

MINUTES

OREGON RACING COMMISSION

October 20, 2005

The Oregon Racing Commission met on Thursday, October 20, 2005, at 1:30 p.m. in Room 140, 800 NE Oregon Street, Portland, OR. Commissioners in attendance were Chair Steve Walters, Julianne Davis and Jeff Gilmour. Commissioners Todd Thorne and Lisa Metcalf were excused. Agenda items were discussed in the following order with resulting actions:

1. Approval of September 15, 2005, Minutes

ACTION: MOTION (Davis) Approve minutes as submitted.

VOTE: 3 Aye, 0 Nay, 2 Excused

2. OQHRA Proposed Budget for 2005-06

Leah Nelson, Executive Secretary for the Oregon Quarter Horse Racing Association, was present to answer questions. Jodi Hanson, Executive Director, recommended approval of the budget.

ACTION: MOTION (Gilmour) Approve the OQHRA 2005-06 budget

VOTE: 3 Aye, 0 Nay, 2 Excused

3. Portland Meadows Update Report

Dwayne Yuzik, Assistant General Manager Portland Meadows, was present to answer questions. Information and discussions included the following:

- a. Handle trends continued up until the end of last week; off about 20% which is better than anticipated since the closing of the dog track.
- b. Horse population in the back stretch is just shy of 700 currently. Clarified that during the September meeting, the 918 horses reported to be on the back side was incorrect. As of three days ago, there were 667 horses on the back side. The maximum capacity is 830 and the Race Secretary anticipates reaching that within two weeks. The numbers are a little behind last years trend due to the extension of the Seattle race meet.
- c. Added additional material to the track and with the rain, it has tightened up. Per contract, the bi-weekly meetings regarding the condition of the race track will commence with the horse people once the race meet starts.
- d. OTB Hermiston location will be opening the last week of November. This will be a test location, very different than the others with a zero sir charge and a revenue arrangement that will hopefully do 25-35% more than the location that was there a year ago.
- e. Visited the new location of the Albany OTB site last week. This is a brand new bowling facility that looks spectacular and is expected to do very well.
- f. Race Meet opening on Saturday; new post time 12:35 pm on Saturdays, Sundays and Mondays.

g. Simulcast agreements and contracts going out have all been forwarded to Jill Miller and the HBPA.

4. Proposed Order for Laura Boomhower

Raul Ramirez, Assistant Attorney General, stated that this case was handled by AAG Carol Parks during his absence over the summer. The hearing was held and the ALJ issued a proposed order denying Ms. Boomhower's groom license application. No exceptions have been received. The order comes before the Commission today for deliberation and possible entry of a final order.

ACTION: MOTION (Davis) Adopt the proposed order
VOTE: 3 Aye, 0 Nay, 2 Excused

5. International Racing Group (IRG) Application for Multi-Jurisdictional Simulcasting and Interactive Wagering Totalizator Hub License

Following is a transcript of this agenda item:

Walters: Welcome, gentlemen. And, Lonny, welcome, it seems just like old times.

Powell: Feels good to be back, Mr. Chairman. I was just thinking it's been almost twelve years since I appeared in this room on behalf of Multnomah Greyhound Park. Lots of fond memories and it's great to be here. Chairman Walters, Commissioners, Madam Executive Director and staff, I'm Lonny Powell. I'm the Vice President of Public Affairs for Youbet.com. We are the parent company of International Racing Group which we are here to discuss with you. After a few comments from myself, if it's all right with the Commission, my associates with me will also be making some comments in regards to certain aspects of the application. And then, of course, we will be available to answer any questions you may have.

We are here today to respectfully request the licensure of IRG as a multi-jurisdictional simulcast and interactive wagering hub. It's a mouthful, but we are here respectfully before you today to request that. As you probably know, we acquired International Racing Group, or what we will refer to as IRG during most of this discussion, in June of 2005. It is a wholly owned subsidiary of Youbet. We acquired it for a number of reasons, including it was an attractive business opportunity for us and in our view, a very nice, sensible fit for what Youbet does, which is advanced deposit wagering. And, on a more macro industry global type perspective, IRG is definitely a proven vehicle of retaining and growing high volume customers in the pari-mutuel industry which, I think, we've all come to realize over the years is a type of customer that it very tough for us to maintain and one that our industry needs badly. They'll be also a number of other reasons that you'll hear from Mr. Gallo, who is - by the way I neglected to introduce those that are here with me. To my left is Vic Gallo, who most of you have met before. Vic is former General Counsel of Youbet. [He] is now Vice President of Development of Youbet, Vice President of IRG, and the officer of Youbet in charge of International Racing Group. To my right is Gregg Schatzman who, though not an employee of the company like Vic and I are, is the Chairman of our Independent Wagering Compliance Committee. You'll be hearing from both of those gentlemen.

A few words about Youbet before we get into IRG. As most of you know, we are the leading advanced deposit wagering company in the US and we are also a publicly held company and are held to those publicly held standards. We are definitely bullish on our role and contribution to pari-mutuel industry, to date. And, if I might say so, even more bullish on how we think we can grow and evolve and achieve great things in the future for the pari-mutuel industry. We have a real commitment of internally holding ourselves, and that includes our acquisitions such as IRG, to high self-imposed standards while striving to achieve the utmost and best practices within the pari-mutuel industry. Particularly in the critical areas of wagering security and integrity and you'll hear a bit more from Gregg Schatzman on our compliance program. Collectively, for these reasons and reasons that you'll hear from Vic, this is why IRG was an attractive opportunity for us.

Now, a few words on why Oregon. Why Oregon is our preference of location for a hub when there are alternatives available. Well, I think it goes without saying that Oregon, from the very beginning of regulating advanced deposit wagering, has been a pioneer in the field and you have demonstrated regulatory oversight and excellence which, in our opinion, makes the reputation of the ORC, the Commission, the staff absolutely second to none in this industry. We enjoy our relationship with you and we think that Oregon is the jurisdiction for multi-jurisdictional hubs in the US. It seems only fitting that because of your leadership and expertise in this area that you will likely be the first

jurisdiction to step up to the plate and make history and lead our industry once again, just as you did those many years ago, when you brought advanced deposit wagering to the forefront. We look forward to the opportunity of working with you. We look forward to the opportunity of answering your questions and we appreciate you giving us this time to come before you to make this request. If it's all right with you, the rest of us will make some comments and then we'll turn it over to you for any questions that you might have. With that, I'd like to turn to our Compliance Chair, Gregg Schatzman, and he will be able to tell you a little bit, both about himself and his background and the Youbet compliance program. I might add that Gregg comes from the world of gaming, but particularly from gaming regulation and investigations. I think that's a very important feature in today's racing industry where wagering integrity is such a primary concern. Gregg.

Schatzman: Thank you, Lonny.

Walters: Thanks, Lonny. Mr. Schatzman.

Schatzman: Mr. Chairman, Commissioners, Deputy A.G. and Executive Director. I truly am honored to be here. It's always interesting as an ex-regulator to sit on the other side of the table and view the decision makers. I know your time's valuable, Mr. Chairman. What I'd like to do is give you a little bit of my background, a little bit of the origin of compliance committees, how I came to be affiliated with Youbet, what we've established at Youbet, and then with what we've established, how it does affect the instant agenda item that you have before you today. I'll keep my comments brief.

I'm a ten year veteran of Nevada Gaming Control. I left the Board in 1990. I started in 1980. I was one of the first financial investigators that was hired by the Gaming Control Board in Nevada. As you know, our gaming was started by organized crime. It was a time in our industry where we were doing a real metamorphosis and trying to clean up our industry. The powers to be decided that, perhaps, rather than just run a criminal background check on individuals - that we had some folks that we would call uncaught criminals and that is, perhaps, they made their money illegitimately. You don't find that in a criminal rap sheet. And, fortunately for me, I was one of the individuals that was hired to look into how folks actually made their money. If you will, perform a cash flow audit. I spent ten years with the Board. During that tenure, I rose to the rank of Chief of Investigations after six years. Not because I'm the boy genius of anything, but I have a true passion for regulation and doing the right thing. Things are very black and white to me; there aren't a lot of grey areas in this. It's either by the law or it's not. As Chief, I supervised investigations. I had the investigations division, which in Nevada is the pre-license arm of gaming regulation. I also had the corporate securities division, which is the group assigned oversight of all the publicly traded entities, so I had a lot of learning to do there, also. During my tenure I was a part of the covert surveillance team which took the Stardust and Freemont Hotels away from Chicago organized crime. Back in about 1985, our state was being run at Japanese (name unintelligible), also known as the (name unintelligible), Asian organized crime. They made a lot of investment into Hawaii Waikiki and then moved into Nevada. And, we were very successful – I was very fortunate to have a great group of staffers with me and we formulated, I think, some great plans for keeping some of the bad folks out of our state.

I left gaming regulation, at least that part of it, in 1990. I then visited with the Illinois Gaming Board. They had legalized gaming in Illinois, and quite frankly, the director of the Board at the time said, 'Greg, we have it. We don't know exactly what to do with it now'. I lectured State Troopers and revenue agents on pre-license investigations and, I think, we set up a very good system in Illinois. I subsequently left and worked with the Department of Justice in Louisiana and State Police. DOJ was over land based casino. State Police was over river boat. Same thing, worked with them setting up pre-license investigation techniques. I then left regulation and went to the dark side of the force, if you will. [I] went to work for Mr. Trump at his Taj Mahal in Atlantic City. I held senior positions with him and then Primadonna Resorts in Nevada. I came back home to Nevada. Primadonna Resorts was then half owner of the New York, New York Hotel which you all may know of that's on the strip now. It's a career that I'm very proud of and quite passionate about, as I mentioned. So, having said all that, what exactly am I doing here? And, it is this: Earlier this year I got a call from Mr. Gallo. He had said to me in our conversation that Youbet was interested in forming a compliance committee and would I be interested in helping them. Well, again, with my passion for regulation, of course I'm interested in doing it, but what I wanted to know was a little bit more about Youbet. And that is, the senior executives, a tour of the physical plant and then, most importantly, meet with the CEO of the company, Mr. Champion. Specifically, why did I want to do that? It is this: The CEO, I believe, to be the conscience of the company and I wanted to see if Youbet was establishing a compliance committee because they were actually, truly interested in integrity, ethic and doing things correctly. Especially with the background that I have that I won't be associated with anybody that I think is not doing things correctly. In March of this year, I did visit Youbet and met the senior execs. and I had a very protracted discussion with Mr. Champion. As you all know, this industry is a curious one, especially the casino side of it, and that is some folks when they rise to very senior levels their heads swell. They forget what business -normal business practices are and they run purely on ego. I wanted to make sure that I wasn't entering an environment like that. After talking with Mr. Champion, I walked away from our meeting, truly believing that this was a good, grounded family man, truly dedicated to doing things the right way, if you will. And, at that point in time, I said 'Yep, I'll work with you on this one. This is an exciting project.'

