



Race Track Industry Program

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THE CHANGING FACE OF ACCOUNT WAGERING

MODERATOR:

Paul Estok, Executive Vice President and General Counsel, Harness Tracks of America

SPEAKERS:

Joseph Asher, CEO, William Hill US

Ed Comins, Chief Operating Officer, WatchandWager.com LLC

Mr. Steve Barham: First of all, we'd like to thank the panel session sponsor, Elite Turf Club. We also have the refreshment break sponsor, XpressBet, LLC, and for the mentor lunch that we're going to have today, American Quarter Horse Association and the Jockey Club Information Systems. Hello.

Audience Member: Hello.

Mr. Steve Barham: Back in the back.

[Laughter]

This panel is The Changing Face of Account Wagering, and prior to coming here ten years ago I was in Oregon and everybody knows the number of ADWs and account wagering systems that is there and were there when I left, so it's been an amazing thing to watch how account wagering has changed over the ten years that I've been away from Oregon and here. This ought to be a very timely panel and hopefully a lot of good information. Our moderator is Paul Estok who is the executive vice president of HTA and chief counsel. HTA is one of our partners, or our partner for content at this symposium and has been for the last number of years, and we appreciate that and we appreciate all of the hard work that Paul does here, who also is an alumni of the Race Track Industry Program. With that, I'll turn it over to Paul.

Mr. Paul Estok: Thanks.

Mr. Steve Barham: Thanks.

Mr. Paul Estok: Good morning. This is what goes around comes around, I guess, in some ways. I was trying to figure it out. I talked about account wagering at the symposium when John Walzak was here and we were trying to figure out if it was '97, '98, sometime around then and I had this obscene diagram of what account wagering looked like in the United States at that time. Nobody was talking about account wagering internationally

[Laughter]

and it was mostly amusing was what it was. I put it up on the screen and showed everybody and never thought that we'd be revisiting the issue over and over again. However, things change and certainly with account wagering things have changed over the years.

At the time, I think, people thought it was gonna be a fairly straightforward business, something they would add to their race track business and would be a new way to generate revenue. At the time, it was easy to get people to talk about account wagering. TEG was getting going and I think it was still ODS back then, but there were the prospects and the future looked pretty bright to everybody, and everybody had good ideas and everybody wanted to share 'em , and getting speakers for a panel like that was a piece of cake.

Turn to today and getting speakers for this panel was not a piece of cake. Not easy for Doug Reed at all. He and Steve and Wendy are to be commended for managing to put three living, breathing bodies up here, and we're still one short. We had a cancelation. Ron Luniewski had a family issue come up and had to cancel, but Doug asked a lot of people about talking about account wagering and surprise, surprise, nobody really wants to talk about it. The general thing is people say, oh well, I'm not sure there's anything there to talk about and yet, we all know that account wagering is talked about everywhere and it's certainly being planned and plans are being implemented and new schemes

[Laughter]

are going into effect every day and every place.

It's a little unfortunate that people don't wanna talk about it. I can certainly understand propriety issues for businesses wanting to keep their plans to themselves, but it makes it difficult to really achieve some of the things we talk about as an industry, growing as an industry, and growing together and working toward growing the pie, that sort of thing, when people aren't willing to share ideas. So I really have to commend these guys for at least being willing to come up here and talk. Having said that, I really hope that the audience will feel free to chime in at any point if you have something you wanna add or something you wanna talk about. Because we're short one speaker we're gonna see if we can't get some audience participation and maybe make up for that, but certainly if there's anything you want to add to this conversation it would be great.

Our two speakers are Ed Comins who is chief operating officer of WatchandWager.com. Ed's got an extensive background, has come to the United States. They have taken over operating Cal Expo Harness Racing facility in Sacramento which, from my point of view, is a really good thing. He's got a boat load of experience, 20 years or so worth in Racing and Gaming Industry, Coral,

Ladbroke Casinos, Tote Direct, doing business development, doing operations kinda stuff, so I'm really looking forward to hearing how things have gone since he's taken over, things he sees as challenges, maybe, for us here, for his company, for all of us.

Our second speaker is Joe Asher who is CEO of William Hill US. Joe is sorta one of those guys, he's the poster boy for this is what you wanna be if you wanna be a success, if you're young and you wanna be a successful guy in the racing and gaming industry. Worked as an announcer, worked as — good gosh. Worked on the back stretch, worked—done just about everything at a race track, is an attorney, worked with a high powered New York Wall Street law firm. He's done just about everything you can imagine in racing, and then moved on to sports books with Lucky's in Nevada, and Lucky's was bought out by William Hill, and now he's with William Hill. What we're gonna do here is Ed has a few slides he's gonna show us and talk a little bit about. Then I've got a few questions for these guys, and hopefully you'll have some questions for 'em and we can get some dialogue going, okay? With that, Ed, maybe you'll tell us a little bit about your operation.

Mr. Ed Comins: Thanks, Paul, for the introduction. I can confirm that I am alive and well and willing to talk about ADW.

