



Race Track Industry Program

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Wagering, What's Up?

Moderator/Speaker:

J. Curtis Linnell, Director, Wagering Analysis, Thoroughbred Racing Protective Bureau

Speakers:

Willem Birkenstock, International Pooling Manager, Tabcorp-Wagering & Media

Elizabeth Bracken, Director of Simulcasting, New York Racing Association

Florence Gras, General Delegate, European Pari-Mutuel Association (EPMA)

MR. STEVE BARHAM: I'd like to thank our sponsors, European Wagering Services/Link2Bet and Plusmic Corporation for our break and also Youbet and United Tote for our evening reception tonight.

This panel is entitled "Wagering, What's Up?" Speakers are to address the latest on the wagering front both from an international and domestic perspective. There's a whole lot of things going on in wagering and actually we've kind of divided our wagering experts, our people that we always go to, over a couple of panels. Curtis Linnell, who is the moderator and also a speaker on this panel, is the director of wagering analysis for the Thoroughbred Racing Protective Bureau and Standardbred Investigative Services. I don't know how many of you have ever seen Curtis really work. A group of tote companies and regulators and all sorts of other folks interested in tote things and all of these things, I saw it probably for the second time yesterday. These guys are talking about stuff in minutia that I can barely get down to, and Curtis was kind of like, okay, I'm swimming in the pond and everything's wonderful and making sense of this stuff. That minutia is really

what keeps everything going, and Curtis does the 2020 group, the International ITSP group, he really is probably one of the experts in this whole wagering area.

So, Curtis, with that I'll give it to you.

MR. J. CURTIS LINNELL: Thank you, Steve that was a kind thing to say.

What Steve meant to say is that I spend a lot of time bluffing, so thank you very much, Steve. I'm really pleased to be here today. If there was ever an example of just how international wagering is, you just have to look at our distinguished panel today and it encompasses exporters, retailers of trade associations across the globe. We are in an international industry and the more we embrace that concept, revel in it, and grow internationally, the stronger we will be.

The format for the panel today, I know we're running a little bit late and we don't want to keep you here past lunchtime, but everyone's going to have a short presentation. What we'll do is hold off questions until the end, if there are any questions, and then perhaps we'll engage in some discussion.

So let me start with international scope of pari-mutuel wagering, the international tote protocol standards committee and ITSP version 6.00, an overview. Now, that sounds pretty exciting, doesn't it? Lots of exciting, sexy words up there. We were finally actually on the agenda yesterday as the international tote protocol standards, and I had about 30 people come up and say, what are you guys going to talk about? I don't want to go. It sounds way too boring, but we're interested in what you're going to talk about.

So we'll do just a brief summary of some of the things we did in that meeting. The inception of the international tote protocol group was that international protocols for tote needed a home. We didn't really have a home for the group of developers, tote companies, regulators, racetrack trade associations that could talk about protocols and develop any progress on them. So we decided that we should at least talk about that in TRA2020 and Vern Mir from AmTote suggested a concept of an independent group.

The following year the International Federation of Racing Authorities started something called a "global tote initiative" in which part of the cement that holds together any sort of global initiatives and commingling is the tote protocol, so they were very interested and supportive. Not to miss a beat, Doug Reed was sitting in at one of our 2020 meetings and he said, gee, Curtis, you know, Tucson would be a perfect place to get people together and we could show them a little of that southwestern hospitality we're known for. So the Race Track Industry Program, the

Symposium offered support to host a kickoff meeting during the Symposium last year. Last, but not least, The Jockey Club U.S. who had been a very active member of assisting with technical support provided a SharePoint site. That became critical in the organization as we go forward.

The international tote protocol group is something different than what we have for normal trade associations or committees. This is really developer-driven. We have three primary and one other tote company in North America that the developers have spearheaded commingling, and what we find ourselves in, in 2008, is an integrated pari-mutuel environment in North America that doesn't have really any separate pooling at all. It's all commingled between all the various jurisdictions in the U.S. and Canada. So that is a model of what we see a world framework to look like. So we have the four tote companies and the developers from those tote companies, AmTote International, Sci Games, LVDC and United Tote, playing the key administrator role in this group.

Obviously, the international totes with their whole series of local issues that they need commingling on play a decisive role. Other organizations are the group of supporting organizations throughout North America and the world.

The first goal of this group was really to get an international protocol of ITSP. ITSP, and this can be on your "Are You As Smart As a Fifth Grader" quiz, stands for International Tote System Protocol. We want to see ITSP, because we use it throughout North America, become a dominant standard throughout the world. So we have a vested business, regulatory, development interest in pushing ITSP. We also want to see the same version of ITSP being used throughout the system, and obviously we want to see ITSP support all major pools and totes and standardize the language.

The first meeting we kicked off last year was chaired by TRA president Bob Bork and if you know Bob Bork, then you'll appreciate my comment. He told me that he would agree to stay in the room until the word algorithm came up, and when algorithm came up he got to leave, and he made it about 17 minutes in the first meeting, so we were quite pleased to keep him there.

We have 31 reps from 12 countries and we really went through the goals of ITSP. I'll do this quickly, but those goals are important to what the protocol means.

It should be universal; it's owned in the public domain so there's no ownership of it; the remote system doesn't have to intimately know how a host has the rules of the pools or price the rules; it's noncompetitive between various totes; and innovation, it doesn't stifle innovation but it supports it.

So pools that are not, not everyone in the system has to have pools or participate in the pools in order for ITSP to support those.

