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8:00 a.m. – 8:30 a.m.

Trust in the Pari-Mutuel System: Looking at Late Odds Changes

- **Phil Langley, United States Trotting Association**
- **Curtis Linnell, Thoroughbred Racing Protective Bureau**
- **Mike Maloney, owner, breeder and one of America's biggest horse players**

Dave Johnson: Curtis, give us an overview of what your concerns are when the title is Trust in the Pari-Mutuel System: Looking at Late Odds Changes.

Curtis Linnell: Well, there are two different sides to that. One is just the perception that when odds change, a lot of times that's just a function of data transmission, and I understand that, but not everyone at the racetrack does understand that. So one thing we need to do is be aware of the perception of how it hurts that playability when those odds change at the bottom of the stretch or at the 8th pole or even at the wire. Beyond that, what I'm much more concerned about is that I think there are actual, physical problems within the wagering system that are not just perception but that are reality, things that arrive that if you look at the basic facts of the situation, you would want to change it. But I think that it's a lack of awareness and that's one thing I hope to do today is to go over a lot of the things item by item and state my case.

Dave Johnson: Just a show of hands, I hope everybody here makes a bet once in awhile, but have you indeed seen this actually happen? Let's find out from Phil, give us an idea of what your take is when you see the title Trust in the Pari-Mutuel System?

Phil Langley: Well obviously I'm pretty much in track management and I'm there, not so much anymore, but every night I might get phone calls and the Internet is a wonderful invention because it allows people to complain to you without actually having to get through the switchboard and call you, and they don't even have to sign their name so you know you're getting the facts. But it's very, very annoying—and if I were a bettor I'd be annoyed when the odds don't change till the race is over. I remember when I was about 10 years old, back in Maywood Park and a corner of the clubhouse was right over where the wire was and there used to be a guy standing out there and he'd have his hand up in the air and they had the mutuel

windows there and they had a mutuel clerk cornered and the guy had the money and he was ready to push the button and when the race was about to start the guy would put his hand down. It's nothing new, but it's extremely annoying. I think it's probably exaggerated by the fact that most of the better gamblers, the ones that know what they're doing, the good gamblers—and most of them are honest, I'm not saying it's anything wrong—but they wait until the last minute to bet. And I know that I had a horse I sent out to Chester last summer and it would kill me, I thought he'd be the fair bet every start and, with 3 minutes to go he'd be 10 or 15 to 1 and he always went off at the fair bet and I know my group didn't bet at all. But it's just the better gamblers, the ones that know what they're looking for, bet late. And it's embarrassing when the new people at the races say “boy, they're changing the odds after the race, no wonder they're making money.” I think you're right that it always seems to go down, but I think that nobody ever calls us or nobody ever e-mails us and says “oh hey, good deal, I was 2 to 1 when the race started and now I'm 3 to 1,” that rarely happens.

Dave Johnson: Let's just get an idea from Curtis. The word trust, how does it come into this panel?

Curtis Linnell: Thank you Dave. In preparing for this panel I was coincidentally reading a book and I came across a quotation, I didn't want to out-age Phil here on the panel, but I did come across a quote, “I just got tired of going to the races and having my day spoiled. I got to thinking what a great thing it would be to have an official system of betting so that you would always know the correct odds on your horse and not be disappointed in the payoffs. I was fast losing faith in the old pari-mutuel system because it was always and continually incorrect and that agitated me greatly.” That was Harry Strause in 1927, and because he was agitated he went and founded AmTote and invented the pari-mutuel system as we now know it. I thought that was a good context for what we have currently in the environment. We have had technology on the device and on the betting level expand at such a rapid rate that the infrastructure for betting, and the distribution system have not kept pace. We had it in 1927, we have it now. The infrastructure needs to keep pace and we need to do a better job in order to maintain or, in some cases, to regain trust in the pari-mutuel system.

