
21 reports going back to 2002. There was a requirement that  
22 there was -- the Board asked that there be horsemen's  
23 agreements in your application. It is my understanding that  
24 you had them. Do you have any objection to having a  
25 horsemen's agreement with respect to your current

1 application for licensure?

2 MR. DARUTY: No, we don't. Not only do we not  
3 have an objection we think it is an appropriate requirement  
4 for this Board to impose. You know, our industry is based  
5 on partnership between the tracks and the horsemen and it  
6 seems to me that it's critical for account wagering to not  
7 overlook the horsemen. So we've already talked with the  
8 TOC. We have worked out an arrangement with the same hub  
9 rates for '07 as we had currently. That document has not  
10 been signed yet but I don't anticipate any substantive  
11 problems with that document.

12 At the same time we as an account wagering company  
13 cannot allow ourselves to be put at a disadvantage to our  
14 competitors. So if this board changes its rules or  
15 requirements and no longer requires a horsemen's agreement,  
16 you know, I think that it should apply to all. But again,  
17 we believe that it's a very appropriate requirement for you  
18 to place.

19 CHAIRMAN SHAPIRO: Okay. In your application you  
20 were only asking for authority to accept wagers on Bay  
21 Meadows, CARF, Sacramento Harness, LA Turf Club, Pacific,  
22 Del Mar, LA County Fair. What if you were able to reach an  
23 agreement with say Hollywood Park. Would you not want the  
24 authority to do that?

25 MR. DARUTY: We would love to reach agreement and

1 carry Hollywood Park's signal through XpressBet. And in  
2 fact I think there may actually be an error in that  
3 application hearing you say that because we do accept wagers  
4 from certain jurisdictions by telephone only on Hollywood  
5 Park's signal. I also --

6 COMMISSIONER HARRIS: I -- go ahead.

7 CHAIRMAN SHAPIRO: One second. Do you not also  
8 accept wagers from Oak Tree?

9 MR. DARUTY: Yes. Again I think there may have  
10 been an oversight. The Oak Tree, Del Mar and Hollywood Park  
11 signals are carried by XpressBet in limited jurisdictions  
12 and by telephone only.

13 CHAIRMAN SHAPIRO: Okay.

14 COMMISSIONER HARRIS: The issue I think though is  
15 not clear. XpressBet does not accept bets in California on  
16 Del Mar.

17 MR. DARUTY: Okay, and that may be, that's  
18 correct.

19 COMMISSIONER HARRIS: We're licensing in  
20 California is what we're doing. We're not doing, it's not a  
21 national license.

22 MR. DARUTY: Okay, this may be where the confusion  
23 is. There's a list of where we carry, what signals we carry  
24 in-state and what signals we carry out-of-state. No, within  
25 the state of California, no, we do not accept wagers on any

1 of those three racetracks. But we would love to if we  
2 could.

3 CHAIRMAN SHAPIRO: All right, okay. Mr. Daruty,  
4 when ADW came into existence there was a promise from this  
5 industry that there would be a number of jobs created in  
6 California. Those jobs were going to be telephone operator  
7 jobs. And it is my understanding as I've gone back and read  
8 some of the transcripts, and I think other members of this  
9 Board who pre-date me, all believe that those jobs would be  
10 here.

11 What has happened is, as I understand it, hubs  
12 were created in other states and therefore there are very  
13 few jobs that actually come to California. I know recently  
14 -- you state here that in essence XpressBet employs 3.5  
15 full-time union workers in the state of California. That  
16 doesn't sound like a lot of jobs to me. And that doesn't  
17 seem that it was really fair that those workers that got  
18 behind ADW wagering and were promised jobs got what they  
19 were entitled to.

20 As I mentioned earlier in the meeting, I did visit  
21 with Mr. Stronach and I was made aware that jobs were being  
22 transferred, I think from Pittsburgh to Oregon, telephone  
23 operator jobs. And I asked him if he would bring those jobs  
24 to California because that's what was promised to  
25 California. Can you tell me whether or not that is being

1 done?

2 MR. DARUTY: Well what I can tell you, and if  
3 you'll indulge a little bit of background here. You are  
4 correct. When we first entered the California market,  
5 XpressBet first entered the California account wagering  
6 market, we had a pre-existing telephone call center in  
7 Pittsburgh and we did not want to have to relocate those  
8 employees and put them through that disruption.

9 If I'm correct, and certainly the other providers  
10 will tell me if I'm wrong when they come up here but I  
11 believe we were the only one that really had -- Let me put  
12 it this way, no one else put a call center in California  
13 either is my understanding.

14 CHAIRMAN SHAPIRO: I don't care what other ones  
15 did right now, I care what you did.

16 MR. DARUTY: Correct. Here we go, that's a lot  
17 better. So we do not have a call center in California,  
18 that's correct. For reasons that are beyond the scope of  
19 this meeting we decided to move that call center out of  
20 Pittsburgh and looked at the economics of moving those  
21 people to California.

22 And while we want to do the right thing by our  
23 employees and the unions, the fact of the matter is the  
24 economics of having a call center in California just cannot  
25 be justified. There is no possible way a telephone operator

1 can answer the phone enough times and take enough wagers in  
2 an hour on the limited hub fee that the account wagering  
3 company makes that they can, that that can be economically  
4 done.

5 Now what we have done is we have entered into  
6 discussions with the union about other jobs. We have  
7 offered the creation of a number of additional mutuel clerks  
8 jobs at the racetrack for the union. We have had other  
9 discussions about other ideas. Quite honestly we haven't  
10 come up with anything yet that they have been satisfied with  
11 but we're willing to keep talking.

12 The point about the phone operators. We could, I  
13 suppose, put a call center here and lose money on every  
14 employee and lose money on every wager. But ultimately that  
15 is not a business that makes any sense and it didn't seem  
16 appropriate for us just to subsidize a losing operation just  
17 for the purpose of satisfying the union. What we wanted to  
18 do was talk with them and come up with something that  
19 satisfies them but that also actually makes business sense.  
20 So that is the process we are in right now.

21 COMMISSIONER HARRIS: I am not sure if we can  
22 really dictate if a job is a union job or not a union job  
23 but I'm not really clear. Are you saying that you can run a  
24 call center in Oregon cheaper than you can run a call center  
25 in California?

1 MR. DARUTY: Absolutely.

2 COMMISSIONER HARRIS: Why is that?

3 MR. DARUTY: Because the labor costs in California  
4 are, I think, over twice per hour.

5 COMMISSIONER HARRIS: Well some places. I  
6 guarantee if they come to Huron or Coalinga we could find  
7 you some pretty reasonable labor. A call center can be  
8 anywhere, it doesn't have to be in Beverly Hills (laughter).

9 CHAIRMAN SHAPIRO: I think, I think what they are  
10 saying is that the union hourly rate is about \$28 an hour in  
11 California.

12 COMMISSIONER HARRIS: Right.

13 CHAIRMAN SHAPIRO: And it's \$11 in Oregon,  
14 correct?

15 MR. DARUTY: That is absolutely correct.

16 COMMISSIONER HARRIS: Well, but I mean, but I  
17 think the solution would be, that assuming that it has to be  
18 a union job, which I don't necessarily buy into, but if it  
19 did that there are a lot of union jobs around that are \$11  
20 an hour that the union might possibly be interested in.

21 MR. DARUTY: We'd explore any options. We would  
22 like to have a call center in California, we'd like to  
23 deliver on jobs that the union was expecting. But again, we  
24 don't want to just create positions that lose money because  
25 that is not doing anybody any favors and certainly those

1 positions won't last.

2 CHAIRMAN SHAPIRO: Okay. What I don't see in your  
3 application is, what are you going to do to make ADW work  
4 better for California? What are you going to do to -- what  
5 can you do? Let me give you, let me ask a question. We  
6 hear about exclusives. What is your view on these exclusive  
7 agreements?

8 MR. DARUTY: I personally stated on the record at  
9 past CHRB meetings and I know other representatives of  
10 XpressBet have done so as well both in this jurisdiction and  
11 in others. We do not believe the exclusive model is a good  
12 model for the horse racing industry. We believe it's  
13 harmful to the racetracks, we believe it's harmful to the  
14 horsemen, and most importantly we believe it's harmful to  
15 the fans. We have --

16 But it is also no secret at the same time that we  
17 have to some extent exclusive rights over the Magna  
18 racetracks and that we don't provide that content to TVG. I  
19 want to make clear that that position we have adopted was a  
20 defensive position. TVG was the one who adopted originally  
21 the exclusive models.

22 We have publicly stated before and I'll say again  
23 we would gladly trade our content for their content on any  
24 terms they choose as long as those terms are reciprocal.  
25 But up until this point that is not an offer that has been

1 accepted. So we do believe exclusives are harmful but at  
2 the same time for our business reasons if one of our  
3 competitors is using an exclusive model we have no choice  
4 but to follow that as well just for our own survival.

5 And I would just like to add one point. I'm  
6 talking about the domestic market here. We've been  
7 struggling just to get ADW fixed within the United States.  
8 You can't even consider the international implication. But  
9 what I have to say is for domestic distribution.

10 CHAIRMAN SHAPIRO: Well looking at it from horse  
11 racing's perspective, aren't we better off making, making  
12 our signal and the places where people can wager on  
13 California horse racing at as many places as we can?

14 MR. DARUTY: That is our view. Again, I know that  
15 TVG has a different view. We happen to think our view is  
16 correct. But yes, we believe that we are selling a product.  
17 And the more people you can put your product in front of the  
18 more people who are likely to buy it. So we believe the  
19 broadest possible distribution is the best thing for  
20 horsemen and for the racetracks. And it also allows the  
21 most freedom of choice for the fans.

22 CHAIRMAN SHAPIRO: And Mr. Daruty, I have seen  
23 some schedules with respect to how the wagering dollar is  
24 divided between the ADW companies, between the horsemen,  
25 between the tracks. And it appears to me that in many cases

1 that the horsemen aren't getting enough of that revenue.  
2 And again we need to get the purses up. We have to help  
3 California horsemen so that the owners will stay invested  
4 here. What solutions do you see for that type of a problem?

5 MR. DARUTY: Well I think we're uniquely situated  
6 as an account wagering company because of our heavy  
7 investment in racetracks. So, you know, I like to think  
8 that that, you know, maybe keeps us, you know, right down  
9 the middle of trying to be fair to both sides.

10 And what we have seen is that historically we  
11 believe the host fees that have been paid to the racetracks  
12 have been insufficient from the account wagering companies  
13 and it has been our goal to have all account wagering  
14 companies pay higher host fees for our content. And that  
15 includes XpressBet. XpressBet pays a high host fee just as  
16 Youbet and others who carry our content do.

17 And of course the higher the host fee, that money  
18 is returned to the racetrack that actually produced the  
19 show, that put on the race, and half of it is split with the  
20 horsemen. So we think that's important.

21 COMMISSIONER HARRIS: Could you define, just to  
22 help some of us out, define what the host fee is.

23 MR. DARUTY: Yes. The host fee is the fee that is  
24 paid by the account wagering company to the racetrack that  
25 conducted the live race that is wagered on.

1           COMMISSIONER HARRIS: And that is then split  
2 between the horsemen and the track?

3           MR. DARUTY: That is correct. So as host fees  
4 increase, if we're successful in getting them increased,  
5 that ultimately increases purses.

6           CHAIRMAN SHAPIRO: So let me give you a specific  
7 example. If somebody makes a wager on XpressBet from  
8 outside California on your races at Santa Anita and there is  
9 a 19 percent take-out, 12 and a half percent of that money  
10 goes to the ADW company. Now I understand there's some  
11 market source fees and things that may come out of that but  
12 the bottom line is the horsemen are getting 2.9 percent.  
13 First of all, do you agree that's probably accurate?

14          MR. DARUTY: You're saying on an out-of-state  
15 wager on a California track?

16          CHAIRMAN SHAPIRO: Yes, yes.

17          MR. DARUTY: I had believed that the host fee that  
18 we were, that XpressBet was paying for the California  
19 racetracks was seven percent. I may be incorrect, it may be  
20 six and a half percent. But if you use your math with a 19  
21 percent take out the host fee of seven percent or six and a  
22 half percent would go to the California racetrack that ran  
23 the live race. Half of that would go to purses, half of  
24 that would go to track commissions. That would leave either  
25 12 or 12 and a half cents with the ADW company who then pays

1 a large source market fee to the jurisdiction that actually  
2 generated the wager. And then the amount left after the  
3 source market fee is retained by the account wagering  
4 company.

5 CHAIRMAN SHAPIRO: Okay. But the bottom line is,  
6 because I asked staff to run some numbers for me, okay.  
7 Here we have our California horsemen, they're putting on a  
8 show. Somebody in Iowa places a wager through your company.  
9 your company gets 12 and a half cents, 12 and a half  
10 percent, and the horsemen are only getting 2.9 percent. And  
11 they're putting on the show, the owners have made the  
12 investment. That doesn't seem right.

13 And I appreciate you have got to pay the people in  
14 Iowa and you've got to pay other people. But discount that  
15 down. Maybe you're paying somebody eight percent, I don't  
16 know what you're paying them. But clearly you're making  
17 double than what the horseman is getting. Now that doesn't  
18 sound right to me. That doesn't sound like this model  
19 works. And --

20 MR. DARUTY: The -- I'm sorry.

21 CHAIRMAN SHAPIRO: And that's where I have the  
22 problem with ADW. Because again, and I appreciate that's  
23 new money because we wouldn't have that without ADW  
24 wagering. But when a wager is made live on-track at your  
25 racetrack today at Santa Anita the horsemen are getting

1 close to eight percent of that dollar.

2 Now there's all different numbers here but in  
3 every instance the horsemen, the top percentage that I can  
4 find is 5.63 percent of a wagered dollar through ADW is  
5 going back to the horsemen. Whereas if somebody comes to  
6 the track they're getting nearly 8 percent. How do we solve  
7 this problem?

8 MR. DARUTY: Well, I understand your point. Let  
9 me respond. I'm not disagreeing with you because ultimately  
10 I do agree that more money needs to be returned to the  
11 industry, to the tracks and to the purses.

12 But let me remind you that there is a racetrack in  
13 some other jurisdiction somewhere. In its view, when one of  
14 its patrons bets through account wagering on a California  
15 race, their view is without account wagering this guy would  
16 have come to our racetrack in Iowa or whatever state we're  
17 using in our example, and would have wagered and that money  
18 would have been retained by the Iowa industry.

19 And just like you're saying, an on-track wager is  
20 worth a lot more. And so we are compensating and the other  
21 account wagering companies do as well. We are compensating  
22 that source market so that the horsemen there are earning,  
23 you know, money for their purses and the track is earning  
24 revenues. It's a tension. The higher, the higher host fee  
25 you pay the less money you have left for the source market.

1 You know, who wins that battle, who should win that battle,  
2 you know, that's a pretty complicated issue.

3 COMMISSIONER HARRIS: I'm not clear on that host  
4 fee though, which trickles down to the horsemen. Is that  
5 negotiated in this? I don't know. I think the Racing Board  
6 necessarily can go in and say, okay, it should be this or  
7 that. It's really going to be negotiated between the  
8 horsemen and the tracks. The numbers that we're looking at  
9 now, was that negotiated by the horsemen and XpressBet?

10 MR. DARUTY: The numbers -- Well, I can answer  
11 that question for XpressBet and then also for the  
12 racetracks. Let me start with the racetracks. The  
13 California racetracks at Santa Anita and Golden Gate Fields,  
14 yes, we sell our signal to a number of account wagering  
15 companies, not just Santa Anita. I'm sorry, not just  
16 XpressBet. The sale of that signal we do in connection or  
17 in conjunction with the TOC. We talk with the TOC to get  
18 their, you know, concurrence with the rates. And we believe  
19 generally that the rates should be higher, not lower.

20 COMMISSIONER HARRIS: Well if you both agree what  
21 do you -- It seems like if you would agree -- usually a rate  
22 gets set because one person thinks it's too high and one  
23 person think it's too low. But if you both think it's too  
24 low why wouldn't it be a higher rate?

25 MR. DARUTY: I haven't, I mean I haven't heard any

1 objections from the TOC as to the rate that we're receiving  
2 for the Santa Anita and Golden Gate signal. You know, we  
3 may --

4 COMMISSIONER HARRIS: I thought it was TOC's  
5 fault.

6 MR. DARUTY: -- we may hear that soon. But yeah,  
7 you know, I'm pretty comfortable with my racetrack hat on  
8 that Santa Anita and Golden Gate Fields are getting a good  
9 market rate for their signal.

10 COMMISSIONER AMERMAN: You're also in agreement  
11 that the horsemen share of that should be higher than what  
12 it is at the present time?

13 MR. DARUTY: Well the horsemen --

14 COMMISSIONER AMERMAN: And that's negotiated with  
15 the TOC?

16 MR. DARUTY: The horsemen's share is essentially  
17 50 percent of whatever the overall host fee is.

18 COMMISSIONER AMERMAN: Right. So the host fee, if  
19 the horsemen are to get more, who put on the show, the host  
20 fee has to go up.

21 MR. DARUTY: Yes. Now there's a -- You know,  
22 there's a tension here because at some point, let's say that  
23 Santa Anita said, okay, we're going to sell our signal for  
24 12 cents or 12 percent to account wagering companies. Well  
25 guess what, the account wagering companies, by the time they

1 pay Santa Anita 12 percent, by the time they compensate the  
2 source market, there is not any money left in it for them.  
3 So what are they going to do? They're going to tell their  
4 customers, don't bet on Santa Anita, you know, bet on some  
5 other signal.

6 And so there is, I mean, there is economics here.  
7 We have got to leave a piece of the pie for the account  
8 wagering companies that are big enough to justify their  
9 business. And the tension is finding that tipping point.

10 COMMISSIONER HARRIS: The thing is we're looking  
11 at California, though, where we feel we've got the premier  
12 racing. It seems like we should be, you know, a little past  
13 the tipping point, in my estimation.

14 MR. DARUTY: Well, I mean, the flip side is look  
15 at California's law. California's law does not allow  
16 California account wagering companies when they accept a  
17 wager in California to pay a host fee of higher than three  
18 and a half percent. So when a person in California places a  
19 wager on a New York racetrack or a Kentucky racetrack or a  
20 Florida racetrack the most that track on the other side of  
21 the country gets is three and a half percent.

22 So while, you know, we think that the host fees,  
23 you know, should be higher, at the same time we're telling  
24 others outside the state of California we're not going to  
25 pay for their content what we think our content is worth.

1 So again there's two sides to --

2 CHAIRMAN SHAPIRO: Do other states, do other  
3 states have those legislative limitations?

4 MR. DARUTY: Off the top of my head I am not aware  
5 of any other states that limit the host fees. I hear  
6 someone whispering from the back, New York, and that could  
7 be right.

8 COMMISSIONER MOSS: Have you ever talked to a  
9 national organization about up-fees or rates or anything  
10 like that. Has NTRA ever stepped in and done any  
11 negotiating or how do you get to dealing with this  
12 situation?

13 MR. DARUTY: Well, I think it's -- I don't know  
14 how to answer that question exactly because there has been,  
15 obviously, a number of ongoing discussions against a number  
16 of parties. I can't point to any, you know, specific sit-  
17 down where people said, hey, let's go try to tackle this  
18 problem.

19 COMMISSIONER MOSS: Because I think we're being  
20 pieced away, you know. I mean, you've got, you can play  
21 Santa Anita against -- You know, all this kind of thing. It  
22 takes away any bargaining power we have unless we all get  
23 sort of racetracks united, so to speak.

24 COMMISSIONER HARRIS: There possibly could be some  
25 antitrust issues. But the leagues, I mean, the professional

1 football leagues and baseball and all these guys do it so --

2 COMMISSIONER MOSS: I'm looking at those models  
3 and wondering what they -- they set television and things  
4 like that and they seem to get away with it. So I'm not,  
5 you know. I'm just inquiring as to whether this is a  
6 possibility or off in the woods somewhere.

7 MR. DARUTY: Well it would be hard. It would be,  
8 I think, hard to set just a national host fee rate because  
9 that doesn't take into account the specifics. You know, the  
10 Santa Anita signal might be better than some signal from  
11 some, you know, small racetrack somewhere. So there needs  
12 to be variability.

13 And then once you get into that variability you  
14 kind of ask yourself, isn't the best way to address that  
15 just to let the free market dictate and people will pay for  
16 a signal what they think it is worth. And if we raise Santa  
17 Anita from the seven to eight percent range to the eight to  
18 nine percent range and people still buy it, you know, that's  
19 great, we just made more money for California. But if we  
20 raise it and people say that's too much, we're not paying  
21 that, then, you know, we actually lose revenues because we  
22 don't have as great a sales. So right now this is all being  
23 driven by the free market.