So last year, very quickly, the round was opened up, we started with 5.18, that's the starting point, that's the most universally accepted version of ITSP, and then we took that Jockey Club contribution, the SharePoint site, and integrated that right in the process. So, if an individual from a constituent group registered on the SharePoint site, they automatically became part of the international tote protocol committee. When you register on the SharePoint site, there's room for discussion, announcement, contacts, but you have to register in order to become part of the group. That worked very well because we had a whole year of work and activity that was done without ever having a conference call and without ever having a meeting. A whole year.

Well, we had our second meeting yesterday, 9th of December, it was late when I put together the next slides, so if you see any spelling mistakes it's because I had too much wine at the reception, thank you for the reception; by the way.

Forty-two attendees, 12 countries, we didn't even serve lunch so we were overwhelmed by the response. We adopted 6.00. So in one year we went from opening up discussion internationally on 6.00 to adoption.

I'm going to just go through six slides quickly of the highlights of 6.00, so you get a feel for it. This was presented to us by Larry Brooks from AmTote. Larry Brooks and John Carey from United Tote, TabCorp, RacingUK, very involved organizations in the process. So 6.00, as adopted, could be throughout North America as early as the third quarter 2009. A very exciting development.

So here's just very quickly some of the highlights. Currently we have a 45-second total delay in the event that there's a link down between guest and host. What we have is a 15-second heartbeat and two retries, so 15 seconds, if the link's down, zero minutes to post, retry, another 15, retry, another 15, then the remote site closes. That goes down to a two-second heartbeat and two retries, so in 6 seconds, zero minutes to post in any ITSP 6.00 system, the remote comm link is down, it's a six-second close.

New bet types. The North American audience may not be familiar with the whole list of those, but let me tell you that represents a tremendous amount of pari-mutuel business throughout the globe. Very important. All those bet types are now supported by 6.00. This was one that was a little bit closer to home, that

some of our member tracks in the TRA have been asking for, NYRA, Keeneland, for years.

Runner data on entries and scratches, now for 1As, 1X, the letter and the number is actually passed for both in the race and scratch information for runner data. So no longer does the remote location, if they're reposting that information in the video feed, have to watch the host, as we'll know if it's the one scratched or the 1A, and that's part and parcel of the protocol. Very important for a number of our tracks.

A couple of operational improvements, let me just go to the final two. Designation of currency, we'll finally have currency being specified on an import location. We've had problems with this before in the past, when we didn't know if it was Canadian dollars or U.S. dollars or Euros coming in and they actually had to be designated for currency conversion. Now within the protocol itself, the import location will have the currency that they're coming into the host. We've had to go to an ISO standard also for time and because we're internationally, it has to be date-time. All totes now, in 6.00, will use universal time, so they'll all have the same time that they're communicating with each other. So it's a date-time format.

Host updated guest systems for track condition, that's self-explanatory, that's now supported by the protocol.

Improved knowledge of guest calculation of odds and probs, just going to that second one, we can now support two, three, four position place pools throughout the globe and other variable pay position pools. Again, that's supported by the protocol. We don't have to call that place pool a different name in order to support the pay positions on it.

So we closed yesterday at the end of our meeting, we've adopted 6.00, that's official, that now goes to the operational stage for totes to implement it. We now have opened the round for 6.01 for suggestions, and certainly we don't foresee that this will be a year down the road, but it will be soon. So progress is made and we're all very excited about what most people think is a fairly boring topic, the protocols.

Anyway, thank you.

Now, with that housekeeping out of the way, let's get to some exciting people on the panel. We're going to start with Bill Birkenstock, I say Bill, everyone else calls him Will, but we have this North American thing that a William becomes a Bill, sorry about that Will.

Will has had an extremely interesting career throughout pari-mutuel operations in South Africa and in various states in Australia and I encourage you to read his bio because I'm not going to read it, it has too many big words for me. But his career spans 30 years, and initially he started on the engineering, computer side, on the IT in South Africa with the TAB. He took all those talents from South Africa and then suddenly put, at least in terms of my knowledge, Tasmania TAB on the map in a number of bold and interesting initiatives. I had never heard of Tasmania TAB before Will joined that organization and credit to him and what they've done, very innovative for a small jurisdiction. Subsequent to that he was probably headhunted by Tabcorp, one of the leading, premier pari-mutuel organizations throughout the globe.

Again, I encourage you to read his bio. We're very pleased to have Willem Birkenstock.

MR. WILLEM BIRKENSTOCK: G'day. Thank you for the opportunity to participate in the panel today. I'd like to start off with a quick video on Tabcorp to show you who we are and what we do best down under. Play the DVD please.

(A DVD was played)

It's all about the customer, integrity and a healthy partnership with the racing industry. As you saw in the video, Tabcorp consists of three major businesses and a media arm. We operate the two largest pari-mutuel pools in Australia. In total, we have over 2,700 brick and mortar outlets, we manage a 600-seat call center, we offer account wagering with over 350,000 accountholders and we have 1,700 automated and voice and touch-tone recognition lines. The media arm under the wagering division is Sky-Channel, and it's a national racing broadcaster. We broadcast over 1,200 races per week, can be accessed in 5,300 commercial outlets nationally, and in 2.3 million homes in Australia. We offer seven export services which are distributed to various parts of the world including North America. The 2KY radio station is based in Sydney and broadcasts approximately 100 meetings per week. We have four casinos in two states, approximately 200 tables, 4,500 gaming machines, 1,400 hotel rooms. Under the gaming arm, we offer Keno and operate 14,000 gaming machines in Victoria through about 260 venues.