Dave Johnson: But it is possible to have an official betting system because, for instance, the stock market has an official system for registering their trades up to the nanosecond. One of the things that I hear from my friends who gamble is that they say the tracks don't care about this

because they're making their commissions whether this is at post, after the bell rings or, as Mike Maloney might tell you, he bet a race at the fairgrounds, a minute into the race! And he told me about a particular race at Golden Gate that we played on our show on Sirius radio in which the announcer said, "and as they come into the wire, it's so-and-so running at 17 to 1," and then the price was posted and the horse paid \$22. So here's in three words: an efficient wagering system, an efficient system of betting. Isn't it possible that we can have this now?

Phil Langley: I think it is possible and I think that the industry collectively needs to work very hard to get to that point. We have had tote systems operating on a track by track and regional distribution basis all through the evolution of racing throughout the country. With the advent of simulcasting and totes connecting up, we've tried to take a regional system or a local system and make it into a national and, increasingly, an international one. We have to make some radical leaps to get to the efficiencies that we need to see and our customers demand in the tote system. I think we've made some big increases and we can talk about some of those in the past couple of years. But more importantly, because of the wagering velocity, the devices that can wager so quickly, and add so much capacity in wagering, we need to do better.

Dave Johnson: Ok, we have a microphone, but we've got a lot of things up here on the dais to talk about, Mike let's start with, what are the important points here?

Mike Maloney: I'll start with my belief that the wagering security structure within the industry is dysfunctional, is broken perhaps. I see the way we accept wagers in the industry as a pipeline. At one end of the pipeline, you have all the high-speed technology that Curtis mentioned; we're great at that, at affecting these bets to be able to be made as quickly as possible. There's a tremendous focus from the industry, and all those bets come into one end of the pipeline. As they pass into that pipeline, they eventually are assimilated at the host track where the takeout is extracted and then the money moves toward the winning bettors. At that point, it looks to me like the industry basically loses focus on the money. They turn their focus to bringing more bets into the other end of the pipeline. As that money passes on through the pipeline, there is no one in the industry, that I'm aware of, that has a financial interest in making sure that the money goes into the proper hands in the proper amounts at the end of that pipeline. For instance, if there's some type of a fraud on a credit card, there's an identity theft for instance, and the thief buys a digital camera through someone else's account, at the end of the month, the credit card holder will be billed for that \$500. He'll see that it's a digital camera; he'll say "I didn't buy a digital

camera, I was cheated.” He’ll call the credit card company and they’ll investigate the situation and credit his account. A horseplayer doesn’t have that option. He doesn’t know if he’s been cheated. If someone finds a way to scam 5% out of the trifecta pool, and the trifecta should pay \$400 and it pays \$380, the bettor doesn’t know he’s been cheated. You’re not going to get a complaint, it’s just done. I know a lot of people in the industry think this doesn’t happen, it can’t happen, it’s impossible, and I hear all that when I talk to people sometimes. Well maybe it doesn’t happen, I don’t know for sure, but it is something we need to guard against at the very least. It’s not reasonable for us to assume that the casino industry spends millions of dollars to control and deter cheating and that people are able to hack into multinational corporations and they’re spending millions of dollars to defend against that, and that we are safe when we are moving \$12 billion a year that’s bet away from the host track into cyberspace and basically have very little regard for it once it moves toward the bettors.

Dave Johnson: Mike, you mentioned the casino industry, what do you think would happen if, let’s say a game like Keno, had a short period of time for a head-start?

Mike Maloney: In Keno, let’s picture ourselves in Vegas, and pretend that people were able to, in effect, past-post Keno. That some bettors, once in a while, at certain casinos, were able to see the first two balls in a Keno game posted after they’d been drawn, that they were able to include those two balls on their wagers. It doesn’t necessarily make them win for sure, but it gives them a significant advantage. If this didn’t happen all the time, it just happened sporadically at some casinos, what would happen? The Nevada Gaming Board, in my opinion, would come in, and probably the casino would self-report because they would be so concerned about the loss of their license, but somehow the wagering board would find out about it and they would come in and say “Keno is shut down until we get this straightened out.” The operators would say “This is old technology, this was user error, our equipment is old, and we’re going to update that.” It wouldn’t matter, the regulators would say “you spend the money, you upgrade your technology, retrain your people, you bring the thing up to speed. We’ll test it and if it tests properly then Keno can come back up. Until then, no Keno.” Now you contrast that with what we do in simulcasting. For five years I’ve been speaking to different people individually and last year I tried to be more public about it because I see wagering occurring after the races have started, I see it over and over and over. I’ve seen it my entire 30 years at the racetrack, but it has never been addressed. When we say “Why isn’t handle growing? Why are the casinos outperforming