So, basically, what is a compliance committee? In Nevada, in 1969, the law was changed so that regulators were able to license publicly traded entities. Again, we were going through a major change in our state from pure organized crime to legitimizing our industry through these publicly traded entities. The first issue of compliance or a compliance committee compliance review system came in with Valley Manufacturing. It was a huge company, world wide, that, as regulators, there was no way that our state could appropriately regulate a world wide company. We just flat didn't have the resources. So, what can you do? Well, the idea was a compliance committee. A compliance review system plan would be put into place, basically self-policing. And that is that, the company would have certain responsibilities as far as watching themselves, like the regulators would. It first started with Valley. It is something that over the years, and until this day, is now a policy with Nevada regulators. It is not law that these have to be put in place, but the regulators have the ability to condition licenses that companies will have compliance committees and review and reporting systems. So, to date, what is happening in Nevada is all publicly traded entities, by policy, are being required to put these plans into place. We have had certain instances, again, with the – it was at the time we had a few Japanese licensees and these were not publicly traded entities, but these independently owned groups were also tasked with putting together these compliance committees.

What is a compliance committee and what does it do? Basically, it is this: As Nevada has seen these, it is typically a few members inside the company, maybe three, a couple of the senior management people, perhaps one of the Board of Directors with an outside director with an expertise in gaming regulation. And, what does it do? It monitors the company, not unlike what we would expect regulators to do. And that is, make quarterly reports based on associations, material transactions, again, basically just following the law.

What have we done with, then, taking this idea to Youbet?

Walters: Gregg, could I ask you one question?

Schatzman: Yes, sir.

Walters: Before you do that? What is the interface between the Compliance Committee and the regulator?

Schatzman: I'm sorry?

Walters: What is the interface – excuse me I've got my mouth full, so I don't cough. It's an interesting trade off. What is the interface between the Compliance Committee and the regulator?

Schatzman: That's a great question. What the Compliance Committee does is, it reports to the Board of Directors of the company, but also provides those reports to the regulators. So what ever is reported to the company, the regulators get, also. There's a free exchange of information. Is there a formal set up where the Compliance Committee goes to meet with the Board? No, but at any time that, say a Nevada regulator would ask to meet with a Compliance Committee member, then the meeting is set up and it's a free exchange of information. And the Compliance Committee is a recommending authority also or only. It's not a control function, but they make recommendations to the Board, the Board of Directors of the company, then those minutes, reports are all reviewed by the regulators so they know what's going on here.

Walters: So, there is a complete exchange of information? I'm thinking, sort of parallel to the independent committees set up under Sarbanes-Oxley, where they do investigations. They make recommendations. If their recommendations are not implemented then they have to report to, say the SEC. But it sounds like here; it's even farther than that, in that anything they recommend, whether it's implemented or not, is going to go to the regulator? All the reports?

Schatzman: That's correct. That's correct. Absolutely.

Walters: Thank you.

Schatzman: So what have we done with the Youbet Compliance Committee? Basically what we have established is a group of – now mind you that as we know it in Nevada, it would be three insiders, one outsider – what we have established for Youbet, is six outsiders. And, at first blush it would seem like, 'Gregg, are you insane or just trying to spend money? Or, what exactly are you doing here?'

Walters: That's probably what Chuck asked.

Schatzman: Actually, it's curious, when I first - as I was mentioning, when I met with Mr. Champion, I said to him, 'You know, Mr. CEO, you realize it's tantamount to asking the IRS to take a look at your tax return. Are you really sure you want to do that?' And he said, 'Absolutely. That's exactly that I want you to do.' Which gave me a great degree of comfort.

What we've set up here is this: Again, it's a six member committee. We have a number of disciplines represented here. And, it's a brain trust that, I think, is capable of, frankly, doing about anything. We have a real great group of individuals. We've got two, including myself, ex- Nevada regulators. We have one former FBI agent, some 20 years of experience, white collar crime, if you will. We have one ex-Secret Service. His expertise is computer fraud. Then, we have two gentlemen that have the law, commercial and horse racing type background. What I'll share with you is that horse racing is not my expertise and it is something that I'm working through the learning curve on right now.

We are currently in the process of finalizing our charter, that is, an actual compliance plan as far as how the committee will operate. What its parameters are. We are in our final draft stages, if you will. We are quickly coming to a close on the plan. It's one that, I think, is detailed enough that we have the flexibility to be a work in progress, if you will. That is we don't lock this committee into such rules that it can't get passed anything. What I've seen of the industry that you regulate is that it's a very dynamic industry, changing all the time. And what I've seen of the Yobet company is you have some very forward thinking individuals. In discussion with the Chairman, that's exactly what we wanted to set up, is something that would grow with the company and with the regulatory environment.

Walters: Gregg, I apologize for interrupting you again, but I take it this, putting together a compliance plan of this sort is a feature of the Nevada system with the Compliance Committee doing that as well. They set up a compliance plan?

Schatzman: Yes, sir, that is correct.

Walters: Next question is: Do the regulators have access to the compliance plan?

Schatzman: Absolutely. Absolutely and that is submitted to them. In fact, when it gets to final draft stage, the regulators take a look at it and if they think that the licensee has missed something, they're allowed to comment and the document will actually be modified.

In regards to the Compliance Committee and your instant agenda item; what have we done with it? Well the Compliance Committee physically met back in the April timeframe. Documentation surrounding the IRG proposed acquisition was submitted to the company, i.e. what is IRG? What is Curacao? For me, what is offshore stuff because as a regulator the first thing that comes to mind is complete weirdness anytime you go out of our country and go some place else. Is there a problem? The committee reviewed all the documentation and we sat in what was a very protracted meeting. [We] came up with about 17 recommendations to Yobet management and the Yobet Board of Directors, including about 14 of those points were continuing due diligence. These are the types of things that we're recommending that you look at: individuals that you're going to be dealing with; the types of background checks, if you will, that we think you ought to be looking at; here's what the deal looks like now; we know what it's going to look like afterwards; timeframes for afterwards to make sure or ensure that things are done that have been represented to the committee. What you have in the document that I saw as far as your licensing application, which I know the Executive Director and staff has looked at, is a compilation of actually a lot of the recommendations that we make. Basically what we were looking for, as a committee, and recommending to Yobet, is if you're going to deal with this group offshore then we want that company to operate to the same high standards that we have seen – I have seen - Yobet operate at in California. Additionally, we talked about the fact that, as soon as possible, and it was Oregon in the discussion that came up, that this company be licensed in a jurisdiction that knows what they're doing and will monitor the ongoing the operation. So to tell you as Chairman of the committee that this company has also followed up and done exactly that, the reason we're here today was of great pleasure to me.

Walters: Gregg, again, I apologize for interrupting, but it is the case. And there certainly was press at the time of the acquisition of IRG by Yobet. That IRG was a company that had some issues in the past. Or, at least some of the principals involved, had some issues. Can you just tell us briefly what those issues were and tell us what has been done to deal with them.

Schatzman: And if I could, Mr. Chairman, what I'd like to do is defer some of that. Vic is prepared to address that. But in answer to your question, we did look into that because that was some of the concerns that we had. Very specifically; are these issues legitimate? Is IRG really a problem company, if you will? If it is, can it be cleaned up? Please work with my thinking matrix here. It was basically, again, if the committee is going to be looking at this, Yobet is looking at bringing this deal to fruition, then there are certain things that are going to have to happen. Or, don't do the deal, will be the recommendation. And basically, that's what we said to the company. These are the things that you need to look at. These are the things we believe need to be cleaned up. If you can't do it, don't do it. But we believe, based on their recommendations and what we were looking at that assuredly this could be done. And to tell you Mr. Chairman, I think, to date, the company has done that. I'm open for whatever questions that you have. I'd like to defer to Mr. Gallo. If he finishes and you have more questions of me, I'll certainly answer what I can.

Walters: Do others have questions that they want to ask of Gregg right now?

Gilmour: I have a long list of questions when they're both done.

Walters: Okay, great. Vic.

Gallo: Chairman, Commissioners, Ms. Hanson, I'm running IRG. Unfortunately, when I buy companies, Chuck makes me run them. So, I don't know if it's fortunate or unfortunate as I'm in the process of other deals. I'm not sure how many of these I can do. But, at any rate, I'm running IRG on a daily basis at this point in time.

Walters: Victor, can you just tell me. Who is the applicant here? We have four companies and are all those companies on the license?

Gallo: Yeah, what we've tried to do on the application, Chairman Walters, is through the acquisition structure that we set up, there are various holding companies associated with the acquisition structure. What we're trying to do is, all of those companies we want licensed, monitored and approved. And as you've seen in the application, it's sort of an interesting structure. It was mainly, as you can probably appreciate from an M & A [merger & acquisition] experience, those holding companies were for purposes of the acquisition structure. Two of the companies, really, are just shell companies. Two of the companies are actual operating companies.

Walters: But all of them are to be licensed and monitored for compliance?

Gallo: Yeah. When I looked at it, I didn't see another way to do it because of where they lie in the holding structure. For you to be able to, in my view, regulate the right pieces of the company, you need to regulate all of those four companies.

Walters: Thank you.

Gallo: When I was looking at this acquisition, some of the questions that you brought up already were obviously concerns of ours. We went out and looked at all the companies in this business segment. We were interested in this business segment, the high end segment, and we were also interested in the live operator business opportunity. Throughout the segment, there was hair on the dog. In all of the companies we were looking at. What we tried to figure out is, well, first of all, are we going to be able to manage that problem? Second of all, how do we view that problem? Is it a problem we even want to touch? Well, we looked at it a little differently and we said 'What that problem is, is an opportunity'. That problem is an opportunity because the main detractor of this segment is its ability to hide from and not be transparent; not be open about what they do and how they do it. That is the biggest problem. Because when I was digging into these companies, in reality, when you followed through (name unintelligible) and so forth, what was really going on? There wasn't anything bad going on. But, it's their inability to be public about what they're doing that was a big problem.

Obviously, as a publicly traded company, we saw it as a great opportunity to step forward and take one of these on. When we look at the various companies out there, IRG seemed to fit our criteria the best. Wasn't the biggest; where it was located, you know there were issues about it, but we thought it was the best fit for us. So we took that on. We dug in further through true due diligence. We spent a year talking to them and probably five months in detailed due diligence with them, including going down, looking at what they really do, where they're really located, who these people really are. Look through all their paperwork; make sure everything is correct, obviously. Look through how they process their wagering transactions. We did meet with the Compliance Committee. Several recommendations came out of that, that we followed up on before even getting near signing the agreement. We ran a background check on every one of their customers. Ran a background check on all of the principals and all of the employees of the company. Beyond that, we started looking at, okay, how are they really processing this? There's a lot of innuendo in the industry about, well, they're really book makers. They're really booking these bets on the side or something. They weren't. In Curacao, you can't have a book maker's license; they don't. There were other allegations that, well, for instance, through various paperwork out in the public, that they were somehow involved with organized crime, money laundering, tax evasion; they weren't. That some of their customers were convicted book makers; they're not. So, every issue that we saw that the horse racing industry was raising as why they're hiding offshore, we addressed each and every one of those issues and dug in to it very deeply.

