



Race Track Industry Program

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SYMPOSIUM ON RACING & GAMING**

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Boutique ADWs — the Who, What and How

MODERATOR:

Randy Evers, Executive Director, Oregon Racing Commission

SPEAKERS:

Ed Comins, CEO, European Wagering Services (WatchandWager)

J. Randy Gallo, President, Bettor Racing, Inc.

Mark Gregory, President and CEO, eBet Technologies, Inc.

Bruce Soulsby, President, Avatar Ventures dba darkhorsebet

Mr. Steve Barham: Okay, if everybody could come in and get seated, turn off the cell phones or at least put them on silent. Welcome, on the last day of this year's symposium. The first session in the morning, I'm impressed at how many can make it up at this time.

We would like to thank Bettor Racing our reception sponsor for last night, and Equibase was the sponsor for this morning's breakfast.

The sponsors and exhibitors are a large part of this program as are all the attendees for actually sponsoring and providing financial support to the Race Track Industry Program and student scholarships. So, again, we thank all of the sponsors, all of the exhibitors and all of the attendees for making this all possible.

The panel that we're starting off with today is Boutique ADWS, the Who What and How. Prior to coming here, some of you may know I was the executive director in Oregon and was there when we started licensing, or Oregon started licensing multi-jurisdictional hubs and ADWs, though ADWs was actually a California term. I left, and Randy Evers, who is the moderator of this panel, is now the executive director of Oregon and has grown ADWs from the five that were there when I was there, up to 11 now.

So we couldn't think of anybody better to moderate the panel than Randy, and so Randy I'm going to turn it over to you.

[Applause]

Mr. Randy Evers: Thank you, Steve.

As Steve shared with you, I am Randy Evers. I'm the executive director of the Oregon Racing Commission. We are known in Oregon as the leading state in licensing ADWs. We

have 11 currently licensed, and if any other ADWs are interested in being licensed in Oregon, I'd love to chat with you at any point in time.

Thank you for all being here this morning. It's Thursday morning of the symposium. In golf terms, these are the grinders that are left over. After a few days at the symposium, we're glad that you're here today.

I think that we have a very exciting panel. All these gentlemen are here today to tell you about how they've carved out their niche, as you will, in the world of account wagering. They have very different stories. They're going to tell you a little bit about who they are, how they go about operating their business and how they provide customer service to their account wagering customers.

Their bios are in the back, but I'm going to read them very briefly. I think it's important that you all have a little bit of context about who these gentlemen are before they do their presentations.

We're going to start with Mr. Randy Gallo. Mr. Gallo was introduced to thoroughbred racing at the Marshall Fair in Massachusetts in 1962, where he cashed his first ticket and has been hooked on racing ever since.

He began his career in the pari-mutuel wagering industry in 1975 as a teller at Raynham Park Greyhound Track. Mr. Gallo has been a professional pari-mutuel gambler for the past 30 years. His company, Bettor Racing OTB, has been providing wagering services for thoroughbred, harness, quarter horse and greyhound tracks throughout North America for the past 13 years.

His knowledge includes working with small individual tracks, large corporations and tote companies, as well as the local, state and national governing authorities.

Please give a warm welcome to Mr. Randy Gallo.

[Applause]

Mr. Randy Gallo: Thank you Randy. Good morning.

A few months ago I got a call from Doug Reed, and he asked me to be on a panel to describe how I got into the ADW business, what difficulties I had and how my company was unique.

Well, at first I was reluctant, but I thought, if I say no to Doug Reed, who can I say yes to?

Doug is a wonderful man. I don't know where he is, but his race track program has been terrific for the industry as you all know.

A little about me, I'm from Jupiter, Florida. I love horse racing. I've owned thoroughbreds for the last 20 years. I've been a professional gambler most of my adult life. I will tell you, I did a whole lot better betting than I did owning them.

Charlie Whittingham told me many years ago, he said, "Randy, there are two types of horses," he says, "horses that are hurt and horses that are going to get hurt," and he was correct. I wish I had listened to him.

I've owned an OTB/ADW in South Dakota for the last 13 years. How I got started in the business was purely by accident. I was visiting a friend in South Dakota, and I walked into an OTB one night and I was betting on a forced pay-out at an Iowa dog track. I went and made my bet, and I sat down to check my tickets, and as I looked up, there was a man sitting there and he was tracking a stack of tickets.

I looked at him, and I knew most of the big dog players in the country, and their runners, and I didn't recognize him. So I walked over to the teller and I said, "Excuse me, do you know who that gentleman is sitting there?"

She looked at me and she goes, "That's the owner."

I said, "Wow," and that's when the light went on.

I was always under the impression that OTBs were owned by the track, or operated by the track, and that was the case in South Dakota until 1995 when their last dog track closed and OTBs became free enterprise.

Well, anyway, the next day I called South Dakota Gaming and I said I was interested in owning an OTB, and they told me what the procedure was. They sent me an application, and I went back to Florida. I opened it up, and it was like 43 pages, and you can't believe some of the questions that were on there.

But anyway, I put together my tax returns for the last five years with all my financial records, and I sent it back. Well, later that month, I went to South Dakota Gaming, and I met Larry Eliason.

I don't know if he's here today or not, but he's the Executive Secretary, and he explained to me that South Dakota mirrored Las Vegas standards and regulations on licensing. He explained to me that the process would take at least three months and I was responsible for all expenses.

He said the first month would be on a background check and that if I passed it, that they would then send an agent to Florida for a character check that would take at least two months.

So anyway, we sat down and with some other commissioners, and the first thing he did was turn on the tape recorder, which I thought was odd, but that was standard procedure, and for the next six to eight hours, with a lunch break, they questioned me.

I went back to Florida the next day and I waited. Well, a month goes by and I'm notified that the FBI report came back and that I passed, and now they were going to be sending an agent to Florida.

So I think it was later that month, and a man shows up at my house, and he introduces himself. His name was John, and I'll leave his last name off, but he was a retired Air Force "no nonsense" type of guy and I knew right away that we weren't going to hit it off.