Back to the wagering business, we have several brands associated in the wagering division, as you'll see in the slide, two TABs in Victoria and New South Wales with a total turnover of over \$9 billion Australian on an annual basis. We cover all three codes, being thoroughbred, harness and greyhounds. The SuperTAB

pool hosted in Victoria does combine bets with other domestic totalizators and two international systems at this point in time. I'll go into more detail on this on the next slide.

We have two fixed-odds businesses, Sportsbet and Luxbet.com. Tab Sportsbet is a national brand and the handle turn is on behalf of all the TABs within Australia that participate. The second fixed-odds offering is called Luxbet.com and has only recently been launched in the Northern Territory and is based on the lower tax regime and less restrictive product offering that we are allowed to offer in the Northern Territory. We are contributing to the racing industry by paying product fees as normal, and they have a share of the profit, the venture.

We also offer a fixed-odds virtual racing product called Trackside, and handle in Victoria alone is \$140 million Australian. It's installed in over 1,000 outlets in six countries.

Finally, we pride ourselves on a partnership with the racing industry in Australia. The last financial year alone, Tabcorp funded the industry about \$530 million. I've been told that geography has a really strong following in the U.S.A., however, there's a quick refresher on the location of the different states and territories in Australia. For those of you not aware, we've been pooling on the domestic front since 1998, which includes Victoria, Western Australia, Tasmania and Australian Capital Territory. This is done by the means of a locally developed protocol that we developed in house. But obviously we are slowly in the process of replacing this protocol with ITSP to ensure that we can commingle internationally. We've since extended commingling to include the Kiwis, being the New Zealanders, and South Africans in 2007, also using ITSP, on restricted products at this stage. The New South Wales TAB runs standalone, there's no pooling taking place due to regulatorially imposed restrictions at this point in time.

So in summary, Tabcorp provides access to over 75 percent of the pari-mutuel wagering market in Australia, and Sky-Channel holds international broadcasting distribution rights of 90 percent of race meetings held in Australia and New Zealand.

Going through some stats, with our pooling venture with New Zealand, the left-hand side of the slide reflects us hosting New Zealand, we started off with the win, place and quinella, with an expansion that's due shortly. Referring to the graph itself, the growth of commingling is reflected by the blue portion and the quinella bet obviously standing out as being a favorite with the Kiwis. It's running at 20 percent on that slide as far as you can see. On the right-hand side of the slide, that's where guest into New Zealand, we did this in early 2008, again doing

the win, place and quinella as we wanted to start off quick, with another further expansion due this year. The graph on the right-hand side reflects the contribution of Australia into New Zealand-hosted pools, with the win pool being more attractive obviously to Australians. This graph obviously benefits both companies as well as the racing industry in both countries, so it's really been a good effort for us. Commingling works with both Australia and New Zealand because the time-zone is ideal. We've got a two-hour difference normally. The Australian racing complements extended existing New Zealand product and vice versa. There's high quality racing product available seven days a week and there's quality and consistency of broadcasting and form information that our group is already familiar with. Australia now represents 35 percent of the pari-mutuel turnover in New Zealand, to show the significance of that, and obviously offering the liquidity required. The partnership grows the business by collaboration in race scheduling, which is very important, obviously allows more product into Australia and New Zealand and vice versa. The movement of top horses, trainers and jockeys between the countries enhances interest, people follow the hot jockeys and the horses as they go. Reciprocity is critical in pooling arrangements, just to make sure that we can balance import and export to a reasonable amount. Obviously, this wouldn't happen without our strong and excellent working relationship with the New Zealand Racing Board.

I'll approach the next few slides from a technical perspective, just to point out what we had to go through. We're highly regulated from a systems development point of view in Australia. All our systems are tested and certified by BMM, which is an authorized testing facility appointed by the regulator. Systems are all developed and maintained in-house by local experts. And fortunately, one of the more difficult tasks in implementing ITSP and the legacy system is to accommodate the principle of multiple guests. Fortunately, because of our pooling with the SuperTAB partners, we already had that embedded in our system which made it a bit easier for us.

Regarding implementing ITSP version 5.18, we started off pragmatically in adding a small subset of the ITSP specification which allowed us to host the New Zealand Racing Board with limited pools in a very reasonable short period of time. Tabcorp has now the ability to host and guest on all local bet types using flexi-betting and gross pool processing, we have not yet put in net pool processing, so we're ready for some rapid expansion on the commingling front this coming year.

The following slide covers some technical barriers we faced in implementing ITSP. The system limitations that required attention were dividend calculation routines, all based on a single rule set, we had no facility to display multiple rule sets on punt information kiosks, as this is required by our local regulator, we had

no currency exchange facility because our pooling we have done all domestically within Australia, and although we had hosting capability, we had no provision for guesting; however, we had a quick trick to get New Zealand onboard, we took the easy way out, we aligned betting rules in both countries as well as the takeout rates. We see that made things much simpler, as can be expected.