Once we were satisfied that they weren't what was purported, then we said, 'Okay, now how do we take that business forward and show the industry that they aren't what they're purported to be?' And that's when we came up with a lot of recommendations from our Compliance Committee on, well, number one, transparency. Number two, the good bad and indifferent of Sarbanes-Oxley, I have to comply with Sarbanes-Oxley and so does my subsidiary. So, all of their processes and procedures have to be documented, have to be audited and we are now just finishing up that SOX [Sarbanes-Oxley] process for them on the island. I just had a SOX audit team down there for the last month looking at every process they have. They're making recommendations to us, too. You need to do this, you need to do that. But, we're also having the Compliance Committee keep an eye on them, too. What are they doing? How are they doing it? And, what's the result? So, that was where we started.

One of the big parts of the process, and I had been recommending it from the go, is, assuming that we can get through these hurdles, assuming we can get them where I want them to be, wouldn't it be great to bring them up to Oregon and get them licensed in Oregon? Because, that, I believe is the oversight – additional oversight – that would be great for this company. But first, I wanted to get it where it needed to be. By about August, I did. I was comfortable that everything was going on in that company the way it should be going. I see this as a great opportunity, not only for Youbet, for IRG, but for the Oregon Racing Commission to work together to raise the bar, to raise it to a different level. I have nothing to hide in this company. Ask and I'll answer it. If it's proprietary, I'll give you the answer in a proprietary fashion. If it's not proprietary, I'll tell you. All you've got to do is ask. I've got nothing to hide. Welcome you to come down to Curacao and take a look at the operation, if you like. I just wanted to give you that sense of where we started, where we went, where we are. That's basically the process. What you see in this application is these are the processes and procedures we have in place today. I think that's all I can tell you at this time. I'm anticipating a few questions. I'll turn it back to you.

Walters: One question I have, Vic, is prompted by a phrase you used. All the reasons as to why they were hiding offshore weren't true. Why were they hiding offshore?

Gallo: At the time, in the year 2000 is when they formed their business. Actually, it was '99 when they were trying to identify a location to place their business. They looked in several different locations. This you can see from – well, some of the due diligence I discovered in the process of looking at the company. They reviewed various jurisdictions. They had legal opinions about various jurisdictions. They landed in Curacao. They were looking at several other islands down there, including Antigua. They were looking at Costa Rica. At the time, there wasn't a capability here in Oregon to do this. And, once they got down there, you can also see in the documentation, they were already looking at, should we go up to Oregon? But, that would have been very difficult for them to do because they had already put the info structure there. They didn't see any real advantage, other than an additional cost, to move to Oregon. They weren't looking at the world the way I look at the world. But that's basically the answer to your question.

Walters: Other Commissioners have questions?

Davis: I do. I have a question for Mr. Schatzman. You spoke of the Compliance Committee that's been formed. I'm just curious, as you've given us a little bit of background as to the types of individuals that will be serving on that committee, what do you see for this committee going forward in terms of how long are they going to be there? How often do they meet? What are the provisions for bringing in new blood, replacing people as this industry evolves?

Schatzman: All good questions. At this point, not being the CEO and conscience of the company. I envision this as being in perpetuity. I think something like this, an oversight committee, is an extra set of eyes, or, as we've done it, twelve extra eyes. I envision this as something that's ongoing. Replacement of individuals, at this point in time, we have, I think, such a great assembly of folks and talent that I would imagine these folks, unless they choose to do something different, staying. This is an exciting area for all of us and especially the folks that are law enforcement, regulation type people because these are going into areas, especially for me, that, quite frankly, are new areas to me. I'm not the horse racing, racing guy. Even though, I dealt more with the casino ops, and what not, in Nevada.

(Unintelligible question)

Schatzman: Yeah, actually, we kind of met because of this particular situation; we've met more than we normally would? We're looking at probably four times a year, unless the company is looking at more deals and we have to be meeting and talking about more things. And, quite frankly, my observation is this company is progressive enough that they're looking at enough new things that there's going to be some pretty significant future growth in the company that we'll be meeting more than four times a year. As needed, is the answer.

Powell: Commissioner Davis, I might add, I would reinforce what Mr. Schatzman said about the committee remaining in perpetuity. We didn't look at this as a short term situation just for IRG. And, in terms of the meeting frequency as Gregg has allude to, minimum of expectations is quarterly, but we're hoping to keep them very busy. Because if we're keeping them very busy, we're out there making lots of things happen. So, an as needed basis is a very good way to describe it, as well.

Walters: And, of course, you would continue them as long as was necessary if we made it a condition of the license, right?

Powell: Well, yeah. We sure would not shy away from that. We wouldn't have taken the great leap we did.

Walters: And it's a significant leap.

Powell: Yes.

Walters: I congratulate you.

Powell: Thank you.

Walters: Commissioner Davis, anything else?

Davis: Go ahead. I had something else, but I've got to go through my notes here. So, if someone else has a question.

Walters: Commissioner Gilmour?

Gilmour: Yeah, I'd like to start out with some elementary questions. I've read this packet once or twice and [want to] make sure the audience and I totally understand. Youbet has bought this company, correct?

Gallo: Correct.

Gilmour: Is it a merger, a blending of two companies?

Gallo: No. No, sir. The self-

Gilmour: They're going to be held both separately?

Gallo: Yes, sir. Yes.

Gilmour: They're both going to be licensed separately?

Gallo: Correct, sir.

Gilmour: Okay.

Gallo: Wholly owned subsidiaries, separately run. Its own simulcast agreements, its own operation; completely separate business.

Powell: As you know, Commissioner Gilmour, Youbet's been licensed here in Oregon since 2001.

Gilmour: Correct. Let's talk about several other different areas. I noticed that the IRG maintains its customer service department at its place of operations.

Gallo: Yes.

Gilmour: Is that going to be the intent?

Gallo: That's our intent. The tote will be here. But the operators –

Gilmour: That's the second question.

Gallo: Yeah, the tellers will be there.

Gilmour: Okay. And, how about your pools?

Gallo: Meaning what, sir?

Gilmour: Wagering pools?

Gallo: Well, as I said, the totes will be here.

Gilmour: Right.

Powell: They're co-mingled.

Gallo: Yeah, directly co-mingling, yes.

Gilmour: Okay.

Gallo: Yeah. Yes.

Gilmour: Wanted to make sure we had on record that that's the understanding. I'm trying to save some of these questions for staff because I'm sure they've looked into this. (Unintelligible) for a second, the next question.

Walters: Probably my coughing did it.

Gilmour: No. No, it's too many questions. Youbet is also licensed in California?

Gallo: Correct.

Gilmour: Is it your intent to also license IRG in California?

Gallo: I wouldn't say absolutely not, but not likely, frankly.

Gilmour: Okay.

Gallo: We have no customers from California.

Gilmour: Okay. That answers the third part of that question. That's all I can think of at this second.

Walters: I have – Jodi, go ahead.

Hanson: Thank you, Mr. Chair. Bringing up the fact that the customer service center is down in –

Gallo: Curacao.

Hanson: Curacao. And, of course, the Racing Commission has approved US Off-Track having the location in – oh, it just slipped my mind. Where is it, out of the country?

Walters: Isle of Man.

Hanson: Oh, yes, Isle of Man. I'm sorry. I apparently caught something from Commissioner Gilmour. Anyway, I know in our meetings and due diligence of the Commission and backgrounds and so forth, we've talked about the licensing in Curacao. Could you just address that a little bit, about the process that they went through back there and their regulatory structure and so forth.

Gallo: Well, that was one of the things we identified. While there is a process, there is licensing down there. They are licensed. They have certain requirements. They're nothing even close to what we do here. And, we weren't comfortable with that for a number of reasons. So, to tell you that they have a license there that you would find to be adequate for purposes of not having to do anything, because you could just rely on the licensing process that occurred down there, I wouldn't represent that to you. I just wouldn't.

Hanson: And it seems like we had, as part of one our discussions, we talked about the fact that the customers of IRG really wanted the validity of being licensed and regulated in the United States.

Gallo: Yeah, I don't think that's an unfair statement.

Hanson: Yeah.

Gallo: I don't think that's an unfair statement.

Hanson: Okay.

Gallo: What I would say in addition, though, while I did say very clearly this is a separate company, because of what we have to do at Youbet, there is oversight at the executive level at Youbet. My accounting department, my controller, are all overseeing that business as well as me, as well as Chuck. So, it's not like when you say it's a separate business that we're not watching it. We have a responsibility to watch it.

Walters: And the way you're set up, does the accounting department, Woodland Hills, do the accounting for IRG or does IRG have a separate accounting firm?

Gallo: Yes, both. We have a separate accounting department at IRG. We also have accountants down on the island, (name unintelligible), that does our accounting on the island. But as well, because we consolidate the financials, my accounting department and my auditors here in the United States also audit all the financials. So, it's both.

Walters: Okay.

Powell: If I might, Madam Executive Director, to your point on who really wants the licensure. And, I'm proud of this, Youbet. We seek the higher level. It fits within our corporate strategy. It fits within our corporate philosophy and we think we'd like to lead the way into bringing offshores into the mainstream, if you will, and having them at a higher level of accountability. So, it's something that is pursued by our own initiative.

Walters: I have a couple questions about issues raised by the application. I'd like to get to a couple of big issues that we need to get out on the table. One is, IRG is what is known in common parlance as a rebater. Correct?

(Unintelligible response)

Walters: As I'm used to saying in depositions, was that a yes?

Gallo: Yes.

Powell: A clear yes.

Walters: As I read the application, it sounds as if it is a structure of incentives or something of that sort that sounds a little bit more like what Youbet has put in place. Or, is that not correct.

Gallo: That's not correct, sir. It's cash incentives only. That's it. The only difference in the incentives, they're not equal. Meaning it's based on your volume of play.

Walters: Right. But there also was discussion in there about track preference and that type of thing.

Gallo: Correct and wager types. So, depending on what type of player you are, your incentive package may be very different than another player who bets different tracks and different wager types and it's different play volume.

Walters: Okay. There is no mention in this operating plan that I saw of source market impact mitigation. That's something we need to talk about and something this Commission needs to think about. So, could you address that please?

Gallo: Sure. As I said, we have, with every track we do business with, we have a simulcasting agreement. There is an opportunity to have a discussion on source market fees, which it's had. And, frankly, none of them have required us to have source market fees. And, frankly, because of the type of business we do and the margins we run on, we couldn't support a source market fee.

Walters: Elaborate on that. You have a long list of tracks with which you already have agreements, as I understand it.

Gallo: Correct. Yes.

Walters: And, you have had discussions with each of those tracks in your negotiations with them on the subject of source market.

Gallo: Frankly, to my knowledge, from the due diligence I've done in the simulcast agreements that have come out since I've been running the company, it's not come up. There's a reason for that.

Walters: Tell me, please.