24 CHAIRMAN SHAPIRO: Okay. It's very perplexing and  
25 I know it's very complex but, you know, I love the

1 convenience of ADW and I love the product that we sit at  
2 home when we can't get to the racetrack and we can use it.  
3 But I question, when you step back and look at it, whether  
4 the overall benefit has been there for our tracks.

5 COMMISSIONER HARRIS: Just a question too on the  
6 free market. I'm not, maybe I wasn't following Scott  
7 completely. But we're not talking about charging the patron  
8 any more. The bettor isn't going to pay any more.

9 CHAIRMAN SHAPIRO: No.

10 COMMISSIONER HARRIS: So it's just the split. So  
11 I don't know if you change the split if you're going to lose  
12 business. Maybe you'll lose profit sectors within the  
13 split.

14 CHAIRMAN SHAPIRO: Well I think the question is,  
15 if the companies aren't making enough money on it they don't  
16 push the product. They won't put as many live races on  
17 their TVs or they won't show the races, thus it's going to  
18 hurt the racetracks and then consequently it's going to hurt  
19 the horsemen. Because they're not going to track -- The ADW  
20 companies are going to drive those fans to wager on the  
21 product they make the most money on. Isn't that correct?

22 MR. DARUTY: That is absolutely correct.

23 CHAIRMAN SHAPIRO: And so it is not a matter of  
24 what the fan is paying, it doesn't affect the fan. But it's  
25 going to, it has this trickle down effect of they're not

1 going to promote California racing if California racing is  
2 too expensive and Yakima Downs or some place is, you know, a  
3 lot cheaper. They're going to push that.

4 COMMISSIONER HARRIS: Well I would doubt that they  
5 would say there would be no Mercedes dealers. Everyone  
6 would be selling Yugos or something.

7 CHAIRMAN SHAPIRO: Well, I would have looked at it  
8 that they probably, you know. It's kind of like if Harris  
9 Farms beef is going to stay so high, you know, they're going  
10 to go down to Joe's beef.

11 COMMISSIONER HARRIS: Well, but if we give it away  
12 we're going to be out of business. Which is kind of what's  
13 happening with ADW.

14 CHAIRMAN SHAPIRO: There you go.

15 COMMISSIONER AMERMAN: Have these breakdowns of  
16 fees been in place since 2002? Have they changed at all in  
17 the past four years?

18 MR. DARUTY: Yes, they have. We, in honesty, on  
19 behalf of our racetracks have been pursuing a concerted plan  
20 of trying to get the host fees bumped up. And over those  
21 period of years the host fees that we're receiving are  
22 higher than they were back at the start.

23 COMMISSIONER AMERMAN: Who did you negotiate that  
24 with?

25 MR. DARUTY: With the account wagering companies,

1 so that would be XpressBet, Youbet, anybody else who is  
2 taking our signals.

3 CHAIRMAN SHAPIRO: And do you do that, do you do  
4 that you and them or are the horsemen involved in that  
5 discussion?

6 MR. DARUTY: We always have the horsemen's  
7 ultimate approval. I mean, if we strike a deal that the  
8 horsemen aren't happy with then we don't have a deal.

9 CHAIRMAN SHAPIRO: Okay.

10 COMMISSIONER AMERMAN: And you are in agreement  
11 that most likely in a free world that more distribution is  
12 better than the way we're going at the present time?

13 MR. DARUTY: That is absolutely.

14 CHAIRMAN SHAPIRO: Okay.

15 MR. DARUTY: If I might make just one, one other  
16 quick comment because I know there was some discussion about  
17 some things that were not included in our application. The  
18 signed contracts between XpressBet and the racing  
19 associations, and I am speaking specifically on behalf of  
20 Santa Anita and Golden Gate Fields, that's correct, those  
21 were not in the application.

22 But I can assure you that our racetrack and  
23 XpressBet are going to reach an agreement and there will be  
24 a signed agreement. And as I mentioned, we have an  
25 understanding with the TOC and I think it's just a matter of

1 putting the paper together on that. So if this Board were  
2 so inclined to do so we would certainly welcome those as  
3 conditions to approval of our application and we would be  
4 submitting those documents shortly.

5 CHAIRMAN SHAPIRO: Well I agree with Commissioner  
6 Harris and I don't believe that we should move this forward  
7 until we have those things in place that make the  
8 application complete because all too often we find that  
9 there's a problem.

10 COMMISSIONER HARRIS: It just seems too that -- I  
11 could see some rationale based on volume. That if you  
12 could, you know. We really weren't that concerned on the  
13 rates because we thought we were going to grow the volume  
14 and the volume would take care of everything. But it's  
15 been, you know, somewhat a success. But in your  
16 distribution can you see that your volume is growing both as  
17 a factor of how much is wagered and as how many homes are  
18 in?

19 MR. DARUTY: Well I'm not sure I follow all the  
20 question exactly but yes, our volume of wagering is  
21 increasing. You know, the classic, I guess, question is,  
22 you'll certainly hear from, you know, TVG that they believe  
23 their host fees are appropriate and their host fees are  
24 considerably lower than the host fees that XpressBet pays.  
25 And so there's the tension.

1           They'll say, well we have, you know, X million  
2 dollars of handle. And that number may seem really big  
3 because it's a lot of handle. But if the host fee is lower  
4 you've got to ask yourself, are we making up in volume what  
5 we're giving up in pricing? And it's pretty interesting  
6 when you actually look at the revenues generated as opposed  
7 to looking at the total amount of handle. Because obviously  
8 you can have higher revenues on a lower amount of handle if  
9 you price your product right.

10           CHAIRMAN SHAPIRO: Okay. Are there any other  
11 questions for XpressBet? If there are none then what I  
12 would like to do is I would like to defer this until the  
13 application is deemed complete and we'll re-agenda, put this  
14 back on our agenda for next month.

15           MR. DARUTY: Thank you.

16           CHAIRMAN SHAPIRO: Thank you. The next one I  
17 believe is Youbet. Good afternoon.

18           MR. CHAMPION: Good afternoon, Mr. Chairman, how  
19 are you today?

20           CHAIRMAN SHAPIRO: Very well. You want to state  
21 your name. Where is Jackie? There she is.

22           STAFF SERVICES MANAGER I WAGNER: Real short.

23           CHAIRMAN SHAPIRO: It's really hard to --

24           STAFF SERVICES MANAGER I WAGNER: Jackie Wagner,  
25 CHRB staff. Youbet has filed two applications. One to

1 provide ADW services as a California multi-jurisdictional  
2 wagering hub and an application as an out-of-state multi-  
3 jurisdictional wagering hub. It should be noted that they  
4 are currently licensed to provide these services now.

5           Their applications are from January 1, 2007  
6 through December 31, 2008. They are proposing to operate  
7 seven days a week with the hours of approximately 8:30 a.m.  
8 to 11 o'clock p.m. Pacific Time. It should be noted that  
9 they have applied for a two-year license. However, as was  
10 mentioned before, the statutory authority for ADW is set to  
11 sunset December 31, 2007 and therefore it would be  
12 appropriate for the Board to consider this application for a  
13 one year term.

14           There are several items that are outstanding in  
15 this application including the horsemen's agreement for the  
16 2007 race season, the agreement from the California Harness  
17 Horsemen's Association, as well as there is one director  
18 that has not yet been licensed. He is in the process of  
19 being licensed, we just need to complete that process.

20           This morning I did receive an amendment to  
21 Youbet's application for their operation plan as it pertains  
22 to their hub in Oregon. They are proposing to add United  
23 Tote as a tote company and I do have that here in my  
24 possession.

25           Staff would recommend that the Board approve the

1 application for a one year approval for Youbet conditioned  
2 upon receiving the information needed to complete the  
3 application.

4 CHAIRMAN SHAPIRO: Thank you, Jackie. If I could  
5 just ask the people who are talking on the side if they'll  
6 either go out of the room or talk quieter I'd appreciate it.

7 Good morning. I'm assuming you are here for the  
8 questions that were asked of XpressBet. I would like to ask  
9 the same questions and similar questions to you as well.  
10 First of all, as you just heard from staff and based on my  
11 review of historical approvals given, this Board has always  
12 asked that you have an agreement with horsemen with respect  
13 to the providing of ADW wagering. Do you have a horsemen's  
14 agreement or are you in the process of getting one? And do  
15 you have any objection to there being an agreement with the  
16 horsemen?

17 MR. CHAMPION: Well again good afternoon,  
18 Mr. Chairman and other commissioners, it's a delight for me  
19 to be here. I am Charles Champion. I am the chief  
20 executive officer and chairman for Youbet.com. Joining me  
21 at the table today to my right is Mr. Scott Solomon, our  
22 general counsel, and working with me in business  
23 development. Behind me is Mr. Lonnie Power, vice president  
24 of public affairs, and to my left, Mr. Michael Robertson,  
25 who also works in the legal department and today is serving

1 as our chief technologist. And I have my fingers crossed.

2 The other thing is that I know there's a lot of  
3 hungry stomach in the room today so there's about 100  
4 hamburgers and fries on the way in an effort to keep  
5 everybody settled and in the room. So those should be  
6 arriving in minutes. Yeah, you thank me later. It's in the  
7 spirit of Youbet.com.

8 CHAIRMAN SHAPIRO: I heard a motion from the floor  
9 to approve your application. (Laughter)

10 MR. CHAMPION: Yes.

11 CHAIRMAN SHAPIRO: There is probably a second out  
12 there.

13 MR. CHAMPION: As long as the DAG doesn't find  
14 that as a conflict of interest I'd ask that you do that.

15 CHAIRMAN SHAPIRO: Thank you.

16 MR. CHAMPION: Excuse me one second.

17 CHAIRMAN SHAPIRO: Okay.

18 MR. CHAMPION: Mr. Chairman, we are prepared to  
19 answer the questions that you have asked us today. We'd  
20 also like an opportunity to share with you some information  
21 that we think would be helpful for the Board to understand  
22 some of the issues that you have raised today and have been  
23 raised over the last several years in meetings much like  
24 this. And I think, not wanting to hijack your agenda, I  
25 think it might make sense if we give you the presentation

1 first.

2 CHAIRMAN SHAPIRO: Fine.

3 MR. CHAMPION: Because I think a number of the  
4 questions will be answered as we go through it.

5 CHAIRMAN SHAPIRO: Great.

6 MR. CHAMPION: That's a very good sign, by the way  
7 for the non-technologists in the room. So again, thank you  
8 very much for the opportunity to be here. It was  
9 approximately four and a half years ago that I was  
10 introduced to my role as the president and chief operating  
11 officer at a meeting much like you, sir and I didn't know  
12 what I was getting into at that time either.

13 And in fact from that panel I was wished a  
14 tremendous amount of luck. Because at the time, just to  
15 refresh everyone's memory, Youbet.com was hardly in a very  
16 good position. There was approximately \$750,000 in the bank  
17 and we were burning over half a million dollars on a monthly  
18 basis. We were generating somewhere around \$95 million and  
19 we had just been licensed in California.

20 We had an ongoing opinion, much like our friends  
21 right now at Magna, and we also had issues about being de-  
22 listed on the NASDAQ. We had a judgement for \$1.3 million  
23 in front of us. We had \$3 million worth of liabilities and  
24 only a \$1.5 million worth of assets.

25 CHAIRMAN SHAPIRO: And you joined them?

1 MR. CHAMPION: That's correct.

2 CHAIRMAN SHAPIRO: Okay.

3 MR. CHAMPION: Which is, which is probably a  
4 probable drug test case under any conditions. But I did.  
5 And the thing that most of you also know is I had absolutely  
6 zero horse racing experience when I joined Youbet.com. I  
7 had been to four horse races in my life; one of them  
8 happened to be the Kentucky Derby. And much like people who  
9 don't understand horse racing I bet on colors and names and  
10 yeah, let's see if we can't win the 30 to 1 odd.

11 But I have come to love this industry and I have  
12 come to love the people in this industry and I mean that  
13 sincerely. I think there are a lot of great things that go  
14 on in this industry and unfortunately it's days like this  
15 that cause us all kind of a shudder and a chagrin.

16 What I hope to be able to show you today is how we  
17 have approached the business over the last four and a half  
18 years. How we think about the business. What we know about  
19 ADW and what we're still learning about ADW. What we  
20 believe about cannibalization, How we think about host fees  
21 and source market fees. Why we've done some of the things  
22 that we have done. I'll talk to you about where we  
23 succeeded in california and frankly where we failed  
24 miserably. I think that what you'll see when we're done is  
25 that you'll get an honest presentation as you will from the

1 others on the efforts that we've put forth to try to make  
2 this a success and to help this industry.

3           Historically I'd like to give you a little bit of  
4 background just to, actually the discussion framework. I'm  
5 going to give you a historical context, very short. We're  
6 going to talk a little bit about handle growth. We're then  
7 going to talk about customer growth and demographic  
8 migration, program alternatives, some technology synergies  
9 that we're working on.

10           We're going to talk about the agreement between  
11 Youbet and TVG so there isn't any confusion in anyone's  
12 mind. We're also going to be talking about fee  
13 contributions because that will probably be discussed later.  
14 We are also going to talk about the importance of compliance  
15 and transparency and then also what people such as  
16 yourselves should expect from people like us. And with  
17 that, again, I'll bring this slide up.

18           As I mentioned we were doing about \$94 million  
19 worth of handle in 2001. Today Youbet.com and IRG is doing  
20 \$753 million in handle. A growth rate of over 50 percent  
21 during that period of time, compounded, with revenues going  
22 from about \$8.3 million to \$142 million. And with net  
23 income from operations of a loss of \$15 million to year to  
24 date profits of about 3.5. And only because we're a public  
25 company and I can't give you any forward looking statements.

1 I can't tell you where we'll end up by the end of the year  
2 or you'll have to visit me at Lompoc on Thursdays.

3           The point I want to make with this slide is that I  
4 was armed, as others in this room were armed, with the same  
5 tools. I had access to content, I had marketing dollars  
6 available to me, I had data available to me, and I  
7 approached the business in a certain way. And that is what  
8 the results have been.

9           I don't see that I had any particular advantages  
10 and I can tell you I am no smarter than many of the people  
11 in this room. But it was because of the way we approached  
12 the business that we were able to turn that business around.  
13 And I want to very clearly state that this industry can be  
14 turned around by adopting some of the same types of programs  
15 and the same approach.

16           So with that, that's what our handle growth looked  
17 like overall for Youbet.com. Would you superimpose  
18 California on that. Show the next slide. That's what the  
19 growth of California at Youbet.com looked like. This goes  
20 back to Mr. Daruty's point. It's a free market. We ended  
21 up with California customers and we ended up with California  
22 content and we ended up with very little to no yield. We  
23 couldn't make a lot of money in California and therefore we  
24 did not promote California customers. We didn't and the  
25 growth rates reflect that.

1           If you look at the company we just bought, which  
2 is the next slide, IRG, you'll see that it's even more  
3 dramatic because IRG is not licensed in California and  
4 Californians cannot take advantage of the opportunity that  
5 IRG has. So once again California, in my opinion, is  
6 disadvantaged.

7           Now the next slide. However, our customer bases  
8 have grown to 185,000 customers. Of that 26,000 of them  
9 have come from our Youbet.net or Youbet.net active  
10 customers. This industry talked for years about the  
11 complexity of the business, the complexity of wagering on  
12 horse racing. That it wasn't like going to Vegas and  
13 placing a bet red/black or counting to 21. And that's  
14 absolutely true.

15           And a lot of people talked about it but we  
16 recognized it so we went out and we built a dot-net site.  
17 Others have now followed that. I believe TVG now has a dot-  
18 net site as well, an educational site to help people  
19 understand the business. But as a result of that we've seen  
20 a 24 percent increase in total customers.

21           But more importantly, 27 percent of them now are  
22 under the age of 50 years old. Our fastest growing groups  
23 are 21 to 30 year olds and 31 to 40 year olds. We're  
24 attracting younger audiences to the business. And why  
25 shouldn't you expect that, it's technology.

1           Sixty-three percent of our customers are now under  
2 50 with 53 percent of the handle coming from people under  
3 50. Youbet.com is getting younger and younger every day and  
4 we expect that trend to continue. We have a break point at  
5 21. We don't take 18 year olds, they have to be 21 to bet  
6 at Youbet. So that gives you an idea of what we can do  
7 against youth audiences with technology. The next slide,  
8 Michael.

9           The other thing we've done is we've worked with  
10 key tracks across the country. One that we're particularly  
11 proud of happens to be Harrah's. It is a non-exclusive  
12 agreement. It does not require them to limit their  
13 distribution to anyone. We think that limiting  
14 distribution, and I'm not talking about TVG, I'm talking  
15 about the track's decision to limit its distribution in an  
16 aging and declining market is insane. They need to expand  
17 their distribution. They need to get it in front of more  
18 people.

19           This can't be blamed on an ADW company because  
20 others have to sign those agreements. When we entered into  
21 the agreements with Louisiana Downs we pay a higher host fee  
22 because we believe that you want to reward the individuals  
23 who are in fact putting on the race. We agree with that.  
24 We think purses need to be higher and we're going o do  
25 everything we can to help that occur.

1           As a result of our relationship with Harrah's we  
2 increased our total handle by 56 percent, on a daily average  
3 by 53, by race 62. And the reason those numbers are  
4 different is because their meet this year versus last year  
5 had fewer days. We used our Youbet advantage program and on  
6 those days that we offered double points they ended up with  
7 a 67 percent increase year over year.

8           What's also important to know is that they  
9 recognized by themselves and with our help where they could  
10 compete domestically and internationally to grow their  
11 business. They didn't try to go up against Del Mar and they  
12 didn't try to go up against Saratoga and they didn't try to  
13 go up against other racetracks that they had little or no  
14 opportunity to grow their business. They went up and they  
15 tried to grow their business on days where those major  
16 racing events weren't occurring. And as a result they have  
17 announced that they have had a record number in meet.

18           The deal basically just has us as a provider to  
19 them and they promote Youbet.com to their customers on  
20 track. They embed us in their simulcast signal, they give  
21 us, you know, some opportunities to market with their list,  
22 and we, in fact, sponsor one of their races, the Super  
23 Derby, which has been very successful. Next slide, Mike.

24           The other thing is, and much to the chagrin of  
25 unfortunately the public markets, our purchase of United

1 Tote has been misunderstood and not appreciated quite yet.  
2 Yeah, United Tote happens to be one of the most innovative  
3 and advanced totalizer systems available. And yes, we have  
4 got proprietary game development going on and we think that  
5 is going to be very positive to not only our customers and  
6 to our shareholders but also to tracks.

7           It's really the integrated solution that I am  
8 going to talk about in a minute and now it really comes to  
9 work with an ADW platform. We also believe that our  
10 international presence in a number of countries is going to  
11 give us the ability to help get our content distributed  
12 globally. We have more than 13,000 wagering terminals now  
13 deployed worldwide.

14           And it is important to understand that when the  
15 integrated solution is deployed in the beginning of the  
16 first quarter of 2007 we are literally going to be able to  
17 open up and do what one member of the Board has suggested  
18 is, in fact several of you, is why can't we open up virtual  
19 OTBs every place that we would want to so people can  
20 basically interact with the sport on a daily basis.

21           We also have proven at United Tote that we can  
22 handle large scale deployments and large events and handle a  
23 tremendous amount of volume by handling the Kentucky Derby  
24 for the last number of years, five Breeder Cups and  
25 obviously now handling the Belmont Stakes and other events.

1           And just to talk a minute about the integration of  
2 technology, because that's really what we're talking about  
3 here. We're talking about technology growing our business.  
4 So the next slide talks a little bit about how we do that.  
5 A customer comes to the track or goes to the OTB and right  
6 now it's an anonymous transaction. No one knows who that  
7 individual is, how often they come, other than maybe the  
8 guy, the pari-mutuel clerk who sits on the \$50 window.

9           That data can now be collected either by using  
10 fastback cards or by setting up one single account and tying  
11 it to your ADW account and allow us to track that behavior  
12 across the entire spectrum of the wagering opportunity. You  
13 take the two databases, you consolidate them together so you  
14 have a total picture of that customer's wagering behavior.  
15 How much he is contributing, how often he comes, whether  
16 he's spending time at the track, where he lives, all the  
17 rest of the things. So you can begin to modify his behavior  
18 and get him more involved in our sport. That's data mining.

19           Once you identify these targets and customers it's  
20 about messaging. And then you, then you repeat the cycle.  
21 Again, that will be deployed in the first quarter of 2007  
22 from us. Next slide, Mike.

23           So let's talk about this thing that a lot of  
24 people have talked around, including myself the last couple  
25 of years is, what is Yobet's relationship with TVG? Well

1 first of all it is admittedly a very complex relationship,  
2 as all of you know. And it has not always been the  
3 smoothest relationship. In fact it has been quite  
4 contentious at time.