Regulatory issues, approval to host a new system is relatively easy to maintain as our systems keep on performing national dividend calculations. The problem lies when we guest into a foreign jurisdiction and the other system is responsible to do the calculations. Our regulator gets quite sticky on this issue and we really have to do a lot of testing before they allow a foreign entity to join, it typically takes up to three months before we get a foreign system approved. However, the certification process could certainly be more controllable if all systems had some basic level of certification testing through a system's process. Business draws IT, or information technology; however, the industry as a whole can avoid complicating a system developer's role by adopting some global standards. I'm just putting these out, some things that should be considered. Call a spade a spade. If a similar bet type already exists, they don't need a new name just because a marketing group dreams up something else. It confuses the international punters to no end because they have to align these bets and these rules. Handle emergency acceptors consistently; do not reallocate random numbers if possible. Get rid of brackets and couplings, mostly because our system can't handle that. Adopt a common approach in determining a substitute runner in the event of a scratching in the exotic bettor. Lastly, enable flexi or accept penny betting to facilitate the weaker currencies being converted.

I've also got a few suggestions for the racing industry itself. We need worldwide integration, scheduling of races. Nobody wins when there are three or more feature events scheduled to start on exactly the same time, and that happens frequently. We're missing great opportunities from a retail point of view when mostly one broadcast channel is available to the punter and he can only watch one race at a time. This is certainly possible because in Australia we schedule about 65,000 race meetings on an annual basis and we manage to do this within a lead time of three to five minutes. Second point, ensure adequate field sizes. That's an obvious one. Run the race on time so not to impact on subsequent races or other race meetings. Finally, start paying the race as soon as possible to accommodate your tote. Just finally, through all our testing processes, I'd like to take the opportunity to recognize the extensive testing and technical assistance we received from especially two organizations. First one being Phumelela, which operate an AmTote wagering system, and secondly Scientific Games.

Last, but not least, also accept our sincere appreciation to the ITSP experts on the ITSP Group, and all the relevant organizations allowing their staff to contribute information and make it freely available through the ITSP SharePoint side, as Curtis mentioned before, hosted by The Jockey Club. This is an essential source of reference information to all the ITSP deliverers out there. I'd just like to finish off with, come and visit the Australian/New Zealand racing stand if you haven't been there for more information. Thank you.

MR. LINNELL: Thank you, Will that was tremendous. Every time that Will speaks, I always get more questions to ask him after he finishes. Pretty impressive that, as a retailer organization we get a lot of presentations by racetracks and exporters, but as a retailer organization to go to 35 percent of another country's pari-mutuel turnover in a very short period of time in New Zealand is very impressive. The relationship between Australia and New Zealand, I'm often reminded of some of the history between Canada and the U.S. and how integrated the networks can become, and certainly in North America we've adopted net pool pricing for some of the same challenges of not having to adopt common takeout rates, and lots of good examples to go forward and we certainly appreciate that.

Our next speaker is someone — when you watch college football, especially the big games, the big colleges always have their promo commercials where they say, you know, come to Oklahoma State or whatever else, and I always thought that there should be a television commercial made with Liz Bracken as recruiting one for the Race Track Industry Program because she is really an impressive, impressive person and it shows the kind of quality people that are attracted to the Program and what they can do. I have to read out of her bio her title because it's so long I can't remember it. Elizabeth Bracken is the vice president and director of simulcast sales and content acquisition for the New York Racing Association. Now, that's a lot on a business card. That's a 10-point font and you have to get it all in there. Liz, as we affectionately call Elizabeth Bracken, has been at a variety of racetracks, so many so that to list them probably all in the bio doesn't do her justice. Internationally, of course, she also fits the bill because she worked for four years, I found out this morning, at the Fair Grounds and in the U.S., that's pretty international. It's our own bit of France and everything else in the Caribbean right here. Liz has worked for the New York Racing Association, really one of the premier exporters of racing around the world, and has more understanding of the international export climate than really almost anyone. We're very pleased to have Liz Bracken here talking about some innovations at the New York Racing Association.

Liz.

MS. ELIZABETH BRACKEN: And the only bad thing about the long title is that I don't get paid by the letter, unfortunately, and I did shorten it to vice president of simulcast sales for the business card because it was going to get ugly and Staples was not going to put it on the card. But actually, I'm going to kind of deviate a little bit because Doug Reed basically charged me with talking to you today about the implementation of the Grand Slam wager, which we launched in 2006, which of course would make it not a new wager but I guess compared to some of the wagers we've been doing for quite a while, it is a new wager in the fact that it's only been around for a couple of years.

The year 2005 was an interesting year for NYRA, we had the Smarty Jones Triple Crown Belmont Stakes, which was the biggest crowd we've ever had, we hosted the Breeders' Cup, and we were switching to net pool pricing to allow Canada into the pools, and we did that five days before the Breeders' Cup which I would not recommend to anybody because that put us really under a lot of pressure, but we were able to get Canada in and our international sites in, had a very successful Breeders' Cup. We also, as everybody knows, the trials and tribulations of NYRA, were ending a deferred prosecution indictment and hoping to get that dismissed at the end of 2005.

My boss at the time, Bill Nader, who was our COO, was developing a new wager called the Grand Slam. Those of you, I'm figuring a lot of you did know Bill Nader because he worked for NYRA for quite a while, Bill is very in tune to players and wagers, he would talk to basically any player from the smallest one to the largest one and he liked to see wagering trends and look at what people were actually wagering on. What he noticed is that when New York launched the Pick-4, it immediately became much larger and much more important to us than the Pick-6, people embraced the Pick-4. The Grand Slam was his vision of what he called the Pick-4 Lite, it was more of a casual customer wager, and the idea of the Grand Slam was that you would basically pick a horse to show for the first three legs, thereby loading the bases, and then you would have to win the last leg, so you'd have to hit the ball out of the park. He felt, especially up at Saratoga we have a lot of casual customers who don't understand a lot of the wagering terminology, that this name would be interesting to them, that it might push the more casual customer to eventually become more comfortable with a Pick-3 or Pick-4 wager. So usually he comes up with the ideas and then he tells me to go ahead and implement them. I talked to our chief of racing operations, Joe Lynch, at the New York State Racing and Wagering Board before this presentation because Joe and Bill actually drafted the original rules together and Joe basically told me that the Racing and Wagering Board was very much supportive of the wager. Our chairperson at the time was Cheryl Buley, she liked the idea of the Grand Slam wager, she wanted to get it implemented as quickly as possible. As quickly as possible at the state

level was about seven months from the initial concept to the actual writing and passage of the rules in New York.