Gallo: Well, as you know in this customer segment, it's a little different. And, from my conversations with the tracks generally on this subject, and I've done this now with probably about eight tracks. This is not the type of player that the tracks typically believe that the source market fee structure is geared towards. This is not the type of player – this is the type of player that they would like to see somebody getting into the pari-mutuel pool and keeping them there anyway we can. They would love to have the player at the track and I've just talked to a track yesterday about marketing programs associated with that to get players - my players to their tracks, but they're both - the tracks I've talked to are in agreement that to structure any kind of source market around the fee arrangement would not make sense for us, would not make sense for them in terms of keeping the handle in the pool. So, that's the best I can answer it for you.

Walters: Okay.

Powell: If I might add a couple comments, Mr. Chair. First of all, the economics of the offshore ADW are truly different that the economics of what we're conventionally familiar with, as Mr. Gallo alluded to. The reinvestment here goes back into the player on that side of the equation and it's a very competitive world there. And these players, if they're not able to have the type of return back to them in the form of incentives, they have other options. Whether it be other offshores or, even worse, going to offshore bookmakers where the industry then gets nothing. There's no simulcast

contracts. There's no host fees paid. As a part of the economics of being an offshore, we pay high host fees and that's the economic exchange that takes place-

Walters: Tell me about that.

Powell: -with the industry.

Gallo: So, while you typically see, for instance, like an OTB outlet, as you're probably familiar with - I don't want to get into price discussions, obviously. You're typically, probably familiar with OTB outlets and other guest outlets that are bricks and mortar in the type of host fees that they get. That's not the type of host fee I pay. And part of it is in consideration for the fact that there's just not a source market fee structure that would necessarily work in our situation. I'm, typically, paying a higher host fee, no source market fee to somehow balance that equation.

Walters: That may be a bit of semantics then, because we've had discussions in the past, about the various structures of the way quote "source market compensation" unquote is paid. I know a number of our hubs pay it in the form of enhanced host fees and negotiate with the tracks for an arrangement that works better for them and then from the enhanced host fee one understands that a portion of that is shared with the horsemen and women at the track in the form of higher purses and that type of thing.

Gallo: Correct.

Walters: I suppose there are different models.

Gallo: Correct.

Walters: So, to the extent you're paying higher host fees, because of the nature of your operation then that same opportunity would be there for the horsemen's organizations to negotiate a percentage of that enhanced host fee.

Gallo: Yeah, and where you really see this in a striking fashion is, previously my hub operator was (name unintelligible) in Las Vegas. They handle all of the Nevada tote operations and typically my agreements for IRG are being negotiated in concert with the agreements for Nevada operators. There are distinct pricing differences between us and Nevada and those outlets.

Walters: Could I ask that you insert a discussion of that topic in your application.

Gallo: Sure.

Walters: Obviously, it's proprietary and we understand the competitive nature of the business. That would help me, certainly. If we could have a discussion of that, including sort of the order of magnitude and the types of negotiations that you have regarding enhanced host fees that perhaps would differ from what Portland Meadows would pay for similar signals of the ones that are listed here.

Gallo: Would it be okay if I just gave you specific examples out of the rates that I'm paying versus the rates that are obtained through the tote I'm using?

Walters: It would be okay if we started there and if we want more then we can come back for you-

Gallo: Sure.

Walters: -to you and ask for that. That helps quite a bit. Thank you because I did not understand that before. The second issue that I would need to discuss with you is the issue of credit. These players, as I understand it, insist on that accommodation.

Gallo: Yes.

Walters: Again, without revealing proprietary information, could you, describe for us how you approach that issue in IRG.

Gallo: Sure and obviously this was a concern when we acquired the company, as well, because there is debt. And we have to understand, are we comfortable with the type of debt they have? How do they manage the debt? How do we manage the debt? And, what we found that they were managing it adequately, it wasn't adequate for my Sarbanes-Oxley requirement. So, we put more stringent policies around the debt management. But one of things that helped me in that question when I was doing the due diligence was that - I don't want to use real numbers, but I will use percentages- their bad debt over five years was less than half a percent on the credit they were extending which gave me some comfort that they were managing it pretty well. I went through the process with them, how do you judge credit? How do you extend it? At the time, they had nothing documented on their procedures. They did it

the same way all the time, but it was a small business and they had no documentation on it. So, I said, 'Write it out for me. Show me how you do it; now let me watch you do it.' And it all matched up. So then my auditors have said to me, 'Well, it has to be more detailed than that, even, give us some more on this. How does this actually work? When we go in and audit it, how do we test that it's being done properly? How do we test that we're comfortable with the debt levels you carry.' So, that's where we're at today.

- Walters: Is that something, in terms of the credit policies and the debt arrangements that you could share with us in more detail, subject to a proprietary designation than we have in this application. So we could, at the very least, allow our staff to examine that information more closely? So we could satisfy ourselves.
- Gallo: In terms of the SOX compliance associated with it.
- Walters: The SOX compliance plus what the policies are. I would expect that you would have fairly detailed credit policies and –
- Gallo: Frankly, they're not much more extensive than what you see in front of you. And my SOX auditors - I just had a meeting with them yesterday on the same subject. While there's a little bit more detail and some questions that I answered for them, they have not asked me to deviate from the policy in front of you.
- Walters: Okay. Is it possible for our staff to have access to the –
- Gallo: SOX audit?
- Walters: - to the SOX audit?
- Gallo: Of course.
- Walters: And, to, again, to satisfy ourselves about the nature of this credit policy and how it works.
- Gallo: Absolutely.
- Walters: Thank you.
- Gallo: What we could do, in that regard, is, I believe, that audit is to be completed for this year end. Would it be appropriate for us, then, to provide it to you?
- Walters: Sure. You can't provide it before it's available.
- Gallo: I just wanted to make sure that that was going to be okay.
- Walters: I guess another question I have that's kind of a basic question is, obviously we're dealing with a very different type of operation than we have –
- Gallo: Yes.
- Walters: - licensed in the past. One of the questions that comes up, always, is, if we license this operation with these types of features, if you will, is this something that we need to do for all hubs across the line or is there a way we can distinguish you – you, IRG, from the general Youbet, general TVG, the general US Off-Track?
- Gallo: That's an interesting question. Well, if we take it from a segment point of view, if another – where I brought in – another subsidiary that did this in the future, for instance, I would expect to have to go through the same process again. That being said - unless I merged the companies together into a single entity - That being said, I would expect that if any of the other ADW licensees here were to want to engage in this business, the process and procedures and policies that we're using would be guidance for you.
- Walters: Well, that's exactly right. I guess, a better way to ask the question, Vic, would be how – do you prefer Victor or is Vic okay?
- Gallo: Vic is great.
- Walters: Okay, thanks. How do you define the parameters of this business when you talk about if other ADW providers wanted to come into this type of business? How do we define those parameters and I know the general words.
- Gallo: I'll use the words. I'm not offended by the words. I'll use the words.

Walters: It's a small, relatively small customer base.

Gallo: Correct.

Walters: They are high players-

Powell: It's niche driven.

Walters: It is niche driven.

Gallo: Right.

Walters: Are there numbers? Are there a number of players? Is there a daily average play?

Gallo: I think the feature that's unique to the business segment is the cash rebate.

Walters: Sure. And if Youbet came in and say, okay, we're now going to give – you have an awards program, if you play certain amounts, you can qualify for them. But these are quite different-

Gallo: Very different.

Walters: -as you said-

Gallo: Very different.

Walters: They result in much smaller margins for you.

Gallo: Correct. Correct.

Walters: The question would really be, for me, is, can we identify this as a niche rather than just a general hub operation?

Gallo: I think you can. I think you can. Yes.

Walters: Okay. Help me understand –

Gallo: Sure.

Walters: - how we define that.

Gallo: I think if you look at it to – there's a number of different aspects that make it unique, but especially even with the program we have at Youbet for our player rewards program. The segment of player that I am dealing with in IRG is just a completely different segment of player. If you wanted me to give you minimum thresholds on the requirements for my players sign ups, I can do that to you, confidentially.

Walters: Right. Okay.

Gallo: Those requirements I haven't seen any of the other companies or anything even close. These are high volume players. These are customers who enjoy certain channels of distribution and don't others.

Walters: Now, tell me about – what do you mean by that, 'certain channels'?

Gallo: Live operators.

Walters: Got it. Got it.

Gallo: It's a concierge service.

Walters: Okay.

Gallo: Some of my customers only deal with one of my operators or another of my operators. It's a-

Walters: Gotcha'

Gallo: - very concierge type service. It's not like just cramming down five dollar bets. That's not what it's about.

Powell: Just, if you will, like with frequent flyers, this would be the platinum level of pari-mutuel off-track player. And that, by itself, defines it to a much smaller market.

Hanson: And so for the record, then, there's no other platform other than the live operators.

Powell: Yes, with IRG, that's correct.

Hanson: Right.

Powell: It's live operators.

Hanson: Okay.

Walters: Thank you for helping me on that. I do have a couple of just sort of nit picky questions, remarks. There is a statement in here that is sort of an interesting negative pregnant that says we are not offering computer robotic wagering at this time.

Gallo: It's un-US track content.

Walters: I just want to be clear that if we approved this application, it would be on the representation that you are not currently offering computer robotic wagering on US content -

Gallo: Correct.

Walters: - And that you would have to, if you were going to propose to change that -

Gallo: That's correct.

Walters: -you would have to come to us. And even though-

Powell: We're very comfortable with that.

Walters: And even though it's a change in the operating plan, I'm quite confident that the Executive Director would see the need to consult the full Commission rather than approve it.

Gallo: Sure, sure. We do understand that. We are very sensitive to that. Agreed.

Walters: There was another quick note I had in here. And it was just that I read something to the effect that the - (coughing), I apologize. This isn't as bad as the deposition I took that was this morning, I'll tell you. There was a comment about offshore players; players in other jurisdictions have to live in a jurisdiction where pari-mutuel wagering is legal.

Gallo: Correct.

Walters: I just want to clarify that we have interpreted that requirement in the past, is that pari-mutuel wagering on that type, that breed is legal. And, I know of a -

Gallo: That's fine.

Walters: - of a situation where in the past we had a, I think a customer and, I believe it was Brazil or Venezuela, was wagering through one of our hubs on greyhounds. It turned out that greyhound racing was not legal in whichever country this person lived in and the hub was required to say you can bet on horses, but not on greyhounds.

Gallo: Not on dogs - not on greyhounds.

Walters: So, just to clarify that.

Gallo: Thank you for that. I'm not aware that we have any issue with that problem today. Sitting here thinking about the three or four customers I have outside the United States and what they're betting on, I don't have that problem today. But, I'm glad you made me aware of that because I wasn't aware of that one.

Walters: And, just one other question, I guess this is probably for both Gregg and you, Vic, when you get a new player, you do allude to the sort of background checks you do -

Schatzman: Yes.

Walters: - in here.

Gallo: Yes.

Walters: Is this something the Compliance Committee's involved in? How is that done?