But he comes in, and starts the interview, turns the tape recorder on and he says — he asked me what my friends' names were, their addresses, a lot of questions, and he said, "Where do you spend your time?"

And I said, "Well, if I'm not on the road or on my tractor, I'm at the Palm Beach Kennel Club."

Well, after a couple of hours, he wanted to take a break. So we went out into my backyard and, being Florida, I had some fruit trees. I said to him, "John, do you like tangerines?"

He said, "I love tangerines."

So I went and picked one. I handed it to him and I said, "You need to try this."

You know what he says to me, he says, "No, I don't want that to come back and haunt us."

And I said, "What? A tangerine? John, I'm applying for an OTB license not a job with the pentagon."

He said, "No, I can't take that."

So he really offended me. You know, I was — anyway, we go back in the house and continue the interview the rest of the day and he leaves.

So I'm at the grocery store probably four or five days later, and I run into my next door neighbor. She's an elderly lady, and she walks up to me and she said, "There was a gentleman at my house asking me questions, asking questions about you," and she said, "he wanted to know if I'd ever seen any strange cars in your yard or police cars."

I said, "Okay."

And she said, "He asked me if I ever saw you point at anybody and shake your fist."

And she had a concerned look on her face, and I said, "Well, I was applying for a license."

Well, this is 13 years later, and to this day, when she sees me, she avoids me.

[Laughter]

So I gotta blame John for that.

At any rate, that Saturday I went to the kennel club, and I'm sitting there and Mr. Rooney, the owner of the track, comes down and he sits at my table and he's laughing, and he says, "You wouldn't believe the questions I had to answer about you this week," and I said, "Yes, I would."

Well, to make a long story short, two months goes by and I have my OTB license, and I'm all excited and I'm all set. I've got the license, let's go.

Well, I wasn't all set, all right? I was missing a few things. I didn't have a tote company, I didn't have a hub and I didn't have any tracks. Where am I going?

So I made some inquiries and got some rejections and finally United Tote called me and they offered me a contract, and they came to Sioux Falls. The first thing I did was buy eight Versa II machines. I was all excited, and now I needed a hub.

Again, I go in the hub market and nobody wants me. Finally, I get a call from Phil Ruffin, Sr. who owned the Wichita Dog Track. He owns Treasure Island in Las Vegas now, and he offered me a contract and I signed it. I was very happy, so I had two out of the three things I needed, and actually United Tote had given me a few small tracks, a few dog tracks, but I didn't have any primary signals.

Kevin O'Keefe was, I think, doing a job for them then, and he called me and said, "Randy, the major tracks are hesitant. They won't give you the signal because of your background."

I said, "But I've got a license."

He says, "I don't care. They won't give you a signal."

So I said, "I'm dead now." I mean, how do you operate an OTB and I have no primary signals.

Well, anyway, this is where I got my break. This was my big break.

Doug and I, we had a mutual friend who lived on the East Coast, well known and respected in the business as both a writer and a panelist. He made some calls to some people he knew at different tracks and I was able then to set up some appointments, but the overall sentiment, I could tell, was negative. He called me and said, "Expect the worst," which is going to make you feel good.

Anyway, if I could stop for a second, my friend who would never take credit for anything, was absolutely instrumental in any success, in much of the success I've had today, and I certainly wouldn't be here without the advice he gave me. And I know he would wish to remain anonymous, and I'll honor that.

Well, anyway, my first meeting was with Doug Donn, the President of Gulfstream Park. I mean, what do you say to a guy walking in, okay? "I'm a nobody, I want your signal."

Anyway, I get my papers ready and I went down to his office, and I walked in and I handed him my papers, and I think his simulcast director was also sitting at the table, and I started to plead my case. I told him a number of things and I said, "All I can do is give you my word that I won't recruit any of your players. I'll give you substantial handle. I pay my bills on time," and you know, a bunch of things, and all I wanted was a chance.

Well, when I finished, the simulcast director says, "Excuse me, are you the same Gallo that hit the 'pick six' here two weeks ago," and I look over and I nodded and I said, "Yes, I am."

And I'll never forget it, Mr. Donn looks up and he goes, "And now you have your own OTB."

Well, right there, I know I've been taken off life support, okay? I was done, okay? And the first thing that runs through my mind is, "I wondered if United Tote will take those Versa II machines back."

So anyway, the room is silent and I'm ready to throw up. I'm sick, okay, and Mr. Donn is looking at the papers, and he stands up and he puts his hand out, and I thought he was saying goodbye, which I was ready to do. He shakes my hand and he says, "Welcome aboard. I hope I don't regret this," and nervously I said, "You won't," and I was in shock.

I said, "I had Gulfstream," and I walked out the door and I was like numb. Well, anyway from there I went to New York and I met Bill Nader, and we hit it off, and we had mutual friends on the gambling side of the industry and I told him basically the same thing I did Mr. Donn, although I had not told him that I had met with Mr. Donn.

Two weeks later, I get a call, I had NYRA, and boy I'll tell you, this is something else.

Well, from there, I went to Churchill. I met Ace Haslip. And from there to southern California, and same result. Well, one by one, I got these signals, and I cherish every one of them.

I went back to South Dakota, and now I've got primary signals and I'm ready to get rolling and Matt Hegarty, who we all know from the *Daily Racing Form*, who I admire, he calls me up for an interview and brings up the fact that I'm a gambler and I have an edge, and OTB and the whole works.

I said, "Matt, you wouldn't make a big deal if a lawyer opened up his own law firm," and I gave him some analogies. I said if a doctor opened his own hospital. And anyway, in passing, I said to him, "Matt, if you walked into a bakery and a fat man owned it, you wouldn't blink would you?"

And he didn't say anything.

Well, two days later, I get the *Racing Form*, front page, "Gallo Having an OTB is Like a Fat Man Having His Own Bakery," am I correct Matt? Okay, well as you might imagine I'm the brunt of more rye and pumpnickel jokes, which you know everywhere, I went!