I'll just kind of walk you through how it works in New York State; I'm sure it would work different in other states or other countries, but to let you know how we handled that. New York State Racing and Wagering Board basically took the draft of the concept of the idea and created rules, that went to the Government Office of Employee Relations and they put the rules out for public comment and industry comment. Each comment period takes about 45 days and if there is a negative comment or if there is a question, Joe said that can either slow that rule down or that can stop the whole process. Basically, we were lucky, everybody was on-board with the wager, there were no negative comments. So on December 28, 2005, the actual rules for the Grand Slam wager were passed and put into law by the Racing and Wagering Board.

On the tote side, our tote company, United Tote, was very engaged in helping us develop the new wager. They felt it was easy to do as it was a spinoff of a Pick-4 wager with just more spots to go back to show, and once they got the final votes of the New York State Racing and Wagering Board, they started doing the programming. They also felt, obviously, that launching a new, hopefully successful national wager would be good PR for their own company. United Tote, its NYRA contract basically provided us with a certain number of hours of programming every year. We understood obviously that tote programming is different from site to site and varying functionalities do come with a price tag, either one-time costs or an increase in rates. So in January of 2006, we had our rules and we were waiting to test our wager with the New York State Tax and Finance Department, and these are also the people that we tested net pool pricing with. I sent out a "coming soon, new wager from NYRA, Grand Slam, here's what it is, let your tote companies know" notification in January and United Tote sent out some information to the bigger sites as to the fact that we were getting ready to launch this wager. The New York State Tax and Finance Department couldn't actually come for the test, but they sent us three cards to test on February 2, 2006, cards with scenarios like late scratches, dead heats, removing show wagering — obviously if we remove show wagering in this wager then obviously the person's alive and went in place in those first three legs, if there's no show pool then you don't go down to show in the Grand Slam. Races taken off the turf became an all or a no-contest, and the test results were forwarded to the New York State Department of Finance and the New York State Racing and Wagering Board.

In March of 2006, they did approve us to implement the wager and we were ready to implement the wager. The United Tote sites basically all run on the same software so they felt they could immediately launch to their sites without too much

of a problem. Obviously, all sites required a 5.18 ITSP, because this was a progressive scan. So we were trying to work with our other sites to see what their time-frame was in being able to implement the wager. Even though we were ready to go in March of 2006, we really didn't launch the wager until opening day of Belmont's spring meet, which is May 3, 2006. So we gave everybody about six weeks to test with, United Tote sent out more information to our sites and kind of hoped that they would work with us on it. And some did, ultimately, and some did not. In the meantime, Bill did a marketing campaign with a baseball analogy, with jockeys running the bases and a horse in pinstripes, being that it is New York, hitting the ball out of the park. So we started putting that in program ads and marketing ads on TV and our Web site to get people visually an idea of what the wager was about. It was a dollar-minimum wager. It starts before the late Pick-4 and after the Pick-6 and it usually ends in our feature race of the day, and that can be good and bad because sometimes if you're at Saratoga your feature race cannot have, maybe a lot of horses, which would affect the payout, but it also is interesting because this wager ends in the best race of the day.

So we did our launch, we had about, I would say, a third of our sites actually that could take the wager in 2006, went to Saratoga and we guaranteed \$100,000 on Whitney day and \$100,000 on Travers day even though we didn't have a lot of our sites on board. Whitney day basically was a disaster. We handled \$60,000 on the wager. Our CFO strongly recommended we didn't try this again on Travers day, but we doubled our efforts of marketing, we had one of our TV personalities construct a ticket every day to show people how to bet the wager, how much money they could spend, and on Travers day the wager handled \$155,000, of which \$62,000 was bet at Saratoga. So we were pretty pleased about that. The critics of the wager to this day say there's no interest, it doesn't pay enough. I guess the counterpoint to that is it's hard to generate interest when not all totes in the United States can offer the wager.

At Saratoga our average Grand Slam payoff in 2008 was \$253, average pool was about \$29,000. One of the interesting things that Bill was trying to push about the Grand Slam is obviously because it's three legs, and that going into one leg is you can have multiple tickets alive going into the last leg, and if you win the last leg you get paid off multiple times. Obviously, the ultimate would be 27 combinations that you could get paid off on, three horses per race, if they all hit the board, if you were really good at this; I personally have never hit it like that but I hope somebody has. So to this day I have customers complain about why certain places can take the wager, certain places cannot. I had a gentleman e-mail me this September and I recognized his name immediately because he plays in our handicapping challenges and he has two ADW accounts, and one ADW can offer the wager and one cannot, so he was kind of asking me why. He didn't get much of an

answer from the customer service department so I kind of explained it to him a little bit and then he wanted to submit a wager that he did, it would be like a Pick-6 model where we spread it out over three, you know, show wagers for the first four legs and maybe win the last two legs. I had to basically say back to him, Well, that's a great idea but as you can see I can't get this wager implemented, so that one would be even more difficult.

