VIRGINIA RACING COMMISSION

November 7, 2012

10700 Horseman's Road

New Kent, VA 23124

Commencing at 10:06 a.m.

COMMISSION MEMBERS:
Stuart Siegel, Chairman
J. Sargeant Reynolds, Jr., Vice Chairman
Carol G. Dawson
David C. Reynolds
Stran L. Trout

COMMISSION STAFF:
Bernard J. Hettel, Executive Secretary
David S. Lermond, Jr., Deputy Executive Secretary
Kimberly M. Carter, Office Administrator
Joseph M. Roney, Director of Security & Operations
C. Richard Harden, DVM, Equine Medical Director

ATTORNEY GENERAL'S OFFICE
Joshua E. Laws, Esquire

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CHAIRMAN SIEGEL: Good morning, everyone. We will call to order the November meeting of the Virginia Racing Commission. We're hopeful that Mr. David Reynolds will join us. He's not here yet. We have a quorum and the meeting will begin.

The first item on the agenda is the approval of the minutes from the September 20th meeting, which are in your books behind Tab One, and they have been distributed, so hopefully you've read them, and the Chairman will entertain a motion to approve.

MR. TROUT: Mr. Chairman, I so move.

MR. S. REYNOLDS: Second.

CHAIRMAN SIEGEL: Okay. Any discussions, deletions, questions? If not, we'll deem that they are approved.

NOTE: There is no response.

Commissioners' comments. Does any commissioner wish to comment about any issue before we move forward?

NOTE: There is no response.

CHAIRMAN SIEGEL: Hearing none, we'll move right into the executive secretary's report. Hold on one second. Here comes David right now. Just wait for him. You owe $10 for being late. Goes into the purse structure.
Anyway, we'll move into the executive secretary's report. I'd like to first welcome Mr. Hettel back to Richmond. His wife is making progress with her recent illness, and hopefully, she'll soon be on her way to a speedy recovery. It's nice to have you here.

MR. HETTEL: She is enjoying her Richmond visit. She's a Virginian by heritage. Her mother actually grew up in Richmond and went to school, both at John Marshall High School and University of Richmond.

And last night, last couple nights, we went riding and looking at different places they used to live, and so forth, so she's enjoyed it, and while we're doing it, we're looking for a house. So I'm trying to get her to move down the street from Dave in the fan. I think that's the loveliest part of Richmond.

CHAIRMAN SIEGEL: Dave will have to lend you the money.

MR. HETTEL: I'll just move in with him. Maybe I can just rent the bottom floor. At any rate, I want to thank everybody for all their kind wishes, and the staff for being so supportive and helpful through this trying time.
Other than that, also, I think we can move on, Mr. Chairman, to the stakeholders, and I'm happy to report we had an excellent meeting on Monday concerning the Thoroughbred dates for next year, and I'll let Colonial Downs present the dates request and any comments from the VHBPA.

CHAIRMAN SIEGEL: Well, that's your report. That's good.

I understand there has been an agreement reached, which is a good thing. I don't think this commission wanted to do it for you, and I'm not sure anybody would have been happy with the results, including us, so it's great when you guys can get together. If the Republicans and Democrats and Congress and White House could do that, maybe that would be a good thing.

Mr. Hettel played his part to be Henry Kissinger, I understand, and it was -- we made some progress, hopefully.

So who is gonna present? And Stephanie also was involved in that, as well as the other folks always at the table.

MR. STUART: Well, I got a couple thoughts for you this morning.

CHAIRMAN SIEGEL: Okay.
MR. STUART: We filed an amended race day observation for the 2013 race days and have come to a negotiated agreement with VHBPA.

The request reflects five days -- five weeks of racing with racing occurring five days a week, Wednesday through Sunday. The meet will begin June 8th and conclude with the Virginia Derby on July 13th. We agreed to reduce the purses of the Turf Cup by 200,000 and the Derby by 100,000 in an effort to increase overnight purses.

I'd like to point out that this agreement is a compromise. It does not represent a solution to the challenges to Virginia racing. The major problems identified in our original race day requests still remain; namely, our product is weak. It does not sell well in the market place. The handle doesn't lie. The public is voting with their wallet.

We've talked many times about quality racing, but I'm sure to many this is kind of a nebulous, abstract concept.