[Laughter]

We believe in the utmost transparency in our business. I'm very happy to share our experiences running our operation here and in the US in the last year, as well. I'd like to thank the symposium for giving me the opportunity to speak. When Doug called me up and said Ed, I wanna talk to you about ADW business my immediate response was yeah, \$3 million, please.

[Laughter]

There was a bit of a silence on the end of the phone so I repeated \$3 million. I think he got me wrong. That wasn't my fee for speaking. It was my estimated cost off the top of my head of setting up an ADW in the US in year one, so I'd love to talk a bit about that.

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[Laughter]

Unfortunately, I don't have the \$3 million fee for speaking.

[Laughter]

Just want to talk a little bit about some — our business, the way we've restructured our operation. Many people are aware of, and seen me around the conference floor for a number of years. We have made some major, very, very exciting changes to our business and I just wanna take the opportunity to update the audience on what we're doing out here in the US which I believe is truly very, very exciting for our operation and for the industry generally. Corporate background, obviously you've all been looking at our new brochure in your Sportech bags, so I won't try and dwell on it too much, but please, if you get the opportunity, it's a cure for insomnia, you wanna read about what we're up to, this will — this brochure in your bags will give you a good overview.

We run WatchandWager which is fully owned by European Wagering Services. Our parent company is Webis Holdings PLC which is a stock exchange listed company in London. We run ADW operations and also recently race track operations through our acquisition of Cal Expo in Sacramento, California, which we're very, very excited by. Currently, we're contracting with about 150 tracks worldwide and that number's growing almost daily, so we're very, very encouraged by that. We obviously comingle on the ADW. We — everything is comingled. We don't offer any other forms of gaming except legal, licensed, pari-mutuel wagering.

I'm trying to find the figure, but in terms of track contributions to the US in the past six years when I've been operating this business, there are significant numbers that we pay in track fees, other rights fees, etcetera, etcetera. We've been around for a long time. We've got a long and trusted record in the online gaming environment. We're the owners of the betinternet.com which is one of the startup sports betting operations in the UK which casino, poker, online sports betting, which maybe targets Europe and Asia. So if we bring all our group together we're now turning over in excess of \$350 million across all our operations.

Talk a bit about our WatchandWager. We acquired this early in 2011. It's now based out of San Francisco, California where I've relocated to run that operation, living up in Marin County which is a beautiful place to live. We're licensed by the North Dakota Racing Commission. Our main operation is settled by our US supplement agents, CHRIMS based in the East Bay of California. We hub out of AmTote in Hunt Valley. Whilst we own and operate the hub, they do it on our behalf, which has been very successful. We use a company called Ineda, a London software development company, for our front end development, and we have recently re-launched our new WatchandWager website, our key US facing website through Ineda, which is — we're very excited about as now live offers much more data, interactive abilities.

Video streaming obviously is WatchandWager, and we're looking at new products that's now live in the — and if you're from the right jurisdiction you can — I'd be delighted if you can join up. Compliance is a very, very important thing for us. I've been at this conference for a number of years and I realize the need for compliance and transparency in our operations is critical, so we made some major decisions in the last year and a half which we believe will really help our business going forward. We're licensed in three jurisdictions: North Dakota Racing Commission, the Isle of Man Gambling Supervision Commission in the UK for our international product, and now we are very proud to be licensed by the California Horse Racing Board as the licensed operators of Cal Expo.

We also commissioned the Thoroughbred Racing Protective Bureau, the TRPB, who have literally as of about — Curtis has over there — a couple of days ago have issued our updated report on our entire operations to all member tracks, and we've already pleased that that project's now being completed. We operate within the Wire Acts, Interstate Horse Racing Act commissioned — well, you'd need a lot of lawyers to run an ADW in the US, but our main state and federal opinion is through Lewis and Roca in Nevada, in Las Vegas. IRS registered compliant for US play through, obviously through our partnerships with Chrims.

Payment methods which I'll come back to, we are registered for the correct VISA, MasterCard payment transactions. We were lucky enough to be approved for the — basically getting a visa to go to the US is pretty difficult at the moment, but our

business, given our investment in the US, received an E2 Treaty Trader status so we can move employees freely across the water. US is where we are and we are really focused on operating in a compliant way within the US, so we're US licensed, US totes, US settlements through CHRIMS. All our data, or the majority of it, is from the US and obviously through Roberts. A large number of US suppliers. Compliance I've talked about, TRPB, licenses, lawyers. Banking has all been moved to the US for our US business. All our legal opinion and legal advice is based in the US. I keep saying this word, US. We're actually, obviously audited now and paying tax in the US. I'm saying this for a reason. We are spending quite a lot of money out here, investing in the horse racing and the overall simulcast marketplace, and we wanna work with you to help the US industry and the economy generally.

Content, as I mentioned, greyhound, Thoroughbred which is growing, harness. We do run the international content, as well, and we — the more and more we can get, the better. Wagering, we have multifaceted wagering applications through our legacy site which is link2bet.com. WatchandWager, which is a new site which I've talked about. We do have batch wagering interfaces for applicable tracks and that technology directly into the Gateway Services which is the AmTote, middleware, as well. We still run a call center in addition, so we do have a number of different wagering capabilities. This is a screenshot of our new site.