You know, I'm trying to get established, and now I'm a baker. Well, and it was funny, okay, but I didn't want to be a joke, okay. I had seen what had happened to ADWs in North Dakota, down in Oklahoma, then in New Hampshire, after that in Las Vegas, and I saw what happened to the players and what happened to their accounts.

Well, I wanted a place with credibility, and that's what I set out to get. The first thing I did was I gave background checks, and we're going way back now, background checks to every player that I had, and if he didn't pass, he didn't play.

I had the first ever completed due diligence done by the TRPB and had their report available to all tracks interested. I've had an external audit done for nine straight years and, again, the results were made available upon request.

I also posted the largest cash bond in the industry, \$1.3 million to protect the players' accounts. I also wanted a play-it-friendly ADW, and I think I had that. The tellers and the players are all on a first name basis. We try to cater to every win they might have, whether it be audits, updates or race calls. I mean, we were giving race calls to people on airplanes, in hospitals, in Broadway shows. Anything they want, if I can provide it, they get it.

I also honor all teller errors up to a certain amount, and also on any jackpots, regardless of the size, they're paid immediately. There's no wait on the player's part.

Well, after all was said and done, I'm proud to say that Bettor Racing has been the number one, non-internet ADW in the United States for the past five years, which I'm very proud of.

Oh, and I almost forgot, before I came here I picked a tangerine off that same tree from 13 years ago, and I brought it with me, okay. There it is, okay. So John, if you're here today, maybe you can take it now, all right? I think I saw him. If you're here, I'll have it in my pocket.

In closing, I'd like to say, and first I'd like to acknowledge some people I see in the audience today that have helped me over the years. I thank you.

I'd like to thank Doug Reed for having me. I'm honored to be here, and I'm also honored to be part of what I consider the greatest sport of all. Thank you.

[Applause]

Mr. Randy Evers: Before I introduce the next speaker, if there are any questions for Mr. Gallo, if you would come up to the microphone and ask your questions. Okay, then I'm going to ask one, and I'm going to rephrase it based upon Mr. Gallo's comments.

Other than really stupid questions from state regulators, if you could change one thing in the industry to help you grow your business, what would that be?

Mr. J. Randy Gallo: You know actually, Randy, that's a good question but I wouldn't change anything because I have a — I've never recruited players. I've seen the track struggle, so I would never recruit a player from a track. I've never approached a player, so I can honestly say that for the last five years there is nothing that I would do.

I know that Mark, Ed and Bruce will probably have a better answer for that, but I wouldn't change a thing. I mean, I've been blessed, and I'm thankful.

Mr. Randy Evers: Any other questions for Mr. Gallo? Thank you, Randy, I appreciate it very much.

Our next speaker is Ed Comins. Mr. Comins has been chief operating officer for European Wagering Services for nearly four years, heading up its business in the Isle of Man, London and the United States.

European Wagering Services recently purchased WatchandWager, LLC, a company licensed for pari-mutuel racing by the North Dakota Racing Commission.

Mr. Comins is the director of European Wagering Services and its parenting company, webisholdingplc.com. He is also the director of its US subsidiary WatchandWager.

He started his career in marketing with Bass PLC before moving on to Ladbrokes Casino. Mr. Comins then joined the UK Tote where he progressed to the position of business development director.

Please give a warm welcome to Mr. Ed Comins.

[Applause]

Mr. Ed Comins: Good morning, quite a good turnout for Thursday. We were just expecting a couple of spies from Twin Spires and that was about it, but — that was a joke.

[Laughter]

First of all, I'd like to say thank you very much to Doug Reed for the symposium, again, for inviting me on the panel, and it's a great pleasure to be here with my team and to be supporting the Race Track Industry Program and the symposium.

I'd also like to thank Randy for his support.

Okay, I'm going to talk about the ADW business, and our plans for the future, and dwell on a few issues that we think are extremely important going forward.

Just a little bit of brief detail about the business. European Wagering Services owns and operates a pari-mutuel hub and AmTote hub plus direct global track pools from our Isle of Man base.

Our current business — we connect to about 80 thoroughbred racing and greyhounds and harness tracks, many in North America. We can row the boats globally. We own all our hardware and software in the Isle of Man.

Our main website is link2bet.com. We also offer a cool set of facilities on the island. We do run white labels, one of which being Totebet.com.

Very importantly, we feel that all our settlements are done from the US through California and Horse Racing Management Systems, and they're doing a very good job for us.

We're a PLC. All of our numbers are available in the public domain but EWS has a very good track record of consistently strong handle and profitability.

We're owned, as I said by Webis Holdings, PLC, which is listed on the stock market in London under AIM which gives us a deal of credibility and also the fact that we go through stringent ordinance and corporate compliance.

Anyway, let's go down to the betting. I'd love to have won some of Randy's "pick sixes" but we're still hurting. We have a number of ADW betting applications, our own brands and some third parties. Easy2bet, one of our home brands, InstaBet which is a batch wagering interface, Build-A-Bet, Link2bet Direct, and so we have a provision of a full range of applications for our customers, and this is vital, we believe, to the ADW business.

We want to tailor our requirements. As Randy said, it's all about knowing a customer. We want to tailor the technological solutions for the different types of clients and allow the customer to make their own choice.

Just some slides that — there's WatchandWager.com LLC. We recently purchased the US company, WatchandWager.com LLC and its assets. It's licensed by the North Dakota Racing Commission incorporated in Nevada, and we see this as a very important strategic play for our business. We'll be opening an on the ground sales and marketing presence in the US next year, and we've got some very exciting plans for this business and the ADW business in the US going forward and we've been working hard this week on those plans.

Our current website, as you can see, these are some of our betting applications and payment methods. Sex does sell in the ADW business.

Social media is a huge part of our business. Twitter. We have one person dedicated 24/7 in relation to Twitter and we see that as being very important as part of the mix going forward.

We like to talk to our customers through database marketing, emails, promos, and we're doing that regularly.