5 First of all, one is that TVG provides us through  
6 their license agreements a significant amount of our  
7 content, approximately a third of it. We also provide them  
8 and have provided them somewhere in the neighborhood of 72  
9 to 100 million dollars if you want to count the amount of  
10 money that they were able to cash out on the stock they got  
11 when the original agreement was crafted.

12 So they are a large provider of content to us and  
13 we are also a very large customer of their's. In fact, I  
14 think Mr. Nathanson might acknowledge today that we might  
15 very well be their largest source of revenue behind his own  
16 to TVG. The next slide, Mike.

17 How much of it comes from California residents or  
18 California and non-residents. Just so it's clear and for  
19 the record, not that this slide is in any way, shape or form  
20 going to help me or this discussion today, the largest  
21 amount of it comes from actually outside of California, not  
22 inside California. And you can see how it has been  
23 increasing in years 2003, 2004 and now it's beginning to  
24 flatten out in 2006. And that again is back to Mr. Daruty's  
25 comment about price sensitivity and the balancing of, in

1 fact, content.

2 CHAIRMAN SHAPIRO: Can I just, can I just ask one  
3 question?

4 MR. CHAMPION: Please.

5 CHAIRMAN SHAPIRO: Is that because you are not  
6 pushing California product?

7 MR. CHAMPION: That's correct. I am not pushing  
8 California content other than on select days and select  
9 basises (sic).

10 COMMISSIONER HARRIS: On the non-California  
11 residents would that include a bet they may have made on  
12 California or is that just total?

13 MR. CHAMPION: We don't, we do not spend the time  
14 and or the money that rightfully we should because of the  
15 economics in California. We don't go out and attempt to  
16 increase our position in California by promoting a  
17 tremendous amount and getting new customers. We don't, we  
18 don't spend a tremendous amount of time promoting California  
19 content on our site other than when we create agreements  
20 with individual track operators.

21 We've done some things, for example, with Los  
22 Alamitos a long time ago, admittedly when Mr. True was  
23 there. We did a program with him where we tried to drive  
24 people who were within 25 miles of the track to the track.  
25 Mr. True, who was the general manager of Los Alamitos at the

1 time, gave the patrons of Youbet the opportunity to get free  
2 parking I think he gave them a beer and a dog. He gave  
3 them free admission and a program and we drove, you know,  
4 some number of people to the track.

5 CHAIRMAN SHAPIRO: But why are you, why are you,  
6 why are you not pushing California?

7 MR. CHAMPION: It's purely an economic reason.

8 COMMISSIONER HARRIS: But is it a different model?  
9 I can see the whole TVG deal being a problem but it seems  
10 like it is growing. Total TVG payments outside of  
11 California are growing. So are you paying like a different  
12 rate outside of California to TVG?

13 MR. CHAMPION: When you consider the market access  
14 fee, which is I believe six and a half percent max, and then  
15 reduce down from that because of our negotiations with the  
16 TOC to somewhere around I believe six. You then add on top  
17 of it our licensing fees to TVG, our payments to the tote.  
18 We in essence in total overall business in California make  
19 somewhere around one percent or less.

20 In certain cases wagers would actually go  
21 negative. And in fact, without getting into a lot of the  
22 detail, which in fact I'm barred to get into because of the  
23 fact there's an order in place because we're in arbitration  
24 today. The dispute which is public between TVG and Youbet  
25 is over the fact that we believe that we had an agreement

1 not to go negative. They believe that we do not have an  
2 agreement not to go negative. And we basically, if we lose  
3 that arbitration in essence what that's saying is that  
4 Youbet would be in a position to take bets in this state and  
5 lose money.

6 Now all of you as I look around have run very  
7 successful businesses and have made a tremendous amount of  
8 money through that, through that wit and that ability. You  
9 and I both know that you would not sell products at a loss  
10 for any period of time, it makes no sense. You're going to  
11 find other ways to make money with the content and products  
12 that you have. And that's what we've done. I'm not, I'm  
13 not proud of it but I also have to tell you I'm not  
14 embarrassed by it either.

15 COMMISSIONER HARRIS: I can see the California  
16 problem but I don't understand of those non-California  
17 residents those payments to TVG, wouldn't that be somewhat  
18 of a similar economic model to the problem we've got in  
19 California?

20 MR. CHAMPION: The reason -- In certain cases  
21 you're absolutely right. We get close to a very low, low  
22 margin in those other areas but the market access fee here  
23 is a significant factor, a significant factor. So why don't  
24 we move to that, if we could, to the next slide.

25 Let's talk about exactly where these contributions

1 are coming from in terms of total handle and actual dollars.  
2 This comes from CHRIMS, public data. The information is  
3 available to you, you can check it. Hopefully the guys that  
4 worked until 1:30 last night didn't make a mistake. I don't  
5 believe they did.

6           Youbet.com in terms of top out-of-state providers,  
7 meaning a customer wagering from out-of-state on a  
8 California track, we're number five, producing \$49 million  
9 or a 3.6 percent share. The people that are above us are  
10 Nevada, New York, RGS and IRG. If you look you'll see  
11 XpressBet at 22 and TVG at 14. Next slide.

12           If you combined our IRG, which we bought a year  
13 and a half ago, and Youbet, only behind Nevada in terms of  
14 handle produced at 103 million, 104 million, and Nevada 128  
15 million. So we're the number two provider to California  
16 from outside. And that's without having the benefit of  
17 IRG's activity in the state. The next slide, Michael.

18           But how much in terms of total host fees do we  
19 pay? Well from out-of-state sources we pay \$6.3 million.  
20 Nevada, which pays -- which has actually a greater handle  
21 number than we do in fact pays less, \$4.8 million at number  
22 two. So in terms of out-of-state host fees to racetracks  
23 IRG and Youbet is number one, Nevada is number two. And if  
24 you look you won't even see our competitors in the top ten  
25 in terms of productivity outside of the state onto tracks in

1 California. Which if I understand correctly is one of the  
2 principal issues that this Board is trying to address. How  
3 do I get handle on California tracks? How do I improve  
4 purses?

5           There's also one other factor. We have a -- Part  
6 of the arbitration with TVG is also the fact that there's an  
7 eight and a half percent cap involved, which has to do with  
8 the host fees that we are charged for out-of-state handle in  
9 California. And the way that we have been calculating them  
10 and the way that TVG believes we should be calculating them  
11 are very different. If TVG, again, prevails in this  
12 arbitration then those numbers will be radically affected  
13 because we'll have the same problem with out-of-state handle  
14 coming into the state that we now have with in-state handle  
15 on TVG tracks.

16           So, you know, how we looked at some of this stuff  
17 and what have we done, why have we done it. And I think the  
18 next slide will help me -- well again, I'm sorry, there is  
19 one more slide. It's when you look at both California,  
20 California residents and California tracks, so the market  
21 access fees along with the host fees. Youbet.com -- you  
22 went back, you need to go forward.

23           MR. ROBERTSON: Okay.

24           MR. CHAMPION: No, one back. It's \$19 million.

25 And yes, TVG has produced a tremendous amount of fees in the

1 state, \$27 million, 19 million at Youbet and IRG. And if  
2 you add that 19 million to our 6 million you'll see that  
3 we're fairly comparable. And I believe up underneath this  
4 slide if you add TVG they're probably at 28 million maybe,  
5 maybe as high as 29.

6 The way we approached the business was first of  
7 all we recognized and believed that the technology could  
8 introduce a lot of young and new people to the sport of  
9 horse racing. We also recognized we needed to stay out of  
10 the source markets of the racetracks where they were pulling  
11 their customers.

12 As one example, and you again have this data  
13 available to you so you can check it, CHRIMS can tell you  
14 exactly where my handle is coming from in the state so you  
15 can see exactly what the wagering activities are within a 25  
16 or 50 mile radius of a track. But just to give you one  
17 example where we worked particularly hard to stay out of the  
18 source market area, at Keeneland's meet I believe we put  
19 \$8.4 million through their, through their system.

20 Out of their 24 mile market area, \$12,138 was  
21 wagered not just on Keeneland but on every other track.  
22 Ninety-five percent of our business comes from outside the  
23 25 mile market area of a track. And the reason is we  
24 believe that cannibalization is a concern and we needed to  
25 stay away from it.

1           We also believe that transparency is also critical  
2 and we created something at Youbet that no other, no other  
3 ADW company has yet to date. No other SPMO, secondary pari-  
4 mutuel organization has created, and that's a wagering  
5 compliance committee. You've heard about it before, I won't  
6 spend a lot of time talking about it. But I have people  
7 that were in law enforcement, that worked in Las Vegas in  
8 gaming control, watching what I do and making sure that I do  
9 it correctly. And being a public company we're totally  
10 transparent so any of the things that you have seen up there  
11 in terms of financials are also available. And we think  
12 that's critically important.

13           The other thing that we've done and we're  
14 particularly proud of is that we believe that as a Board you  
15 need to have people on this side of the table that recognize  
16 the problems that go on in this industry. Not just the  
17 things that we've been talking about today. The horsemen,  
18 you know, and the purses. There are many other issues that  
19 are facing our industry and help needs to be given. And  
20 over the last two years on an average of those two years we  
21 have spent nearly a half million dollars supporting a host  
22 of programs which supported the RCI in trying to get  
23 additional wagering integrity because we believe the system  
24 is at risk.

25           We have given multiple thousands of dollars to the

1 racetrack chaplaincy because we think they do great work,  
2 particularly on the back side. We have given over \$200,000  
3 to the University of Arizona racetrack program because we  
4 think the industry needs more data. We've been involved  
5 with the turf riders in order to try to get scholarships so  
6 kids coming out of journalism school want to write about our  
7 sport. We basically sponsored AGTOA and TOBA and a number  
8 of others. I mean, my lord, we have even given money to the  
9 Baltimore Mounted Police. We think its important.

10           So I guess the thing I would say before I answer  
11 the questions is if not us and companies like us who then?  
12 Who do you want sitting on the other side of this table?  
13 Doing what? Thank you very much for listening and I  
14 appreciate it and now I'll be more than happy to answer your  
15 questions.

16           COMMISSIONER AMERMAN: Mr. Champion.

17           MR. CHAMPION: Yes.

18           COMMISSIONER AMERMAN: It was a very nice  
19 presentation, an excellent presentation. What was your  
20 background before you went to Youbet?

21           MR. CHAMPION: You promise you won't hold it  
22 against me? I spent --

23           COMMISSIONER AMERMAN: I'm just interested.

24           MR. CHAMPION: I spent, I spent 30 years in the  
25 newspaper business but I assure you, not as a journalist. I

1 wasn't allowed near the text and I wasn't allowed near the  
2 pictures at all. I ran newspaper companies.

3 COMMISSIONER AMERMAN: Who is the technology brain  
4 behind Youbet?

5 MR. CHAMPION: It's certainly not me.

6 COMMISSIONER AMERMAN: Okay.

7 MR. CHAMPION: We have, we have a staff of about  
8 30 people and it's distributed across a number -- we  
9 continually upgrade that staff. But we have, we have a  
10 couple of great architects and engineers. We have also now  
11 augmented our efforts by hiring a company that is located in  
12 China so we can develop faster and new products.

13 COMMISSIONER AMERMAN: Thank you very much.

14 MR. CHAMPION: You're welcome, sir.

15 CHAIRMAN SHAPIRO: So Mr. Champion, again,  
16 excellent presentation. I gather from that that you have no  
17 problem with horsemen's agreements and you also believe that  
18 exclusive agreements are something that are -- you have no  
19 problem with non-exclusive agreements?

20 MR. CHAMPION: No, I -- you know, as I said before  
21 or I've said earlier in this, we think that from a track  
22 perspective -- and again only as track, this is not a  
23 criticism of one of my competitors. This is absolutely  
24 directed back to the tracks. We think that's a mistake.

25 CHAIRMAN SHAPIRO: My questions, my questions are,

1 again, they're not geared to any company.

2 MR. CHAMPION: I understand that.

3 CHAIRMAN SHAPIRO: Okay.

4 MR. CHAMPION: But I want to make sure my  
5 responses are not directed toward any company either.

6 CHAIRMAN SHAPIRO: No, in the context I  
7 understand, okay. Frankly, in the packet that we had there  
8 was the agreement between Youbet and TVG and I think my eyes  
9 glazed over, you know, about 12 pages into it and I looked  
10 at it and I said, wow. I don't know given what you've  
11 shared with us today and my looking at that agreement to  
12 some extent, the part that troubles me the most is --

13 And I have been to your offices and I've seen your  
14 technology and I've been to TVG's and I've seen their's.  
15 Everybody seems like they do a great job in their area.  
16 What troubles me is, what can we do to benefit California  
17 racing when clearly you demonstrated that you understand the  
18 demographics and the way to grow this business. You seem to  
19 have, you know, your thumb on the pulse of what racing needs  
20 to do to be reinvigorated.

21 But how can, how can the system be restructured  
22 within the confines that you have to operate so that  
23 California can be more lucrative to you? I mean, if you're  
24 handcuffed by an agreement (tone sounded) -- I don't know  
25 what that was. If you're handcuffed by an agreement that

1 doesn't make it profitable for you to push California racing  
2 that's no good for California racing. So what suggestions  
3 do you have since I know I'm not smart enough to understand  
4 all the technological wizardry. What can we do? What  
5 should we do?

6 MR. CHAMPION: To the extent that you can create a  
7 level playing field that's based on free market, that's my  
8 encouragement to you. We have never come and we will never  
9 come, at least as long as I'm there, to try to attempt to  
10 create regulatory obstacles to competition. We think that,  
11 you know, there needs to be a competitive landscape. It  
12 helps companies develop better products and deliver better  
13 services.

14 The problems that I have with my economics are  
15 between two companies. They need to be worked out. I'm  
16 hopeful that one day a partner will look at this  
17 relationship and say, there's more in it for us to work  
18 together than to constantly fight amongst each other. It  
19 doesn't make any sense. We're losing money in this  
20 relationship. But I am not entirely sure. Others here  
21 probably have better ideas on what you can do as a Board as  
22 to how you can correct that problem.

23 CHAIRMAN SHAPIRO: Well isn't one of our ways, I  
24 guess is that we could look that licenses don't have  
25 exclusives could be, you know, something -- I don't know

1 that we could consider doing that. That we could, as a  
2 condition, that there's no exclusive licenses and other  
3 things. I mean, again, I don't want to hurt any ADW  
4 company.

5 MR. CHAMPION: I understand that.

6 CHAIRMAN SHAPIRO: And I do not want to see  
7 anybody, you know, harmed. But somehow our track partners  
8 and our horsemen and our fans deserve to get the best  
9 product. I don't know that we aren't better off forming an  
10 ADW company in the state of California through Cal Racing  
11 and just forming one that says, you know what, everybody can  
12 go through Cal Racing. I don't know. I'm trying to figure  
13 out what we should be doing.

14 MR. CHAMPION: Well clearly to the extent that you  
15 can reward those who provide value and create, especially as  
16 this law sunsets and we have an opportunity to restructure  
17 it, there is an opportunity to incent (sic) people to do  
18 these things instead of disincenting people.

19 Again, we have spent a lot of time thinking about  
20 California and looking at it from a number of different  
21 directions. We think it is a terrific market and we want to  
22 participate in it. We've elected to participate in it, even  
23 though margins have been small, because we're hopeful  
24 that as we educate and others educate that this will become  
25 more clear and compelling to all. And we believe that.

1           I believe that conversations like this, as painful  
2 as they are, will only help the parties to understand that  
3 time is running out. Isn't that really what's happening  
4 here today. The patience of the Board and the patience of  
5 the fan is running out. It's a clear signal to me that the  
6 world needs to change. Hopefully it's a clear signal to  
7 other people that the world needs to change. And that we're  
8 either going to solve it amongst ourselves or it's going to  
9 be relegated to other individuals who are going to make  
10 decisions on our behalf.

11           I don't think, with all due respect to all of you  
12 that are up there, to have the time to be able to understand  
13 ADW as well as I understand it and as well as my competitors  
14 understand it. And I don't think that at the end of the day  
15 frankly, even though this may be frustrating to some of you  
16 and perplexing to others and a lot of other things, that  
17 you're probably laying awake much at night thinking about  
18 just the ADW problem here in California. I am. My  
19 competitors should be.

20           So to the extent that you can create an  
21 environment that, again, is a free marketplace, that to the  
22 extent there is an opportunity and an environment for us to  
23 have to work together and it's clear to all, that seems to  
24 me to make the most sense before we begin legislating and  
25 regulating the marketplace. And I think the other thing

1 again, I'm sorry to be verbose, but the one thing I'd also  
2 say is you're hitting on it. This is really about the fan.  
3 Because without them I'm sorry, we don't have a sport, and  
4 we don't think about them often enough.

5 CHAIRMAN SHAPIRO: I couldn't agree more and I am  
6 pleased that TVG is recording this meeting. Because I hope  
7 that the realize that, you know, what we're trying to do is  
8 make it easier for the fans to wager on our product. And  
9 I'm hoping that we can improve the system.

10 I know that earlier in the year there were  
11 meetings when we had Senator Flores participate. And he  
12 called me, actually, as this meeting was beginning, again,  
13 lending his support to this industry and lending his support  
14 to the direction that this Board was going. We have to find  
15 a way to make ADW more productive for California racing and  
16 we have to find a way that will allow you to make money in  
17 California so that we can use your technology to advance  
18 horse racing in the state of California.

19 So I hope that out of this discussion we can find  
20 a way that you and your competitors can sit in a room, and  
21 hopefully with the other stakeholders and say, look, let's  
22 figure out another model because the one that we have here  
23 is not working. It's harming everybody. So I appreciate --  
24 Does anybody have any more questions?

25 COMMISSIONER HARRIS: On that model, I'm not quite

1 clear because I think a lot of it is just the pricing. We  
2 either bring in Alan Greenspan or somebody to figure out  
3 what the right pricing is on a lot of this stuff.

4 CHAIRMAN SHAPIRO: He's available.

5 COMMISSIONER HARRIS: Laying awake at night --

6 CHAIRMAN SHAPIRO: Thinking about ADW.

7 COMMISSIONER HARRIS: Thinking about ADW, yeah.

8 But I'm not clear because you've got, you have one model in  
9 California where you aren't paying fees to -- What happens,  
10 say, if Bay Meadows -- well they're not exclusive with  
11 anybody, I guess. Do you get a better fee there?

12 MR. CHAMPION: Mr. Nathanson, I didn't -- I didn't  
13 volunteer this, just so you know, I was asked the question.  
14 In Bay Meadows' case TVG has a clause in its contract that  
15 allows it to designate certain tracks as non-exclusive and  
16 charge an additional three percent fee to me for me carrying  
17 them, even though they are not an exclusive track.

18 CHAIRMAN SHAPIRO: Why?

19 MR. CHAMPION: So in Bay Meadows' case --

20 COMMISSIONER HARRIS: With their contract with you  
21 or their contract with who?

22 MR. CHAMPION: Contract with me.

23 COMMISSIONER AMERMAN: Why is that?

24 CHAIRMAN SHAPIRO: Why is that?

25 COMMISSIONER AMERMAN: Why would you sign such an

1 agreement?

2 CHAIRMAN SHAPIRO: Sir, I have been asking why  
3 someone before me signed that agreement for over five years,  
4 four years.

5 COMMISSIONER AMERMAN: So when does it run out?

6 COMMISSIONER HARRIS: When does that end?

7 MR. CHAMPION: That's also in dispute as to  
8 whether or not the agreement goes into perpetuity or not.

9 COMMISSIONER AMERMAN: Nothing goes to perpetuity.

10 MR. CHAMPION: Well, we both know that. I think  
11 the argument is whether or not that agreement goes on to  
12 2011, 2017, to the longer of whether they have content  
13 rights or the longer of whether they have patent rights. So  
14 there are differences amongst us, between that, that even  
15 this arbitration will not resolve as to what will or won't  
16 end or so on and so forth.

17 COMMISSIONER HARRIS: I think what's bothersome  
18 though, I think with respect to the rights of that contract  
19 whatever they are, but there's a lot of effect on other  
20 people. A lot of ripple effect on the horsemen and the  
21 tracks and everybody due to that is what's bothersome about  
22 it.

23 CHAIRMAN SHAPIRO: I mean, isn't that really what  
24 we're getting into is they have non-exclusive/exclusive  
25 contracts.

1           COMMISSIONER AMERMAN: Right. Or whichever way  
2 you say it.

3           CHAIRMAN SHAPIRO: Which the end result is, yes,  
4 it's hurting you. But frankly, don't care about you, it's  
5 hurting the horsemen, it's hurting the tracks, it's hurting  
6 our business.

7           MR. CHAMPION: But to be very clear yes, it is, it  
8 is diminishing our margins, it is forcing us to do things in  
9 the marketplace that are not in our collective best  
10 interests. They're not in the interest of the player and  
11 that's fully understood.