It's been suggested in this forum many times that the critical element of generating handle on live races, both for the track and simulcast, is the size of the field. If this is accepted as true, then the nature of the horses becomes much less
important than the number. If we can put 12 horses in the gate, then it doesn't matter then what sort of record those horses have.

While I will not deny that there's a correlation between handle and field size, I would suggest that perhaps (inaudible) as large as the trade.

Consider this: Suppose we're all gonna go try to pick winners at the racetrack. Because this is pari-mutuel wagering, we are not competing against the track, but against the other betters. This includes people that have studied racing their entire life.

There's a tremendous amount of knowledge available on quality race horses. Experts know how each horse runs under virtually any condition or combination of conditions. They can study race results, workouts, and watch videos of races to pick up things that are not on the charts. They study the breeding.

People who are trying to make a living picking horses work hard at it. It is no different than becoming an expert at anything. It takes hard work.

What kind of race are they looking for to wager on? They're looking for a race with lots of data,
because analyzing data is their edge in competing with anyone else. When they find that race where their knowledge gives them an edge, they tend to bet a lot more than the casual better.

Let's look at a couple races. I'll pass something out here. Bernie, I might have to do this one on memory.

MR. HETTEL: Okay.

MR. STUART: What Jim's handing out is the program for last year's Turf Cup. If you take a look, these horses run a number of times. For instance, the number one horse ran 21 times. The number two horse ran 36 times. The number three horse ran 36 times. Four horses run 12 times, and on, and on, and on.

Basically, as I said, these horses have all run a number of times. There's a lot data out there about these horses. An expert can analyze the data prior to the race and make an informed decision.

Now let's contrast that with a situation at the racetrack where some folks are up in the suite, they're having a good time, they're having a few drinks, they're enjoying some good food.

It's ten minutes to post time. Somebody goes, "Well, who do you like at the Turf Cup?" They go,
"Gee, I don't know. Let me see the program." They pick up the program, they open it up, they look at all this and go, "Oh, my God." You know. "Green's my favorite color. I'll take the five horse."

Who has a best chance of picking the winner in this scenario? Clearly, the person who has analyzed the data before the running of the Turf Cup. The experienced better.

Now let's look at some of the other things. This happens to be a maiden claiming race we ran on June the 29th. The fact that it's a maiden race means none of these horses have ever won, and the fact that it's a claiming race means that you can buy any of these horses for $5,000.

Start to look down these horses. The one horse, for instance, has run five times and never one, and in its last race out, it finished 15 lengths back.

The next horse run seven times, never won. Third horse run four times, never won. Its last race, it finished 19 lengths back, which was better than the race before that, where it finished 21 lengths back, which it is better than the race before that, where it finished 24 lengths back.

Next horse run five times, it finished 18
lengths back. The five horse, run three times, last
time finished 30 lengths back. The six horse --
this is kind of interesting. We've never seen
something -- maybe I'm not that experienced at it.
But the second-to-last race, it finished 63 lengths
back. I guess it finished.

MR. PETRAMALO: I've had horses further back
than that.

MR. STUART: Oh, okay. Well, I defer to your
experience; no question. The seven horse run seven
times, never won. Got the ten horse run 14 times,
ever won. Last time out was 28 lengths behind.
Eleven horse, 12 times, never won. Last time out
was 24 lengths back. You got 12 horse, run 15
times, never won.

There's not only very little data here in some
cases where the horses have never run very much,
which means that the expert's edge is not there or
greatly reduced, or it's impossible to determine who
is sort of the best of the best here.

The expert's chances are really not much
different than that person up in the suite that's
opening up the program and throwing a dart at the
wall; so therefore, their edge isn't there.

It's not the best option for the experienced
handicap, so they look elsewhere to other races. Gamblers are looking for the percentage play, and the percentage play is where they have an edge. They know they won't win all the time, but they play the percentages.

So as between races such as the Turf Cup and races filled with horses such as we've described, unfortunately, our product is skewed toward the latter. We've become the base to run your lower-end horse on grass.

This is not a distinction that Colonial Downs aspires to. There's not a product that experienced gamers want to wager on. If we fail to attract those wagers, racing in Virginia is gonna have a hard time succeeding.

Which brings us to the next point, money. All of you have heard me say on more than one occasion Colonial Downs has lost over $50 million. I think that fact has almost become like wallpaper at this point. It hangs in the background but attracts little attention. Sooner or later, the parent company will no longer to be able to tolerate these losses.