Gallo: The process works like this. A player signs up, filling out - meaning they submit an application form which they obtained from us, fax it over to us. It consents to having their background check done among a lot of other things. We then immediately – Well, my Bridge Managers down in Curacao immediately send me the necessary information for the background check. I immediately send that to my outside investigating firm where one of my Compliance members is sitting. That firm does the background check, reports the results to me. I approve the player.

Walters: And, how is that audited? The background check?

Gallo: It's electronic, you mean?

Walters: Is there an outside auditing function? Is that something the Compliance Committee does? Is it part of your Sarbanes-Oxley audits?

Gallo: To the extent one of my Compliance Committee members is doing it, yes.

Walters: Gregg, obviously, you have one of your own involved in this, is this something that the Compliance Committee monitors, is involved in, that you receive – I would assume you would receive reports from that member regarding background checks.

Schatzman: Yes, sir. That's correct. That is correct.

Walters: Okay. Other questions or comments of these gentlemen?

Ramirez: There was one other thing that I didn't see addressed in the application and that was the issue of the bond or the letter of credit.

Walters: Good catch.

Powell: Yes, in fact –

Walters: He's got it with him.

Powell: I have the documentation with me. The bank - the agreement has been executed. The Commission is the direct beneficiary of and I've got a copy of the paperwork that I can give Ms. Hanson so she has it for the record.

Ramirez: Thanks.

Gilmour: I have another question. What currency are you dealing with?

Gallo: Dollars.

Gilmour: US Dollars?

Gallo: US Dollars. Yes. It's the only currency I deal with that I'm aware of.

Walters: He may be better off with Euros, but that's (unintelligible) of the story.

Gallo: Not a bad point. Yeah, it's only dollars. Any currency conversion that has to occur with foreign customers is their responsibility at their bank.

Gilmour: Okay. That's an assumption, I just wanted to see.

Gallo: Sure.

Gilmour: I have some questions for the staff.

Walters: I do, too.

Gilmour: Okay. Thank you.

Walters: Any other questions or comments with respect to these gentlemen? Thank you very much for the presentation and for answering our questions. I'm sure you want to hang around because we might have further questions or clarifications regarding other testimony. What I'm going to do is - I would like to have Gordon Tallman talk to us a bit about this application. And then, frankly, I think I would invite comment from members of the public who are here, regarding this proposed application. And, obviously, they don't have the benefit of all the proprietary material that we do, but I would like to hear comments from them, as well. So, thank you, gentlemen.

Gentlemen: Thank you.

Gilmour: In the mean time, are you going to take about a two minute break?

Walters: In the mean time, we're going to take about a two minute break.

Gilmour: Thank you very much.

Walters: At this point, we've asked Gordon Tallman our Director of Hub Operations to come up to testify on this application. Commissioner Gilmour, did you want to start?

Gilmour: Yes, thank you very much. [I] apologize [for] my terminology.

Tallman: Okay.

Gilmour: Do we license other offshore hubs?

Tallman: We - Is this on? There we go. We currently have not licensed anyone offshore. This, I believe, would be the first offshore hub licensed in the United States, anywhere.

Gilmour: Number one, have you been there?

Tallman: I have not.

Walters: Would you like to go?

Tallman: I would be happy to go and check it out.

Hanson: Do you have a passport?

Tallman: I would need to get one.

Hanson: I have one.

Tallman: Well, Jodi trumps me.

Gilmour: I'm not totally being facetious on this.

Walters: We understand that. I understand that.

Gilmour: And, I'm not picking on the group specifically that came here, Youbet. I mean it could have been TVG. It could have been Brad Higbee that came up here and said 'I want to license a hub'. So, they'd get the same treatment.

Tallman: Certainly.

Gilmour: Just for clarification.

Tallman: We have already made trips in the past to inspect facilities outside of the state of Oregon.

Gilmour: Exactly.

Tallman: So, that wouldn't be unprecedented –

Gilmour: And our jurisdictions, if we're dealing with Timbuktu in the United States, there is the 'r' word-

Hanson: Reciprocity.

Gilmour: Reciprocity with their jurisdictions on concerns that we – or allegations or charges that we would make. Correct?

Tallman: Yes. It would absolutely be beneficial to establish a working relationship with their current regulator.

Gilmour: That's correct.

Hanson: Can I add one comment to that? The Compliance Committee that Youbet has that's working with IRG, I think the beauty of what they're doing is that we regulate minimal standards and, I think, they have higher standards and would be sharing information with us, as requested.

Walters: Okay-

Gilmour: And-

Walters: Go ahead Jeff.

Gilmour: The next question I had is, the information that their controlling committee was discussing earlier with us in this license - in this review of this license, have they shared any of that information with you?

Tallman: Regarding the criminal background things, or?

Gilmour: No, that's not the term. Their investigations of this organization and –

Tallman: We have not –

Hanson: I have received those-

Tallman: You have?

Hanson: Yes.

Tallman: Okay, I have not.

Gilmour: Okay, just a clarification for the record. I'm just trying to find out what information our staff has with this application. That's where I'm coming from. Okay -

Tallman: One thing, excuse me, with mention of the Compliance Committee and the criminal background checks that were done on their customers. I guess that's a question I'd like to ask of IRG. The Compliance Committee, it was stated would share information with us. I certainly think that would probably include having the option of reviewing any of the criminal background checks as needed.

Walters: Heads are nodding. Let the record reflect, that was an affirmative response.

Gilmour: Well, Mr. Chair, we've done a lot of firsts in this last twelve months and some are regrettable, not because we did them, but things have happened. The greyhound track is closed after seventy some years and we're crossing a new bridge. I'm nervous about this new bridge. I'm nervous about this application. Very frankly, I'm not looking for the boogey man on Halloween behind the closet. But, certain questions I haven't phraseology [for] - got an answer for, only because I didn't know how to put the question. Maybe that's the best way of putting it. I'm still trying to understand, if you buy a company, why don't you merge it versus keep it separate. I'm trying to follow when they were talking about merging pools, I assume they're merging both, all of the pools within these hubs, or not.

Walters: Sure. My understanding is that they have simulcast contracts with tracks just like Youbet does. They're not the same contracts. They have their own that when they take a wager that comes through the tote in Oregon, that that is merged into the pools at the race track where the client instructs that a wager should be placed. And, just like any hub within the United States or outside the United States. So that's the merged pool they're talking about. Merger – the other merger - is a legal concept about combining companies.

Gilmour: Correct. And, I've separated those two.

Hanson: I just wanted to mention one thing about the history of the Oregon Racing Commission in working with Youbet and our overall good regulatory environment that we have here to work with the hubs. I've known Vic Gallo, now for three years, too, and we've worked together well. And, one of the things that I've been impressed with overall in this application, when we request information, we get it. And the fact that they are being so transparent with this

because it is a precedent setting application. So, I don't feel like there's some hidden thing, I guess is what I'm saying.

Gilmour: Okay. That's reassuring.

Walters: The question I wanted to put to Gordon and to Jodi is: Are you confident in your ability to regulate this entity?

Hanson: Well, the tote's here.

Tallman: That's a big advantage. The tote being here, obviously that's technically what we consider, at this stage of the game, having a hub in Oregon is having the tote location physically be in this state. That allows me access to all of the reports in the same fashion that I would have from any other hub that we've already licensed.

Walters: And I take it, you would deal with and report to the Commission, if there were ever an instance that there was information you wanted from the Compliance Committee or from the licensees that you weren't able to get. Whether that was criminal background checks, whether it was information regarding the operations of this organization, the types of arrangements that they with the host tracks that they are making available, all that type of thing.

Tallman: Absolutely. I think that IRG would recognize that because it is ground breaking, it would be something new that we may ask them far more questions than we currently ask with regard to their operations with Youbet. Because it is something new, we will probably have to scrutinize it much more so than we do some of the others that we have a history with.

Hanson: We look at the whole application, and, of course, unfortunately, the public doesn't get to see all of the information and so when eyebrows go up, we have more information than we actually can talk about in public. And, I've done a quite due diligence on the backgrounds and so forth.

Davis: I have a question - the gentlemen that gave the presentation spoke quite eloquently about their plans to be transparent. In your dealings, is there any reason for us to be cautious about that? What's your conclusion with respect to that?

Tallman: Well, at this point, anything that we have asked for, they've complied with. Any changes or modifications that we felt were necessary in their plan; they've tried to provide all of that for us. At this point, there isn't anything that's made me feel uncomfortable about the process, thus far. One thing that I'd like to point out, for the record, and it's been discussed already, is with regards to the SEC. The fact that Youbet is a publicly traded company, and that they've already had a quarterly report come out that gave IRG financial details. And, another one will be coming out very soon. So, there is already some regulatory things, if you want to call it that, that are in place that we can look at.

Davis: Thank you.

Walters: Other questions of the staff. Thanks.

Miller: Can I ask a question?

Walters: Sure, Jill, but you've got to come up here to do it.

Miller: Oh, great. Jill Miller, work for the Oregon Racing Commission. I primarily am at the local track right now, being Portland Meadows. Based on that and based on the fact that they said there wouldn't be a source market fee available. What would prevent them from taking their large bettor and switching them over to an account for IRG?

Walters: Well, I suppose that would depend on the preference of the bettor and whether or not the bettor had sufficient means and sufficient play to qualify for the services that IRG provides and also that the bettor wanted to conduct business with live telephone operators. My suspicion would be that if there is such a player in Oregon that that player is already playing through IRG or some other offshore entity. Also, just so, again, we don't get caught up in semantics, I understand these gentlemen to say that they do pay an enhanced post market fee which is the way many of our hubs pay what we call source market compensation. If Portland Meadows would pay four percent for a signal that the host - several hubs, there are different models, but several of our hubs will offer a host fee of eight percent if that is the way the race track or the people in the jurisdiction where they're getting the signal want to receive source market compensation. And, in that instance, the additional host fee adds to the money that is available for purses as well as for the host track. From what I'm hearing - and we're going to get more information on it - that was a great comfort to me in terms of the issue of market mitigation, if you will, on this one. Again, that's my understanding, do you agree with that observation?

Tallman: I do and, actually, what I'd like to add is, source market fees, and I'm sure Jill can relate to this, and probably every body in this room who's ever dealt with them, it's very much grey. There's nothing black and white in our rules that

say, this is what we'll be paid. The tracks and the ADW's have always negotiated what their source market fees will be. At the simulcast conference that Jill and I recently attended, it was pointed out that, perhaps, long term what might be more beneficial is rather than have what we now call source market fees, that everybody adopt a higher host fee as a structure for the ADW's. And, when you think about it, because of how grey it is, and how much it varies, that may indeed be a better answer. Long term if you ask a track, would you rather have a higher fee for somebody who lives within 25 miles of your facility or, would you rather have a higher fee from everybody in the country who wagers on your track.