I'd like to talk a bit about Cal Expo and why we did that deal, how it's going. As I said, we've become licensed to operate Cal Expo in Sacramento in the late summer of this year. We commenced racing on the 2nd of November. Basically, we saved the harness racing in northern California. That place would not be operating without our investment in the industry, so I think that needs to be pretty clear. It's a big investment. We're protecting jobs and basically a whole way of life in Sacramento. My background is very much in internet, online gaming background. We were lucky enough to team up with Golden Bear Racing who many of you will know Chris Schick and Ben Kenney. I believe Ben is in the audience today. They are managing our operations on our behalf and doing a very good job. If you ever wanna talk Cal Expo, please speak to me. Alternatively, please contact Chris and Ben who are really doing a great job of that.

Early results: very encouraging. We've had some pretty rough weather

[Laughter]

for California, but we're looking at about a 16 percent year-on-year handle which I'm very pleased about. Horse population: very good, as well. The other thing that I should note is we've been monitoring very closely obviously the progress of exchange wagering in California. Whilst we have no intention of running an exchange as our operation we are overall supportive of exchange wagering. We believe that this industry desperately needs an innovation, something exciting, something new, something to get what I'd call day traders, arbitrage players going.

We are very aware that Cal Expo now stands in a very interesting and good position to look at that product in 2013. Any of the operators who are looking at exchange wagering, we wanna talk to them about that. If and when it goes through the AOL and the various rather complicated laws I'm just trying to grasp in California, but it's gonna happen. I don't care who actually operates it. We have no vested interest in which of the parties are gonna do it. We're very aware of who the main players are in the market, that we believe that it's — will help. I've been through the

innovations in the UK ten years ago and Australia to a lesser extent, and sure, there's teething problems. Sure, there's a number — there are some issues, but the way that the CHRB have approached it in a very pragmatic and structured way, we think that it can work alongside pari-mutuel.

Coming back to that \$3 million that Doug's gonna pay me for this speech

[Laughter]

I have the cost of operating an ADW. Well, you know, I just plucked that figure out of the air, but it is a significant investment if you wanna do it. I'm aware of operators who've launched through North Dakota and Oregon with less money than that and are now not operating. Simple as that. We were in the lucky situation where we had an existing platform, certain sort of synergies, cost benefits that we could embrace, but those you list, the corporate licensing, critical obviously. You have to have a license.

Compliance, I keep mentioning that word, very, very important. The TRPB, we embrace that project and we would like to believe that the other ADWs will also be going down that route. Staff, can't work without the staff so we're looking at new and existing staff within the US: accommodation officers, basic admin. The paperwork in California is truly unbelievable the amount of — all the work is comp — everything that we're involved in is quite a major administration task. Then you've — then those are your basic things to get set up. Obviously then you've gotta get operation, get technical. So you have — currently, you need your back end tote provider. You also probably need some middleware to connect to your front end developers. Then you need your front end development which currently is powered by Ineda. It's not a — I mean that's a major, major investment in your back end tote, the tote talking to your software developers, as well.

Content goes without saying. We've made some significant progress in content. We're looking forward to the — Doug's marketplace this afternoon and talking more openly about what we can achieve. The likes of data, embracing Equibase, Roberts, all the others, international or domestic. All very expensive. New products trying to move—not move away from horse racing, but offer new functionality and new games and everything to compliment the horse racing. Then you've got your website up and running. Again, we're fortunate we do have a platform that's been operating very well for a number of years, but then you've got to embrace your biggest cost by far, which is marketing. That's where the \$3 million — that was a conservative estimate, really. If you wanna make a splash then your marketing plan has got to be significant.

Money on the vast majority of cases is being spent within the US, staying within the US and benefiting a number of employees, staff, operations within the US. Anyway, I've come up with my pick four for the perfect ADW. I learned this from a previous presentation I saw from Party Gaming. They've got it down to the wire. Running an ADW or any online gaming website is a four prong stool, basically. If any of them go wrong then you've got quite a wobbly stool. The obvious one is technology. You've gotta have the best type providers, the best front end software. The other huge one in the US is the whole subject of payment processing, which is exceedingly complex over here.

In Europe and Asia it's like a — it's a done deal. If you're a serious operator you got card processing, you got in-running betting, you got ability for people to top their accounts up within ten seconds of post time for a credit card. Constant transactions under the correct gaming codes. The US is obviously hugely different. Again, through our LAN-based operations and talking within the industry we are making progress. I wouldn't lie. I think it's still probably the biggest challenge within the ADW market is payment processing. The one thing I'd stress is I believe that there are, out of those, three of the pick four, three of them are things that we need to work together on.