Each year that we proceed without a model that realizes financial success, as well as the success
of our other stakeholders brings us closer to a problem. We must find a viable model pretty soon.

Finally, if the goal is to promote, sustain and grow the native industry, the Jockey Club report is pretty sobering.

Perhaps at some point this morning, Mr. Petty can elaborate on the standard Virginia breeding industry and give us a different perspective. I note that in his e-mail, he's intrigued by the shorter meet, but nevertheless, supported the longer meet as in the prior year.

Colonial Downs does not think that preserving the status quo from last year is the answer. We need to raise the quality of racing in Colonial Downs to attract more wagering, which in turn will generate more handle, which will allow us to raise purses and attract more competitive fields. Today's compromise begins to take us down that path. It's not a solution, but it's a start in the right direction of racing horses and attracting quality horses and enhance wagering.

CHAIRMAN SIEGEL: Okay. Jim, do you have anything?

MR. WEINBERG: No.

CHAIRMAN SIEGEL: Thank you, Ian. I think the
horsemen might have a comment or two.

MR. PETRAMALO: Yes. Let me start out by saying we support the amended requests for the five weeks of racing with five days, for a total of 25 days.

I do agree with Ian that the industry in Virginia does face problems. We need long-term solutions.

I disagree with most of his analysis, however. The quality of horse racing here in Virginia hasn't varied much in the last ten years. There was a Blue Ribbon Commission back in the late 90s and early 2000s that came up with some suggestions, including running in the summer.

But also, that commission or a subsequent one, there was another one headed by the former chairman, Anne Poulson, said that we want in Virginia to maintain quality racing, and they defined quality racing by an average of $200,000 per day in purses. We could have run $100,000 and you'd get very, very poor quality racing. So back in 2002 or 2003, we used that as our metric; 200,000 was quality racing.

Over the years, depending on how much money was generated, we determined how many days of racing there would be. We started out with Colonial on a
joint venture to expand the OTBs. When we started, there were only four. We eventually got out to ten, and that drove the handle so that by 2008, we had almost nine -- well, we had a little more than $9 million in the purse account.

So you take 200,000, divide it into nine million, 45 days of racing. That was the high point in 2008.

Then what happened? The bottom fell out of our national economy, which was reflected in the horse racing business.

In 2008, there was roughly $15 billion worth of handle in the U.S. Now, we're down to about ten billion. It's leveling off, so there was a steep drop.

Our metric stayed the same. We still were at 200,000, but our purse account shrunk so that last year we had roughly 6.2 million. Divide 200,000 into it, and you get 31 or 32 days, but the quality has always been there. It hasn't changed.

It's true that we do have a reputation for running lower-level races on the grass. There is no place else in the country that you can go and run a $5,000 claiming race or a $7,500 claiming race on the grass. We can do it because the course is
180 feet wide. We can move the rails, et cetera. That's our niche.

Now, I agree with Ian that field size is very important. That to me is the key to handle. A gambler, for the most part, whether a professional or just an occasional one, really doesn't care too much about whether the horses run 12 times or 15 times, or whether it's sired by Dynaformer or Thumb and a Nickel.

The point is, if you got 12 or 14 horses in a race, bingo, you've got opportunities to make money.

Now, over the past ten or so years, we have been very fortunate in keeping up our field size. We've always been above eight per race. One year, we were even above nine, but that's the key, to keep field size up.

The comparison here -- you know, just being a lawyer, I can't pass up the opportunity to cross-examine here.

This isn't a fair comparison here. You're comparing a half million dollar race with stakes horses that are from three to nine years old with a $5,000 maiden claimer, that for the most part is got horses who are young. They're rookies. That's why they're called maidens. They are three-
four-year-old horses. Naturally, they're only gonna have five or six starts, compared to an eight- or a nine-year-old horse that has been running in stakes races with 20 starts.

CHAIRMAN SIEGEL: Some of them had a lot of starts in maidens.

MR. PETRAMALO: Yeah. But in any event, let me just summarize by saying I don't really disagree with Ian's notion that we've got to do something about our product here. I don't think that it's a quality problem. We've got to find ways to make this more of a destination where people want to come, and more importantly, want to wager.