Walters: Right. And that's an excellent point. Just from historical perspective, when we addressed this issue in our rules on the hubs, we intentionally left it vague, if you will, or grey. Saying that simply the operating plan had to address the issue of mitigation of the impact in the markets where signals are coming from or in other markets, other jurisdictions. And because we knew we had one application that we received right after that, that was TVG. They have their model that really has been ground breaking in the industry. But, the other hubs have had other models and they varied from hub to hub and they depend on just a variety of factors and we have proved different models. But as you say, Gordon, I've always wondered why race tracks on the one hand complain about this is all we get for our signal and on the other hand charge nothing for their signal. So, it's an interesting question. Thanks for bringing that up, Jill. Did you have anything else?

Miller: No.

Walters: Okay, thanks. Is there any other question of staff? No? Is there anyone here who would like to, in the audience, who would like to testify regarding this application?

(Unintelligible)

Walters: Sure. You've got to come up. Thanks, Jill. Thanks, Gordon.

Yuzik: First, I just want to comment on the host fee. I can be quite honest that Portland Meadows does not necessarily demand or have the leverage for premium on host fees. Currently, as of this morning, dealing with the rebaters, they do have a purchasing power. They do work in very small margins that the host fee that was (unintelligible) Portland Meadows was at an industry standard. And that value was something, I believe that, yourself Chairman Walters, had mentioned as being approximately three percent. So, sometimes in these sorts of environments, they do have the purchasing power or leverage to demand actually lower host fees than traditional ADW's. Two, the business practices and guidelines which us, as a licensed pari-mutuel race track here, are governed under or operating under, if we change some of those parameters or liberties, to ADW's or offshore locations, they'll take into consideration our business operations here. The example I would use would be the line of credits. If that's going to become an acceptable practice by the Commission, that you'll please take that into consideration with our daily operations. And, that's it. One other point, I'm not too sure about compensation of audit committees on their particular structure. I'm not sure if their particular audit committee or members do receive any compensation from Yobet for their roles. But that may be a factor in –

Walters: I would guess that despite Gregg's passion for regulation that he's not doing this for free nor would I expect him to.

Yuzik: Okay.

Walters: Also, it is my suspicion he could find another job if he didn't like what was happening at IRG -

Yuzik: - (Unintelligible) at the Grants Pass meeting, it was stated by a representative of the audit committee, we're not receiving any compensation.

Walters: Thank you. Any other comments or testimony? Lonny, Vic, Gregg, do you have anything you would like to add?

Gallo: Do you want that last question answered?

Walters: Yes

Gallo: I'd be happy to address it.

Walters: Please do. Thank you.

Gallo: Sure. Our Compliance Committee members are compensated per meeting. I think the number is \$1,500 per meeting is what they're compensated plus travel expenses.

Walters: Okay.

Gallo: That's it.

Walters: This would be not unlike a Board member?

Gallo: Correct. There's no stock options, no stocks, no bonuses. That is all their compensation.

Walters: A member of the audit committee of a Board of Directors would receive similar compensation?

Gallo: Actually more.

Walters: More?

Gallo: But, similar, yeah.

Walters: Okay.

Gallo: Wouldn't say dramatically more, but more. Correct.

Walters: Okay. Thank you. Are there any other comments?

Davis: I just wanted to make a statement before we have any further discussion. This is a new un-chartered area for this Commission, this state, this industry. I think it's important that we do a diligent inquiry of you gentlemen and that you do provide us with detailed information. It's my impression, after hearing you speak, that the process that you are proposing will be one of transparency, will be one of oversight and one in which regulation will be welcomed and where we can expect the utmost cooperation. I like that threshold for setting someplace new, where we're going. Also, I just wanted to make sure that my impression was correct and that is, the customer base that you folks are dealing with in this new endeavor is actually a different market segment than your average day to day bettor in the hub operations. Thank you.

Gallo: Do you want me to answer that question?

Davis: Certainly.

Gallo: Yes, it absolutely is a different customer segment. The wagering thresholds, the wagering averages are substantially higher than what we experience, for instance, at Youbet, substantially higher.

Davis: Thank you.

Powell: If I might add one more thing along those lines. The pari-mutuel offshore customer, in many cases, I've had a chance to meet some of these pari-mutuel offshore customers, have not been to a race track in years and years and years. In fact, I have met some that have never been to a race track.

Walters: They're missing something.

Powell: Yeah, they were investing in the stock market, they saw pari-mutuel as an investment where they could have a little more control through using logic and through - you know, using logic in pari-mutuel industry that's always kind of a fun - But, I've been amazed. I think a lot of us in racing thought these folks just went right from the race track over to the offshores. A number, a long the way, felt they were not treated right at race tracks, felt like their high volume of play wasn't appreciated, and were one step away from leaving the business all together and then they found the offshores and their incentives. And, like I said, there's a number of players that have not even been folks at the race track. They fell in love with the business by looking at it as an investment opportunity.

Gallo: Additionally, one other thing, in my user agreement with my customers, if they are at a track, they're prohibited from using their phone.

Walters: Thank you. I will make a couple of observations about this application. Commissioner Gilmour and Commissioner Davis are exactly right and I think Jodi mentioned it, as well; this is something far different than something we have ever licensed before. And, it's an issue that is being debated widely throughout this industry, if you read the Trade Press, if you attend symposia, if you attend meetings of regulators, whomever, (unintelligible) frequently of those awful offshore rebaters. That they're going to be the deaths of this industry. The response that I have given and that I truly believe is that the offshore people are doing business. They're doing business because there is a market for their services, because there are people, as Lonny observed, who really aren't interested in participating in this industry unless they can get this type of service and so they are going to go offshore.

I'm always amused when regulators from other states talk about the fact that 'I don't know that we ought to let these ADW hubs come into our state.' People have heard this story many times before, heard one regulator say, 'We can't let them come into our state, we're already losing our biggest players offshore.' And, my comment to that is: 'Well, duh?' My thought is that this is an aspect of the industry that it only helps this industry to keep this type of bettor, to cater to this type of niche operation. That I am, frankly, grateful for the opportunity that Yobet and IRG have provided us to consider an application of this sort because I think it would allow people to demonstrate – the opportunity to demonstrate, once again, that this type of operation can be regulated properly. That there are legitimate business people involved in this type of operation. My own view is that bettors, in general, would rather deal with a licensed and properly regulated entity and that we ought to resist the temptation which continues to plague this industry that to say if there's something that you don't like or if you have a concern about it, let's make that illegal. Because if we make it illegal; it'll go away. Well, it won't go away. And, we are far better off, in my view, investigating, licensing, regulating entities such as IRG, rather than closing our eyes and pretending that they and their competitors don't exist.

Obviously, there are a lot of issues that have been raised and discussed thoroughly here. But, my own view, and I have a list of requirements and conditions that I would insist be met before I would approve this application. But I think, as my remarks indicate, I'm inclined to vote in favor of the application at this time. We do by rule, but also by practice, we're required to ask our Executive Director for a recommendation.

Hanson: I'd like to preface my recommendation. Your comments were very well stated, I thought, Chair Walters, because several years ago, ADW's and hubs didn't exist. Just like the computers and so forth that we use now, we have hubs that are – that's a billion dollar a year business. We still get calls, practically daily, from other jurisdictions that are just jumping on the band wagon and so forth those that proclaimed it to be evil a few years ago. And, I can't see that there's any other place, other than Oregon, that can do such a good job with the knowledge and the experience that our staff has. I truly believe that we have the best regulatory staff the Oregon Racing Commission has ever had in their history to deal with issues of this time. Again, I think that this precedent setting application should be dealt with in Oregon because we can handle it here. My recommendation would be to approve the application based on conditions that, I know, Chair Walters has and which would, I imagine, include establishing a little bit – submitting more information about the host fees and the credit and so forth.

Walters: The notations that I have made, or were I think it may be in there sufficiently now as part of the operating plan but I would like to build in to the license a requirement that the Compliance Committee remain in place during the duration of the license; that it perform the monitoring and auditing work that has been represented to us that they do; that they make information available to us, on request. Well, actually I really like the procedure of routinely forwarding to the regulator the minutes and recommendations and other materials put together by the Compliance Committee, but in addition to that, making information available, on request, including material relating to background checks. I would like to have the information that I discussed with Vic about threshold levels of their players. So, we can get an understanding and define more clearly the niche market that we are dealing with and satisfy ourselves that this is a niche market of the high end market and not simply a day to day wagering hub. Obviously, I would like more information, as we discussed, about the credit policies, the Sarbanes-Oxley audit and other information that we'd be given about the circumstances under which credit will be extended. I think it is there in the financial statements that we were provided, but I got the indication from the application, that Yobet.com, as well as IRG, is guaranteeing or that there is no risk to the bettors of the race tracks with respect to either company with covering any issues related to extensions of credit. And, as part of the additional information, I would like to see is information, sort of, making clear what I think is certainly described in the application the prompt action that will be taken in the event of any default. And, I'm sure that this is something the Compliance Committee would look at, as well. Definitely believe that we need as part of the application, a description of the enhanced host fees. Just to get a better understanding of the market and satisfy ourselves, once again, we're dealing with an entity that is, in fact, giving back to the industry in the form of higher host fees. So, those are the conditions that occur to me, there may be others, but subject to the satisfaction of those conditions, I would be prepared to vote for granting this license. Other comments, a motion?

Gilmour: Well, I have another suggestion. And, this is not based on seeing that somebody could go down and lay in the sun for awhile, but I would really feel a lot better if somebody from our staff physically went to the spot that was taking the phone call bets. That's just my personal opinion.

Walters: Okay.

Gilmour: I just think that if somebody was there witnessing what was going on so that we're not buying a black box in some – I'm not saying you're dishonest, I'm just saying – You've been there. You probably had to go see it, didn't you?

Gallo: Absolutely.

Gilmour: Okay.

Gallo: Commissioner, Chairman, anybody from the Commission and staff are welcome any time, announced or unannounced to come visit us in Curacao.

Gilmour: I can't go.

Walters: Having made the suggestion, we wouldn't let you go.

Gilmour: I'm very serious about that.

Walters: I understand that and would you add that as a condition as well?

Gilmour: Yes.

Walters: And that we get a favorable report from –

Gilmour: Yes.

Walters: - our staff visiting Curacao.

Gilmour: And, upon that return and the information, I think, probably, with the accompaniment of our other two commissioners at the next meeting. I think we could probably take a direction that would be advantageous to the applicant.

Walters: Okay. There are two ways to do this. One way would be to grant the license subject to conditions so that subject to the satisfactory resolution of those conditions, they would have a license. Or, we could put it over to the next meeting and I see gentlemen looking forward and shaking their heads and tell us why putting it over to the next meeting causes you to shake your head.

Gallo: It's not putting it over that I have an issue with. I do not have - I'm representing to you that the conditions you are asking about, I have no problem fulfilling in a very quick manner. As soon as somebody can get on a plane and go down to Curacao, we'll get them down there, give you the tour, spend as much time there as you want. It's the only thing that's going to be a time factor. I am confident you're not going to find anything that you don't like to see there. In fact, I think you're going to find a very well run operation down there. The other conditions can be met within hours, if not days of this meeting. So, I would ask that the Commission approve the license subject to us fulfilling these requirements.