us?” there’s one reason right there. Because there’s more integrity in a lot of the casino games than there is in our game. I hate to say it because I love racing and I’m an owner and a breeder and part of this industry, but it needs to be said. We need to go back to square one and examine this entire wagering system and make it better, clean it up and be proactive about it rather than reactive. Rather than waiting for a crisis to blow up in our face and get a bunch of bad press, why not go out and make it right and have a game that can stand some scrutiny? Right now if a lot of this was brought to light I don’t think it would stand the scrutiny very well. Let me go to another topic. This goes under the heading of how we need to be proactive rather than reactive. Right now, when races run later today, few, if any, tracks will record when the gates actually open. That’s known as the off-time. We record the stop wagering time, also known as the stop-time. We know when wagering is closed. We don’t know when the gates open. There’s no way that any of you can go back and see, well has past-posting been going on at my track? Has it been going on in my jurisdiction? You can’t tell because when you call a racetrack and ask them, “The third race at Fairgrounds on November 25, what time did the gates open?” They can’t tell you because it’s not recorded. This is just an example of the level of actual security that we have within our wagering system. This is an example of a dysfunctional system or a broken system. That’s inexcusable in today’s world, to handle \$15 billion under those circumstances. It concerns me that our industry was given the only exemption to the Internet Wagering Act. Do we deserve that exemption when simulcasting has been going on for 20 years and we haven’t figured out that we need to record the time that the gates open in each race? I think that’s an indictment of our wagering security system.

Dave Johnson: So we should and we want to make it better, will we?

Phil Langley: Well that’s a good question. I have to admit that I share a little bit of Mike’s concern, not exactly, but for 10 years since we’ve started getting more inter-track wagering and trying to balance when you have six or eight different places running your money. I’ve always thought that someday I was going to walk into our track and I was going to open a closet and I was going to find a whole room full of money that nobody knew where it came from or what it was. It’s amazing to me how we do account for what we do. I think one way in which we could cure it, although every mutuel manager and general manager in the country would probably drop dead of a heart attack, would be to close the windows 30 seconds before the race. I think they do that in other countries, they have a time and they close the windows.

Dave Johnson: It used to happen in New York, I was the announcer and the windows closed at post time, and then if you got closed out one time you never got closed out again because you watched the board. That was a long time ago.

Phil Langley: Well I'm glad you said that if you got closed out once you wouldn't get closed out the second time because most of our mutuel managers, they believe that if post time is at 10:00, and they can somehow con the starter or the judges or somebody into going off at 10:05 instead of 10:00 they're going to get extra money. And most of us, when you think about it, you know that if they went off at post time they'd probably get more bets than they would going off after post time. My concerns are a little bit about the technology, and at the risk of upsetting half the people that sponsored these sessions and paid for the food for the breakfasts and stuff, I'm not sure we're getting 100% of the modern technology that we could. I don't know how long it has been since the interface system or one track or one system can bet into a different system, and they charge a fee to do this. I don't think those are all as efficient as they could be. I think they could be a lot more efficient. I do see a little problem, and I don't know the answer, but when you watch cable TV or satellite TV and you've got another TV set in your house where someone is watching just off of the regular signal, why one room has the team scoring a touchdown and in the other room they haven't even snapped the ball yet. So technology is a problem for us because it doesn't quite coordinate. I went to an OTB in our place the other night and the sound system had the finish of the race and the picture didn't, it was like there were still 50 yards to go. So we've got to catch up with technology, and Mike's right, it's something we have to look at.

Dave Johnson: Curtis, the question is can we do it though?