One of my pet peeves is wagering is too complicated. We now live with tweets and Twitter and fast-ranging movements on computers and iPads. This stuff is what I call geek stuff. I like this. I like to read all this data, but it is very off-putting to get people to come here and sit down for 30 minutes between races and look at all this stuff. We've got to make it more interesting.

I've always been intrigued by the notion of having simple bets, odd, evens. I'll bet five bucks on all the odd horses, she bets on the evens. That creates our pool. It's mindless. It's like slot
machines. Mindless.

But in any event, we had talked before, I'm not sure how far back, about putting together another one of these committees or commissions to do a long-range analysis or engage in some long-range planning about what we should do in Virginia to sustain and promote our industry, and I still think that's probably the best way to go.

But I'll end by going back to where I started. We do support the five weeks at five days. We are not happy with it for a number of reasons. It limits the opportunities for horsemen, who are natives to Virginia, as well as those who come from other jurisdictions to race their horses.

If you've got a five-week meet, you're gonna be lucky to get two starts out of a horse, and it's difficult to get people to ship their stables from Florida for a short meet where they're only gonna have an opportunity to run a limited number of times.

But that said, we're willing to take -- to make this an experimental meet, as some might say, to see how it works.

I think Colonial is going to institute a shuttle from Maryland to bring horses here with the
increase in purses.

Remember, we still got the same amount of purse money, but we're reducing the number of days and we're reducing some of the big purses for the stakes races. That's gonna generate more for the average horse.

Now, if we've got people sitting over in Maryland who never come here because the purses are too low, it costs too much to get over here, I suspect with the shuttle and the purses going up, that we will attract more Maryland horsemen here, and of course that's what we're seeking to do.

But in any event, it's worth a try. We can't continue doing things the way we have and expect that the result is gonna be different. So with that said, again, we support the amended request.

CHAIRMAN SIEGEL: Any other comments from the group regarding that presentation? Jim, do you have anything?

MR. WEINBERG: I think it is evident to the Commission that this is a true comprise, with the old adage, no one's particularly happy, but everyone seems to be satisfied, and we'll give it a try.

CHAIRMAN SIEGEL: Yeah. I would just suggest that I agree with that as well. I don't think that
this -- as Ian said, it's not a solution, but a step in the right direction.

I was impressed with your initial recommendation last week, and if you're right, then this reduction of 25 percent in the days and the weeks will prove -- show some improvement. If it does, then we know where we need to go, or at least we have an indicator. If it does not, it may indicate to us that that doesn't work, either, and we may end up going back to more days. So I mean I think we should just look at this more closely after it's done.

Any members of the commission wish to comment?

MR. TROUT: Just a couple things here. What this does overall, I think the request that came in before we talked about a daily purse of 366,000 and now under this would be 249, and then 2012 was 194, so it's a sixty-some increase over that, but a significant difference of over 100,000 of what was originally proposed.

I think you say we comprise, a compromise where everyone is equally dissatisfied and probably did that with the election yesterday.

But would an incremental increase such as this produce at least part of the same effect that a
major change, a bolder move would in attracting
horses? Is that something that anyone has some
ideas on?

Because you've got the idea was to have a
significant increase in the purses, almost doubling.
That would attract some higher-end horses, and if
you have a, whatever it is, 25 percent so or
increase, is that gonna attract 25 percent better
horses?

You know the horse industry better than I do.

MR. PETRAMALO: Let me respond to that. My
numbers are somewhat different from Ian's numbers,
but the key is to look at the average overnight
purse. That means your regular race. Throw out all
the stakes races. We have 17 stakes races; they'll
be contesting for 1.7 million. That, for the most
part, is not the horse industry. That's the crème
de la crème.

Now, last year, this past year, our average
overnight purse was 15,000, a smidgen more than
15,000. Under the proposal that is before you now,
the average purse will go up to almost $22,000.
I've got it at 21,635; that's a 43 percent increase.
That's where all the horse population is.

These people who would be running in claiming
races and low-level allowance races, that's not bad. That's why I say I think it will probably attract people from Maryland and West Virginia, who wouldn't think of coming here normally, because $15,000 a race is not gonna do it. But at 22, particularly if there's a free shuttle, changes the metrics.

MR. TROUT: Do you think that's enough of an increase to have a significant effect?

MR. PETRAMALO: I think it's worth trying.

MR. TROUT: Yeah, right.