Walters: Is there harm to you from delaying until the next meeting is the question that I think that I'll ask on behalf of Commissioner Gilmour?

Gilmour: The 17th of November.

Gallo: Operationally, my issue is, right now, I'm trying to transition my tote here. The risk associated with that transition I'm in the midst of right now, if anything was going to impact that transition, I would be very concerned. I've already invested a lot of capitol into that and I'd prefer to keep that transition going and not have any question as to whether that transition is going to be impeded at all because I've invested hundreds of thousands of dollars in moving this operation here.

Gilmour: I would prefer to wait until next November 17th. That's my personal choice.

Walters: Okay. We need three votes to approve this application. And, if you're saying you're not prepared to vote on it, today.

Gilmour: That's correct.

Walters: There's nothing we can do. I apologize to you, gentlemen.

Davis: Let me just interject here. It is my inclination, based upon your representations, I think that you are reputable businessmen and it is my inclination to vote to approve this license, if that's of any comfort to you, whatsoever.

Gallo: Thank you, Commissioner, I appreciate that.

Walters: Well, obviously, it's mine as well. I was hoping we could get it wrapped up, but we have a Commissioner who's not comfortable doing that. So, and we have to have three votes and we have to have a unanimous Commission when we only have – when we barely have a quorum. So –

Gallo: I understand.

Walters: -our hands are tied. I appreciate you gentlemen coming and look forward to getting the information and dealing with you at the next meeting.

Gallo: Thank you all for your time. I appreciate it, I do.

Walters: Thanks.

6. Confirmation of Next Commission Meeting – November 17, 2005

Chairman Walters was the only Commissioner present who stated he had a scheduling conflict; he will be in court in Seattle that morning, but will try to get to the Commission meeting as soon as he can. According to an email received from Commissioner Thorne, he would also be able to attend the November meeting.

7. Funding for Grants Pass Downs

Following is a transcript of the discussion on this agenda item:

Walters: Welcome, Rod.

Lowe: Thanks. Rod Lowe, President Southern Oregon Horse Racing Association and Representative for Josephine County Fairgrounds.

Walters: We have the letter that you have submitted to us, Rod. I assume all members of the Commission have had the opportunity to review it. You and I and Commissioner Davis have had a rather animated conversation at lunch on the subject where we said repeatedly, 'Don't take this personally; it's not directed at you.' I would like to ask if any other members of the Commission or our Executive Director have questions regarding this proposal.

Gilmour: I have one.

Walters: Mr. Gilmour.

Gilmour: On your list of asterisks with commitments, those numbers from commitments –have those commitments been made?

Lowe: Yes, verbally they have been made.

Gilmour: Okay. It says 'willing to' I just want to-

Lowe: Both Dick Cartney from the HPBA-

Gilmour: I see him in the audience.

Lowe: -and Dave Nelson from the Oregon Quarter Horse Association-

Gilmour: I see him in the audience.

Lowe: -are both willing to come up and testify on these numbers.

Gilmour: They don't need to, I just-

Walters: Rod, would you like to take a break?

Lowe: If you don't mind?

Walters: I don't mind at all. Sorry about that.

(Unintelligible)

Gilmour: No, [Mr. Cartney, you can] stay here. Do you want to go ahead for the record? Excuse me, Mr. Chairman.

Walters: Go ahead, for the record.

Cartney: Dick Cartney, Executive Director Oregon HBPA, I just wanted to clarify the situation with our participation in this agreement. We had a Board meeting Tuesday night. We discussed the proposal. The Board put together a committee and delegated the authority to approve it pending getting some answers to some of the issues in the proposal.

Gilmour: Okay.

Cartney: I'm on that committee. I've talked to Rod about the questions that we had. He has satisfied me about those answers that we needed. However, I have not had the chance to get back to my other committee members so before we would give you a 100% ironclad that we would – I need to talk to those other folks.

Gilmour: But you were satisfied with-

Cartney: But I'm satisfied with it and I would recommend that we would move forward with it.

Nelson: Mr. Chair, members of the Commission, Staff, I'm Dave Nelson, Board Member of the Oregon Quarter Horse Racing Association. Rod Lowe has discussed this with me and I have discussed it with a majority of the Board of Directors of the Quarter Horse Racing Association. They're very supportive of what I think is a very creative approach to bringing stability into the Grants Pass Race Meet and one that our association will be very happy to participate in. I don't see that there is any reluctance. I didn't encounter any reluctance on any Board member's part to not support the program. We have a Board meeting tonight and I think it'll be confirmed unanimously.

Walters: Okay.

Hanson: One thing that I noted from the minutes last month is that Commissioner Gilmour had requested that Mr. Lowe gather information from Tillamook, Union, Harney and Crook County on what each contributes to support their fair. That's not included in this information.

Gilmour: Yes. Do you know that information?

(Unintelligible response)

Gilmour: Mr. Lowe's out [of the room] now.

Hanson: No, we didn't get that information.

Gilmour: Okay, the other question I have for Mr. Lowe is the fact that Josephine County 'needs to make money' for the use of their fairgrounds. I felt that to be a little strange with it happening at the fair grounds that they need to make money on a county fair activity. Isn't it a county fair activity during part of that race meet?

Nelson: Chair Walters, Commissioner Gilmour, my understanding of that, again for the record, Dave Nelson, just very simply is that we're using the fairgrounds at Grants Pass for approximately 60 days. It is an activity of the fair and the Southern Oregon Racing Association, I think you had a dual license situation there. And I think it's reasonable, in fact, I was very surprised that the fair Board, which has been financially put on its own as many fairs have been put on their own by their county commissions and by the Oregon legislature, they do get some financial support from the county fair account. However, they are required to be self-sufficient, self-sustaining. So, I think it's reasonable for them to expect some kind of return from activities that they have (unintelligible) there.

Gilmour: I fully agree with that.

Nelson: I'm frankly surprised that they would settle for 20,000 bucks for two months.

Gilmour: Well, I was kind of surprised with the wording: 'Josephine County needs to make money.'

Nelson: Have to ask (unintelligible) return for paying for the operation.

Gilmour: -kay.

Walters: Rod, while you were out, our Executive Director read from the minutes about how Commissioner Gilmour had asked at the last meeting that you check with the other county fairs to find out what sort of financial support they get, or they give to the race meets there. Were you able to get that information?

Lowe: Actually, I believe our conversation after the meeting was that Mr. Gilmour was going to check himself.

Gilmour: Yes.

Walters: Do we have that information?

Gilmour: No, we don't. I'll take the blame for that. I think, yes, that was the case after we talked. I said I was going to call Jerry and I didn't. I apologize. I still think it's a little – when do they run their county fair?

Lowe: The middle of August is when the actual–

Gilmour: So, it's after your meet?

Lowe: That's correct.

Gilmour: Okay. That was a little bit of the confusion and that would be basically the difference between the other county fairs because their race meet is run during their county fairs.

Lowe: Somewhat.

Gilmour: Yeah, Tillamook, Harney -

Lowe: I know Crooked River has a separate little carnival.

Gilmour: That's correct.

Lowe: That's not their fair. That's correct.

Gilmour: Thank you.

Walters: The concerns that I expressed to Rod before the meeting are pretty much concerns that Commissioner Gilmour touched on. This was the first time I have recalled in the past fourteen and a half years, that Josephine County Fair had said that we have to make money. Where we're going to insist on a fee and it's a guaranteed fee and whether it's a good deal or a bad deal. I think while you were gone there was a suggestion that it was not a bad deal. If-

Lowe: I do want to clarify that a little bit. I'm sorry, but this is a proposal that was made by me because Josephine County Fairgrounds had a meeting and they wanted to – Basically, we have a changing of guards. Mr. Westhoff is no longer County Fair Manager. Jackie McBee is now Fair Manager and does not want to have anything to do with horse racing. We kind of ran into the same scenario here a few years ago with Salem. We had changing of guards, changing of fair managers. They said they have to make money; they need ex amount of dollars. And that's when the HPBA stepped up and tried to do that for a couple of years. We have a similar situation and that's why she's not here testifying and I am: Because I have been put in that position because if it were there choice, they would not have a race meet. Obviously, you see three organizations here that want to have a race meet. We want to keep Grants Pass viable. The only way we can is for me to come up with a proposal that they would be satisfied with in order to get through that and that is the proposal in front of you. I think it has been testified: We don't think it's unreasonable, an unreasonable proposal. Obviously, the entity that is involved on your end is back to simulcasting which has two issues to it. Number one, it helps fund Grants Pass Race Meet. Number two, it's an area where I really feel it's necessary in this state to keep our signal throughout the state to let people wager on our races at Grants Pass Downs, as well as give the owners and other entities an ability to go watch their horse run. They don't have that otherwise. When we set that precedent - I think Dick will testify he had several calls for people wanting to be able to go watch their horse run and why wasn't Grants Pass simulcasted last year. There's two reasons behind the simulcasting and those are the two and, obviously, it helps fund it. If you look further into my proposal, one of the things that I tried to identify is a cap. In the past, Josephine County Fairgrounds, any fair, whatever money they make, most of it goes back into the fairgrounds fund. Where in this respect, it would go back into racing; back to help the horsemen; back into purses; back into some backside improvements. All organizations have agreed that any excess monies would all be agreed upon those organizations to be able to say: What is it going to be used for, the guarantee of the race meet? Is it going to be used for a new tractor; backside improvements; new fences? New whatever and everybody's involved in that.

Walters: Here is the concern, that again, that I expressed to Rod in our discussion before the meeting and it goes back to something that Commissioner Gilmour pointed out at the last meeting is that Josephine County Fair almost sounds

as if they shouldn't be on any application, given their attitude. But they want to have a race meet that's treated like a county fair meet. It has all the perks of a county fair meet, but really isn't a county fair meet because they want to be guaranteed that they make money. Unlike any other race meet operator in the state who isn't a county fair meet. This meet doesn't run, right, if we don't give \$360,000 or whatever to purses for the race meet? We pay, virtually, all the purses for Grants Pass.

Lowe: That's correct.

Walters: And have for the last several years. We have given money to transport horses to Grants Pass, I think, to keep horses in training at Portland Meadows so they can run at Grants Pass. We have given a Racing Secretary, and that may not be available this year because we don't have the money. And yet, Josephine County Fair is saying, that's still not enough because we need to make money off of it. We're not willing to acknowledge the economic benefit to the community that a county fair provides and accept that as the compensation to the community. Now everyone has a budget and everyone has financial problems. But this is the philosophical problem with which I'm struggling very hard with: a meet that wants to get the money that a county fair meet gives, but wants to be treated differently because we need to have more money. I don't know how long your \$20,000 agreement runs, but I don't necessarily see anything in the future that would cause Grants Pass to say well now it's going to cost you fifty. Now, if they really don't want to run, they can figure out a way to not run there, just like the State Fair did.

Lowe: Sure.