12           I think it's, I think it's important to understand  
13 though, you know, one of the things that Mr. Daruty  
14 addressed very specifically to you when you were talking  
15 about higher host fees and source market fees, this is an  
16 example of what happens when the economics get out of whack.  
17 You have a provider such as Youbet, which admittedly I'm  
18 biased about, that has the capability of doing so much more  
19 for California racing than it's doing but the economics,  
20 okay, really are a disincentive to us.

21           And while we have done nothing to attempt to  
22 injure our track partners in California or California as a  
23 whole, there has been situations that we have gotten  
24 ourselves into with others where we're not carrying their  
25 content and we haven't been as sensitive to, you know, the

1 25 mile market area of the track, cannibalization issues and  
2 those kinds of things.

3           The other thing that people will tell you and it's  
4 also accurate, we don't pay source market fees everywhere.  
5 We pay source market in certain places and in other places  
6 we don't pay source market. It's a negotiated thing between  
7 us and the track and with the horsemen. Very much agree  
8 with the IHA that says the horsemen have to be a party to  
9 that agreement so whatever we cut with the track has to be,  
10 in fact, approved and agreed to by the horsemen. But there  
11 are certain cases --

12           And we argue that higher host fees make more  
13 sense, low to no source market fees make the most sense,  
14 because then the best content is rewarded. It's an  
15 encouragement for others to develop their content, to look  
16 at the race dates, to look at what their doing. To make  
17 sure they're running, you know, as many full fields as  
18 possible on the right days against other content. It's, we  
19 believe the best way to help the industry rationalize the  
20 content that is already out there.

21           So we resist mightily the concept of source market  
22 fees. And frankly there is no state that has a more onerous  
23 source market arrangement than does California with the cap.  
24 That's the fact. You basically say that everybody in  
25 California, all that money, is taken from the ADW provider

1 because of the hub fee. Then you say you can't pay others  
2 anything greater than 3.5.

3 Well I fortunately, and no disrespect to those in  
4 the room that have spent a lot of time doing this, I don't  
5 labor under having to worry about having a law degree. But  
6 that would seem to me to raise a very large flag to people  
7 that says that California is in fact controlling what people  
8 like me do across the United States and what I am paying  
9 others. Some may argue that it's an antitrust violation.  
10 Some would argue also that the law itself potentially runs  
11 amok of the federal statutes and particularly the commerce  
12 clause that says that you can't pass these kinds of laws.

13 We haven't chosen that direction. I bring it up  
14 to you today and I absolutely assure you not as a threat but  
15 just something that I think the Board needs to be aware of  
16 that DAG may want to look into. That when we're crafting  
17 these agreements that structure is going to likely be looked  
18 at at a very, very deep level. Because I don't think the  
19 economics are going to hold up for us in the state very well  
20 under those kinds of, under those kinds of agreements.

21 COMMISSIONER AMERMAN: Mr. Champion?

22 MR. CHAMPION: Yes.

23 COMMISSIONER AMERMAN: How many states do you  
24 reach beyond California?

25 MR. CHAMPION: We operate in 40 states.

1 COMMISSIONER AMERMAN: Forty.

2 MR. CHAMPION: Now there are others here that will  
3 only operate in 12 to 14 states.

4 COMMISSIONER AMERMAN: Right.

5 MR. CHAMPION: Because in the 12 to 14 states they  
6 operate in there is expressed legislation that says that  
7 it's permissible.

8 VICE CHAIRMAN MORETTI: Well if that -- that just  
9 kind of brings -- I mean, you mentioned the sunset date and  
10 you mentioned legislation. Obviously we can't tell you what  
11 to put in your business contracts per se but that's what I  
12 was saying before. I mean, you all have very talented  
13 lobbyists who are very effective in a lot of ways, in this  
14 room.

15 I do hope that by the time you and XpressBet TVG  
16 start entering into these talks, and I'm sure they've  
17 already begun, with our legislators in Sacramento, that you  
18 enter into them knowing that we want to support something  
19 for the greater good. That you talk to the labor unions.  
20 That you go there with a united front is what I'm asking.

21 MR. CHAMPION: Well that's another area that we  
22 have clearly failed on. The unions were expecting to get  
23 jobs from the passage of ADW and I don't think that anyone  
24 in this room can dispute what their expectations were and I  
25 don't think anyone can dispute why they had those

1 expectations.

2           We negotiated, and I think we're the only company  
3 that did, a contract with the pari-mutuel union.  
4 Unfortunately we couldn't execute on the contract for the  
5 reasons that, again, Mr. Daruty illuminated in his remarks.  
6 The margins just are not available to us. We worked with,  
7 in fact, the labor unions to attempt to modify the takeout  
8 and/or to adjust the hub fees but frankly ran into too much  
9 opposition and people not wanting to do that.

10           So we, in fact, did what others have done. And  
11 that is that we have, in fact, opened phone centers other  
12 places in the United States and, in fact, bought a company  
13 where there is one outside of the United States in Curacao.  
14 Because the economics of those operations are far more  
15 lucrative and I have got a responsibility to my shareholders  
16 to ensure that I return a reasonable profit. Having worked  
17 with 15 unions concurrently at both the Chicago Sun Times  
18 and then 16 unions at Philadelphia I'm familiar with the  
19 importance of unions and I know how to operate and work with  
20 them and I am disappointed that I haven't been able to  
21 execute on that responsibility.

22           CHAIRMAN SHAPIRO: I didn't have to ask that  
23 question then.

24           MR. CHAMPION: No.

25           CHAIRMAN SHAPIRO: Thank you for offering that.

1 MR. CHAMPION: And Mr. Castro, you can pay me my  
2 20 bucks.

3 CHAIRMAN SHAPIRO: Okay, if anybody has any more  
4 questions? If not then thank you, Mr. Champion. I am going  
5 to also recommend on this application that we not take  
6 action today.

7 MR. CHAMPION: Thank you very much for your time  
8 today.

9 CHAIRMAN SHAPIRO: We need it to be complete.

10 COMMISSIONER AMERMAN: Thank you.

11 COMMISSIONER HARRIS: On all of these it would be  
12 good if we could -- I mean, just wait until the December  
13 meeting than try to get these done for November.

14 CHAIRMAN SHAPIRO: You are correct, Commissioner  
15 Harris. Do we need to take a five minute break? The next  
16 will be TVG. Does anybody need a break? If not we'll keep  
17 going. Craig, you can go out yourself. All right then  
18 we're going to just keep going then. And we'll let TVG get  
19 set up.

20 (Off the record.)

21 CHAIRMAN SHAPIRO: Before we go to TVG if you'd  
22 just bear with me one second. I'd like to just do a little  
23 bit of housekeeping. Obviously this meeting is going very  
24 long and it has been a rather intense meeting. So I'd like  
25 to see if we can't defer some items on the agenda so that

1 everybody can get out of here at a reasonable time. So for  
2 that reason I would ask to know if perhaps staff, and see if  
3 there is any objection from the audience, whether or not we  
4 can defer item number 10, 11 is off, 12, 13, 14, 15 is off.  
5 And depending on whether or not, I mean I'd like to defer  
6 the staff report on the following concluded race meets to  
7 the next meet also, the next meeting. Now does anybody in  
8 the audience have an objection to any of those items being  
9 deferred?

10 MR. BLONIEN: Mr. Chairman and members, Rod  
11 Blonien on behalf of Los Alamitos. We would request that  
12 you bring up item 14 today. We don't think it would take  
13 very long.

14 CHAIRMAN SHAPIRO: All right, you want 14 back on?

15 MR. BLONIEN: Yes sir.

16 CHAIRMAN SHAPIRO: Okay, done. Does anybody else  
17 have any objection? If so stand to the podium.

18 MR. JAMGOTCHIAN: I'm sorry, I didn't hear.  
19 Seventeen is still on the agenda, correct?

20 CHAIRMAN SHAPIRO: I left it just for you.

21 MR. JAMGOTCHIAN: Thank you.

22 CHAIRMAN SHAPIRO: Okay, so I am going to defer  
23 then without objection items number 10, 11 is off, 12, 13,  
24 15, which was off, and 16. Those are off. All right. Now  
25 we're back to item number 9, number 9.

1           Good afternoon to our good friends at TVG. As you  
2 have had the pleasure of listening to your two competitors,  
3 friends in ADW wagering. You've heard some of the  
4 questions, you've heard the opening. I would like to ask  
5 you the same questions and see what your responses are to  
6 each of those issues.

7           And then of course you can do your presentation, I  
8 see you have up there. The first one is

9           MR. NATHANSON: Chairman Shapiro, I think it would  
10 be very --

11          CHAIRMAN SHAPIRO: I forgot Jackie, one second.  
12 Jackie.

13          STAFF SERVICES MANAGER I WAGNER: Jackie Wagner,  
14 CHRB staff. This application is from TVG. They have  
15 applied for an application to operate as an out-of-state  
16 multi-jurisdictional wagering hub for ADW. The proposed  
17 dates for this approval is for the entire term approved by  
18 the Board. And pursuant to our Board Rule 2072(b) that  
19 addresses the term of approvals for ADWs that would be two  
20 years from the date the approval is issued.

21          TVG is aware of the statutory authority and the  
22 sunset as of December 2007. However, they are proposing  
23 that the Board approve this application and that they be  
24 given a two-year approval as provided under our Rule 2072  
25 but that the second year be conditioned upon the

1 Legislature's extension of the ADW authorization.

2 They will be operating their facility 365 days a  
3 year, 24 hours a day. The application is still in need of a  
4 horsemen's agreement. The staff would recommend that the  
5 Board approve the application for a one year approval  
6 conditioned upon the sealing of the horsemen's agreement.

7 CHAIRMAN SHAPIRO: Thank you, Jackie. Before I  
8 get started, Mr. Nathanson, you want to say something but  
9 identify yourself first.

10 MR. NATHANSON: Certainly. David Nathanson,  
11 general manager of TVG. To my right is John Hindman, TVG's  
12 general counsel. To the right of him is Ron Turovsky,  
13 outside counsel for TVG. Behind me is Cathy Christian, also  
14 outside counsel for TVG.

15 CHAIRMAN SHAPIRO: Okay. Was there something you  
16 wanted to say before I got started?

17 MR. NATHANSON: Yes, Mr. Chairman. Before I begin  
18 I'd like to, I'd like to -- We've listened to what all of  
19 the other two ADW providers had to say today. And I think  
20 it would be very relevant, in anticipation of your  
21 questions, to walk through this presentation, the heart of  
22 which is, you know, what does ADW and what does TVG  
23 specifically do for California. I think it would be  
24 relevant in anticipation of the questions that you have  
25 asked the other ADW providers if that's acceptable to you.

1           CHAIRMAN SHAPIRO: Sure go ahead.

2           MR. NATHANSON: I think when looking at these  
3 three ADW companies, an ADW company is not an ADW company is  
4 not an ADW company. Each one has employed a very different  
5 business model. You can look at each of their  
6 contributions, each of the services they're operating. And  
7 despite the fact that they all live under the guise of an  
8 ADW company ultimately each company in itself is quite  
9 unique. I'd like to spend time, and I'm happy to address a  
10 lot of the questions that were brought up by Scott and by  
11 Mr. Champion, Mr. Daruty and Mr. Champion. But initially  
12 I'd like to focus on TVG so we can present our position and  
13 specifically as it relates to California.

14           TVG televises more horse racing to more people  
15 than any other television network at this point in the  
16 globe. And specifically in the United States we reach 20  
17 million households nationwide in all 50 states. In  
18 California we reach nearly every single home through their  
19 choice of cable or satellite provider and I'll get into that  
20 in more detail very shortly.

21           We believe we produce the highest quality  
22 television experience making it entertaining with diverse  
23 programming segmented to a broad audience to broaden the  
24 appeal of the sport to both novices, active fans and those  
25 just as general sports fans. California is a significant

1 product of this network. It represents a tremendous amount  
2 of revenue to this company.

3 But in addition to that we have made a significant  
4 commitment on our network to California product. We  
5 broadcast over 5,000 California races per year nationwide,  
6 twice the number of races than any other jurisdiction. And  
7 as a result of that we have generated the majority of  
8 revenue to California tracks from ADW as well as to  
9 horsemen. We also employ 120 Californians in California  
10 alone focused on producing, again, the most robust ADW  
11 experience across multiple platforms and we believe in the  
12 country.

13 I'd like to focus on 2006. As Mr. Champion noted,  
14 when he came to the industry he was quite new. He bet on  
15 races based on the color of the silks. Frankly I'm no  
16 different. My background was in television when I came into  
17 this company and into this industry less than a year ago.  
18 My focus and my initiative, what I was asked to do, was  
19 broaden the appeal of the sport to a broader audience so we  
20 can grow the pie so that the interest in the sport and what  
21 we do is more dynamic.

22 Because this industry, despite many of the issues  
23 brought up earlier today, we believe has tremendous  
24 potential and we believe we can play a significant role via  
25 our platforms to grow that pie for the entire industry. Let

1 me focus just very briefly on a few issues. I won't touch  
2 on all of these.

3           This year on air we completely revamped our  
4 programming both on-air graphics and new programming, and  
5 I'll go through those specifically in a second. But the  
6 goal of revamping the programming and hiring a whole new  
7 breed of talent on air was really focused, again, on  
8 broadening the appeal of the sport.

9           On-line we have revamped our web site, which I  
10 would consider outdated at the time. But ultimately we have  
11 revamped it to become what we believe to be the most dynamic  
12 web site offering the most dynamic, personalized services  
13 from My TVG Stable, which will alert the user to any horse,  
14 jockey, trainer, race replays as well as other features that  
15 we believe make our web site the web site of choice among  
16 Californians, as you'll soon see. It is the ADW provider of  
17 choice in the state.

18           We have also forged dynamic relationships with  
19 outside providers. Again, to broaden the reach outside of  
20 our respective platforms. Our agreement with Fox  
21 Interactive Media takes our programming and takes horse  
22 racing into places like Fox Sports, myspace.com, IGN, and we  
23 have also forged partnerships with Yahoo Sports, all of  
24 which I'll get to shortly.

25           We launched a fourth wagering platform. It was

1 mentioned earlier the idea of one account across multiple  
2 vehicles. Well, we're doing that today and TVG mobile is  
3 our fourth wagering platform.

4           Perhaps the most exciting and the most relevant of  
5 all the developments in 2006 is distribution. Distribution  
6 is what takes the signal out there. What takes California  
7 horse racing into more homes. In 2006 thus far we've added  
8 two million digital basic, meaning people don't have to pay  
9 anything beyond their digital basic cable carriage. Two  
10 million homes in wagering markets including San Francisco,  
11 Seattle and Boston.

12           We're incredibly pleased to announce today that  
13 we've added 11 million homes internationally in the UK and  
14 Ireland that will take TVG programming to the broadest reach  
15 in those markets, reaching literally nearly every single  
16 household in the United Kingdom and Ireland through our  
17 partnerships with At the Races. We have also established  
18 partnerships with new breeds of distributors like AT&T and  
19 Verizon and I'd like to talk to you specifically a little  
20 more about those distribution partnerships shortly.

21           With one TVG account customers have the  
22 opportunity to play and wager on their choice where it is  
23 most convenient for them via automated phone, on-line, which  
24 I think again is not unique to TVG but we certainly believe  
25 we have unique platforms, and then two products which are

1 absolutely unique to our business. Interactive television  
2 where users can wager and have all the functionality of  
3 their ADW platform with the use of a remote control in a  
4 single screen experience as well as internet-enabled mobile  
5 phones through TVG Mobile. Again making ADW convenient with  
6 one account.

7 Our distribution relationships, it's beyond just  
8 getting into the homes. It's beyond getting into the 50  
9 states. It's giving people choice. Our network is  
10 distributed on the top two satellite providers as well as  
11 all of the top ten cable television providers in the United  
12 States today. That means those top ten providers represent  
13 90 percent of cable television households and we have  
14 distribution agreements with all of them.

15 In addition to that through our local partnerships  
16 this year, in addition to Fox Sports Net Prime Ticket, which  
17 broadcasts TVG in Southern California on a daily basis, we  
18 also established partnerships to benefit Del Mar with Cox 4  
19 San Diego. And now we're very, very excited to announce our  
20 partnerships with Fox Sports Net Ohio, Fox sports Net  
21 Northwest, Fox Sports Net New York and Turner South. On  
22 racing's biggest events we can distribute California racing  
23 to over 50 million households in the United States alone,  
24 excluding our now new added distribution internationally.

25 The programming is significant. And we feel with

1 that reach we have an obligation to broaden the appeal of  
2 horse racing in an entertaining fashion to the broadest  
3 audience possible and that requires segmentation of our  
4 programming.

5 We have developed shows like Horse Racing 101  
6 geared exclusively to the novice. Lady Luck, which is meant  
7 to, which is meant to show racing from a female perspective.  
8 Racing Round Table, talking about topical issues that we all  
9 face including issues like we're talking about today.  
10 Fandicapping. You know, one thing I've learned about horse  
11 racing is when I go to a track everyone thinks they know  
12 more than our on-air analyst. Well now is their chance to  
13 go on-air and prove it on their own and that is what  
14 Fandicapping all about. :58 Flat is again something that we  
15 have learned from other television vehicles like Mad Money,  
16 Jim Cramer's Mad Money. A very high-paced betting show  
17 that's geared not towards the novice but towards the expert.

18 And other shows and other developments like Horse  
19 Racing All Access requires a tremendous investment. But  
20 again, uses tools that we've learned from the NFL and other  
21 major sports and applies them to our sport by putting mics  
22 on every jockey in the field so that the users for the first  
23 time get the experience of horse racing from a jockey's  
24 perspective. And if you haven't watched it I encourage you  
25 to, it's really the most dynamic television experience in

1 horse racing that we believe has ever been produced.

2 TVG only televises 48 percent of the races  
3 available to broadcast. We have agreements with over 70  
4 tracks, 25 of which are exclusive, and those exclusive  
5 tracks benefit from guaranteed racing coverage, on-track  
6 presence and targeted marketing and promotion. We drive  
7 wagers, we drive interest, we drive distribution to those  
8 tracks.

9 And as I mentioned before, no one gets more  
10 benefit than our California track partners. We show more  
11 California races than any other jurisdiction. Ninety  
12 percent of our handle is on televised races. And when we  
13 show races on TVG the average handle per race on a televised  
14 race is 900 percent greater than on non-televised races.  
15 And we'll go into detail in terms of how we feel that  
16 affects even beyond TVG's own platforms.

17 We also are employing innovative marketing  
18 techniques. From an e-newsletter that we send out weekly to  
19 encourage fans and keep them up to speed with the exciting  
20 things that are happening across the company, to direct  
21 marketing campaigns which we can use to target specific  
22 campaigns like Pick Six Carryovers. And in addition to that  
23 through our partnerships with Fox Interactive Media and  
24 Yahoo we have been able to reach racing fans in other broad  
25 popular portals. Again, to introduce new fans to the sport

1 and keep them up to speed.

2           We launched a incredibly dynamic myspace page in  
3 association with myspace a few weeks ago. Within a few  
4 weeks without any solicitation we have over 1200 friends.  
5 Now that may seem like a small number. But again, through  
6 our further partnerships with myspace we believe that we'll  
7 be the premier myspace social networking site dedicated to  
8 horse racing. And we'll be providing blogs, video, again  
9 all targeted toward younger demos. And I encourage you to  
10 go to [myspace.com/tvgnetwork](http://myspace.com/tvgnetwork) to see for yourself.

11           As Mr. Champion mentioned we also launched an  
12 educational site just this week, [TVGfree.net](http://TVGfree.net). I think the  
13 unique thing about this site is we took cues of what worked  
14 at other gaming sites. And on [TVGfree.net](http://TVGfree.net) it's not just  
15 about gaming, it's about learning the game. You can get  
16 interactive tutorials, tips from the pros on a daily basis,  
17 in addition to playing live. And it also gives us an  
18 opportunity to market TVG and market horse racing across  
19 advertisers that in the past have been adverse to racing  
20 because of its gaming component. So we believe it will give  
21 us an exciting opportunity and you'll see a lot of that in  
22 the next few weeks.

23           Finally I'd like to talk about two other  
24 initiatives that we're working on that you can see in the  
25 next few months. TVG fantasy horse racing. No gaming

1 involved whatsoever but again focused on getting fans into  
2 the sport. You get to build your own stable of horses,  
3 jockeys, trainers and owners and earn points. Where you can  
4 compete against a stable, against your friends or against  
5 the whole TVG fantasy community. We'll be launching that in  
6 association with one of the largest portals in the country,  
7 and again, we're very excited about an opportunity to get  
8 fans into horse racing, even if they're not into ADW or into  
9 the gaming component.

10           And similarly TVG On Demand. Giving people  
11 information and allowing them to watch races that are  
12 relevant to them in their region at their convenience in  
13 partnership with our cable providers.