One of the key elements with any ADW operation, particularly in the US is payment methods. This is not an easy area. I've been at this conference for nearly — this is my fourth year, and I still don't believe that the industry has got its head together in terms of online payment efforts for US pari-mutuel wagering.

It's completely different to online poker, online casino, but we're tarred with the same brush. The industry needs to work together closer to improve payment methods for our customers. The only person that suffers is the end-user customer.

These are the sort of payment methods which we currently support, and believe me, me and my team put in a huge amount of work getting these payment methods up and running. They need constant attention and the cost of doing business is too high for businesses our size.

An example of our tote bet websites, we are very keen to provide other white label services for operators and we're certainly in that market.

We also provide a batch wagering interface. There's an example.

So the whole thing, our whole strategy is to provide a myriad of different ways that customers can wager and also a myriad of ways that they can send funds to us, and we can pay them. We see that flexibility and the ability to service a customer as crucial.

So what do you have to have to be an ADW in the US? This is what we think, and I'm not saying that we've got them all at the moment, but this is what we think are key requirements.

Customer service is vital. Randy and I, probably our business model may be a little different, but I think we share a lot of common values, customer service. The beauty of ADW is the advantage of knowing our customer and being able to provide a quality customer service.

There's no difference in price with a pari-mutuel product, so what do you do with it? Meaningful promotions. What I mean by meaningful is "cash is king." We don't give away baseball caps and t-shirts. Free bets, match bets, cash back. This is going to be the future. The takeout rates on pari-mutuel wagering is too high. Simply, you have to promote it, otherwise customers will go elsewhere.

We have 24/7 customer service and innovations like LiveChat. To my knowledge, not one ADW in the US has LiveChat. There's probably a thousand websites in Europe that support LiveChat.

Ease of usage, functionality. We've made a lot of progress in there, but we've got a lot of work to do in that area.

Tailored wagering, as I said, to suit the customer, whether they're the high roller or the smaller player, or in the middle.

Payments, again, I can't stress the importance of effective payment methods.

Contents and streaming the barriers to entering content are critical, obviously, to our business. The only person who is suffering is the customer, the end-use customer.

Community and social networking, I think, will gradually increase in influence, and we're committed to supporting that.

So what do we see in terms of our opportunities? Why are we here? Why have we bought a US company?

Strangely enough, we actually see the ADW business as a young market. I've had only 20 years experience in the European betting market. There are some very, very big operations over there and successful ones. There's a huge range of different methods of betting, whether its pari-mutuel, exchanges, fixed odds, spreads, casino, poker, etc. And the thing that we see here is that, even though obviously the overall racing market has some serious challenges, we do see the ADW business as relatively young, which is probably a surprise to you, given some of the doom and gloom type of comments that I've seen over the last few years at these conferences.

We're actually positive about it. We can see it being a little bit immature and the ability to grow and satisfy our customers.

We think that European style web development is critical. We think that there are some great websites out here, but there is a lot of work that could be done and we have a lot of learning from the European model and the level of functionality that they have. We do have experience in that.

Hands-on customer service, again, I can't stress strongly enough is crucial to our business. Payments, again, is a critical area, and we believe that a customer shouldn't be paying to deposit funds by any method. Unlike some of our competitors, we currently don't charge for our deposit methods. That is a critical area.

The European model, if you asked a customer to deposit funds to start wagering through an ADW, and then you said to them actually, "You want to send \$100 but we're going to charge you \$100," they would be off. You wouldn't have a business, so we need to work to bring down the cost of processing and look at different payment methods. It's critical, so we need to follow the European model, and obviously work as an industry and not individually to solve affective payment methods for the ADW business.

Streaming, we see is critical and the model in Europe for streaming video online in addition to mobile.

The opportunity for us is the issue of good margins. Despite some of the issues we face, the pari-mutuel product does derive very good margins. In the UK, and in the European, and particularly in the UK horse racing we've seen a very, very steady decline in horse racing margins, especially on fixed odds betting.

There are a number of reasons for that and that's not part of my presentation, but the margins derived back from UK horse racing is now well into the single figures, and

extremely low. It's very difficult to make money betting, offering betting on the UK horse racing. We do actually see that the margins derived from pari-mutuel are good and it's critical that we try and maintain a reasonable margin.

As a company, we do see a presence in the US as being an important medium in slightly long-term, longer play, strategically. We're in a unique opportunity here where we can legally do business in the US, and we can see that as being an interesting play for our business.

So what are the threats? The opportunities are clear, but what are the threats to the ADW business?

The product definitely needs looking at, the pari-mutuel products and the takeouts as I alluded to are high. If certain other methods of betting are legalized or get into this country, then my opinion is that the pari-mutuel product is dead unless something is done about the product and the price.

Pricing is critical with 35 percent takeouts, 17 percent on a win bet just not being sustainable.

Payment methods, and sorry I keep repeating this, but it is banking payments, and we need to work as an industry to support payment processing.

The general resistance to change, you know, Randy made a great success at core and content and what a fantastic story that is. The current situation, it is difficult to pick up extra content. The concept of the industry ADW as I hear, I personally then think that will happen, but it's obviously a threat to distributors. You know, we put a lot of money into technology, marketing, developing our business. It's money that with my board we're not just going to spend it willy-nilly. There are other ways that we can spend it, unless we get the content that we can distribute successfully for our customers.

Freedom to promote and I think you all know what I'm saying here in terms of being innovative, in terms of being able to satisfy your customers, whether they be a small commingling player to some of the higher end players. It's vital. We're the distributors. We think we're pretty good at it. We've got a lot of work to do, but we believe that if we're given some freedom to promote and be flexible about it, our distribution strategy and our channel marketing strategy, then it will only be good for the industry. Host tracks will go up and we'll — you know, it will be a positive.

Protection, and this is an area that concerns me. The reason that we're trying to develop our businesses in the US is that it's a great country, and we just need the freedom to be able to distribute our product.

So how can we help? We are committed to US presence and strategy. We do have a unique commingling capability from the US and international. As I said, we've got a proven track record of decent handle. We're looking to grow the handle and obviously the margin.