The people that like the wager are very engaged and they really do enjoy the wager and so we hope eventually to grow it even further. At Saratoga this summer, the largest amount of handle did come from NYRA and New York City OTB and Capital, so it was mostly a New York wager still. But I did notice on the reports that Twin Spires actually did a really nice number on it, too, which means that the more sophisticated players are playing it, not just the casual fans. The last person I had to get input from was Bill Nader who is over in Hong Kong, so he's not exactly the easiest person to get a hold of but I did e-mail him and tell him I was going to talk about his wager, as I always called it. Even though he's about to have his big racing day in Hong Kong, he e-mailed me back and, very nice response, and I'm actually going to close with his words, A new wager probably should not launch until it has full participation or it loses its chance to make a good first impression. The problem is, how long do you wait? I do not buy the theory that new bets should be of the get-rich scheme or lottery mentality. Racing is a game of skill and does not need to adopt lottery principles. Plus, we want churn and not high-percentage losing propositions. I think new bet types simply need to be entertaining, easy to understand and offer reasonable value and, of course, industry cooperation.

Thank you.

MR. LINNELL: Thank you very much, Liz. Those words from Bill Nader are wise, and of course the next thing that Hong Kong is going to launch is the Triple Trio. I always thought of a new bet type, one of my favorites that I can't get anyone interested in, but I win it all the time, it's called the Lose-4 and I've become an expert at it. It doesn't pay anything, unfortunately.

Thank you, Liz that was very informative and interesting.

I, of course, worked at racetracks in Western Canada when \$60,000 for the day would be a source of turnover, so success is relative. I wish you the best with that. Innovation, really, for a new pool or a new combination that attracts and gets support from the public, it takes 10 tries to get one that will probably last, and that's the success rate. So I think to have some that are working is really important, so that's great.

Our next person on the panel — and I'm always amazed with people who are bilingual and multi-lingual and can speak different languages and certainly Europe is one of those — I have a boss and his name is Frank Fabian and he's always telling me how I butcher words, threatened to enroll me in something called an EFL course, English as a First Language, and I hear people who speak a multitude of languages and I'm always very impressed. An impressive person is Florence Gras, our next speaker. Florence gave me an invitation, just a few minutes ago to a conference in Brussels in January, and if you really want to impress somebody, make sure they live in Pennsylvania, work in Maryland and tell them to come to Brussels in January, that's very impressive.

Florence, we're very pleased to have her. Florence represents the European Pari-Mutuel Association, again, her bio is in the program. She comes from a background in public affairs that is really outside the horseracing and pari-mutuel industry, but really does it credit for her approach and her perspective, grew up in the south of France and then went to school in Paris and now lives in Brussels. With no further ado, Florence Gras.

MS. FLORENCE GRAS: Thank you. I hope you all won't have to concentrate too much on my French accent. The European Pari-Mutuel Association is a young association and so it's new on the market and I'm also new in the business so sorry if I don't use the right terms.

The association, so who we are, we were created in June 2007, so it's a young association and it's a not-for-profit association based in Brussels like thousands of trade associations of the same type are based in Brussels. So why are they in Brussels? Of course, it's because we have to lobby the European decision makers, so the European Parliament, the European Commission, and of course the member states which are gathering, the 27 member states of Europe, gathering in Brussels for all the meetings and, most important, to adopt the European rules. So 80 percent of the European legislation now is done in Brussels, so it's the right place to be.

Membership; of course we are all pari-mutuel operators so we only do pari-mutuel betting on horseracing. That's the case today, maybe it's going to change, maybe Tabcorp is a good example. Anyway, for the moment, only European pari-mutuel operators on horseracing, and 10 countries are represented in the association, so not all the 27 European nations have a pari-mutuel association or operator locally. But I think the major ones are in the association. Of course, France, Sweden, Norway, Switzerland, UK, Finland, Austria, they are all inside the association with the pari-mutuel operators that operate locally. So that makes 12 members, just because in some countries there are two operators, so that's the

only reason. We represent 14 billion Euros, so that's easy to convert into dollars, depending on the currency rate today but it's very easy, and all 14 billion of the betting amount was collected by EPMA members in 2007, and out of that 1.5 billion returned to racing. This is an important figure and we often use it to illustrate our specificities, and of course to show that we are completely linked to the racing industry. Our mission, the main mission of course is to promote pari-mutuel betting, and I can tell you that we have a great job to do to explain what is pari-mutuel betting because when we go and meet the European members of the Parliament, I can tell you that none of the 780 politicians know what is the difference between pari-mutuel betting and fixed-odds, so I will not try to convince all the 780 members of the Parliament, but anyway if I tried to convince 20 of them it will be quite important. A lot of, in this promotion, a lot of explaining and education to do.

We also have to position the association regarding new legislation, so for the moment there is no European global legislation on gambling for the moment, but only national legislation exists. But it is a moving environment on the legal side, we can describe that as a jungle at the moment because many national legislation are changing, so the legal environment will be completely different in a few years time. We really have to position ourselves and watch out for all the other legislation that will impact gambling and horseracing. So a lot of work to do and a lot of discussion, of course.

We also, this is an important part of the association, we have to facilitate the exchange of best practices and information between the members, and this is where I am completely linked to the other panelists is that we, of course, try to organize common pooling, commingling and not only at the European level but of course at international level, so that's why it is important to cooperate on common protocol, common language, and this is probably 70 percent of the work of the association at the moment and 30 percent remains on lobbying and discussion and education. I've already a little bit described the political context. Like I said, it's difficult to understand, everything is moving at the same time.