14           Now I'd like to talk specifically about  
15 California. TVG as I mentioned before is available to  
16 nearly every California household through their choice of  
17 cable or satellite operator. This is just a small list of  
18 some of the communities we serve. But I think there is no  
19 question we are the most widely distributed not only in the  
20 country but from a penetration perspective in the state and  
21 I think that is undeniable.

22           So let's talk about ADW and ADW specifically.  
23 California ADW in five short years is without question the  
24 largest ADW state in the country. More than ADW states that  
25 have been conducting ADW since the 1970s. TVG far and away,

1 far and away is the largest provider of ADW in the state.  
2 We handle more wagers than the other two providers combined.  
3 We service more customers than the other two providers  
4 combined. And so when you're talking about ADW the vast  
5 majorities of customers are served by TVG in California. As  
6 you can see in 2005 we represented 55 percent, okay,  
7 inception today. We serviced -- TVG represented 55 percent  
8 of the total ADW in the state.

9           And as Mr. Champion mentioned, yes, we only serve  
10 12 states. We only accept wagers out of state, 11 states  
11 outside of California where TVG is absolutely and  
12 unquestionably permissible. As a result we're not as  
13 diversified as the other ADW companies that certainly are  
14 reaching out to nearly 40 states. But if you look on a  
15 state by state basis, in the markets we do serve TVG  
16 generates 155 percent more wagering per state than our  
17 nearest competitor.

18           And I'd like to talk to you a little bit about  
19 what that means. Out of states even where we don't benefit.  
20 Because our signal and what we produce on a daily basis is  
21 distributed to all 50 states via these distributors our  
22 tracks, their average out-of-state ADW handle is  
23 significantly larger than tracks that are not affiliated  
24 with TVG. And as you can see the daily average out-of-state  
25 handle on this slide for Del Mar, Hollywood Park and Oak

1 Tree far outweigh Santa Anita.

2           In terms of the revenue and if it comes down to  
3 the bottom line what has TVG generated and paid to the horse  
4 racing industry in California in the past five years the  
5 figure is over \$100 million. And our tracks and our partner  
6 tracks have been the greatest beneficiaries of that as well  
7 as generating a significant larger percentage for purses  
8 than non-affiliated tracks. The fact that Fairplex on an  
9 average daily ADW basis generates a higher, daily ADW purse  
10 than Santa Anita is solely reflective, we believe, again, of  
11 the quality of their races and the distribution that in  
12 partnership with Fairplex we deliver across the country.

13           I'd like to talk, I'd like to use this figure from  
14 the TOC Owners Circle magazine to sort of, there has been a  
15 lot of question about what goes to purses. There's no  
16 question, and TVG does not question, that the best possible  
17 experience of horse racing and the best possible benefit to  
18 horse racing is people betting at the track. We can play a  
19 significant part of that, we can do a lot more. And we are  
20 committed to working with every agency in this industry to  
21 make that happen. But off-track or out-of-state ADW is  
22 competitive, certainly with simulcast facilities and  
23 certainly much more beneficiary in more cases than not, both  
24 for live and out-of-state races.

25           The last thing I'd like to talk about, again,

1 because there is no question there is an epidemic as it  
2 relates to purses. The national total purse increase from  
3 2001 to 2005 was 1.64 percent. It's a problem. California  
4 purses only slightly higher on average, 2.7 percent. But  
5 TVG California tracks far exceed that average, reaching 5.7  
6 percent on average per purse growth since 2001.

7 California racing is receiving unprecedented daily  
8 television exposure on TVG in California, nationwide and now  
9 internationally. TVG will continue to invest, it has  
10 invested, in its television and programming and distribution  
11 to keep racing competitive with every other sport. At this  
12 point TVG is as widely distributed as most if not more than  
13 any other niche sport network with perhaps the exception of  
14 the Golf Channel. But ultimately horse racing and TVG has  
15 received unprecedented exposure based on TVG's distribution.

16 TVG has generated the most handle and the most  
17 revenue backed up purses to horsemen from ADW. We've  
18 generated over \$100 million to date and we are committed to  
19 growing that and growing the pot. We believe working  
20 together with all the constituents that TVG can play a  
21 significant role, including bringing new fans to the game,  
22 including showing California racing across the country in  
23 the best possible light to the best interest of this  
24 industry.

25 And so with that I'd like John Hindman and our

1 outside counsel to answer any questions you have.

2 COMMISSIONER AMERMAN: That's a very impressive  
3 presentation and obviously it speaks for itself. The  
4 numbers you showed, however, seem to indicate that your  
5 business in 2006 has peaked versus 2005.

6 MR. HINDMAN: May I address that?

7 MR. NATHANSON: Please, go ahead.

8 MR. HINDMAN: The numbers in that presentation  
9 were for the first two quarters of -- the numbers in the  
10 presentation were for the first two quarters of 2006. I'm  
11 sorry. And there was no comparison to the first two  
12 quarters of the year but generally TVG's business is much  
13 larger in the second half of the year than it is in the  
14 first. So that's not really indicative of --

15 COMMISSIONER AMERMAN: I understand that. Is  
16 there any opportunity for you to expand the business in the  
17 first half of the year then? There must be some issue that  
18 is holding you back.

19 MR. NATHANSON: Mr. Amerman, if you're referring  
20 to Santa Anita --

21 COMMISSIONER AMERMAN: I'm not referring to  
22 anything. I'm referring to what can you do to build your  
23 business in the first half of the year.

24 MR. NATHANSON: In California the first half of  
25 the year, although it is without question our slowest

1 quarter --

2 COMMISSIONER AMERMAN: Why is that?

3 MR. NATHANSON: We handle more wagers in the state  
4 than the ADW provider, for example, that carries Santa Anita  
5 during that course, XpressBet.

6 COMMISSIONER AMERMAN: That wasn't my question.  
7 What can you do to improve your business in the first half  
8 of the year?

9 MR. NATHANSON: We are committed to, during the  
10 first half of the year and throughout the year, bringing new  
11 fans to the sport. Again, which we believe will grow year-  
12 round interest in horse racing in California.

13 COMMISSIONER AMERMAN: That's a very general  
14 answer. I was hoping that you would be more specific as to  
15 what the opportunities were, even though you might say there  
16 are obstacles to achieving those objectives.

17 COMMISSIONER HARRIS: Now I would assume that the  
18 opportunities you're referring to would be Golden Gate  
19 Fields and Santa Anita. Are you trying to pick them up?

20 MR. NATHANSON: Yes, I mean, we've engaged with,  
21 alongside Mr. Amerman and Chairman -- excuse me,  
22 Commissioner Amerman and Chairman Shapiro. We've engaged on  
23 multiple occasions with MEC. There is no question about it.  
24 Let me be very clear. TVG would love to carry Santa Anita,  
25 TVG would love to carry Golden Gate. It just has to be in a

1 position that's fair and accurate. We continue to have  
2 discussions and I'm happy to provide an update either now or  
3 in the next agenda item, Commissioner Amerman, in terms of  
4 where those discussions are.

5 But ultimately there is no doubt about it. No one  
6 is sitting here -- We recognize the value that we would get  
7 from carrying Santa Anita and Golden Gate. And frankly we  
8 also recognize the value that MEC would get via our  
9 distribution and via our platform. And there is no doubt  
10 about it, it's in both companies' best interest to find a  
11 way to make something work.

12 COMMISSIONER AMERMAN: It seems to me that MEC  
13 would be, would benefit, you stated you would benefit.  
14 we've got to cut through whatever the obstacles are.

15 MR. NATHANSON: I agree.

16 COMMISSIONER AMERMAN: And time is running out  
17 before Santa Anita opens.

18 CHAIRMAN SHAPIRO: Mr. Nathanson, I don't think  
19 anybody on this Board or anybody in this room can dispute  
20 that the television content and the technology of TVG isn't  
21 excellent. And if anybody has a problem with the television  
22 I'd be really surprised. I don't think it's an issue with  
23 the television, I don't think that there's issues with the  
24 distribution. There is no doubt your distribution is the  
25 best, there is no doubt that your television is excellent.

1           The problem, though, that we are all struggling  
2 with is the business we are in, which is horse racing. And  
3 as one of the three ADW providers the problem that we're  
4 trying to figure out is how to incorporate more from each of  
5 the ADW providers so that it benefits the fans first, the  
6 horsemen second and also the tracks.

7           And as I mentioned, I think when I was talking to  
8 XpressBet that there was some -- as we looked at each wager  
9 dollar, the variation and what comes back to the industry,  
10 whether it be to the tracks or to the horsemen, there seems  
11 to be a large disparity.

12           Now I'm not going to hide that you and I have had  
13 numerous discussions over the last week. You and I and John  
14 Hindman and Commissioner Amerman met and clearly we think it  
15 would be to our fans' best interest, to your customers' best  
16 interest, to MEC's best interest, to get product at Santa  
17 Anita and Golden Gate on TVG. What I keep hearing from you  
18 is that the obstacles that are in place, some of the  
19 obstacles are that you have a different financial model.  
20 And I appreciate that and I respect that you have a  
21 different financial model.

22           The part I'm troubled with is that your financial  
23 model may not be a model that works for California horse  
24 racing despite all the great benefit that you bring. You  
25 broadcast the breeders awards, you do all access, you do all

1 these great things that nobody disputes. But we are not  
2 talking about your television, we are not talking about your  
3 distribution. We're talking about how to use your  
4 distribution to benefit horse racing. And the way that  
5 benefits is by creating more wagering with more revenues  
6 that flow down to the horsemen and to the tracks.

7 We all know that all year that we have had some  
8 difficult issues and those are the next agenda item. But I  
9 would like to backtrack because your presentation did not  
10 address some of the same questions that I asked the others.

11 Dating back to 2002 your company had an agreement  
12 with the horsemen. In 2004 your company stated there was an  
13 agreement with the horsemen but it only was for the first  
14 year of a two year license. Now I sat on that Board at that  
15 time. And frankly I guess I missed it but when this Board  
16 said, and you will have a horsemen's agreement, we heard  
17 yes, but I wasn't sharp enough to catch that it would only  
18 be for the first year of two years.

19 In every instance that ADW, an ADW operator has  
20 been licensed in the state we've always said, and have an  
21 agreement with the horsemen. I know from our discussions  
22 you don't want to have as a condition to your licensure that  
23 there's an agreement with the horsemen. I don't understand  
24 why.

25 MR. NATHANSON: Well first --

1           CHAIRMAN SHAPIRO: Let me just finish, okay?

2           MR. NATHANSON: Certainly.

3           CHAIRMAN SHAPIRO: It has always been a practice  
4 of this Board to ask that that be there, for a variety of  
5 reasons. One of which is, without horsemen, without owners  
6 that have a stake in this we don't have product and you  
7 don't have product. We don't have racing. So can you tell  
8 me why, I'm assuming if I asked the question, are you  
9 willing to enter into an agreement with the horsemen your  
10 answer would be?

11           MR. NATHANSON: You're saying as a condition of  
12 licensure?

13           CHAIRMAN SHAPIRO: Yes.

14           MR. NATHANSON: No.

15           CHAIRMAN SHAPIRO: No, okay. Can you tell me why  
16 you won't do it when you've heard -- XpressBet has said  
17 sure, no problem; Youbet has said sure, no problem. Why do  
18 you have that problem?

19           MR. NATHANSON: First, and I'm going to let John  
20 answer the question but I would like to just correct a  
21 characterization of the statement, Chairman Shapiro, that  
22 you made that we are unwilling to work with or don't see the  
23 value of the TOC. We absolutely --

24           CHAIRMAN SHAPIRO: I didn't say that, I didn't say  
25 that. And if that's what you think I said then I will

1 restate it. That's not what I said. I never mentioned that  
2 you didn't see the value in TOC or the horsemen. I'm simply  
3 asking a very simple question. You do not want to have as a  
4 condition to your license that there is an agreement with  
5 the horsemen, who are an integral stakeholder in this  
6 industry. The others have said no problem, you're saying  
7 no. Can you explain why?

8 MR. NATHANSON: Commissioner Shapiro, I think want  
9 and what is required by law are two separate things.

10 CHAIRMAN SHAPIRO: I didn't say what was required  
11 by law. I simply said, are you willing -- forget law for a  
12 second, I'm not arguing what the law requires. I'm trying  
13 to get past that and say --

14 MR. NATHANSON: But the law --

15 CHAIRMAN SHAPIRO: What's the problem?

16 MR. NATHANSON: Commissioner Shapiro, the law is  
17 what we operate under. The law is what has created the  
18 ability for us to do what we do and for you to do what you  
19 do. So we operate under the guise of the law because that  
20 is, that is the condition from which we're here. So to say  
21 want versus what is obligated by law --

22 CHAIRMAN SHAPIRO: The law does not exclude the  
23 possibility of there being an agreement with the horsemen.

24 MR. NATHANSON: But the law doesn't require it  
25 either.

1 CHAIRMAN SHAPIRO: The law says it's not required.

2 COMMISSIONER HARRIS: Plus the whole law sunsets  
3 next year, it's going to have to be rewritten.

4 MR. NATHANSON: Absolutely.

5 COMMISSIONER HARRIS: I think we need some closure  
6 on what, how you address the horsemen's agreements. Now I  
7 could see if there was unreasonability on the part of  
8 horsemen and it was just ridiculous what their demands were.  
9 Maybe there should be an arbitration process or something.  
10 But the horsemen have such a big investment in the industry  
11 that they need some version of sign-off.

12 CHAIRMAN SHAPIRO: I mean, this frustrates me,  
13 okay. And this frustrates me because I didn't ask you what  
14 is required by law. I'm not going to argue the law with  
15 you. I know your position and you have made it very clear,  
16 okay. We are not having a legal discussion. We're having a  
17 discussion of how we can get more out of ADW. That's what  
18 we're talking about.

19 So I simply said, are you willing, notwithstanding  
20 what the law says, not the requirements of the law, are you  
21 willing to have an agreement with the horsemen. And you  
22 have said, no. So now my follow-up question is, why?

23 MR. HINDMAN: Chairman Shapiro, I think that this  
24 is an issue that goes back quite a long time. And if you  
25 look at the ADW law and the regulations it makes clear, you

1 know, two things. And to keep things from being confused  
2 I'd like to walk through those and then walk through what  
3 the issues are.

4 CHAIRMAN SHAPIRO: John, John, I am asking to try  
5 and understand what is the objection. I'm not interested in  
6 what the law says right now. I'm not asking you to do  
7 anything that's illegal. I'm saying, what's your problem  
8 with it?

9 MR. NATHANSON: Chairman Shapiro, again, and I do  
10 think the characterization is misconstrued. We have no  
11 problem if we can reach an agreement with the TOC.

12 CHAIRMAN SHAPIRO: Okay.

13 MR. NATHANSON: Let me finish, sir. If we can  
14 reach an agreement with the TOC that's fair and equitable to  
15 both parties. That's certainly what we have committed to  
16 doing. And I think Drew will state, and as we'll address  
17 I'm sure in the next agenda item, we've met in the past few  
18 weeks probably more than we've met in a long time. We spent  
19 a number of hours yesterday talking about a number of  
20 issues. And the reality is if we can reach an agreement we  
21 have no problem reaching an agreement.

22 The question, however, is do we want or do we have  
23 to have an agreement with the TOC as a condition of  
24 licensure. And I believe the answer by law is no.

25 MR. HINDMAN: Let me just explain. The law, the

1 regulations mention the Interstate Horse Racing Act. We  
2 understand that. We know what the Interstate Horse Racing  
3 Act is, we understand when it applies. And that's to any  
4 time we carry California races that the track has to get  
5 sign-off from the horsemen. We're fully aware of that.

6 We also know that the law clearly says how ADW  
7 providers are to be compensated in the state of California  
8 and it says something completely different. It says that  
9 they are to be compensated pursuant to agreements with  
10 racetracks, which we have. So if there is an additional  
11 requirement that is entirely contrary to the law it makes it  
12 very difficult logistically to operate. And B, from our  
13 perspective it is not an appropriate basis on which to deny  
14 somebody a license.

15 CHAIRMAN SHAPIRO: So why do you think you have  
16 that problem and the others don't then?

17 CHAIRMAN SHAPIRO: I can't speak for the other  
18 providers. That wouldn't be fair.

19 COMMISSIONER AMERMAN: Why do you have the  
20 problem?

21 MR. NATHANSON: Again, to describe it as a  
22 problem, again, we wouldn't --

23 CHAIRMAN SHAPIRO: Concern? What word do you want  
24 to use?

25 MR. NATHANSON: No, we would love, we would love

1 -- A problem is something that we don't want and what I'm  
2 saying is, we would love to have an agreement with the TOC.  
3 I have spent a lot of time with TOC Board Members and I  
4 believe that we can reach an agreement as long as it is fair  
5 and equitable to both parties. If the question is, would  
6 you have an agreement with the TOC the answer is,  
7 absolutely. However, would we agree that having an  
8 agreement with the TOC is necessary for a condition of  
9 license, and again I will say no. By law, no.

10 COMMISSIONER HARRIS: Well I think the whole  
11 problem is how you resolve a non-agreed situation, how you  
12 resolve a dispute. I think there needs to be -- obviously  
13 if there was, assuming there was a law that said you had to  
14 have agreement, there would have to be some way that you go  
15 to arbitration or mediation or something. But at the end of  
16 the day that there is an agreement in place, that it  
17 shouldn't be forced down either side. But I think the  
18 horsemen are just concerned that they are kind of left in  
19 the dark.

20 MR. NATHANSON: Again, I can't speak for the  
21 horsemen and I have a feeling Drew will speak on behalf of  
22 himself and the horsemen. But I will say that, you know,  
23 our latest discussion did involve a mediator and I do  
24 believe both parties did work in good faith to -- and Drew  
25 is nodding his head in agreement -- to find a resolution.

1 Unfortunately during yesterday's mediated discussion an  
2 agreement was not reached to get on the same page.

3 That being said, I have committed to Drew and I  
4 have committed to the Board to continue those conversations.  
5 I do believe that nine out of ten things we have in common,  
6 we have the same mutual interests, and I do believe an  
7 agreement can be reached. It's just a matter of finding  
8 something that is fair and equitable for both parties.

9 We recognize the value of horsemen in this  
10 industry. We recognize the incredible value in terms of its  
11 importance for the growth of this business. Their success,  
12 frankly, would be our success. We recognize that and we  
13 were committed to working with the horsemen. I have spent a  
14 lot of my time and I will continue to spend a lot of my time  
15 working with Drew, working with his committee to find an  
16 agreement that is fair and equitable to both parties such  
17 that we're on the same page.

18 COMMISSIONER HARRIS: It may well be that there is  
19 a lot of creativity goes into an agreement, it's not just  
20 one number is this and one number is that. Maybe there  
21 would be sliding scales or bonuses for certain types of TV  
22 coverage. It's got to be a pretty complex deal you're doing  
23 here. It can't just be it's going to be four versus three.

24 MR. NATHANSON: I totally agree with you,  
25 Commissioner Harris. And I think the basis of our

1 discussions thus far have been creative, have been sort of  
2 outside of what I would call the typical box of these past  
3 discussions.

4           And again, I wouldn't characterize, even though we  
5 have not reached an agreement, and again I'll let Drew speak  
6 for himself, I wouldn't characterize the end of our last  
7 discussion as a closed door walk-away sort or position.  
8 Think both parties are still committed to talking, whether  
9 mediated or not. So, you know, from that perspective, if  
10 the question, Chairman Shapiro is, would we have an  
11 agreement with the TOC? Absolutely. We see value in the  
12 TOC and we see, we believe it would be in our interest.

13           The question, if the question is, which is the way  
14 I think it was posed, will you have an agreement with the  
15 TOC as a condition of our license? The answer is no. And  
16 the answer to why is because the law says it doesn't have to  
17 be so.

18           MR. HINDMAN: I think actually, following on what  
19 David said, the law says the opposite. The law says you  
20 have to have an agreement with somebody else for  
21 compensation in the state of California so it is completely  
22 contrary to that.

23           And I wanted to bring up that California State  
24 Senator and President of the Senate Perata asked some of  
25 these very questions to the legislative counsel and they

1 recently opined on some of these issues. And on this very  
2 issue, whether the California Horse Racing Board can require  
3 the parties to a contract to obtain the consent of the  
4 horsemen's organization regarding the amount of compensation  
5 to be paid under the contract their answer was, Section  
6 19562 requires the Board's rules, regulations and conditions  
7 to be consistent with the horse racing law.

8           CHAIRMAN SHAPIRO: Well notwithstanding that  
9 letter that was provided to us by your attorney this morning  
10 I don't know that I agree with all of that, frankly, and I  
11 will look to our attorney in this regard. I believe that if  
12 we wanted to put forth a motion that would approve you as an  
13 ADW provider for 2007 subject to a condition imposed that  
14 has been imposed in all prior years that there be an  
15 agreement of mutual understanding on mutual, on issues of  
16 mutual interest, I am not sure that that would be a problem.  
17 Perhaps our deputy attorney general might advise on that.