Curtis Linnell: I think we can do it and I think we will do it. I see some of the directions we're heading now and they're good directions we're going in. I appreciate what Mike is saying because it's important to say what's wrong with the industry before you can correct it, and I appreciate what Phil is saying, but we have made some remarkable strides. First of all, on Phil's point, it reminds me of university where the line is: you can never be too rich, you can never be too good looking and you can never have too much computing power. And that's very true always; we can always become more efficient than where we are now. But we've made some real strides in the last couple of years and I won't go into it right now because we don't have the time. Right now in the production of odds, ten seconds after a race closes, after stop-betting, we

have benchmarked over 99% of the money producing the odds right now both in New York and California. We're getting those odds produced; we have to work on the downstream, on the distribution of those odds to the video displays and to the TV productions so we can show that we've come a long way to address late odds changes. Secondly, as an industry we need to time-sync video directly to atomic clocks the same way we now do for totes so that we can get the actual times that things occur. We're working on those as an industry. We had a TRA2020 meeting yesterday and these very topics came up. There's a lot of motivation to solve them because there's a lot of pressure from our customers, and rightly so, for us to solve them. They're big issues and it takes a lot of coordination and a lot of motivation to do that but we need to take those issues head-on and solve each one of them.

Dave Johnson: Well, we started about 8 minutes late so we're just going to go another 8 minutes. Mike, what's next on your list?

Mike Maloney: Well I have a whole list of things but I don't want to be completely negative here. It's not good to be all criticism and no solution, but one thing I would like to address is that we're always looking for opportunities for growth, how to grow handle, how to make more money, how to better the game. The good news is that we have the best wagering game on the planet. The core game that we sell, the basis of this entire industry, the handicapping process, the day at the track with your friends trying to pick a winner, going to the window and making your bet and then seeing in 2 minutes whether you're right or you're wrong that day, is a fantastic game. It's a game that can take intelligent people and fascinate them for a lifetime. It can't be mastered, it's never been mastered, but it's a fascinating process. You can really spend a lifetime doing it. My father is an example of that, I'm an example of that, I have a 16 year old son that loves it. So I care about it. I picture my son 20 or 30 years from now and he's probably going to be at the racetrack enjoying the races, hopefully. I think that one thing we can do is to address some of our marketing to people that have analytical skills, people that like to trade stocks, trade futures, trade commodities, play chess, or whatever. Those types of people are potential horseplayers, and they're not just potential fans that come in for a ball cap or an umbrella, they're potential long-term fans that, once they become serious handicappers, once they get into and love the process of trying to pick a winner, they'll be like an annuity for the industry. As long as they're treated decently, they're probably going to be there the rest of their lives. I entertain some at the racetrack and I'll have people come in that are professional people,

that are business owners, and some of them I know well, some of them I don't know that well, they're friends of friends, but they hear about me and it's interesting to spend the day at the races. Those people can sit at the next table and be kind of bored between races when there's nothing really going on, but you set that person beside me and let me show them, this race coming up, you know, there's too much speed in it. There's four speed horses in here, there's going to be a tremendous battle early in this race and I think even though this horse is only the third or fourth best horse in the race, he's going to get a favorable trip and a favorable pace scenario and he's going to have a great chance in here at 8 to 1. And then you let that play out on the screen and even if that horse doesn't win, he comes flying and runs a good second, and the guy makes money—he's never been to the races before or he's been a couple of times casually—a light goes on in their head and you can't spend enough money on newspaper or television advertising to do what was just done with that person.

Dave Johnson: And he'll talk to his friends about it.

Mike Maloney: Exactly, and that's what we don't market and we don't promote. We have a tremendous game, but people don't know that game and it's hard to get in the loop, it's hard to understand from the outside. We need to find ways to educate, to cultivate, and to support these beginning players as they progress. At some of the tracks you can find a mentor around the track, somebody that can bring you along. We need to make things like that more accessible in some way to where if a person has an interest in the races, if they do like the process of trying to pick winners, that we encourage that, that we bring that person into the fold because they can be a very valuable asset to the industry for the rest of their lives if we take care of them at the beginning.