Walters: The State Fair could have run. The State Fair could have certainly broken even, but they said, 'No, we've got to make money.' They just didn't want to race. When you have an owner of a facility that doesn't want to have races there, my belief is, eventually, they're going to not race there. The great concern I have is - if we had lots of money, I wouldn't hesitate to support this request, but we don't. The question that I would be interested in proposing to Josephine County Fair, again, as I discussed with Rod, is which of the other County Fair Meets do you propose that we take this money from. Shall we take it out of the purses at Burns; Tillamook; Union; Crooked River; or all of them? We could do it proportionately by race days and that type of thing; because we don't have enough money. We have a crisis out at the commercial race track where we have offered some money to that race meet that may or may not result in the full amount. We hope that it will. Do we deduct it out of the purse account or what we have offered to Portland Meadows to help with their purses which have been too low for a long time. Everybody has a case to make and it, frankly, just really sticks in my craw that Josephine County Fair is taking this position and, as I said, in my heart of hearts, I believe that they're going to figure out a way not to run if they really don't want to run. If they want to use that facility for some other purpose, they're going to keep saying we can make lots more money doing other things unless you keep coming up with more money for us. That is the concern that I have about this proposal. Again, you're the messenger, Rod, you're working your tail off in conjunction with the other organizations to try to put something together to please them and to please us and to get something that works. Commissioner Gilmour suggested at the last meeting that, perhaps, we ought to eliminate the middle man and have this Commission communicate directly with Josephine County Fair to see what they want to do and just how much they expect the Racing Commission to support the race meet that provides economic benefits for their county. It's a very difficult problem for me because we don't have the money. And just saying, well it's just 30,000. Of course, if Josephine County weren't insisting on 20,000, you'd come pretty close with the projections you have and the contributions for these organizations to simulcast. Pay for it yourselves. That's a real concern I have on this proposal. Other thoughts by members of the Commission?

Gilmour: I agree with you. It's kind of like, who's wagging the tail? It's not your fault, whatsoever, Rod. It's just that – Do the business leaders in the community of Grants Pass understand the dollar impact that takes place in that community while you have races?

Lowe: Yes, they do.

Gilmour: They do?

Lowe: They do. We have spent - We asked for a request a couple years ago on brochures of the whole economical impact of racing in Southern Oregon as well as in the whole state.

Gilmour: Right.

Lowe: We sent those to all the Commissioners. They understand all of those things and they don't care.

Gilmour: Your Fair Board – I understand not caring. My point is that it seems a little strange where you would have a community that walks away from, I'm guessing, with all money concerned, probably a million dollars for those race days in their community. I-

Lowe: -(Unintelligible) spoke to Chairman Walters. I've been with Southern Oregon Horse Racing Association ever since I moved here in 1986. I have been on those committees. I have knocked on all the doors to the local motels and the local restaurants and the local car dealerships. They don't care. They don't care if horse racing goes away. They can't see past that. They can't see that that really impacts them that much. We know it does. But they can't-

Gilmour: I know and the difference between you and Prineville, or Grants Pass and Prineville is phenomenal with that philosophy though. It's just phenomenal.

Lowe: Right.

Gilmour: I mean you have people in – I'm rambling, I apologize.

Walters: No, fine. I rambled first.

Gilmour: You have people in Prineville that want much more racing because they see the impact it makes and the crowds they draw. You learn something every day. Sorry.

Walters: Go ahead.

Hanson: I just had a comment about the proposal. Our staff has been doing some investigation, and it won't be complete and ready to present to the Commission until probably November, on the history of all the county fairs and the dates that they were run and all that sort of stuff. My concern about the proposal - I think Brad Shayne did a lot of volunteer work and put together the website for the simulcast, I mean, not simulcast, but so the owners and so forth could watch the races on line and I got good feedback on that. Maybe we just need a lot more folks like IRG to be licensed here, but my problem with this goes back to the staff as well. We don't even have the staff and funds to do the regulation of the race meet properly and there aren't any hub funds at this point for the simulcast. I don't want to speak for the Commission, but my recommendation would be to table this.

Cartney: Mr. Chairman, Members of the Commission, I basically don't have any real good argument for the things the Chairman had to say or Commissioner Gilmour. But one thing that does concern me a lot is: A few years ago we lost the Salem meet, as the Chairman alluded to, and I know it had a severe impact on a lot of our horsemen. The thought of losing a race meet where you have 16, 18 days of racing. That is a critical race meet for a lot of the people who race in the state of Oregon. If those days are gone, I'm not sure how many of those folks will be able to stay in the horse racing business. I strongly suspect that there won't be enough racing opportunities for those people to remain in the business. And if they go away, that's going to have an impact, not only on the Grants Pass area, but it's going to have an impact on the other race meets such as Prineville; certainly on Tillamook. And, not only will it have an impact on them, but it's going to have a severe impact on Portland Meadows because right now we depend on, mostly, a big majority of the people who race at Portland Meadows are people who race in the state. We attract some folks from outside, but not nearly enough to run a race meet with them alone. It will really have a big impact on the Portland Meadows Race Meet.

Walters: So are you suggesting that we take the money from the Portland Meadows purse supplement?

Carney: I'm not suggesting that.

Walters: Where do we get it, Dick?

Carney: I just want you to understand the impact of not having a race meet at Grants Pass.

Walters: And I understand it would be significant.

Nelson: Are you accepting comments on your comments, Mr. Chair?

Walters: Yes.

Nelson: I think your comments are a logical argument. However, if you look around at the entire county fair system in the state of Oregon, you find that probably the majority of those county fairs are losing money, period. If it weren't for the state appropriation of approximately- What is it now, Jeff, two million bucks, a million three-five? Whatever it is that's proportioned out to each of those county fairs, they'd all fail because they all have a responsibility to sustain themselves. That means that they have to make money off of events that they have at those particular locations. The State Fair this year for the first time was reassigned or restructured and moved over to the Parks Department because it was financially insolvent. If you look down through all of those good public activities -

Walters: You mean cutting out racing didn't help?

Hanson: What?

Walters: Cutting out racing didn't save them?

Hanson: Cutting out racing didn't save them, not whatsoever. We fought that from twos and toenail. Portland Meadows' Scott Daruty sat here last year and told you that we have to close the dog track because we can't make money. Dwayne has told us, repeatedly, that the only way that we can keep this place alive at Portland Meadows is to be financially solvent; can't go on feeding them forever. So, I think it's perfectly legitimate for the - As the process has shifted, as people have moved to competing activities: Boatnik days on the Fourth of July in Grants Pass have pulled a lot of people in to those kinds of activities. You have a few remaining around. In my time, I've seen Klamath Falls disappear as a race meet. Six day race meet; nice little deal.

Walters: Lakeview, too.

Hanson: Lakeview's gone, Salem's gone, so we're down - we've lost, what is that total, about forty percent of the race meets in the state of Oregon; not race days, but race meets that have gone away. Prineville's got a neat little deal going, it's an event. It's kind of like the Sisters Rodeo: Everybody goes over there, drinks beer, has a good time, bets on the horses. It's an event. If they weren't making money, that event wouldn't occur. It's simply a function of: If you're going to have an event, it has to be self-sustaining or it has to break even. Certainly, I don't have any problem with the notion that every fair property owner has to break even at the end of the day and that means they have to make a return on an event. And I think, probably, the notion or the statement that Rod included in there that the Josephine County Fair Board has to make money; they have to get a return is probably a better term for what they have to get back in return so at the end of the year the books are balanced.

Walters: I believe everything you say. And the money comes from?

Hanson: Everybody's hoping that the cap would be lifted to 320.

Walters: That's going to happen next year.

Hanson: Whether we can keep that going; struggle along for another session, Mr. Chair, is incumbent upon all of us to try to keep horse racing alive here. That's all we're trying to do.

Walters: The cap really isn't effecting (unintelligible) this year what we get from the hub.

Lowe: Let me ask you this: Obviously, you have an unknown of how much money you're going to have next year, this year, so on and so forth. Similar to what you've done with Portland Meadows, you've put about \$360,000 that we're going to give you over the next whatever, few months. We're eight and a half months away from racing at Grants Pass Downs. I'm not asking for \$30,000 tomorrow to simulcast our races out for Grants Pass Downs. I'm asking for a similar commitment, like you've done with Portland Meadows, and say, if we have the money, we will give you \$30,000. Because we're eight months away from racing, you don't know what your finances are going to be in that period of time. It's similar to this year, we were in the same scenario asking for simulcast money to simulcast our races out and there was no money. But a few months later, we've committed \$360,000 to Portland Meadows.

Walters: So we should take it from them?

Lowe: I'm not saying take it from anybody. I'm just saying that if you have the excess funds in the next eight months that you can fund simulcasting for Grants Pass Downs, would you commit to that?

Walters: It doesn't matter whether I would or wouldn't.

Lowe: Unintelligible.

Walters: My own reaction to that is: I would prefer to table this today. We can look at how things are coming in. I think that the hub funds are going to generate enough money to pay the supplement at Portland Meadows. They may not and then we will fall short at Portland Meadows. I'm not into making specious promises or commitments. If you would be - Certainly, if it's going to mean the closing of Grants Pass, it would make sense to look into that, seeing if we could do it. I'll tell you, my grave concern here is: These people don't want a race, Rod, and you're not going to make them race. Maybe we could float them through one more year or something of that sort. I see Dave nodded and I know he's an advocate of one more race meet.

Lowe: Let me help satisfy that. You talked about them increasing their dollar amount year after year after year. What kind of commitment would I have to get from Josephine County Fairgrounds, three year, five year? What would you feel comfortable with in me committing them to ex amount of dol- the \$20,000 for what period of time?

Walters: I think that would be for the entire Commission to decide what a sufficient commitment was, Rod, on that. It would be interesting to have that conversation with the Josephine County Fair Board to see how long they would be willing to make that commitment. But, I definitely feel we're looking at a situation where it's going to be a one-way ratchet. Circus is coming to town this year so we could make a lot of money off of that or whatever. I think that's something to explore.

Lowe: Okay. So, we're going to table this until next meeting?

Walters: Unless someone wants to call for a vote and then I'll vote no.

Gilmour: I can count, Mr. Chairman, just like you can. I'd like to say that I totally respect everything you've done, Rod. I envy your tenacity. I wish I had that more at times. I'd love to sit down with the Josephine County Fair Board or County Commissioners and have the discussion we've had concerning – I'd come down there.

Lowe: Okay.

Gilmour: Could we suggest that you do that.

Gilmour: I would by next meeting.

Walters: By vote of three to nothing, we vote that you go down there and have that conversation and would be very, very grateful to you if you would.

Gilmour: And you'd probably like me to go November 17th?

Walters: Nope.

Gilmour: Okay. I'll come down there. I'll have the discussion. You put the meeting together. Why don't you work on seeing (unintelligible) if you can get a guarantee.

Lowe: Call me, we'll have lunch.

Gilmour: Perfect.

Walters: Good. Thank you. Any other business to come- Thank you, gentlemen. And, Rod, I think Commissioner Gilmour spoke for all of us when he complimented you on your tenacity and your effort and we all respect that very much.

Lowe: Thank you.

There being no further business, the meeting was adjourned.