So we are here to stay. Just let us distribute the products. Let us do the hard work. Let us spend the money on the web development, the social media, the payment methods, the technology and the marketing.

We'll distribute the product. The industry ADW is not going to work. So we want to be here, and we want to be on a level playing field. Thank you very much.

[Applause]

Mr. Randy Evers: Are there any questions for Ed? Okay, thank you very much.

Our next speaker is Mark Gregory. Mr. Gregory is the president and CEO of eBet Technologies, who happens to be one of the ADWs currently licensed in Oregon. Mark has been involved in running or launching several account wagering platforms including Horse Play Interactive, Woodbine Entertainment Group's account wagering platform, and XpressBet, Magna Entertainment Corporations national account wagering platform.

Over the last three years he has been the president and chief executive officer of eBet Technologies, which has launched ten boutique-type account wagering operations, and eBet Technologies currently provides operational and/or technical support and infrastructure to over a dozen account wagering operations via online, phone and wagering kiosk platforms.

Please welcome Mr. Gregory.

[Applause]

Mr. Mark Gregory: Thanks, Randy. So I thought first we'd just introduce maybe just a little bit about eBet and our history, and then get into where we really feel we fit in the industry and where our niche is.

We've actually been around for over ten years. Initially, we began operating with Penn National Gaming in the late 1990s. They had a successful phone wagering business and we were chosen to do an internet wagering platform for them at that time.

We've really been able to service that in Pocono Downs for a number of years, and in the last few years we look to take that business and grow it with a particular focus on working with racetracks in a business-to-business relationship.

So we're a little different than some of the other boutique ADWs or the other participants in this industry on the account wagering side. We don't really look at some of those players as competition as much as we see them as opportunities. We're not marketing a national eBet.com brand. We really look to support, technically, business-to-business level. We have relationships with other boutique ADWs. We have relationships with racetracks and we also have, as Randy said, a licensed hub in Oregon where we can do affiliate marketing ADWs as well.

So we really try to put together essentially a menu of services that we can go and provide to a number of different groups, a number of industry participants and to their account wagering needs.

You can see a list of some of the tracks we work with and, again, with a particular focus on doing turnkey ADWs for the regional gaming market for racetracks is really where we're focused and where we see our niche in the market.

Really what I want to focus on and what I wanted to talk about today was not necessarily about our history or what we do, but really how do we address that market. How do we address the current landscape of the ADW business, and how do we help racetracks.

So, from our perspective, we really look at the national platform as something that's out there, the genie is out of the bottle, and those people are wagering and there has been a lot of investment in account wagering. They've built that relationship with those customers and invested in the infrastructure.

For race tracks, it's difficult to do that, but we've made the investment. We'd like to utilize that investment to help racetracks to focus on those customers, and by doing that you control your distribution channel, you're able to gain that ownership over that customer relationship, and if you can do those two things, you're able to increase our revenue.

Initially, obviously, the distribution point was the racetrack. There were no other options. In some regions and jurisdictions we're able to take advantage of OTBs and really took that to have greater distribution.

Really what happened, beyond that, when ADW was introduced, not a lot of racetracks had the resources or wherewithal to introduce that. What's happened in the course of the last ten years is that those national platforms, some are owned by racetracks, but obviously the vast majority of racetracks don't own ADW platforms. So that customer relationship and that distribution channel is now owned by another company and no longer owned by the racetrack.

So where we'd like to fit, and where our particular focus is, is really taking advantage of that market for that racetrack, giving it a branded solution that can take all the infrastructure we have and leverage that and allow a racetrack to give the customer an option to do business with them.

If you don't have an ADW at the racetrack, you essentially aren't giving that customer the choice of doing business with you. So they can come to your track, they can come to your OTB, but when they want the convenience of wagering through the phone or wagering at home, you're asking them to do business without you. Obviously, there's lots of reach that those ADWs with national platforms provide for you, and it's critical. It's critical to have that distribution for your content to go to other markets that you can't reach, outside of your regional gaming market and, again, I think it's critical beyond those platforms. There's a lot invested and they've done a tremendous job.

But, again, without having your own ADW and your own regional market, you're not allowing your customers to participate with you.

So just like once you're able to control the distribution channel, it allows you then to gain control and ownership over your customer base. Again, when there was an ADW, and if the slide represented the state or region that you do business in, before ADW, it was essentially you owned that customer relationship. Their options were to come to your track or come to your OTB, and you were able to know and value that customer.

With the introduction of ADW and the growth over the last ten years, or so, what's happened was it was an incredible opportunity. Now you can reach all those customers that don't have the ability to get your facility so obviously that can be accomplished through simulcast agreements at other racetracks and ADWs. But with the tremendous investment again with a number of players you're able to reach beyond that and into homes and have that convenience. Obviously, we've seen a tremendous amount of growth as an industry through that.

And I think the way this slide looks right now is the way we'd like to review it at racetracks, but I think the reality is, and everyone knows that, certainly those customers that are in and around those racetracks, just because you live two minutes from the racetrack doesn't mean that you don't like the convenience of having a phone wager, or having an online wager.

So what's happened is that some of those customers are now from that region and obviously it was a double-edged sword. You want to protect your market but you also wanted to be on those national platforms. There are things like source market fees that try to accomplish some of those objectives, but certainly from our perspective, and the way that we view the market, we think it's critical for the racetrack to own that distribution channel, own that customer relationship, and so with a service like ours we're able to come in and do a complete turnkey branded solution for a racetrack. We're able to allow you to own that distribution channel, allow you to gain that customer back, own that relationship.

At that point, when you do own that customer relationship, and you have that option, you can look (if you so choose) to grow that business. It's not just about necessarily taking current existing customers and transferring them to your platform. It's really about, again, managing that regional gaming opportunity that you have at the racetrack and not telling your customers that you can't service them, or that you can't do business with them, that if they want to come to the track, or they want to come to the OTB, you're more than willing and able to service them. But, beyond that, they're going to need to go through another service provider.