I'll come to Mark's thing, but I really, really believe with the industry we should be working closer together to try and help ourselves on those issues: technology, payments, and content. If we're serious players, which we are now in the market, we believe that the industry should, especially on payments, can help itself. In Europe payments is not a point of difference. It's not a competitive advantage. Everyone has fast and efficient payment methods. The industry needs to work closer on those. The only one out of the pick four is probably a last leg is marketing, and each to their own. Our marketing, customer service, that's where others have point of difference, and it depends how much you wanna invest and the way you do it. I've said we should work closer on all four legs, that's right, three and a half. If we do that, I really think that our business can win and the industry can benefit. Thank you.

[Applause]

Mr. Paul Estok: Joe has the option. I think he's just gonna sit here and talk. I would ask him to give us an outline of William Hill. I know that if I understand correctly, you're not operating horse race account wagering right now, but you have tremendous experience within your company and account wagering on sports betting that I assume will, at some point, transfer over. I know things are changing in Nevada. Maybe you could talk a little about that and give us sort of an overview of where you guys are at, at this point, who you are and where you're at.

Mr. Joseph Asher: Sure. Number one, I'm glad that I qualify as a living, breathing person.

[Laughter]

I met with the qualifications that — to join you today, Paul. William Hill is the biggest sports betting company in the world and headquartered in the UK with a very big online business that's run out of Gibraltar. The online business does offer wagering on horse racing. It's a booked wagering rather than pari-mutuel in the UK with online, anyway. In the US our online business is really — our account wagering business, rather, is a mobile and kiosk business that is limited to sports betting. But it is without question the fastest growing part of the business and an incredibly important one, and one that we're spending a lot of time and effort and energy on because it's the future of the business in so many ways. It'll — account wagering will never entirely replace retail or over the counter wagering.

My view is at the end of the day customers are multi-channel and they'll bet with us over the counter in a sports book. They'll bet with us on mobile devices. They'll bet with us in a kiosk, and we'll talk about that, as well. It'll be interesting to see in the US obviously internet horse race wagering has been legal in a number of states for

some time. It'll be interesting to see how much or how relevant the internet ultimately becomes, or does it get overtaken by mobile? Because obviously with the advent of and widespread adoption of sports phones — smart phones, rather, it makes actually sitting at a desktop computer sort of seem passé, right?

I mean I sort of think about just my own behavior as a consumer. I'll be on my iPhone or I'll be on my iPad at night. It's rare that I'm actually using the laptop anymore, and so mobile is fast overtaking traditional online or internet wagering. By the time the US gets around to legalizing online gaming beyond horse racing, it'll be interesting to see whether or not the internet is all that important or whether it will be print ably a mobile business.

I mentioned that we were heavily focused on — we're in the midst of working on a strategic plan and its mobile kiosk is very much a very, incredibly important part of the business. When I say mobile, in Nevada you can bet on sports but you gotta be in Nevada and there is geo-location that determines that the phone is actually present in the state of Nevada, so the customer is in Nevada; he's not across the line in California or in Utah or in Arizona. That is something that's an absolute requirement from a regulatory perspective in Nevada and the Wire Act explicitly applies to sports, so it's something that we're very sensitive about and go to great lengths to ensure that the customer is physically present in Nevada when he's placing his wager with us.

Kiosks are a relatively new phenomenon in Nevada. What it is, is a stand-alone wagering kiosk that is located in a number of bars and taverns throughout the state, and so that's all account-based wagering, as well. You can fund — and Ed had talked about funding and the importance of payments and I couldn't agree with him more. It's so critically important that customers actually have the ability to post money to their account. The advantages to the kiosks now is they accept cash, so a guy can walk into a bar and deposit cash into his account and then use that money to bet either over the kiosk or on his mobile account.

Without a question, that is the area where you can see double digit growth in turnover as opposed to the retail business which is — it's a much slower growth area. Obviously at some point we reach a potential as to what the mobile and kiosk businesses can become, but clearly there's still a lot of headroom in 'em. We're actually recruiting for a couple positions specifically related to our account wagering business right now, so if anybody's interested by all means let us know, but it gives you a sense as to where we see the future of the business.

Mr. Paul Estok: Can you expand a little bit about the geo-location? I know William Hill is pretty big into that and presumably it's gonna become, once the technology is more widespread, it's gonna become an issue. Right now I don't know if there are any account wagering providers in the US that are using any sort of geo-location technology that know exactly where the customers are in spite of where your account or my account might be. Could you talk about that a little bit?

Mr. Joseph Asher: Sure, sure. You know, look, I see this presently. Online wagering on horses is not legal in Nevada, though there's regula — there's proposed regulatory changes that would change that. If you walk into a race book today you'll see people with their ADW accounts up from the major US ADW companies, even though it's illegal, right? It's illegal for them to be accepting these wagers from Nevada and yet, it's happening today. The idea that well, we'll ask the customer

where he is and that's sort of the limit of our due diligence. I just don't think that's enough. At some point there will be a criminal prosecution that will arise from that. The defense will be well, the customer checked the box and said that he was in California, but he wasn't.