18           I mean, frankly I don't see that we can't ask you  
19 to do that. I didn't say anything about rates. What I hear  
20 there is that he's opining that we don't have the right to  
21 require an agreement with respect to rate.

22           MR. TUROVSKY: If I might comment on that briefly.  
23 I'm Ron Turovsky. I have looked at these issues as well and  
24 represent TVG and I want to directly address that point.  
25 Because we have had various statements made by the Board

1 with respect to a particularized reason why, notwithstanding  
2 the very clear law concerning the rights of the parties with  
3 respect to the establishment of the hub fee, why you have  
4 theorized there might be opportunities nonetheless to  
5 establish that hub fee. You initially asked us to just have  
6 negotiations to try to reach a resolution and informally  
7 between the parties that wasn't done. The last time --

8 CHAIRMAN SHAPIRO: Okay, wait a minute. You're  
9 now going into the dispute issue which follows this, and  
10 frankly I think we're both off track here because we're  
11 trying to deal with an application. We're going to get to  
12 that in the next agenda item.

13 MR. TUROVSKY: Well I'm following, I think I'm  
14 reasonably following up on both your statements made and  
15 we're getting to the specific provision that you're now  
16 referring to. So I think it's fair background just to get  
17 to this. But to speed it up the main point is today you  
18 have suggested that under this other provision, which is a  
19 provision of the law that you cited in the beginning of  
20 this, that that is the method in which you could now  
21 theoretically impose a condition on the license requiring  
22 that the hub fees obtained.

23 CHAIRMAN SHAPIRO: I didn't say the word hub fee.  
24 I'm not referring to a hub fee.

25 MR. TUROVSKY: I'm sorry, an agreement, an

1 agreement with the TOC could be required. That you could  
2 require that as a condition of the license. But it just  
3 needs to be stated unequivocally that when you indicated  
4 that you had gone and done, gone to the law books and done  
5 the research it's not -- what you looked at is not complete.  
6 And in fact, that provision --

7 CHAIRMAN SHAPIRO: That's why I'm not a lawyer.

8 MR. TUROVSKY: That's right. And that provision  
9 would not, in fact under the law, entitle the Board to in  
10 essence redo the law and now create a requirement that you  
11 have it under the guise or the auspices of a condition. The  
12 fact that you cited provisions of the law. But with all of  
13 those provisions it is required that you, in implementation  
14 of those conditions, in the implementation of regulations,  
15 you cannot as an executive agency rewrite the law. That is  
16 not what you are entitled to do.

17 CHAIRMAN SHAPIRO: I understand that.

18 MR. TUROVSKY: And that is what you would be  
19 doing. And so those provisions do not change under, do not  
20 change the outcome of this analysis. That you could instead  
21 of simply saying, they have this right and we're going to do  
22 it as a condition, it doesn't change the law, whatever.

23 Now again, you don't have to, you know, rely  
24 entirely on my analysis because this has been already the  
25 subject of this opinion that was requested by the President

1 of the Senate Don Perata. And the legislative counsel wrote  
2 specifically, Section 19562 requires the Board's rules,  
3 regulations and conditions to be consistent with the horse  
4 racing law.

5 Now they were answering the question whether or  
6 not may the California Horse Racing Board require the  
7 parties to a contract that provides for advanced deposit  
8 wagering prior to executing the contract to obtain the  
9 consent of the horsemen's organization regarding the amount  
10 of compensation to be paid as part of the contract? The  
11 answer was, no. Section 19562 requires the Board's rules,  
12 regulations and conditions to be consistent with the horse  
13 racing law.

14 Now just to break in there I will note that  
15 there's lots and lots of case law that establishes exactly  
16 that proposition. It is a fundamental proposition that you  
17 cannot exceed a law when you issue a regulation, when you  
18 issue an approval or when you create a condition. So the  
19 provision that you're citing doesn't change any of that.

20 This goes on to say, subdivision D of Section  
21 19604, which set forth the advanced deposit wagering  
22 contract process does not assign a role to horsemen's  
23 organizations in that contract process. We think that the  
24 imposition of this consent condition would be inconsistent  
25 with Section 19604 specifically and the horse racing law

1 generally, and therefore that the Board is not statutorily  
2 authorized to impose that condition.

3           So that's the overall point. However you were to  
4 come at it, whether it's dispute resolution as Commissioner  
5 Harris had indicated. If it were some mechanism of dispute  
6 resolution, provided a law that required that fundamentally.  
7 But if it doesn't you can't use that as a method to change  
8 the law. These would be decisions made by the legislative  
9 branch. You could obviously state your views over the way  
10 the law ought to be in the future. But it's not the  
11 province of this agency to change the law, to rewrite it,  
12 whether it's under the auspices of conditions or dispute  
13 resolution or any other, or any other way.

14           CHAIRMAN SHAPIRO: So taking your logic then I  
15 guess what is available to us, if you're right is, that we  
16 could adopt this, we could approve an application, or we  
17 could not approve an application, right?

18           MR. TUROVSKY: Not right.

19           CHAIRMAN SHAPIRO: Not right?

20           MR. TUROVSKY: You would have to -- Of course you  
21 could not willy-nilly just deny an application.

22           CHAIRMAN SHAPIRO: No, I understand that. But  
23 again, our problem is that what we're struggling with here  
24 is how we can get, find a way to make ADW better for  
25 everybody.

1 MR. NATHANSON: And Chairman Shapiro.

2 CHAIRMAN SHAPIRO: Let me finish please, David.

3 MR. NATHANSON: Certainly.

4 CHAIRMAN SHAPIRO: Okay? And again I certainly  
5 appreciate what TVG does. But we're also looking at it that  
6 not enough revenue appears to flow into purses. That's what  
7 one of our concerns is. And we think, based on this Board's  
8 actions since the inception of ADW, there has always been an  
9 agreement, whether by law or not, required by law or not,  
10 there has always been an agreement with the horsemen.

11 MR. NATHANSON: Okay.

12 CHAIRMAN SHAPIRO: This is the first time that I  
13 know of where what I've heard is that you're saying, if we  
14 can reach one, great, but if we can't don't hold up our  
15 license. And I'm paraphrasing. I understand that. I'm not  
16 telling you what the rate should be, I'm not talking about  
17 rate. What I'm talking about is working with the horsemen  
18 to come to a way to make racing and ADW better.

19 MR. HINDMAN: Can I, can I clarify something,  
20 Chairman Shapiro? TVG's application that has been submitted  
21 in this instance is not in any way different than any  
22 previous application that has been approved by the Board.  
23 And again, the only reference to prior horsemen's approvals  
24 in the law or the regulations is the Interstate Horse Racing  
25 Act. And we have complied with that every day of our

1 existence in California and that's what that's referring to.  
2 And we have done that. So again, whether -- To Mr.  
3 Nathanson's point, whether or not we do or do not enter into  
4 a relationship with the TOC is in our view a different  
5 matter.

6 COMMISSIONER MOSS: Let me just ask you a  
7 question, one quick question.

8 COMMISSIONER HARRIS: One issue -- Go ahead.

9 COMMISSIONER MOSS: Did you guys have to make a  
10 deal or make an agreement with the TOC?

11 CHAIRMAN SHAPIRO: If you strictly look at the  
12 law --

13 COMMISSIONER MOSS: Do they have an agreement?  
14 Did the TOC approve the deal?

15 CHAIRMAN SHAPIRO: The TOC --

16 COMMISSIONER MOSS: We have reviewed that, for  
17 example.

18 CHAIRMAN SHAPIRO: The TOC has entered into  
19 agreements in the past with XpressBet and with Youbet.

20 COMMISSIONER MOSS: Right.

21 CHAIRMAN SHAPIRO: And XpressBet and Youbet have  
22 both said they are willing to continue that practice.

23 COMMISSIONER MOSS: And we heard from the  
24 president of Youbet that he is not doing for California what  
25 he could be doing because there is just not enough money in

1 it for them.

2 CHAIRMAN SHAPIRO: Right.

3 COMMISSIONER MOSS: In the case of TVG they are  
4 emphasizing California. They're emphasizing California in  
5 the biggest forum. Their game goes to every household in  
6 the state. They would like to make an arrangement with  
7 Santa Anita and Golden Gate, they expressed a desire to do  
8 that. They're having conversations with the TOC. They have  
9 an independent, you know, an individual that is trying to  
10 arbitrate the situation. So shouldn't we let these  
11 conversations continue and see what they come up with or see  
12 what happens?

13 CHAIRMAN SHAPIRO: Oh sure.

14 COMMISSIONER MOSS: All I'm understanding -- I'm  
15 just trying to understand the role of the TOC and how it  
16 works because the TOC made a deal with Youbet and Youbet  
17 isn't spending any time or any money in California. I don't  
18 understand what the reason for that deal is in certain ways.  
19 I mean, you know, because we are not getting the greatest  
20 cooperation out of Youbet then. Or we should lower our fees  
21 so that Youbet does work for us. I'm just trying to figure  
22 this out in a certain reasonable sense.

23 COMMISSIONER HARRIS: Actually I'm sure Youbet  
24 would like to respond to that. But I'm not really clear  
25 though. Even if you assume that somehow the horsemen don't

1 need an agreement with the ADW provider isn't it pretty well  
2 agreed they do need an agreement with the track? Is that  
3 agreed? Whatever track is going or is it just some track is  
4 part of the thing. But assuming that you had it with each  
5 track could, in fact, the horsemen use their other  
6 agreements they clearly do have to have as leverage to  
7 encourage the track to do whatever they felt should be done  
8 on the ADW rates? I'm just not that familiar with that.

9 MR. COUTO: Drew Couto, Thoroughbred Owners of  
10 California. You've hit at the practical problem. I mean,  
11 we can today condition our consent on the use of our signal,  
12 not only on the hub fee rate. This is our view, lawyers get  
13 paid a lot of money. There's a lot of lawyers getting paid  
14 in here, we have different opinions. But we could condition  
15 our consent to the use of the California signal both on the  
16 hub fee rate being applied in-state and on the hub fee rate  
17 being applied out-of-state.

18 We have -- The federal law doesn't limit what we  
19 can put into our consent, it doesn't say we have to say yes  
20 or no. It simply says we have a consent right that we can  
21 condition on whatever terms, economic terms we care to.  
22 It's a practical problem, whether TVG wants to believe the  
23 law entitles us, the current law entitles us to do what we  
24 have been doing for the past four years, or we use the  
25 federal law to do the same thing. It's a practical problem.

1           And I think you're dead on, Mr. Harris. We could  
2 use another vehicle to do that. We have tried not to do  
3 that because there are consequences to the industry if we  
4 withhold consent to do that. We have tried to work with our  
5 partners, we've worked it out every time before. We're just  
6 disappointed -- We're hopeful, we're disappointed we haven't  
7 got there yet.

8           And Mr. Moss, the reason, I think if you ask  
9 Youbet back down here, the reason they are not profitable  
10 isn't the hub fee rate. It's the fact I think, as  
11 Mr. Champion testified to, is the fact that they have to pay  
12 so much money to TVG on the exclusive side that it is no  
13 longer profitable for them, not the hub fee. I'd like Chuck  
14 to come down and explain to you in more detail but I'll wait  
15 until my turn to go through my response.

16           COMMISSIONER AMERMAN: You've had an agreement,  
17 Mr. Couto, every year until this year with TVG, is that  
18 correct?

19           MR. COUTO: That's correct. We have met and  
20 negotiated hub fee rates every year.

21           COMMISSIONER AMERMAN: We've heard from the other  
22 side. Why, in your opinion, haven't you been able to reach  
23 an agreement this year?

24           MR. COUTO: Well originally they rebuffed our  
25 invitation to meet and we didn't meet on this issue until --

1 really August or September I think is the first time they  
2 agreed to meet with the Board's, I think, urging. So, you  
3 know, I'd have to join with what John said. Yesterday was  
4 an encouraging meeting. We didn't, we didn't get to where  
5 we need to be but we all left open the door and I think  
6 everybody tried to negotiate in good faith.

7 COMMISSIONER AMERMAN: It strikes me that we're  
8 not going to solve what's already going on in mediation at  
9 the present time. And this conversation, while interesting,  
10 isn't going to get us anywhere.

11 CHAIRMAN SHAPIRO: And Mr. Shapiro and Members,  
12 Cathy Christian, also representing TVG. And we would urge  
13 you then as a result of that to consider approving TVG's  
14 license. TVG did submit all of the necessary information to  
15 the Board, it met all of the terms of regulation 2072. It  
16 does have an agreement with a live track that conducts  
17 racing 12 months out of the year. That track has an  
18 agreement with its horsemen. We have a horsemen's  
19 agreement.

20 Whenever we carry the signal from California  
21 racing on California thoroughbreds obviously the California  
22 thoroughbreds have to, the TOC has to agree to that. They  
23 have the ability right now to require that the terms are  
24 satisfactory to them. When we are not carrying that signal  
25 the Thoroughbred Owners of California do not have a stake.

1 They are not stakeholders in the signal we bring in from  
2 some other horsemen in another state through another track.

3           Therein sort of lies the problem. How far can TOC  
4 extend its reach, especially in the context of our approval  
5 to operate, meeting the minimum qualifications set out by  
6 the law and the regulations as an ADW provider. And since  
7 we have met all the qualifications we strongly urge you to  
8 approve our application.

9           That doesn't mean that we won't continue to have  
10 discussions. I think you've heard from the top of the  
11 company and its general counsel that there is value in  
12 having those agreements, that things would be better if  
13 there were such agreements. The role of the Horse Racing  
14 Board in encouraging those agreements is appreciated but not  
15 when it's to the point where you tell us we can't be  
16 approved as an ADW provider. We think that distorts the  
17 picture, it changes the leverage and it also doesn't bring  
18 any more money to anybody. It doesn't help the situation.

19           CHAIRMAN SHAPIRO: I don't think anybody wants TVG  
20 not to be approved. I certainly don't want that to be the  
21 case, okay. But who do you have an agreement with? You  
22 said you have an agreement for year-round --

23           MS. CHRISTIAN: With Los Alamitos.

24           CHAIRMAN SHAPIRO: Okay.

25           CHAIRMAN SHAPIRO: And we have had that same

1 agreement every year we have been approved since 2001 based  
2 on that agreement. Because the law only requires that the  
3 ADW provider have an agreement with a track conducting live  
4 racing. That's the only requirement. And we do have that  
5 agreement with Los Alamitos.

6 That's no different, by the way, than Magna's  
7 agreement with the Sacramento harness racing people. They  
8 use that when they are not operating their own track with  
9 their signal from their horsemen. So TVG is not unique in  
10 that regard.

11 COMMISSIONER HARRIS: But I think --

12 MS. CHRISTIAN: That is something the law  
13 provides.

14 COMMISSIONER HARRIS: I think there are some flaws  
15 in the law if that's the case but clearly the problem is, if  
16 you cannibalize California racing by people instead of  
17 betting on California they're betting on Meadowlands or  
18 something, I think that is damaging to California and we are  
19 here to improve California racing. And if we come up with a  
20 scheme that is counter-productive of that I think we've got  
21 a right to say so. Maybe the law is, we've got to change  
22 the law. But the overall righteousness of the thing I think  
23 is on our side.

24 MS. CHRISTIAN: I understand that. And we  
25 wouldn't disagree with you although I would point out that,

1 as the Chairman has pointed out, our focus is on California  
2 racing. We're not shorting California racing or avoiding  
3 dealing with California racing. That is the main focus of  
4 what we do, at least as far as TVG is concerned.

5 And we do think the proper forum for ironing out  
6 some of these anomalies that you're talking about is in the  
7 legislature. It's very hard for this Board to do it. You  
8 don't know what the consequences are for the business models  
9 that these, all of these companies have put together in  
10 order to determine whether or not they can operate in  
11 California. If you make an order and you don't know what  
12 the consequence is there could be a lot of unintended  
13 consequences. The forum for arguing about that should be a  
14 legislative hearing.

15 COMMISSIONER HARRIS: Well I don't know. I'll  
16 stipulate that I don't have too high of an IQ myself but the  
17 rest of these guys are smarter than your average legislator  
18 for sure. (Laughter and applause)

19 MS. CHRISTIAN: I won't touch that, Commissioner  
20 Harris.

21 CHAIRMAN SHAPIRO: Okay.

22 MS. CHRISTIAN: So once again it goes back to  
23 what's the matter before you now, TVG's application to be  
24 approved as an ADW provider. It doesn't mean that all of  
25 the things that you're saying that you think are important,

1 that all of the issues that may have to be ironed out in the  
2 law, that TVG is going to back away from.

3 And actually I would use as evidence the fact that  
4 TVG has found a way to work with the horsemen even though  
5 it's not required by law since 2001. It hasn't worked out  
6 as well this year, and this isn't the place to go into all  
7 the details. It should not be a condition of licensure. It  
8 should be something that we try to achieve. And it should  
9 be taken in all seriousness and all good faith and with all  
10 the pressure and encouragement of the Board. We certainly  
11 don't dispute that.

12 CHAIRMAN SHAPIRO: Thank you.

13 MR. LIEBAU: Jack Liebau from Bay Meadows and  
14 Hollywood Park and when we come to ADW I'm also a director  
15 of Youbet. But, you know, to give some historic perspective  
16 on these discussions that you're having, I think they all go  
17 back to about Christmas of 2005. It seems that things  
18 always seem to go awry when the meet that I have something  
19 to do with is about to open (laughter). And we had this,  
20 that's when all this started.

21 CHAIRMAN SHAPIRO: You're absolutely right.

22 MR. LIEBAU: And I know two of you with me were  
23 kind of reading, it's hard to believe but reading  
24 transcripts, Christmas Eve, Christmas I guess, you know.

25 COMMISSIONER HARRIS: For some of us it's

1 Hanukkah.

2 MR. LIEBAU: Yeah, right.

3 CHAIRMAN SHAPIRO: What's that mean?

4 MR. LIEBAU: At that point in time I had requested  
5 rulings from the Board, interpretation of the horse racing  
6 law, which you have the right to do, that would have framed  
7 the issues. We haven't really framed the issues. When  
8 you're up here talking about horsemen's agreements, you  
9 know, one side thinks that's for everything, the other side  
10 thinks, well, the horsemen's agreement is only, you know,  
11 only relates to what we're exporting, the Interstate Horse  
12 Racing Act.

13 And then after in January or so after we got,  
14 nothing was happening, you know what happened? All of a  
15 sudden TVG goes off and they're negotiating with Magna  
16 Entertainment and nothing is going on. The horsemen don't  
17 know what's happening, the tracks don't know what's  
18 happening. We're all out to lunch and the tracks and the  
19 horsemen are the biggest stakeholders in this deal.

20 But I think, you know, as Cathy said the law, you  
21 know, there are problems with it. And I have to confess  
22 that I was probably one of the craftsmen of the law but it  
23 was complicated. And we know a lot more now than we knew  
24 then. But probably back then when we got the law written  
25 and got it enacted it was probably pretty good as far as,

1 you know, that period in time was concerned.

2           And I think what we need to do is to focus on what  
3 should be done to make things better and that's going to  
4 take changes in the law. Now there was a hearing that I  
5 think was chaired by Chairman Shapiro and Dean Flores,  
6 Senator Flores, some time ago. And we were all requested to  
7 submit letters as to what our ideas were as far as improving  
8 the law.

9           And, you know, we're spending a lot of time here  
10 but nothing is happening there. We aren't getting from here  
11 to there and that's what we've got to do. Otherwise we're  
12 just going to come to meetings and Youbet is going to buy  
13 lunch and I'm going to pay for it and, you know (laughter).  
14 It just doesn't make any sense as to what the hell is going  
15 on here, you know. We've got to try to fix it but I don't  
16 know whether we're zeroed in on fixing it.

17           CHAIRMAN SHAPIRO: You know what, I agree with you  
18 totally. I mean, I think we're all frustrated because we  
19 are trying to fix it. And the problems are that ADW is  
20 extremely complex, it's very difficult to understand all the  
21 nuances. And it's very disheartening to me when we hear  
22 that we have one ADW company that isn't in the position to  
23 market California, we have an ADW company that does a great  
24 job of television, we have another ADW company that, you  
25 know, only broadcasts their own tracks. We're all

1 struggling to where we can try to do that.

2 COMMISSIONER MOSS: Yeah, this is the first sort  
3 of few months we've actually really put a microscope on ADW.

4 CHAIRMAN SHAPIRO: I agree.

5 COMMISSIONER MOSS: And I think on that basis, I  
6 mean, now we're on the so-called track to find out more and  
7 maybe more educated suggestions on how we might be able to  
8 improve things, you know. But on that basis, you know,  
9 understanding that we're coming up to the year and people,  
10 all these people need licenses to continue, I would make a  
11 motion, you can accept it or not, that we at least give  
12 these people the opportunity to continue. But in the course  
13 of this next year really evaluate what we could do and make  
14 our suggestions on how we can improve the situation. But in  
15 the meantime people have to have licenses to operate.