Dave Johnson: Phil, we're sort of running out of time, but did you want to touch on any of these points?

Phil Langley: Well one thing maybe we don't do a good enough job of explaining why there is a late flash in odds at present. Sooner or later we want to correct the thing, but basically we don't make an effort to explain to our ordinary fans why the odds change late, and we probably could do a better job of that. Just touching on Mike's last comment, the obvious best thing you can ever do at a racetrack with new people is, if they can win the first race they bet on why, they're fans forever. They haven't quite figured out how to do that.

Dave Johnson: Curtis, do you want to pick up any of these threads?

Curtis Linnell: Well I'll just pick up the last one. I think, when we bring new people to the racetrack, we want to show them that we're a modern sport, and part of horse racing is betting on the horses, it's intertwined, and we need some of the investments into the wagering infrastructure that we've seen in other areas of the business such as track services. We need to take those issues head-on and we need to solve them and get in front of the speed of technology and use that to our advantage rather than to our disadvantage, perception wise.

Dave Johnson: We've got two minutes left. Do you want to pick up one more item?

Mike Maloney: One suggestion I would make is a suggestion that was made in 2003 by the Giuliani Report. I reread that report recently and I think the industry paid a few million dollars to get that. It doesn't seem like we put much of it into actual practice, but one of their suggestions, one of their main suggestions, was to form a national office of wagering security. And I think that's a great idea. I think we're so fragmented and the oversight is so helter-skelter within the industry that we really need a national office of wagering security, some body that is a watchdog for the bettor's interest throughout the industry that has teeth, that has the power. It won't work unless that entity has the power to find or sanction the tracks, to make sure that things happen properly. That if someone is out of line and someone is not protecting the bettor's interests properly, then they need to be brought into line. There needs to be someone at the helm of that and currently, as a bettor, I don't see that. I don't feel like there's anyone, and Curtis, I know, is a good man and is doing everything he can, but I don't think he has been given the tools to actually do the job as it needs to be done.

Stan Bergstein: We have a little bit of time if anyone wants to add their thoughts. You guys didn't generate any controversy?

Dave Johnson: I don't think anybody wants to lose their license.

Bruce Benedict: I'm Bruce Benedict and I'm with the Royal Turf Club but I've been in this business for 35 years. One of the things that we all have to realize is that the technology actually has improved to the point where you're able to allow thousands and thousands, then 50 thousand terminals to be able to place wagers in seconds, if not milliseconds. The problem is that when you try to do this, and you try to update the information, nobody would bet unless they have to bet at the most current time they can bet, so they aren't betting at 10 minutes to post time, they're not betting at 15 minutes to post time, they're betting at the last possible second and the more outlets that you have, whether they be call centers, point and click, OTBs, self-service terminals,

table-top terminals, they're all just sitting there and waiting and they will press the button to settle the bet at that time. It's virtually impossible to update that information. Statistically, I think you'll find that the odds cycles don't change all that much. The sales volumes do. Again, that was just a point I wanted to make.

Dave Johnson: Thanks Bruce.

Mike Maloney: All I know is what I see. I'm not a technology expert. All I know is that my experience on Thanksgiving week this year, on November 22, the race that Dave talked about at Golden Gate occurred, the day before a race at Hollywood that TVG was covering, it was a 7 furlong race and the horses passed the wire and Matt Carruthers called, on the TVG feed, the winner at 33 to 1, and it was the first race of the Pick 4 and he commented that it was going to juice the Pick 4 up. Then he says as the horses gallop around the turn, well the horse is flashed at 23 to 1, and then they went on for a few seconds about how much of an impact that was going to have on the winning bettors. And that was the day before Mike Wrona called the winner at 17 to 1 and the horse paid 10 to 1. Then three days later, I watched Fairgrounds third race on November 25 and watched wagering be open at least 55 seconds into the race.

Dave Johnson: You kept betting into the race, didn't you?