So the question will be what is the provider doing to verify the location, right? On a — if the account, if the bet is coming over a mobile device there is precise geo-location tracking. We use a provider that does a fantastic job with that. IP checking is another thing that seems to be a fairly straightforward way to — now it can be spoofed, for sure, but at least if there's some IP checking in place there's a level of due diligence that's being done above simply a tick the box, yes I'm in California. So whether or not there will be prosecutions along these lines at some point I guess remains to be seen, but it's certainly that seems that would be a risk area for anyone who's operating in the business.

Mr. Paul Estok: Yeah, particularly problematic for those of us who live in Arizona when you check that box. William Hill accou—

[Laughter]

I have a William Hill account that closed out about seven years ago, I think.

[Laughter]

Sent me a check. Ed, you talked about the coding issue and working with the VISA and MasterCards of the world and how difficult that's become. Can you talk a little more about that and—

Mr. Ed Comins: Sure.

Mr. Paul Estok: — payment? Get money from the customers.

Mr. Ed Comins: Yeah, and I think, and you know, our experience is not unique. I think, speaking on behalf of many ADWs on this issue. Basically, the bad news is that 7995 which is the correct coding for global online payments just doesn't work in the US. Just doesn't work. The customer, the clients' banks with the vast majority of cases see that as online gaming, don't obviously look at the fact that you're a licensed pari-mutuel wagering operation which is — should be clearly, clearly distinct to other offshore operations that we know about. They just reject it. We're a big industry. We think we're a big industry, but the sad fact is in relation to the big banks in the US, we're tiny. It's all, as with many business decision, it's all about risk and reward.

That's my point is WatchandWager goes in there. We're looking for payment processing, but if we had ten ADWs coming together and looking to improve the environment, then you're talking millions or significant millions of processing. Then banks start talking to you. That is one of the issues. We work closely with providers. I'm aware there's one or two here this week which is very encouraging. We use — you have to get creative. We use ACH as one of our key processing facilities, which I suppose from a European perspective is a little bit slow and clumsy, but we realize that US customers are used to some of the inconveniences that they have to put up with, and they're great. I mean, some of our clients are just so understanding of what's going on. As long as they know that you're legal and

licensed and not offshore, basically, then they really do understand you. Checks, good old-fashioned checks still work very well. It's amazing how many clients like to use that method.

One of the — I suppose one of the benefits in terms of compliance, again, is because it is so

[Laughter]

difficult in the US and, dare I say, a little bit antiquated. The withdrawal methods are very clear and cut so you can't withdraw funds back to a credit card, for example, which is when — it's great, obviously convenient for customers, but it does mean that there are fraud issues and AML issues. One of the good things, I suppose, about the US system is the withdrawals back to players' accounts are very controlled so we have complete control over the methods, so I suppose that's one spinoff— trying to be optimistic — that's one spinoff benefit. But we're in it for the long term. We know this is gonna turn around. What we're doing and working with payment providers is, for starters, is gonna help us in three years' time.

Mr. Paul Estok: 15, 18 years ago when we talked about account wagering and they were trying to get ODS up and running as a viable network, it was almost unthinkable that account wagering would move forward without a substantial TV presence. That was sort of the basis for what became TVT was that you needed this television presence, and yet, we're in a day and age where there are a lot of account wagering firms, a couple of very big ones that operate in the United States that don't have a television presence, a really big television presence. You guys have any opinion about that sort of idea of how did we develop this industry without it if it was so vital?

Mr. Joseph Asher: Clearly, people want to watch what they're betting on, and for on sports, there's gonna be much higher handle on a game that's televised than — on one of the major networks rather than something that's not. Clearly, there's a big advantage to having the event on — that's broadcast on TV. Though, frankly, and I think on the — and I'm not in the ADW business on horse racing so I'm not the most qualified person to talk about it, but when I've — you can watch races online, right? I own a few horses of quality that ranges from really bad to really, really bad, but I'll either go into one of our race books to be disappointed or I can just be disappointed watching online. The quality of the video online has gotten so much better. I see Todd Roberts standing in the back of the room and his company's done a tremendous job in improving the quality of the video that's available.

So just as I actually watch a fair bit of news sort of after the fact on my iPad and don't necessarily watch it as much on TV, I think you're seeing people can watch the races on their iPad or on their computer, and it'd pretty high quality. For sure, you gotta be able to see the event. It's just no — it's much harder to place a bet on something that you can't see, though obviously people do, but the delivery of that content I think is evolving over the years.

Mr. Paul Estok: Take a minute. Are there any questions in the audience? Anybody have anything you wanna throw out there? Anything you wanna ask? All right. Ed, you're coming' into the United States and setting' up a new operation. Things seem to be goin', movin' ahead. One of the biggest thoroughbred racing organizations in the country, NYRA, is gonna be putting a new structure in place. What kind of

suggestions would you make? Starting from scratch, what's important to keep in mind when you're building an account wagering operation in 2013?

Mr. Ed Comins: Well, a lot of things. I mean, I wish them the best of luck. I think the obvious thing is who your tote's gonna be

[Laughter]

and I believe that that's sort of been tabled for a little bit, for a period. I'm not involved with those discussions, but I believe that they're gonna wait and see for a period of time. The tote business is—we need them.