16 CHAIRMAN SHAPIRO: Well their licenses don't  
17 expire until 12/31 and we're going to meet in November. I  
18 was just hoping that we would be able to have more  
19 information and more clarity before we -- nobody is in  
20 jeopardy right now. And so that was the reason why I was  
21 looking at it and saying well perhaps there will be more  
22 discussions with all of the parties. That they might be  
23 able to find a better framework to work and to enhance  
24 racing. And that's why I thought that if we carried them  
25 over to next month for action that would be the better way

1 to go.

2 COMMISSIONER HARRIS: I think that's a good idea  
3 because I just -- Once we grant the license they're going to  
4 all go home and forget about it and talk about, well we'll  
5 get together next week or next month or next year or  
6 something. But this industry likes to procrastinate and I  
7 think the only leverage we've got is to hold up on these  
8 licenses.

9 COMMISSIONER MOSS: It seems to me dealing with  
10 the other two ADW providers is a little different than TVG.

11 COMMISSIONER HARRIS: No, I'm saying to hold up on  
12 all of them.

13 CHAIRMAN SHAPIRO: No, no, no, we did that with  
14 the other two.

15 COMMISSIONER MOSS: Well yeah, all they have to do  
16 is fill out their applications I suppose.

17 CHAIRMAN SHAPIRO: No, they've done all that.

18 COMMISSIONER MOSS: Oh really, okay.

19 CHAIRMAN SHAPIRO: No, no, they have done all  
20 that. I think that --

21 COMMISSIONER HARRIS: The others don't have  
22 horsemen's agreements either or any kind of agreements.

23 COMMISSIONER MOSS: Well I deal with, you know.

24 CHAIRMAN SHAPIRO: No, no, they have all filled  
25 out the applications. I think that they were all equally

1 complete or incomplete.

2 COMMISSIONER MOSS: Then let me make a motion and  
3 let's go for it.

4 MS. CHRISTIAN: Mr. Chairman, could I just ask  
5 then if the reason for not approving our license at this  
6 time is because we do not have an agreement with the  
7 Thoroughbred Owners of California?

8 CHAIRMAN SHAPIRO: No, that's not --

9 COMMISSIONER HARRIS: You don't have any of the  
10 tracks either.

11 MS. CHRISTIAN: Yes we do and we've submitted it.  
12 We have it with Los Alamitos, and which is what is required  
13 under the statute.

14 COMMISSIONER AMERMAN: Does it cause you any harm  
15 to wait until next month?

16 MS. CHRISTIAN: Well the reason I --

17 COMMISSIONER AMERMAN: Does it?

18 MS. CHRISTIAN: The reason I ask is because it is  
19 on the agenda, we prepared a presentation, we submitted a  
20 completed application. It seems to me that unless there is  
21 a particular reason why we wouldn't --

22 COMMISSIONER AMERMAN: That wasn't the question I  
23 asked, however.

24 CHAIRMAN SHAPIRO: You know, what I would like to  
25 do is I think we should deal with them all at the same time.

1 COMMISSIONER AMERMAN: I agree with that totally.

2 CHAIRMAN SHAPIRO: And for that reason I would  
3 like to move that we all take more time to digest, to review  
4 the information, and that we come back next month and  
5 consider the approval of all three applications at that  
6 time.

7 CHAIRMAN BIANCO: Second.

8 CHAIRMAN SHAPIRO: All in favor?

9 (Ayes)

10 CHAIRMAN SHAPIRO: Okay.

11 MR. JAMGOTCHIAN: Mr. Shapiro, I have just a  
12 couple of questions I would like you to consider with regard  
13 to this issue. First off, I don't know if I'm just missing  
14 something but it seems to me like TVG's model is to take  
15 over the business of the other providers. It seems to me  
16 that their major focus is the future. And I think that the  
17 lawyers over here, and I have a little litigation experience  
18 (laughter), it seems to me that the counsel over here, and  
19 I'd probably be doing the same thing. If they have the  
20 legislative ability to delay they're going to get more time  
21 to take advantage of their providers, of the people that  
22 they sell their signal to.

23 The thing that I wonder about is, has anybody ever  
24 analyzed TVG's contract to see if they aren't actually in  
25 violation of their contract in some manner? Because I don't

1 know a lot about this but my question is, what gives them  
2 the right to assign the signal all around the United States  
3 for other people to use? I don't know that they have that  
4 right to do that because I am not conversant with this  
5 contract and maybe somebody that is should look at that.

6 But I think that if we have attorneys here that  
7 are figuring out ways that you can't modify laws that you  
8 clearly have the ability to control, why is it that maybe  
9 you don't get the leadership that you need to determine  
10 whether they are in violation of it and maybe you can make  
11 this a level playing field. Because the only people that  
12 are getting disadvantaged here are the owners.

13 And I agree with you that the owners need to get  
14 some kind of help, obviously, because if not TVG won't need  
15 to worry about it. They can do all the wonderful  
16 programming they want. This is not about programming, this  
17 is about handle and this is about fair revenue being  
18 generated to the horsemen.

19 A couple of other comments. The other thing that  
20 bothers me when I sit up here as a business person, these  
21 guys obviously are concerned about their bottom line. Well  
22 their bottom line can be created in a lot of different ways.  
23 On-air advertising, services to their many millions of  
24 customers. They have the ability to expand their profit  
25 base tremendously. Maybe they don't have to do that because

1 they're making so much money and taking so much money away  
2 from the horsemen.

3           You ought to put it to all these people and say  
4 look at, you need to be profitable. You need to figure out  
5 ways to be profitable. And if your business model doesn't  
6 work in California then maybe you go somewhere with your  
7 business model where it works. Why grant a license to  
8 somebody whose business model is in direct conflict with the  
9 state of California and the horse racing industry. Thank  
10 you.

11           CHAIRMAN SHAPIRO: Thank you.

12                   (Commissioner Moss exited the  
13                   meeting room.)

14           VICE CHAIRMAN MORETTI: There are clearly, there  
15 are clearly problems with ADW, it's new. But it's one of  
16 those kinds of things that we're addressing the best that we  
17 can, that next year the legislature has to address. But  
18 frankly, and I'm not trying to necessarily stand up for TVG  
19 or any one company but they have done more to advance the  
20 cause of horse racing out there to the public than anyone,  
21 any group has.

22           MR. JAMGOTCHIAN: They're not economical. They're  
23 not economical.

24           VICE CHAIRMAN MORETTI: That's not my point. But  
25 I'm not going to get into an argument with you. I just

1 wanted to make a point.

2 CHAIRMAN SHAPIRO: You know, again as we conclude  
3 this. I am concerned that I certainly don't want to leave  
4 the wrong impression. I think TVG is great. I mean, I keep  
5 telling you that, to the people at TVG. I'm a big fan of  
6 TVG. I do not want to see TVG go away, I don't want to see  
7 it unprofitable. All I'm trying to do is get TVG and Youbet  
8 and XpressBet to find a way to get more out of ADW wagering  
9 for the benefit of horse racing. That is my only concern  
10 about it.

11 I mean, Tony, I think you do great stuff with all  
12 the TV shows and everything else. You know, we're very  
13 fortunate to have you involved. It's just the economics  
14 that we're struggling with. So please don't leave here with  
15 the impression that -- I don't think anybody here is against  
16 TVG because that's not the case, nor any of the other ones.  
17 Yes sir.

18 MR. SOLOMON: Hi, Scott Solomon, general counsel  
19 for Youbet. Before this item closed I wanted to make sure  
20 that we got something on the record. We certainly learned  
21 something today, that there are discussions between Magna  
22 and TVG to share content that is being facilitated in some  
23 respects by members of this commission.

24 I know that our TVG contract is part of our  
25 application. We would ask you to look at Section 1.15

1 because I think some of you are aware of this issue but I  
2 want to remind you all that there is a provision in our  
3 contract that states that if TVG is able to acquire access  
4 to Magna content, even on a non-exclusive basis, that TVG  
5 would have the right to charge us an exclusive license fee  
6 of the 5.5 percent that they charge on their current  
7 exclusive tracks.

8           So if you are trying to get the level playing  
9 field and get the broadest distribution possible this is  
10 almost like a water balloon where if you squeeze on one end  
11 you may solve the problem one end but it creates a problem,  
12 an even bigger problem on the other end. So when you're  
13 having those conversations I would ask that you keep in mind  
14 that it's not just an issue between two ADW companies but  
15 all three of us that are here today. Thank you.

16           CHAIRMAN SHAPIRO: Thank you. And I apologize for  
17 not calling you sooner.

18           MR. CRISTOFANO: That's okay. Mr. Shapiro and  
19 Board Members. My name is Albert Cristofano, I am the  
20 chairperson for the Southern California Horse Racing Fans  
21 Committee. And I would like to express our appreciation and  
22 gratitude for your hard work in trying to keep this train on  
23 the track. And with that I just have a couple of comments  
24 germane to these discussions.

25           First of all the good news is I don't have a

1 contract and I'm not looking for a contract with anybody.  
2 That being said, I do represent a segment of the  
3 stakeholders, the fans. And our concern is of the end user.  
4 When Santa Anita is running in order to bet a race at Santa  
5 Anita we have to have either XpressBet or Youbet and if we  
6 want to bet Churchill Downs we have to have TVG.

7 We are requesting that you exert all influences  
8 with the parties to come together in order to make it  
9 simpler, easier and user friendly for the fans to be able to  
10 use one ADW company to handle the races in California, all  
11 the races in California. And that is my main message and  
12 request. That you consider this when you grant licensing,  
13 when the law is revised or reviewed at the sunset of 2007.  
14 And with that I leave you with my best wishes and good luck.

15 CHAIRMAN SHAPIRO: Thank you. Towards that end I  
16 think that it is appropriate just to make a statement that  
17 Commissioner Amerman and I and the representatives of MEC  
18 and Mr. Nathanson and Mr. Hindman of TVG did in fact meet, I  
19 think it was a week ago.

20 And I think that everybody worked very hard and  
21 was very forthcoming to try and see if there is any way  
22 possible so that TVG would be able to show racing at Santa  
23 Anita at Golden Gate. I think that analysis is still being  
24 done. I think the horsemen were helping us try to figure  
25 out the financial aspects of it. But everybody was very

1 forthcoming and very desirous of trying to make that happen.

2 Is that a fair representation from your perspective?

3 MR. NATHANSON: Yes sir.

4 CHAIRMAN SHAPIRO: Thank you. Okay, we are now on  
5 to item number 6. No, Item 6 is the last of the ADW issues  
6 and this deals with the item that has been carried on our  
7 agenda from the beginning of the year. I think we covered a  
8 lot of it in what we just had, the discussion we've had, so  
9 I don't know. Do you have something that you wish to add to  
10 it?

11 MR. COUTO: I do. I think you have covered one  
12 side of it and I think there is another side that needs to  
13 be addressed. But before we do that I want to go back and  
14 thank you behalf of the TOC Board and behalf of owners.  
15 Thank the entire board, and in particular the strategic  
16 planning and dates committee for the work you did. I didn't  
17 have a chance to get up and do that before.

18 You did that under an immense amount of pressure  
19 from places it shouldn't have occurred. You did it to the  
20 rest of us with the best interests of the industry in mind  
21 and at heart and on behalf of the owners we thank all of you  
22 for working so hard under the pressure to hopefully come up  
23 with something that will work in 2007. We believe it will  
24 and that you did a great job.

25 Before I get into this issue I want to share with

1 you the fact that you all made some great comments about us  
2 needing to work together. And I'll share that the other  
3 night I had the pleasure of having dinner with the new CEO  
4 for Churchill Downs and it's funny how somebody else's  
5 perspective can really be helpful once in a while.

6 He said, he said, you know, you folks don't  
7 realize how good you have it in California. And this is the  
8 new CEO of Churchill Downs. He said, you don't realize how  
9 good you have it in California. You're about to have  
10 engineered racing services and you're going to have them on  
11 all your tracks, major tracks, by the end of 2007.

12 You still have if not the best purses close to the  
13 best purses in the country. You have great stakes races,  
14 you have wonderful trainers and riders. You have plenty of  
15 enthusiastic owners, you have great weather. And went  
16 through a list of features about California racing that I  
17 think we as an industry often overlook. And it was, it was  
18 really a pleasure to have that conversation with somebody  
19 with a different perspective on California racing.

20 So it helped, it helped me and I think your words also  
21 helped us today to realize that, you know, there is rhetoric  
22 in saying we are trying to work for the industry but I think  
23 it's more important to see that we actually all do work  
24 together. We sit down before anyone launches initiatives  
25 and makes certain that it works for the entire industry.

1 And you have TOC's commitment. I can assure you that that  
2 is the language we intend to do business and have intended  
3 to do business, so we will.

4 (Commissioner Harris exited  
5 the meeting room.)

6 Now I am going to try and kick through this.  
7 You've all been here a long time. You're tired and so am I.  
8 Let me see if I can do this -- I am going to summarize the  
9 difference between TVG's view and TOC's view about these  
10 issues is one of strict application and interpretation. We  
11 have some disputed ADW issues and we've opinions from  
12 counsel here and they have shared opinions of legislative  
13 counsel who were arranged by the lobbyists for TVG at the  
14 request of Senator Perata.

15 And really what TVG is suggesting is that you only  
16 need to look at one statute to understand ADW. You only  
17 look at one statute and you strictly apply that and I don't  
18 believe that's what the horse racing law requires.

19 So there are three issues. The three issues are,  
20 does the Horse Racing Board -- and I'll work through this as  
21 fast as I can. Does the Horse Racing Board have authority  
22 to condition an ADW license? Does the Horse Racing Board  
23 have authority to administer and establish procedures by  
24 which California's horse racing laws and regulations shall  
25 be applied and interpreted?

1           Has TVG's failure to strictly comply with the  
2 terms -- again we're talking about strict application. Has  
3 their failure to strictly comply with the terms -- The  
4 question is, has TVG's failure to strictly comply with the  
5 terms of the Interstate Horse Racing Act rendered its  
6 handling of interstate wagers in the state of California.

7           It's arguably -- you know, the question that you  
8 have to ask is, is it now illegal activity? If you fail to  
9 comply with the Interstate Horse Racing Act does that become  
10 illegal activity? Again I'll go through this very quickly,  
11 you cited it. B&P Code 1940 says that the Horse Racing  
12 Board has the power to condition any license. And when you  
13 have done that with regard to riders you have imposed  
14 conditions that are nowhere in the rule books, nowhere in  
15 the law. You have the power to do that.

16           And the Legislature, the entire Legislature gave  
17 you this power. It is not being questioned by a single  
18 legislator. But this is what the California Legislature  
19 empowered the Horse Racing Board to do and that is set  
20 condition on any license. Again, you have regulatory  
21 authority to do the same thing under Rule 1485. you can  
22 place any condition on a license and that licensee must  
23 strictly comply with that condition.

24           Do you have authority to administer and interpret  
25 and apply the laws. Again we go to what the California

1 Legislature empowered this Board to do. You look at 19440  
2 and it specifically says that you have responsibilities and  
3 you have the power to adopt rules, to administer and enforce  
4 not only those rules but the horse racing law. You can  
5 adjudicate any controversies arising from those laws. And  
6 you can license any party to engage in this activity.

7 In fact, again, regulatory power under Rule 1400.  
8 Any power not specifically defined in the rules and  
9 regulations are reserved to the Board. So if there is not a  
10 specific provision that deals with the issue you have the  
11 power to resolve it.

12 Now I am going to kick through this very quickly  
13 because of the suggestion that you are limited to the exact  
14 terms of B&P Code 19604. The California Supreme Court in  
15 Sandstrom v. California Horse Racing Board stated that this  
16 Board has plenary authority. What does that mean? It means  
17 you have full, entire, complete, absolute, perfect and  
18 unqualified powers with regard to the regulation of horse  
19 racing activity. Now what it said is your decisions can  
20 only be reviewed to the extent of determining whether or not  
21 your regulatory activity was reasonable.

22 In Sangster v. California Horse Racing Board the  
23 Appellate Court looked at your ability to interpret and  
24 apply the rules of law. And it said, the Agency's  
25 construction of its own regulations and the laws over which

1 it sees are entitled to great weight unless clearly  
2 erroneous or unauthorized. It further said that the purpose  
3 of interpreting the law and your role is to promote it --  
4 sorry. When interpreting a statute the objective is to  
5 promote its purpose, render it reasonable and to avoid  
6 absurd consequences.

7           What we talk about in 19604 and the ability of the  
8 ADW providers to negotiate with the tracks the hub fee rates  
9 we have to go back to 2002 when we all recognized that  
10 Xpressbet was owned by MEC, which owned tracks with which it  
11 was going to negotiate. TVG had given equity interest to  
12 founding tracks, so it was again they were negotiating with  
13 themselves. And this Board determined that in order to  
14 avoid an absurd result of allowing ADW companies to  
15 negotiate with themselves you said, we're going to  
16 procedure. And that procedure was, we have to have an  
17 agreement with the horsemen. And because of the business  
18 logic of everyone involved that agreement was used to set  
19 the hub fees and has been used every year since.

20           Again looking at Sangster the Appellate Court said  
21 that this Board has the authority to adjudicate  
22 controversies arising from the application and  
23 interpretation of the rules and law. You have both a  
24 legislative and rule-making function, you have an  
25 adjudicatory judicial function. And the latter typically

1 involves the application of the rule and the law to a  
2 specific set of circumstances. That is what not only the  
3 Legislature empowered this Board to do but the California  
4 Supreme Court and the Appellate Court confirmed that those  
5 are the powers you have.

6           Okay, I'm going to try and wrap up quickly.  
7 Again, what TOC has been asserting throughout this is that  
8 by virtue of the authority granted to the CHRB by the  
9 Legislature and confirmed by the judicial system the CHRB  
10 has within its power unquestionably to condition ADW  
11 licenses in the manner you deem reasonable and necessary.  
12 You are again empowered to interpret and administer and  
13 apply the horse racing law and CHRB regulations in a  
14 reasonable manner as the Board deems appropriate and  
15 necessary.

16           And lastly, you are empowered to adjudicate the  
17 hub fee dispute between TOC and TVG. That's what the  
18 California Legislature has given you specific authority to  
19 do. TVG asserts that the CHRB must construe and apply the  
20 laws and regulations applying to ADW activities very  
21 strictly and very narrowly. So this comes back to this  
22 question. If we apply the law strictly and narrowly as  
23 suggested by TVG, if we just look at 19604 and apply that  
24 and say nothing else matters, then that application and  
25 interpretation must apply to all law pertaining to TVG.

1           Last month Mr. Hindman enumerated three things  
2 that he understood, that TVG understood was required for  
3 their license. And he identified the third. He said, among  
4 other qualifications in the application he said that you had  
5 to comply with the Interstate Horse Racing Act. And he  
6 says, that is what we understood then and understand now as  
7 to our obligations to be. TVG understood that. Ms.  
8 Christian got up and confirmed. She said, and as a result  
9 the Interstate Horse Racing Act provisions do apply.  
10 Mr. Hindman and Ms. Christian said that's the case.

11           In fact they have asserted that against TOC our  
12 only rights are limited under the Interstate Horse Racing  
13 Act. Well let's look actually at what the Interstate Horse  
14 Racing Act does say. It says, an interstate off-track  
15 wager. That's basically an imported wager. May be accepted  
16 only if consent is obtained from four parties, the host  
17 racing association, the host horsemen's association, the  
18 host racing association (sic) and the off-track racing  
19 commission. That means -- Let's go through it.

20           Off-track racing commission. When a race is  
21 imported into this state under the Interstate Horse Racing  
22 Act TVG must apply to you, must seek the permission of the  
23 CHRB to import that race. That is the specific requirement  
24 of the Interstate Horse Racing Act. And as I said, it is  
25 defined. I think you have a provision there. It's defined

1 in the Interstate Horse Racing Act under Section 3011 and  
2 3006. Those are the definitions. And again, an off-track  
3 state means a receiving state.

4 Under Section 3004(b), requires the off-track  
5 betting office to obtain the approval of a currently  
6 operating track within 60 miles of the off-track betting  
7 office. Interpreted what that means is that if they take a  
8 wager within 60 miles of an operating track TVG under the  
9 Interstate Horse Racing Act is required to have the specific  
10 permission and consent of that track.

11 For example, in the winter when we had this issue  
12 about TVG importing with no agreement with either MEC, Santa  
13 Anita or Golden Gate or TOC, if you strictly apply the  
14 language of the Interstate Horse Racing Act, they not only  
15 did not have the consent of the Board, they did not have the  
16 permission of a track running live at that time.