So once you own your distribution channel, and once you have ownership over the customer, again, for many tracks and not for all, and I speak in generalities because everyone has their own challenges and opportunities in their different markets. But, again, when you don't own that distribution channel you obviously are going to earn much less on your own content through another channel versus one that you own, and again I think it's critical to your distribution to be on those platforms.

You need to be on those natural platforms because they're able to address and get markets that you can't reach. But, again, where we feel we can fit in the market and where we really are focused are helping your racetracks address your regional market, so there's going to be other platforms within your regional market. They're going to have accounts there, and you're going to be able to earn revenue off of that. But, certainly, you're able to earn more revenue when there's a channel that you control.

I think even more so, rather than even on your own content, it's really when you're wagering on other content, or then those players are wagering on other content, you obviously earn zero on those types of wagers, when it's not a distribution platform that you control or own.

So, again, speaking in generalities, everyone's situation is unique and different, but if we take a look at kind of an average 20 percent on a 3 percent host track situation which maybe doesn't apply to anyone but in general if we can use those numbers, as a racetrack, when you're wagering on your content you're obviously getting the full amount. When you're wagering on other content, you're paying your simulcast fees and you have operating costs to operate and manage that channel.

As a national platform that has that customer, again, a three percent simulcast rate on your content that you're going to achieve when they're in other markets and then zero on other wagers and other content.

Again, I think that's a great relationship, and it's a good model for when they're controlling that distribution. They've made that investment and they've got that distribution out there in those other markets that you can't possibly address in your regional gaming opportunity. But when it comes to your regional gaming market, obviously, those numbers don't work as well.

So when you have the OTBs and/or the ADW solution that we are able to provide, you are able to control that distribution channel again, own that customer and move those margins back to where we look better.

As an example, if you can actually look at content and you said, "Okay, well 50 percent of particular players' wagers were going to go through on your content and 50 percent were to go through on others' content," you'd come up with some averages and say, "Okay, well, we're essentially going to average 18.5 percent through a channel that we own, less our operating costs and 0.5 percent on other channels."

Again, I don't want it to come off that I don't think that those channels are important. Those are of critical importance. It's just around your regional market and your regional opportunity. Those economics are sometimes tough to manage.

So if those customers now that were coming to the track and the OTB have migrated the channels that you can't offer and that you can't support, then you're losing that revenue. We can help you to manage to get that back to a distribution channel and an ownership of those customers where you can manage that relationship back into better economics and then really, truly know who those customers are and know what they're wagering, have that relationship, own that relationship and then actually move them back to a racetrack or an OTB relationship if you wanted to have bigger days or be able to promote to them.

If you don't know who the customer is, you're not able to promote to them, and you're not able to affect and manage that relationship.

So what I try to do is say, hey, 1.5 percent, 18.5 percent, that's all well and good. What does that really mean?

So if we take a look at that, again that opportunity, that amount of wagers of either customers that are currently signed up or going to sign up, and you feel that you can impact that regional market of handle, if you can take one and four of those players that either currently have an ADW account, and/or new guys or customers that are looking to sign up an account. There are new people signing up for accounts every day. This is not a portion of our industry or business that's slowing down. It's growing.

So if you're able to take that market potential that's around your track, that are interested in the convenience in wagering at home and say, "I want to impact," or, "I want to capture a quarter of that," and if you can move that from a channel where you're earning 1.5 percent to a channel where you're earning 18.5 percent, you can essentially take your revenue and increase it by a five percent margin if you can address, again, a quarter of that market.

So, again, national platforms where eBet fits, we provide services to a number of different groups, and we provide services to other ADWs, niche ADWs. We're really a business-to-business niche player. We're not marketing kind of a national brand where we're trying to get customers. We really want to look to support people who are doing that.

We don't view ourselves as the marketers. We view ourselves as the solution and the technology behind it. Again, individuals like Randy, they have those relationships. They're going to maintain those relationships, and they've done a great job and taken a long time to invest a lot of money and capital to get those relationships.

So we really feel ourselves as fitting into the industry, as providing solutions in the account wagering space, and again a particular focus for racetracks that want to recapture that regional gaming opportunity and if you can control that distribution point, and you can control that relationship, then you can increase your revenue and give your customers a choice to actually do business with you.

Thanks.

[Applause]

Mr. Randy Evers: Are there any questions for Mark? Okay, thank you.

Our clean-up hitter today is Mr. Bruce Soulsby. Mr. Soulsby is a native New Zealander. Bruce was recruited to come to the United States and play golf for Ohio State by none other than the great Jack Nicklaus who some people think is still the greatest golfer that has ever played the game today, the Golden Bear.

His career highlights include representing New Zealand at the Dunhill Cup in St. Andrew's Scotland. Mr. Soulsby played in the United States Open in 1985 and 1990 and was part of the PGA Tour for three years. After retiring from the PGA Tour, Mr. Soulsby became a golf pro at Wedgewood Country Club in Columbus, Ohio. This gave him time for his two passions, golfing by day and harness racing by night. What a wonderful life. This passion grew to the point where he felt the timing was right to jump in and help grow the game. Mr. Bruce Soulsby.

[Applause]

Mr. Bruce Soulsby: Firstly, thanks to Randy and Doug for the opportunity to be here. You know, it's a great opportunity to speak to you all this morning. Really, obviously, I didn't make enough three-footers, and that's why I'm here, but you know if you gave me the opportunity to go to the races or to play golf, I'm a little different and I'd go to the races.

And I think, honestly, the opportunities in the sport today are all in front of us. I mean, I hear a lot of things. I hear a lot of negatives over the past couple of years, and I truly believe that the door is wide open and I think that we're fortunate to be involved in obviously a game that we depend on and that we love.

I think, obviously, the perception in the world out there is not maybe brilliant to gaming at any degree and there have been some things that have given this sport an ugly kind of a black eye to say the least, but I truly believe that there are a lot of things that we can do to help.

I'm going to kind of give you a little history here on basically how I got involved and my great passion for the game.

I'm originally from New Zealand which is rich from racing. Down under, and there's a slogan, "Rugby, racing and beer, not necessarily in that order."