[Laughter]

We've now have two tote operators. They're pretty obvious who they are: Cal Expo and obviously with our online operations, but wow, it's — it can be frustrating at times getting things changed with your tote operators and this is not an accusation against any particular group, but I've been in the industry for a number of years. Getting a tote right is pretty much the key thing cuz if you haven't got that, and you've got technical issues and bets are not going through, then you haven't got a business. So I suppose my wish list if I was, for 2013, if I was running NYRA, which I'm not, is to get the tote working and working efficiently cuz that's your sort of start of return, I suppose.

Mr. Joseph Asher: The corollary to that is obviously the sports betting system and yeah, it's fundamental, right? Somebody comes up and wants to make a bet you gotta be able to take the bet. Somebody puts in a bet over a mobile device or on the internet, it's gotta work, right? Customers don't have a lot of patience for any problems getting their bets in, whether — doesn't matter if it's the telephone company's fault and the lines are down. A customer doesn't care. He just wants to place his bet and have his bet get in, in a very timely fashion. Obviously, people like to wait to place — they like to wait to right before the race begins, so you have sort of the peaks and valleys of when the bets come in.

It's the same in the sports betting business where a few minutes before 10:00 on Sunday morning is our peak time, for sure. The customer just wants — they want convenience, right? When you think about it just in your own experiences as a customer and especially in the US we're a very service oriented economy. People expect to be able to get their bets in. They certainly love to use credit cards and ease of payment is a very, very big component of it, as we were speaking of earlier. All those things are — they're really not amenities anymore; they're sort of required, so you just gotta have it or else the customer's just gonna look elsewhere.

Mr. Paul Estok: Ed, in terms of the regulatory environment that you encountered when you came to California, as opposed to what you deal with in Europe all the time, can you talk a little bit about the differences, how—what you had to adapt to, if it was just puffer, any of those sorts of things?

Mr. Ed Comins:

[Laughter]

California is a wonderful place to live, but it's very, very complex. It's all, I suppose, all a learning curve. I think some of the issues are in terms of sort of worker's comp, various things like that, that some of the complicated rules out there. You just have to, as a European operator — and this isn't just — when you're relocating anywhere, whether it's for your business or other personal, you just need to get experts in the area to help you. Otherwise, you're gonna be getting ma—literally overpowered by paperwork and that's what we've done. On Cal Expo the guys from Golden Bear, CHRIMS, have helped us significantly in developing our operation in California, the likes of Mark Thurman and his team. They've been there and done that.

I'm a limey. The concepts of sort of worker's comp and 816 money and dot money and these different things that you have to grasp, you need people to help you, so that's our strategy is employ people who, or work with people, suppliers, to assist you. Even on our staff, on personal related matters, all that stuff, you need to empower people who know what they're doing in the state of California. I don't have much experience. We chose California. We believe that despite some of the rags and the high tax regime, it's gonna be a winner for us long term. It's the biggest state, biggest market out there. Things are gonna change over the next three years and being there based, operating, getting all these minutiae of detail, the administration and everything sorted out is gonna be a very attractive business in a number of years, I believe.

Mr. Paul Estok: Joe, how about William Hill and coming into the US? Certainly,

[Laughter]

going into Nevada, that's a pretty stringent regulatory environment and pretty rigorous stuff goin' on. Were they shocked or — obviously, you were the perfect conduit to get in there, but can you talk a little bit about that?

Mr. Joseph Asher: So, what the — in order to operate race or sports books in Nevada you have to have the highest tiered license which is a non-restricted license. It's a very thorough, investigative process where individuals have to undergo a very intensive background check by the — by agents for the Gaming Control Board. My perspective and my experience has always been the agents are extremely thorough, but yet, very professional and fair. For William Hill, the process took about 13 months from when they signed the deals to acquire my company and two others to when the deals could actually close post licensing. It's — Ed alluded to this earlier — certainly getting qualified advice from a lawyer who knows the process, knows what's involved, is fundamental to getting through it.

Once you get licensed, then the challenge is slightly different because then you're operating in a very heavily regulated industry and, frankly, knowing what you can't do without approval is — and knowing all the regulations is a big part of the day to day operation of the business. As a general rule, obviously we believe in the rule of law here in the US and people like to — most people, anyway, wanna follow the law. Actually knowing what the law is, is part of the issue and ignorance is no excuse, right? You gotta get educated on it. You gotta know what's required and then just go through the process. Having been through the process myself a couple of times, it's, from my perspective, it's all about understanding what's required and then just doing it. It's fairly simple when you think about it from that perspective.

Mr. Paul Estok: We in the United States now live in a world where there are a lot of small account wagering outfits, from boutique account wagering outfits, not necessarily independent, some of them owned by bigger companies operating, say, even for the benefit of a player or two, just single outfit, something that was not necessarily foreseen a few years ago. Can all the players in the account wagering field — I mean, Ed, you come into it from a bigger European side, but you're still relatively small here. Can all these small players survive or are we lookin' at consolidation in the future, or what do you think?