17 The Interstate Horse Racing Act is the only law  
18 that permits interstate wagering. If you conduct, if you  
19 accept an interstate wager in a manner other than that  
20 permitted by federal law, permitted by this specific law,  
21 you are engaged in illegal wagering activity. Let me say  
22 that again. If you import and accept a wager in a manner  
23 other than specifically authorized by federal law you are  
24 engaged in illegal wagering activity. It is my  
25 understanding from talking to the NTRA and talking to the

1 TRA and the Department of Justice that the Department of  
2 Justice considers interstate wagering outside of the  
3 Interstate Horse Racing Act to be a potential violation of  
4 the Wire Act.

5 (Commissioner Amerman exited  
6 the meeting room.)

7 I am not trying to accuse TVG of illegal activity.  
8 I am simply saying if you interpret the statute strictly,  
9 whether you're talking about 19604 or the Interstate Horse  
10 Racing Act, if you live by interpreting that strictly and  
11 forgetting about all the other laws you end up with this  
12 type of result.

13 Before any ADW company is licensed in this state  
14 we probably have to resolve these issues. Is it being done  
15 properly under the Interstate Horse Racing Act? Because  
16 unfortunately the state doesn't have the ability to  
17 authorize interstate activity. That's exclusively the  
18 province of federal law and the federal law requires  
19 compliance with these statutes.

20 So before anyone is re-licensed, and I think as  
21 quickly as possible given the activity that is going on, we  
22 should make a determination of whether or not the activity  
23 is in fact legal because it hasn't complied with the  
24 specific provisions.

25 CHAIRMAN SHAPIRO: Go ahead.

1           VICE CHAIRMAN MORETTI: Speaking for myself, and I  
2 think there's only one. Are you an attorney? There is only  
3 one attorney up here. I don't think that we're prepared to,  
4 other than listen to what you're saying at the moment, there  
5 is certainly nothing that I am prepared personally to deal  
6 with in this presentation.

7           MR. COUTO: Sure.

8           CHAIRMAN SHAPIRO: I agree with that. And what I  
9 would ask is that obviously what you're talking about is  
10 very concerning. And I would ask that you present this to  
11 our Deputy Attorney General for him to review and provide  
12 information to us back so that he can review this and report  
13 back to us. Again, none of us wants to see, none of us  
14 wants to see that any ADW company is not going to continue  
15 in the state of California.

16          MR. COUTO: Correct.

17          CHAIRMAN SHAPIRO: Okay. I want to be really  
18 clear on this. I want to keep TVG doing business in the  
19 state of California. I want them to continue to service  
20 every track. I want them to service more tracks. I want to  
21 enhance their business, okay. I want the same thing for  
22 XpressBet, I want the same thing for Youbet, all right. So  
23 I don't know where this is leading and if this is a concern  
24 than we need to look at the concern.

25                 This discussion is to be a discussion for the

1 betterment of racing, not for the destruction of racing.

2 MR. COUTO: Correct.

3 CHAIRMAN SHAPIRO: And therefore I would ask that  
4 -- well good, you've got thank you up there and that's kind  
5 of what I was hoping was going to be up there. That we  
6 could kind of do a little time out here and say, okay. I  
7 appreciate your legal arguments, now is not the time for  
8 legal arguments. Let our attorney look at it and let us go  
9 from there.

10 And in the meantime we all have to find a way.  
11 Let's keep it at the level that you guys are talking. I  
12 hope you'll continue talking and you'll come back and say,  
13 hey, you know what, we have an agreement or we have a way to  
14 help enhance ADW wagering. And if we can leave it at that I  
15 would like to but I have a hunch that Ms. Christian is going  
16 to want to say something.

17 MS. CHRISTIAN: Well I would ask that we have just  
18 a minute to respond since the entity you have asked us to  
19 have a conversation with has just in so many words accused  
20 us of committing a federal crime. So, you know, I mean --

21 CHAIRMAN SHAPIRO: I'm not sure --

22 MS. CHRISTIAN: To give you a little flavor, give  
23 you a little flavor.

24 CHAIRMAN SHAPIRO: I'm not sure you were accused  
25 alone.

1 MS. CHRISTIAN: So I think the Chairman had a very  
2 good point with respect to trying to engage in conversations  
3 for the betterment of California racing instead of finding  
4 ways to drop nuclear bombs to destroy it. And we will take  
5 a look at -- I don't know what you would call it. The  
6 lecture that Mr. Couto just gave us and see what we think of  
7 it. We'd be happy to talk to the Attorney General as well  
8 to see what we have by way of information.

9 But by and large what I want to stress again is  
10 that, and I want to go back to the legislative counsel  
11 opinion, which is obviously the opinion of one lawyers but  
12 they are the lawyers for the Legislature and I'm sure the  
13 Attorney General will want to look at that too, that we have  
14 to be careful about how we proceed. That we don't want to  
15 act precipitously, we don't want to act in ways that make  
16 people feel that their only response is defensive. We want  
17 to reach out. And to the degree that you have encouraged us  
18 to do that Mr. Chairman, I'm not saying that that's what you  
19 have done. I am just saying that the talk about not  
20 licensing people and stopping ADW and all of that that comes  
21 from some --

22 CHAIRMAN SHAPIRO: If that is what you're coming  
23 away from this discussion with I don't know how to tell you  
24 you're wrong, other than --

25 MS. CHRISTIAN: Not from you, Mr. Chair. I'm not

1 saying that that is what you said.

2 CHAIRMAN SHAPIRO: Okay. Then I don't think  
3 you've heard it from anybody up here and we're the ones that  
4 get to raise our hands, okay.

5 MS. CHRISTIAN: Okay.

6 CHAIRMAN SHAPIRO: I have every desire and intent,  
7 and I believe everybody sitting up here does, is to give TVG  
8 a license, is to give Youbet a license and it is to give  
9 XpressBet a license. Okay? Go home and relax, not thinking  
10 that somebody up here is trying to put TVG out of business  
11 because that is simply not the case. Okay? what we're  
12 looking for is how can we make it better for the fans, for  
13 the tracks, for the horsemen and for you. That is all we  
14 are trying to do. Okay?

15 MS. CHRISTIAN: Okay, thank you very much and we  
16 appreciate that.

17 CHAIRMAN SHAPIRO: Thank you.

18 MR. HINDMAN: Just for the record.

19 CHAIRMAN SHAPIRO: Yes?

20 MR. HINDMAN: We categorically deny committing a  
21 federal crime and believe that the accusations are absurd.

22 CHAIRMAN SHAPIRO: John, John, you know what. I  
23 think that -- We got that, okay. We don't think you're, we  
24 don't think you're trying to commit a federal crime, okay.

25 MR. JAMGOTCHIAN: Chairman Shapiro, I actually

1 agree with that statement.

2 CHAIRMAN SHAPIRO: Which statement?

3 MR. JAMGOTCHIAN: Your statement telling TVG to  
4 relax. I think that you should tell them to relax, but as  
5 they're relaxing think about the creation of a business  
6 model that works for them and for the horse owners and the  
7 state of California horse racing. Because their business  
8 model doesn't really consider that. If they want to execute  
9 a horsemen's agreement I think that's a serious issue.

10 With regards to a couple of other things. It's  
11 now interesting that I pop up, ask what maybe was a stupid  
12 question asking them to look at, asking somebody in staff to  
13 look at that contract to find violations, then we find out  
14 Mr. Couto has got violations of federal law. Well once  
15 again I'm looking at staff here and I'm saying to myself,  
16 what is staff doing? If the TOC has to come up here to tell  
17 staff what the violations are I don't believe that CHRB  
18 staff is doing their job.

19 Additionally, the Board took a position with poly-  
20 track. Now I even agree that poly-track is a great  
21 opportunity for California horse racing. This is another  
22 good thing that you brought forward as a Board. This is a  
23 great opportunity to rewrite this law. To get it right. To  
24 put all of these providers in a position of getting  
25 direction on a model that works.

1           These guys are going to litigate you guys,  
2 obviously, because that's their plan. Get the law continued  
3 for another year or two, make a little bit more money. But  
4 you guys aren't doing anything to force them to get their  
5 model to work. So why don't you ask them to relax but relax  
6 them, have them relax but work on a model that works for  
7 California horse racing.

8           CHAIRMAN SHAPIRO: Thank you, Mr. Jamgotchian.  
9 Okay, thank you. All right, that's enough of ADW, please.  
10 We are now going to deal with -- all right, we are now going  
11 to jump to item number 14. Okay, item number 14 is -- thank  
12 you, Jackie.

13           STAFF SERVICES MANAGER I WAGNER: Jackie Wagner,  
14 CHRB staff. As you recall the Board recently reviewed the  
15 issue of uncoupling horses and in doing so experiments were  
16 conducted initially involving the thoroughbred racetracks at  
17 Hollywood Park and at Bay Meadows.

18           CHAIRMAN SHAPIRO: Can we please have it quiet, we  
19 can't hear a thing up here. I know everyone wants to leave  
20 but can you leave quietly.

21           STAFF SERVICES MANAGER I WAGNER: At the June  
22 meeting of the Board the experiment was expanded to include  
23 the Los Alamitos quarter horse meeting. And at that time  
24 also a proposal was implemented to repeal Rule 1606. We  
25 noticed that proposal.

1           At the August 2006 Board meeting the Board heard  
2 the report from Hollywood Park and Bay Meadows regarding  
3 their experience with the temporary suspension of Rule 1606  
4 and in addition Los Alamitos submitted a written report. At  
5 the close of the discussion it was represented from Los  
6 Alamitos that their experience with the suspension of Rule  
7 1606 was a success and wagering had increased by a  
8 significant amount and at that time they urged the Board to  
9 continue the experiment. However the report, as was  
10 reported in the transcript, was not acted upon and the Board  
11 subsequently voted to discontinue the experiment and to keep  
12 Rule 1606 on the books.

13           Los Alamitos has come before the Board and they  
14 are now requesting that the Board reconsider exempting  
15 quarter horse races from the uncoupling requirements of Rule  
16 1606. And I believe the representatives are here.

17           CHAIRMAN SHAPIRO: Okay, thank you.

18           DR. ALLRED: I am almost afraid to do this, it's  
19 been such a long day for everybody and hopefully this won't  
20 take very long.

21           CHAIRMAN SHAPIRO: Were you here all day?

22           DR. ALLRED: More than a couple minutes. Ed  
23 Allred, Los Alamitos, Mr. Chairman. This began, Chairman  
24 Shapiro knows, and Mr. Stronach, knows, kind of at the  
25 request of your former Commissioner John Sperry who runs

1 horses at Los Alamitos. And he made the point, and a good  
2 one I believe, that we don't have rabbits in quarter horse  
3 racing and we don't have really quite the same strategic  
4 problems that they have in thoroughbred racing.

5           In addition I'd like to point out something that  
6 happened just a month ago in a \$250,000 race with fillies  
7 and mares. We had a two horse entry. One of them would  
8 have been 50 or 60 to 1, the other one was the second  
9 leading contender and the entry went off at 3 to 1.  
10 Unfortunately that was being bet on flipped in the gate,  
11 which is a more common problem in our racing than others  
12 because the horses are primed to run out of the gate so fast  
13 and was scratched. I don't believe that very many of the  
14 public really knew that. It went up to 6 or 7 to 1 but most  
15 people didn't get their money back and they basically wasted  
16 their money and that's a bad situation.

17           We think it works very well for us. We have a lot  
18 of things going on now in the way of syndicates owning -- I  
19 have formed two of them myself. I have 20 people in one of  
20 them and 10 in another. Most of them are licensed owners.  
21 They may have -- It makes it very difficult to have all 20  
22 of those people or 10 of those people as the case may be and  
23 not have potential multiple entries, multiple mutual  
24 entries. In addition to that the horse shortage is such  
25 that it just makes our life a whole lot easier and I think

1 it has no, no bad effects at all. And I request  
2 respectfully your consideration of this.

3 CHAIRMAN SHAPIRO: Thank you.

4 MR. SCHIFFER: Good afternoon Members of the  
5 Board. Dan Schiffer for the Pacific Coast Quarter Horse  
6 Racing Association. We also endorse the continuation of  
7 this non-coupling rule for the same reasons stated by  
8 Dr. Allred.

9 CHAIRMAN SHAPIRO: Is there anybody else? If  
10 there isn't --

11 VICE CHAIRMAN MORETTI: For the quarter horses I  
12 have no problem. I would make a motion to --

13 CHAIRMAN SHAPIRO: I have no problem with it  
14 either.

15 COMMISSIONER AMERMAN: I certainly don't have a  
16 problem with it. The quarter horse industry is such a  
17 different thing from the thoroughbred industry.

18 CHAIRMAN SHAPIRO: I agree. I personally don't  
19 have a problem with it.

20 COMMISSIONER BIANCO: I don't have a problem and  
21 I'll make a motion.

22 CHAIRMAN SHAPIRO: What I don't know is  
23 procedurally how we can do that? Do you have a problem with  
24 it, Commissioner Bianco?

25 COMMISSIONER BIANCO: No. I said that I would

1 make a motion that we allow it.

2 CHAIRMAN SHAPIRO: Okay.

3 VICE CHAIRMAN MORETTI: I would second it.

4 EXECUTIVE DIRECTOR FERMIN: What we could do is  
5 waive it and then start the rule process, would be the  
6 proper way.

7 DEPUTY ATTORNEY GENERAL KNIGHT: It's a waiver of  
8 rule.

9 CHAIRMAN SHAPIRO: So how do we -- so we have to  
10 make a --

11 DEPUTY ATTORNEY GENERAL KNIGHT: It's a temporary  
12 waiver.

13 CHAIRMAN SHAPIRO: Okay, so we make a motion to  
14 temporarily waive the rule.

15 DEPUTY ATTORNEY GENERAL KNIGHT: Specify a time  
16 limit is what you should do.

17 CHAIRMAN SHAPIRO: Well we need to do it -- So how  
18 long will it take us to get the rule done?

19 STAFF SERVICES MANAGER I WAGNER: It would be the  
20 regular -- Jackie Wagner, CHRB staff. It would be the  
21 regular rule-making process. we would have to initiate the  
22 45 day comment period, go through that public comment  
23 period, bring the rule back to the Board for formal  
24 adoption. So we're talking 45 days. And then we have the  
25 hearing and then we have another 30 days. Probably three

1 months.

2 CHAIRMAN SHAPIRO: So can we waive it for 120  
3 days?

4 DEPUTY ATTORNEY GENERAL KNIGHT: Pending adoption  
5 of the regulation.

6 CHAIRMAN SHAPIRO: Fine then. Why don't we do it  
7 pending adoption and that way you guys can start right away.

8 MR. SCHIFFER: Thank you, Mr. Chairman.

9 CHAIRMAN SHAPIRO: There's a motion.

10 VICE CHAIRMAN MORETTI: Second.

11 COMMISSIONER BIANCO: I made a motion, yes sir.

12 CHAIRMAN SHAPIRO: All in favor?

13 (Ayes)

14 There you go.

15 MR. SCHIFFER: Thank you sir.

16 DR. ALLRED: Thank you.

17 CHAIRMAN SHAPIRO: You waited all day for that.

18 Sorry. Sorry about that.

19 MR. BLOENIG: Now he's got to go back to Los Al  
20 another three hours.

21 CHAIRMAN SHAPIRO: The last thing that we're going  
22 to do on the agenda is general business. Is there any  
23 general business to come before the Board? Old business, we  
24 have old business, I'm sorry.

25 VICE CHAIRMAN MORETTI: I just want to make a

1 comment clarifying a point that I was trying to make earlier  
2 in regard to the dates issue. And I believe that some of my  
3 words were taken inadvertently not in the way that they were  
4 meant and I may not have communicated well. I had no  
5 problem with the Hollywood Park lobbying team itself, they  
6 did a great job actually. They were very effective, which  
7 is why we got very frustrated.

8           And my frustrations come from the fact that even  
9 though I don't agree with the issues or perhaps some of the  
10 tactics that were employed, the fact that the industry, all  
11 of the people don't come together and fight each other in  
12 Sacramento is what was driving me crazy. That's why I was  
13 trying to give those explanations about other industries  
14 that I have worked with where they have an association in  
15 Sacramento that works for the good of the industry.

16           So I just want to clarify that it was not a  
17 personal attack against any one or two or ten people in  
18 particular. Okay.

19           CHAIRMAN SHAPIRO: Thank you. Any general  
20 business? Mr. Jamgotchian?

21           MR. JAMGOTCHIAN: Mr. Shapiro and members of the  
22 Board. You know, I was just going to ask that question, how  
23 that would help horse racing if you weren't going to grant  
24 dates but thank you for clarifying that.

25           I'm up here in an interesting position. This

1 morning the LA Superior Court granted me \$18,000 in fees  
2 from the California Horse Racing Board. And I am a little  
3 concerned on, number one, why it happened, and number two,  
4 the collection of the money. This --

5 CHAIRMAN SHAPIRO: Okay, Mr. Jamgotchian, we  
6 cannot discuss this. You know --

7 MR. JAMGOTCHIAN: It's over, the case is over.

8 CHAIRMAN SHAPIRO: No, no. Mr. Jamgotchian, we  
9 have gone through this.

10 MR. JAMGOTCHIAN: The case is over. The case is  
11 over.

12 CHAIRMAN SHAPIRO: We are still -- We are not  
13 allowed to talk about litigation and particularly with a  
14 party that is a litigant, okay.

15 MR. JAMGOTCHIAN: First off, first off --

16 CHAIRMAN SHAPIRO: We are simply -- Our counsel is  
17 telling us that we cannot talk to you. We are represented  
18 by counsel. Your counsel needs to talk to our counsel.

19 MR. JAMGOTCHIAN: You know what, Mr. Shapiro, I am  
20 going to let you with that suggestion.

21 CHAIRMAN SHAPIRO: Thank you.

22 MR. JAMGOTCHIAN: But I'm telling you that your  
23 position is ridiculous. The case has been adjudicated fully  
24 and the basis of that will be read in the newspaper. So you  
25 can read about it in the newspaper. You have a copy of the

1 ruling. My question is, the California Horse Racing Board  
2 owes me \$23,000 so I need -- \$21,000.

3 VICE CHAIRMAN MORETTI: We can't talk to you about  
4 it.

5 CHAIRMAN SHAPIRO: We cannot talk to you.

6 MR. JAMGOTCHIAN: That's fine. That's fine.

7 CHAIRMAN SHAPIRO: Our attorney is advising us  
8 that we cannot talk to you about that, okay.

9 MR. JAMGOTCHIAN: I just wanted to put it in the  
10 record.

11 CHAIRMAN SHAPIRO: So do you have anything else  
12 you need to talk about?

13 MR. JAMGOTCHIAN: I have a couple other things I  
14 can talk about. Additionally, once again I bring this up at  
15 the last couple of meetings and based upon the letter that I  
16 read to you with regard to the fiscal crisis at the CHRB. I  
17 just want to get a definition or a reason why we have an  
18 office in San Diego. Can somebody tell me why? Shouldn't  
19 we have an administrator in Sacramento where the office is  
20 to prudently and judiciously run the business of horse  
21 racing in California? Do you support an office in San  
22 Diego, Mr. Shapiro?

23 CHAIRMAN SHAPIRO: Mr. Jamgotchian, this is for  
24 you to make comments. I'm not going to answer your  
25 question.

1           MR. JAMGOTCHIAN: Fine. My comment is, why waste  
2 the money for an office, a satellite office, when the CHRB  
3 should be run by somebody in Sacramento. That's the reason  
4 why we have the issues with ADW and everything else because  
5 there's no leadership in horse racing. And that is the  
6 reason why we have bad agreements, we have bad purses, we  
7 have problems that are continually taking this industry  
8 down. So I recommend that we close the office in San Diego  
9 and have it moved, and have it retained and in full  
10 operation in Sacramento.

11           Additionally one last thing by one of your astute  
12 senior stewards. I was cursed at. I filed a complaint.  
13 Ms. Fermin has that.

14           CHAIRMAN SHAPIRO: Again, you filed a complaint on  
15 that. That matter is under investigation.

16           MR. JAMGOTCHIAN: I'm just bringing it up to the  
17 Board.

18           CHAIRMAN SHAPIRO: We cannot hear it.

19           MR. JAMGOTCHIAN: Just bringing it up.

20           CHAIRMAN SHAPIRO: Mr. Jamgotchian, we can't hear  
21 it.

22           MR. JAMGOTCHIAN: Fine. with regards to -- You'll  
23 be hearing about it though, Mr. Shapiro, I can assure you.  
24 And then I have -- Well you now what, that's enough for  
25 today. Thanks so much.



CERTIFICATE OF REPORTER

I, TROY RAY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing Meeting of the California Horse Racing Board; that thereafter the recording was transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting, or in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 10th day of November, 2006.

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345