I was fortunate enough to go back to Australia for the Melbourne Cup Carnival about a month ago and the passion is just phenomenal, something that I kind of miss. I couldn't believe the excitement, the different types of bets they had.

They had a bet down there that was what they called the flexi-tri. I was up at the window kind of trying to study what they do and how they do it, and maybe I could grab a nugget or two. I watched a gentleman come up and place a bet, and he called out nine horses, wanted a trifecta box.

I'm looking behind him, where's the wheelbarrow, you know? I'm thinking this is going to cost him \$7,000. He said, "No, give it to me for a hundred dollars."

How do you box nine horses for \$100?

So, basically that's a percentage of the pool he gets. He gets \$100 which gives him a certain percentage of the pool, which obviously allows him to feel like he's got an opportunity to throw two or three long shots in there and get some kind of big ticket.

About every third person that came to the window played that Flexi-Tri, and I know that we'd been somewhat innovative in creating 10-cent superfectas and 50-cent trifectas and different things, but I think we need to look at the opportunity to allow people, obviously, to feel like they've got a chance of a reward when they go to the window and make money.

That's the reason I got in the business 33 months ago, the ADW business. I've been a standardbred owner for the past 20 years. I've owned over a 100 racehorses, like Randy. Not a great deal of success there, but a tremendous amount of fun and excitement. There's nothing more exciting than watching your horse race. But, honestly, I enjoyed the gambling aspect of the game as much.

If I could just get a show of hands in this room of how many people you know today that are successful and make a profit betting on racehorses without any kind of help, such as a rebate. Does anybody really know anybody that goes to the races, consistently, four or five days a week and walks out of there with more money in their pocket than what they went in with?

I see the golden goose egg. I don't see any hands.

So when we go to the races and we don't win, we don't leave maybe as excited as what we were when we walked in. I know personally, myself, I started earning a rebate as a player in 2002. I had no idea. I didn't know there was such a thing, rebates available.

I bet in Oklahoma and, unfortunately, that operation went bye-bye. I had the pleasure of betting with Mr. Gallo here for four years. Did a great job, and without his help, without being able to get that rebate, I definitely would not have been a winner.

I think the world is basically based upon winners, you know, winning. In our game winners create churn, which creates dollars, helps the racetracks and helps the horseman. It has that trickle down effect.

I'm not sure, but since 2002 to today, my bidding has increased somewhere around ten times. Without that rebate, I would have to say that I'm not so sure that I would be any more than maybe a \$5-10 bettor and just obviously go to the races to enjoy watching the

horse's race, and I'd kind of hopefully have some kind of a carnival atmosphere and enjoy the camaraderie. So it's very vital, I think to the game and the opportunity is immense that, when I did some research and realized two years ago that less than 12 percent of a handle was rebated upon or earned any kind of a reward.

You know, you can blame a lot of things as far as why aren't people going to the racetracks, why aren't people — it's a simple answer, people can't win.

In some ways, I disagree with these guys and Ed with the takeout rates. Yeah, I agree in one way and I disagree in another way. The takeout rates being that high give us an opportunity and give us margins to what? To be able to give back to the players because that's our foundation; without the players, none of us are here.

You know, we must take care of the players. We are a player site, basically. We're a players' site. We have done everything in our powers to protect the players. I've taken out a bond also to protect the players' accounts. I try to make it as easy, try to hire the best people, the best tellers. I do all those things to make it simple, but I realize that without those players, I don't have an opportunity, A. to be here, and B. to grow a game that I'm crazy about.

So, basically, I say, "How do I really get successful?"

Obviously, I'm a standardbred player and I mean most of the game is thoroughbred. I understand that. So I tried to go out and hire the best people I could hire that knew a lot more about the game than me, and they knew how to run an operation.

So my good friend, Mike Weiss, owned and operated Beulah Park. So I went and spoke to Mike and I knew Mike had been very successful. He had run a great operation, and I also realized that he had formed and built an internet company. He watched it grow to \$0.25 billion.

I said, and I gave Mike an opportunity to come and work for me, and work for us, and I was amazed that even Mike really didn't understand the rebating world that was going on. I explained it to him, and it's the same answer I get from a lot of people that I speak to. They've basically left the game because, obviously, times are tough, the economy is bad. You know, excuses, excuses, excuses, but there's a lack of luxury dollars out there, especially to gamble with and especially to lose.

I truly believe that we try to give back as much to the player as we can. I know a lot of the tracks believe that error margins are very great. I think these guys up here will second the fact that error margins are very, very small.

We try to base, and I've tried to base my business on volume. A lot of accounts, I might not even make one percent on, but I know one thing. Without that rebate and without some help, they probably wouldn't be playing.

I believe \$1.6 billion is rebated upon. I think there's \$13.8 billion bet in North America, so I think there's a tremendous hole or opportunity to grow this game, but it must start with a somewhat coming together creating more of a small fraternity, reaching out to each other and helping.

I know that, you know, we can't do it alone, and I think a level playing field, as Ed said. I think the opportunity to be able to give back to the public, give back to new players, bring

back old players. I mean, I've gone up to several gentleman that have come and gone in the game, and I explained this to them, and the perception is that it can't be legal. It's not legal. It's illegal.

How can you do that? How can you give ten percent back? How can you give seven percent back?

So we have kind of got to spread the word and is it the perfect model for racetracks? No. I'd love to still go to the racetrack. I still bet through the windows when I do go to the racetrack. I don't want the game to dry up and go away. I love it, but I think by getting the word out there and allowing people the opportunity to get on board, and I respect the fact that the tracks in a lot of ways are not self-sufficient and are struggling. Racinos are kind of taking over.

It's sad, but it's great because it helps keep the game alive. But I think it needs our help, not necessarily just the racinos and the other help that the game is receiving. We must let people know of the possibilities out there.