Mr. Ed Comins: We're growing, Paul. Don't worry about that.

[Laughter]

The — yeah, it's a very interesting one, and one that we think about a lot because we understand there's vested interests, there's content providers own ADWs at the top end of the market. We understand that and we understand that people wanna control their channel and then it's simple business sense. If you take out some third parties and you're a distributor, which ADWs are basically distributors and they wanna control their own channel and that will probably help the margin.

But we see it very differently. Look at the market in the US. Look at how ripe it is there and look how small number of competitors there really are out there. You got the big companies. We know who they are and they do a great job. You got your mid-tiers, your boutiques, whatever, like ourselves, and a number of others at the conference, but there is room. There's room for everyone. The reason I know that cuz I've — we have worked in Europe in the sports betting and gaming business and it is incredibly congested, thousands of sites offering sports, casino, poker. If you wanted to plot a graph, which I didn't have time to do, but you would — and look at the US market it would be 12, 14 operators on a graph. Go to Europe and the graph would be thousands of operators, and most of them making some margin. So there is room there.

I think the area that we all need to focus on is new product to compliment horse racing so we're not all offering exactly the same thing. I think we monitor our competitors very closely. I think there are some great companies doing some very interesting stuff out, away from horse racing, but to compliment horse racing. That's the key where making, give yourself a point of difference, but no. We understand there's vested interests out there, but we think there's room for everyone.

Paul Estok: Doug, do you have a question?

Audience Member: Paul, I — first of all, I walked in a little late so if you've covered this just tell me to shut up and sit down, so — couple things that I don't know if everyone knows about: white labels and affiliates. Have you talked about that and, if not, could you have the panelists talk about what those terms mean and what they are, and I think maybe different uses for those terms? Thank you.

Mr. Paul Estok: Now shut up and sit down.

[Laughter]

Couldn't resist. Well?

Mr. Ed Comins: Okay, well on the ADW front it's pretty straightforward, really. A white label is like your own brand. So you go into CVS and it's your own brand as opposed to like, take Advil, so there's the Advil and then there's your CVS own brand, and that is the definition of a white label. Obviously we don't operate. We've taken a business decision not to operate white labels. All our websites are controlled 100 percent by us. What you're doing is you're using probably the same tote, the same core system and then rebranding the white label on behalf of another race track, another operator in their colors, but the system is identical to your main site.

Then we're aware there's a number of very successful white label operators out there. As long as they've all got licenses I think it should be encouraged. Affiliate's very different. Affiliates are just simply companies, whichever, that are driving traffic to your site and probably you just have an affiliate deal with them, which again, I think is — affiliate — we don't particularly like the white label business model so we're not pursuing it, but again, affiliates is a huge opportunity here. It's not done anything like as sophisticated as in Europe, so we think that there's good opportunities for all companies to pursue affiliate bills.

Mr. Joseph Asher: On affiliates, cuz it is a — I agree that it is, it's a concept that's not widely adopted in the US, for sure, and sort of the first time I really sort of got the affiliate thing was the first time I went over to see William Hill's online operation in Gibraltar. When I went into the building, the majori — and it's pretty decent sized office building in the heart of Gibraltar, and there was a company called Poker Strategy that had — seemed like most of the building. Their business is an affiliate business where they refer customers to online sites. Their model was they'll train somebody how to play poker, teach them how to play, and how to be successful at it, and then refer them to a provider.

So they weren't a provider; they were just an affiliate, and it built up a phenomenal business, so they're — it's not just sort of the passive oh, you're on my site, click on this link and then you can go to an online poker site or an online horse racing site; it was about edu — providing value for the customer, educating them about the product, so the corollary would be a site devoted to teaching somebody how to handicap and really educating about the business, or maybe it's one of the handicapping services that provide a product, as well. Then through that, the customer accessing the ADW, that's sort of the really, what I view as sort of the way to make affiliate-type relationships work. It's something that's a very mature market in Europe and it's complete infancy here in the US.

Mr. Ed Comins: Just on that, the only thing you gotta watch out with is, on affiliates, is you have what we call CBA, cost of acquisition, so you can run a great affiliate scheme, but if you spend \$100.00 acquiring a lifetime value customer of \$80.00, then it's not a good affiliate scheme. But Europe is brilliant. We just can learn from that.

Mr. Paul Estok: When it comes to — and you both touched on this a little bit; Ed was a little more explicit about it — working together for the — with common goals. As somebody who runs a trade association of race tracks, I know it's often like herding cats and trying to get everybody on the same page, although there's a benefit to it, certainly. Can you sort of outline, what kind of benefits would you see in an account wagering lobbying organization, say, or account wagering — just something that gets people to focus and work together?