The European Commission, which is the most important institution based in Brussels, it is our enemy for the moment. I hope it will become our friend in future years. Anyway, the European market is an open market and many of the pari-mutuel operators are in monopolistic markets so they are the only licensed operator in many countries and that is why we are criticized by the European Commission. Even though there is no European legislation on gambling, but in that case a treaty, the European Treaty applies, and that means free services, that means free movement of companies, that means free movement of people, so that's the European market.

The Council of the European Union, that's the member states, so for the moment the member states have their own legislation, they have said to the Commission they want to maintain their own legislation, but as the Commission is maybe bringing some of the member states to court, that's quite scary for the member states, that means bad reputation, so they are trying to discuss together a common approach. Anyway, they want common control and they want a common definition, what's illegal betting, what's legal betting, so they need to sit around the table. That's what they do most of the time in Brussels anyway. So they have to sit around the table, discuss the common definition and a common control of betting and a coherent approach. The discussion is just starting, and of course we are trying to influence some member states, some representatives that are open to what we have to say.

So the European Parliament is also quite open to what we have to say and that means a lot of education, and they are a little bit scared by what is happening on the online gambling market so they want a code of conduct, but is it enough? So we are cooperating with more or less 20 members of the Parliament, of course not all of them because 20 of them will be interested by the subject and will influence their colleagues, so it's enough to keep in contact between 20 of them. Of course, all nationalities, and we have to try and make ourselves understood by all of them. So this is the political context and many member states are changing their national legislation so it is not an easy legal context, and the market is completely fragmented and different approaches, so the pari-mutuel operators have some difficulties to act in this market and it's not easy to innovate in such a market.

UK has a recent gambling law and Italy, too, but you also know that Malta has quite new legislation, too, and it considers online operators, it is inviting them to come and be based in Malta, and of course they all come because they will only be, the taxation rate is only 0.5 percent of the gross margin of the company, so this is quite attractive when in other countries it is 12 percent. So Malta is attractive at the moment and the other member states, I can tell you, are looking at Malta, which is quite a small country and they are trying to discuss with Malta, to have a common approach. So it's a difficult environment.

In that environment we have to promote the pari-mutuel betting so we do the lobbying, I already explained that, and for that we need to have a reference document where we put our message very clearly, and this is the white paper we released in October, and you can have a look at the document on our Web site. I've brought some which are there, but not enough for everybody, but do not hesitate. It's all the messages that we want to put forward and the main message

is pari-mutuel operators, they fund the racing industry and the horse industry in general. This is the main message and we want to promote so we are showing the economic impact, the real impact, the global impact of this industry, the betting industry with pari-mutuel, global impact on the racing and the horse sector, which is a large impact because it can be on the environmental side, on the cultural landscape, too, development, regional development, so this is one of the arguments we are really promoting.

In the document, of course it's a political document so we have to ask things, so we want to convince the member states to define a national betting legal framework which is coherent with the rest, we want to promote the sport by preserving integrity and of course implement responsible gaming rules, which are an important part of our sector. We have to take into consideration, of course, responsible gaming rules. So for that we need coordination and I hope it will be the case in a few months time. We also, to put forward our message once again, we are organizing the conference that Curtis was talking about, and on the 22nd of January, so it's at the same time a political conference and a racing conference, so it is not such an impressive conference that you have here of course, but there is no racing conference in Europe so maybe this is a good start and maybe one day we will have an important racing conference in Europe.

The last part of the association is of course to facilitate the exchange of best practices and commingling between the members. So for that we launched three working groups to work on IT issues, this is of course a direct link with ITSP that Curtis presented earlier.

We have a communication group, this is just to try and establish coherence in our communication and have a greater link with the national press and European press, and of course the idea is also to work on marketing issues. That was the first group created and this marketing group is very important and of course it's difficult, like Liz said, to invent new bet types, but maybe the marketing group is to see what kind of bet types can attract European punters. The IT working group is to share experience on the architecture and the application and of course to ease or facilitate the interconnectivity of the totes. So for that we have to learn about the ITSP version 6.00 and probably implement it and look at other solutions, too, because like it was said yesterday, on top of ITSP we need to put another system that will facilitate the communication between the totes and the exchange between the operators.

So we try to work on common technical issues and this is an important part of the job.

Marketing, like I said, it was the first group created and it's to look at the punters expectations, so not easy to create a new bet of course, but should we try and offer common bets between European countries and European pari-mutuel operators? I can tell you although the legal environment is a jungle, I can also tell you that on the commercial side it is not the same thing. The European countries are totally different and the differences are important. You have, of course, the trotting nations and the galloping nations, so that's of course a major difference, but when I arrived I also learned that vertical bet and horizontal bet was something also difficult to understand, and some European countries and punters are very attracted by vertical bet, which is a bet on six or seven races, and the horizontal bet is just on one race. This is not an easy thing to harmonize, so there's a lot of talking between the marketing manager of the various operators, and we did a study to see what the punters' expectations were and the study was done at the same time in three different countries, so UK, Sweden and France. This was the first time it was done this way, with the same question asked to the punters at the same period, and the result was quite interesting because we have a list now of successful conditions to organize common pools and common betting. It showed a real interest by the punters, but of course they didn't want to change bet types. I can tell you that the main sentence that was said during the questionnaire was — a new offer, okay, but it has to look exactly with the betting type I do every day or every Sunday.