Mike Maloney: I did because, after watching it for years, and after trying to work within the system for at least the last 5 years as a member of the player's panel and speaking privately with a lot of people and speaking publicly in other venues, and saying this is a problem and this goes on, I bet during the race at Fairgrounds to prove my point, to show that the industry couldn't run from it anymore, they couldn't deny it, there are the tickets, and they were made several seconds after the race starts I made four different bets. My point is there's a four-day span on Thanksgiving week where, I don't know what the reason was for those odds changing after the race was over, but all I know is that it is unacceptable. All I know is as an industry it does us a disservice for that to happen. In 2008 there has to be a way that we can do that better—bettors that are in their homes or watching on their computer or that are at simulcast sites—because that does irreparable damage to the integrity and the perception of integrity within our sport when these things happen, and they happen continually.

Bruce Benedict: And, believe me, I don't think there's anybody in this room that has more interest in wanting to ensure the integrity of the systems and as Curtis pointed out, there have been a lot of strides that have happened over the last few years and I think some of those are able

to be seen by the player, but I also want you to be assured that there is auditability reporting that can show you exactly when these transactions occur.

Mike Maloney: Yes, but you can't relate that to when the gates open.

Bruce Benedict: Sure you can.

Mike Maloney: No you can't. You don't record when the gates open.

Bruce Benedict: To Curtis's point, we've tried forever to coordinate clock times. Systems issuing tickets tied to systems with clock times. Gate-opening ties to clock times. Video streams tie to clock times. All that information is retrievable and definable. We process over 120 thousand pools a month.

Mike Maloney: But video feeds, are not currently, that's not synced to the wagering system.

Bruce Benedict: I agree.

Mike Maloney: So in effect, all I'm talking about is reality here. In effect, you have no record of when that race starts, no record where you can go back and you can compare. We have good records of when betting is stopped and when wagers are made, I understand that, but you cannot compare when those wagers are made to when that race started and that is the problem. We cannot tell how much of a problem this is within the industry because we don't have the tools to do it. I didn't know this. It shocked me when I found out because I tried to do more research on the past posting situation and as I researched it, I found this out.

Bruce Benedict: Obviously there's room for discussions and so forth, and I think communication is very important to not only you but to the technology suppliers and the mutuel managers and the regulators and the owners and the operators too.

Curtis Linnell: And just on that point Bruce, we have instituted 10-second forced odds in which 10 seconds after post time, after the stop-betting a racetrack, we can produce the odds that are 99% the final. They don't have to wait for the last possible location to produce a final and enforce cycle. We currently still have racetracks that are not employing the 10-second forced odds.

Dave Johnson: What percentage of the tracks don't do that?

Curtis Linnell: We think there's somewhere around 50% of the tracks right now that don't have it. We have the largest tracks that are doing it in New York and California, we're benchmarking that, we're producing those odds again, to the point of 98-99% of the win pool, within 10 seconds. That's a critical jump in what we've been able to do in previous years.

Dave Johnson: That's great, but if 50% of the tracks aren't doing it, that's terrible.

Phil Langley: When you're talking about how you're able to bet after the race starts, how much of that is due to just carelessness, and I apologize for not knowing for sure when the mutuel machines are locked anymore, but it used to be pretty much a manual locking system. If a horse falls down at the start of the race and the stewards are distracted for a minute, you can have that happen. I would guess that a large amount of the time that you are able to bet later into the race is because of some human error.

Mike Maloney: Yes, and I want to make that clear and I should have made that clear earlier. I don't think there's some sort of conspiracy where the stewards are being bought off to close these races late or that there's some kind of a conspiracy to set all this up. That's not my point and that's not my assertion. My assertion is that in an industry that handles \$15 billion a year, that's given an exemption from the Internet Wagering Act, that we should require or demand a higher level of competence from ourselves, that we should secure these wagering pools better, that more thought and more pro-active work should be put in to make sure that these pools are secure. You can't just assume that you don't oversee all this money and that no one is attempting to do something untoward.

Stan Bergstein: Unless someone wants a brief final word, we will move on.

Dave Johnson: I want to thank my panel for sharing this morning, thank you very much guys.