Mr. Joseph Asher: Well, on — not necessarily limited to account wagering, but I think of in Nevada we have the Nevada Pari-Mutuel Association. I know Patty Jones is sitting in the audience today and she's the executive director of it. The race books work cooperatively on a couple of issues that relate to everyone, and so we're competitors, absolute competitors. We wanna take business away from the casino down the street and we want people bettin' with us, and we're fairly aggressive competitors sometimes, but yet we recognize there's areas where we have common interests and we work together as best we can. It's not all — we don't all the time have the same opinion. There are a number of times when there'd be a vote and it was a six to five vote, but people bring different perspectives and working cooperatively I think has certainly benefited the industry in Nevada tremendously.

Mr. Paul Estok: How about in Europe, Ed? Is there any sort of cooperative spirit there?

Mr. Ed Comins: Well, I mean in Europe the major sports books was William Hill, Ladbroke — all the big companies. They all share the same supplies, whether it's an Orbis platform or a Finsoft platform, they all share the same payment processing companies. That's just the way the business is and you have these huge conferences. ICE, which is massive gaming conference in London in February. If you ever get the chance to go there, it's a real eye-opener. But they're all talking with the same suppliers. They're all working together. Where they're competing is, I says, you know, is customer service, marketing, offering the best delivery, but it's the fact of life they are using the same suppliers.

Obviously, from the US perspective, the one area that we're very interested in working more of a — within a sort of ADW cartel is certainly the wrong word cuz it has negative connotations, but ADW group is on banking and payments. I mean, is there one person in this room from a leading US bank? No. I asked exactly the same question at the Global Gaming Summit in San Francisco in May and unfortunately there wasn't a hand up in that conference. That's where we can really work together to make—educate the banks that what we're doing is legitimate American, US transactions.

Audience Member: Can I ask a question? You both talked about diversifying your products down the road. I'm wondering if each of you could talk a little bit about how things look from your perspective in terms of poker and even sports betting, since there are some legal challenges going on there?

Mr. Joseph Asher: Well, sports betting is a subject near and dear to my heart. There's litigation in New Jersey now that was filed by the sports leagues against the state, and the federal ban on sports betting has now been raised as an issue in the litigation, whether or not it's constitutional. There's a court hearing in a couple of weeks in New Jersey, the first hearing. It's — in our industry, it's pretty important, something that I'm certainly keenly focused on and reading the briefs that have been filed and following it very closely, plan to go to the court hearing. So that obviously presents a huge opportunity in the event that the federal ban on sports betting was overturned and it became a state issue.

There's no doubt at all you'd see a number of states looking to legalize sports betting. The poker and online casino games, it's — you read different things all the time but it seems clear to me that, at least in the very short term, a number of states had sort of made efforts or are making efforts to get into the business.

Delaware legalized online gaming and so it's very easy to see a state by state process evolving. But certainly I don't think anybody really knows as to how things are gonna play out with respect to poker in the US.

Mr. Paul Estok: Another question?

Mr. Bruce Soulsby: Yeah, gents. Thanks for your time and being on the panel. Bruce Soulsby with Avatar and DarkHorseBet, and one of your key things, Ed, you've touched on that I think is immensely important in your four prong attack is the marketing. I think a lot of the times that what gets lost in the shuffle with account wagering is the amount of marketing that we do to try to grow the game in itself. Big events at race tracks — I mean, obviously we highly promote going to the race track. We think going to the race track is where you get infected and it's immensely important to go to the race track and enjoy the festivities and get that infection and stuff, but there's so many things I think that account wagering does bring to the party. I think when you touched on there's room for everybody, I would totally agree. There's room for probably more if we do the right things and we concentrate and focus on what's important.

Obviously, we're a declining industry in this country where other industries are not declining, and there's reasons for it. I think we need to be aware of each other and what we're doing, and I think the marketing part is extremely important. In marketing, getting racing back where it needs to be, we did a small thing with Hurricane Sandy with on the Wednesday before Thanksgiving we gave 25 cents of every dollar bet through ours to the Red Cross and Hurricane Sandy for horse racing and try to promote different charities and stuff like that. We try to promote people to go to the track. So a key thing with account wagering and a point that I'm trying to push here is that basically it's — I think most people that are in account wagering obviously play or love the game, number one, and we all need to keep that very close to our hearts that we're all trying to get the game to go one way, and that's up.

I think that there's an extreme importance here in what we're selling and what we're doing to get the message across that I think everybody's trying to grow the game, but it's very hard to grow it when you don't have content or when you're looked maybe down upon as not necessarily all you're doing is taking and not giving. Well, I don't think that's really true today. I think everybody that's pretty serious about the game or that's in account wagering is in somewhat very, very — it's too expensive to not be putting out and giving back. You just can't get in the game today and get going and get — grow legs so I mean I think everybody's pretty serious about what they're doing and I think that a lot of facilities out there really need to realize that most people that are actually in account wagering are basically trying to promote one thing: not necessarily themselves, but the growth of the game.

Ed Comins: Well, I totally agree with Bruce. You should have done my presentation for me. I totally agree with you.

Mr. Paul Estok: Any other questions? I think we're right about on time. With that, I hope you'll join me in thanking our two wonderful live, breathing bodies.

[Applause]

I think they did an awesome job

[Applause]

and we'll see you this afternoon.



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