Difficult when you can imagine that no European country has more or less the same bet type, so we have to work a lot on this, but it was a good basis that the marketing study was a good basis. Of course, this was the way to define commercial and technical barriers and we are working now on how to overcome them.

One of the ways to discuss the common barriers was to organize a commingling round table and this was done together with the media and this was done on the 3rd of October in Paris. It was not only European, it was international, and we invited the international pari-mutuel operators, we invited the media, and it was quite a fruitful exchange between 50 representatives from 21 countries. It showed of course the real interest to commingling, but it also showed that it was a complex situation and it's apparently a real success between New Zealand and Australia because of time zone and because of common information between the punters, but I can tell you it's not easy at an international level. We still have a lot of work to do to promote that, and the promotion is key, the information is key in this sector so that's why the media were invited to participate and I remember a sentence said at this round table, "information is shaping the pool," and I think it is crucial to improve information on international racing and historic information is also important.

Although commingling is progressing on the bilateral side and maybe not enough on the common global side, it is important to continue it and to develop that because it is of real interest not only for operators but for the punters too. Of course, we have to improve the promotion of horseracing at an international level with the help of the media. So that was the main recommendation following this round table which was, I think, a real success. We hope to promote our message once again on the 22nd of January in Brussels and we have decided to invite other sports federations, not only racing, because at the EU level many sports federations are looking at the betting industry by saying, we also want the fair return. So we want to demonstrate that the pari-mutuel is ideal for racing, but could it be promoted in another sector? We will see, anyway it will be an exchange, and I hope an important exchange. You can find all the information on the Web site, so this is the promotion at the conference. Thank you.

MR. LINNELL: Well, thank you very much, Florence. We certainly are looking forward to Florence having a lot of success and I know as a representative of the TRA racing associations in which our members have approximately a \$14 billion a year handle in North America, we'd love to negotiate a free trade agreement with Europe. I think that would go a long way. We just have a minute or so, so if there are any questions please do step up to the microphone, state your name please and ask the question, and if it is directed, please do direct it.

MR. VICTOR HARRISON: Victor Harrison with the Commonwealth of Virginia, directed towards Will. I think it's a good idea to expand the wagering palate and increase the ease of access to the pools for the punters. You mentioned flexi-bet, and I think fractional wagering and flexi-bet is a very good idea but I think there's probably a lot of people here who are not familiar with flexi-bet, so if you could just take one minute and explain it that would be great.

MR. BIRKENSTOCK: I'll try my best. Flexi-betting is a method of taking exotic bet types for less than the full amount of betting. So effectively, for instance, if you take a three-way trifecta bet, it will cost you \$6 normally, you could take half of that, put down \$3 for that and effectively you get half the dividend when it pays out. So at the end of the day, for your half investment, you'll get half the return. But obviously when it comes in very handy is in the Pick-6s, for instance, where you can have multiple selections where it normally would cost you quite a lot of money and only put down what you can afford. So you may have one percent of the final dividend if you really want to go down that low.

MR. LINNELL: I had one just quick question for the panel, and maybe we'll start with Liz at the end and we'll have each one of the three answer this quickly and

then we'll adjourn the session. From your perspective, what's the one thing that could be done for the short-term growth or stabilization of wagering? Just one idea, we're all involved in the wagering world and I'd be interested if you have an idea?

MS. BRACKEN: I think on the short-term, obviously in the United States we're going through a rather difficult economic period that I don't think is going to end anytime soon. We've seen, obviously, that gambling this time around is not recession-proof. The casinos will tell you that and the racetracks will definitely tell you that. For the short-term unfortunately I don't see our situation getting better because I see the small tracks have gone out of business and a few more probably are going to go out of business. The ADW market still seems strong, it still seems like the market that is growing, but at NYRA we're basically projecting that all our meets will be down this year about 10 percent, except for Saratoga where we're hoping that that will be a little recession-proof, and based on some of the difficulty we had with weather last year that we could put up better numbers there.

But we're basically taking a more long-term look at growth, and it was actually great to hear Florence and Willem because we think the long-term growth is going to be international, it has to be. Obviously, that's going to be a technology and integrity issue and I was glad that they brought that up and we need to bring it up in our country and keep moving along on the technology and have the sport have as much integrity as it can. I think a lot of what we need to do for the sport and maybe not financially but to shore it up was brought up yesterday by the people that talked about the human and the equine participants in the sport and just preserving the integrity, increasing the technology and realizing this is a global sport, and our future is international, I believe.

MR. LINNELL: Thank you, Liz. Will, any thoughts on the idea?

MR. BIRKENSTOCK: Yeah, with regards to Australia, I think we need to level the playing grounds toward the contribution that all the corporates make towards the racing industry. Currently not all corporates are paying equally to the racing industry and obviously that's putting the funding under stress. They have started to, race field legislation has helped to adjust this, and as far as I know two states have obviously been looking into that.

MR. LINNELL: Florence, any idea?

MS. GRAS: Yes, well for some of the members of the group, international commingling needs a future, so we have to work on that, the same regarding the various operators on betting in Europe. They have to be the same level playing

field and the same way to fund the industry. So this is essential, otherwise. Very important.

MR. LINNELL: My only idea is to make all pari-mutuel losing tickets tax-deductible, but that's a personal one of mine. It would help me a lot. Anyway, thank you very much to all members of the panel, members of the audience, thank you.



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