I've been open for just a little over a year, and you too, going through the TRPB report, which has been a process. I think it's very healthy. I think it creates integrity and believe me, if you weren't serious about the game, you'd probably decide not to be in the game after going through that. I often joke Mr. Linnell that I wish you'd charge me double and take a third of the time because I don't know how much time I've got, but I want to get out there and get amongst it and help do as much for my passion.

The integrity and stuff is extremely important. You know, we must try to somehow create an image, obviously, that it's socially accepted. It is in many other countries in the world. It's very socially accepted and you see kiosks on corners and they make it very easy for us to bet. Here, it's maybe not looked at under quite the same light.

So, you know, there's really no excuse that with the technology, the cell phones and everything that we have available to us today, why are the percentages on that slippery slope, the wrong way?

That's basically why I thought I could make a difference, and I think the opportunities are immense out there. I just think that we need to yoke together, form relationships that are winning relationships for us all. We can't do it alone. We need your help.

I've been very fortunate. I'm based out of North Dakota. I've had a lot of help from them, and I've heard issues. You know, that was then, this is now. I think they've got a great director in there at the Commission that's doing a great job, a stand-up guy, and he's very serious about it.

I've got a great tote company in LVDC that's directed me, helped me get content, and I couldn't be happier. There's a lot of energy there.

My first year I didn't do a great handle. I did \$30 million, but I had a lack of tracks, primarily harness and I would say 40 percent of that \$30 million was new play due to what I was able, or what the ADWs are able to offer. So it's a pretty simple equation that there's no doubt, without it you just can't win.

So, I mean, the answer is pretty simple. You know, I know that it's one of the few growing areas in the game, and I think that, really, we need and I can't say it enough. We just need

to come together. We need to realize the direction in which the game is going. We need to reach out. We need to help the player because he is the foundation. He's the one driving the bus, and anything that we can do to help, to bring more people to the races, to create new enthusiasm through Flexi-Tri and different things.

We need to all put our thinking caps on and we need to basically kind of change some of the things we're doing, and I don't mean that in any negative way, but I just think that we need to take a look at the big picture and move forward.

But, really, I'm excited about the business. I think there's an incredible amount of opportunity. I think that obviously we all depend on the game, and I think if we can just somehow kind of unite and pull together, I think we're going to see, and we're going to have a lot of fun. There are going to be a lot of exciting times down the road.

Really, I see this, the ADW very much as in its infancy. I don't think that I'm in it five or ten years too late. I think I'm in it at the right time. I greatly appreciate any help and anything that anybody can do to, not only help me, but just basically help the industry.

Thanks very much. I appreciate you for your time. Have a great day.

[Applause]

Mr. Randy Evers: Are there any questions for Bruce? Yes, sir.

Mr. Jack Ketterer: Jack Ketterer with the Iowa Racing and Gaming Commission. It's not specifically for Bruce, but maybe for any of the panelists. Is there any reason for anybody to go and place their bets at the track or through the track at this point? I mean, even if you were going to the races to watch the races, wouldn't you be better off with your mobile device betting through one of your shops in terms of the takeout?

Mr. Bruce Soulsby: Obviously, that's a great question, and yeah that's a question everybody asks themselves, but we don't want racing to go away. I mean, we don't want to do anything in the world to hurt racing. I mean, we want to grow the game and I think there's nothing better than going to the racetrack, and obviously watching the races and the excitement and Nick Nicholson spoke yesterday and all the things they're doing to promote, promote and promote.

It's terrific, it's great. We want to help them. We're trying to reach out to help them, and obviously the crowds have become a lot less at the racetracks. Time is a valuable commodity. People don't have the same time. We've made it easier with all of the TV, RTN, TVG, all the racing, for people to stay at home.

So we're basically there when you don't go to the racetrack. We're there. Now would you go to the window and make a bet at the racetrack? Because you want to support it, and I think we all have that in common. We all want to support it, but how do we grow it, and then how do we give back?

I think if we don't give back, I mean, in a competitive world with the poker, the NASCAR, the opportunities to bet on all the other sports and stuff today, we're going to be looking in the rear view mirror and saying, "What happened?"

So I just think, yeah, absolutely. I mean, we don't want to hurt the tracks. We want to help the tracks. We want to help the horseman.

My internet site, darkhorsebet.com, we're actually giving one penny of every dollar to disabled jockeys. We're giving one penny to new vocations for basically racehorse adoption after they are done racing.

We're trying to create opportunity in the industry, and I think these guys would agree that under no uncertain terms do we want to hurt the game. We're trying to grow the game.

Mr. Ed Comins: There's absolutely no way we want to take people off the tracks. We want to see the tracks being as vibrant as possible in the UK and in the US. There's no way that we want to take people off the tracks. You need to see us as purely distributors. It's a convenience thing.

Unless you're extremely lucky, you can't go racing seven days a week, so that's why we're there. We want to work with the courses and the tracks. We don't want to take people off of them.

Mr. Mark Gregory: Yeah, I guess from our perspective as a company, and I think I spoke about it at length, but we want to be able to build that option for the racetracks to make sure that you have an option for your players.

So I think from our perspective, if you're invested in the community, whether it's the groom, the jockey or the local resident who has an affiliation with that local racetrack or that local OTB, you are invested in that particular facility and that particular brand, and I think those people understand that going through the ticket window or through your own branded site or your OTB does support that local track, those local horsemen and those local purses. So I think there is a reason to go through those vehicles and those channels.

Mr. Randy Evers: Are there any other questions? We have about one or two minutes.

Male Voice: Are there any horsemen's groups that own an ADW platform?

Mr. Randy Evers: I'll try to answer that since we license the ADWs at the Commission. There are several corporations that own both racetracks and ADWs, for instance Magna owns several racetracks, and they own XpressBet. Twin Spires owns racetracks, and they also have an advanced deposit wagering company. U.S. Off-Track has a licensed ADW in Oregon that they own greyhound facilities throughout the country. So at least three that I'm aware of that own both racetracks and have ADW platforms.

Any other questions? If not, thank you very much for attending this morning. How about a nice round of applause for our excellent speakers. Enjoy the sunshine, everyone.

[Applause]