MR. PETRAMALO: I can't definitely say, oh, sure, it's gonna happen. If we tripled the number, I'd be more confident in saying, oh, yeah, this is gonna work.

MR. TROUT: This is something where we should have measurable results at the end of the season that will show us, as the Chairman mentioned, which direction it's going in.

MR. PETRAMALO: Well, we do track this stuff. The racing secretary's office, for example, knows how many horses ship in.

On an average day during this past meet, 30 percent of the starters shipped in just for the race and then went back home. Of that 30 percent,
about half of them came from Maryland, a quarter
came from West Virginia, 11 percent from Virginia,
et cetera. So we can keep track of all that.
That's not hard to do.

MR. TROUT: All of these plans, basically, are
dealing with the same roughly 6.2 total amount
wager?

MR. PETRAMALO: Yes. That's correct.

MR. TROUT: That's anything that goes to the
Breeders' Fund and all the other funds is based on
that amount, so basically, we're not talking about
any change in the percentages that get paid out to
various groups, including New Kent County.
I believe we're in there somewhere. So those would
pretty much state the same under all these
proposals, if it's 6.2.

MR. PETRAMALO: Well, yes. The 6.2 includes
Breeders' Fund money that's used for purses. For
example, we have a very popular 100 percent bonus
program. If you have a Virginia-bred and you're
running in open competition, you're running for
double the purse. That money comes from the
Breeders' Fund. So of the 6.2, roughly three
quarters of a million is from the Breeders' Fund.

MR. TROUT: Appreciate that. From the track,
is this something that you feel would produce at least a measurable result to find out whether it's working or not to that extent?

MR. STUART: I think you'd be able to measure it. Obviously, you know, we put our best idea on the table initially, but you know, this is a compromise. It's worth a try.

CHAIRMAN SIEGEL: You agree it should show some improvement, if in fact your original proposal may be better, but this will show us at least a signal as to whether fewer days is the way to go.

MR. STUART: I think so.

MR. PETRAMALO: Let me add something else. There's a factor out there that hasn't been explained, at least to my satisfaction.

We suffered a precipitous drop in our signal sale. It was something like almost 30 percent. Wait a minute. I've got the number right here. Our signal sale dropped 34 percent.

In other words, we have the live meet here. We generate some on-track wagering, but most of the wagering is off-track; people in Kentucky or Maryland, et cetera. Well, our signal sales dropped 34 percent, and I don't know why. The field sizes were roughly the same as they have been in the past.
I suspect we lost a little in handle because we went to night racing. Our post this year was at seven o'clock, so by the time you get to the last two or three races, it's 10:30, quarter to eleven. I think that's a bad time for wagering.

I don't know whether that's the sole explanation, but it seems to me, addressing that type of issue will also go a long way to boosting our handle, or at least explaining to us what we should be doing differently.

Now what Ian has proposed and we support is moving the post time up a little, so we'd start at six o'clock instead of seven o'clock.

CHAIRMAN SIEGEL: Yeah.

MR. PETRAMALO: I think that would probably help.

CHAIRMAN SIEGEL: Good. The proposal calls for, as you mentioned, a van service?

MR. PETRAMALO: Yeah.

CHAIRMAN SIEGEL: It says one van. How often is that one van?

MR. PETRAMALO: Well, in the past, what they've done is picked up in the morning, brought the horses here, and then took them back at night.

CHAIRMAN SIEGEL: So it's four or five days a
week?

MR. PETRAMALO: Yeah. It's every race day.

Every race day.

CHAIRMAN SIEGEL: Okay. Good. One van each race day.

MR. PETRAMALO: Yeah.

CHAIRMAN SIEGEL: That might have been in there.

MR. PETRAMALO: It costs -- Stephanie can probably tell you better than I can. To ship from Maryland, last I heard, it was around $500.

CHAIRMAN SIEGEL: I understand the reason for doing that. I think it's a great idea.

MR. PETRAMALO: Yeah.

CHAIRMAN SIEGEL: Have we done it before?

MR. PETRAMALO: Yes.

MR. WEINBERG: Yeah, when there was a more active involvement, it was a regular component.

STEPHANIE: We usually can put 12 to 14 on that van to come down.

CHAIRMAN SIEGEL: That's great. All right. Well, any other comments, questions, concerns from any member of the commission or from the general public?

MR. PETTY: Mr. Commissioner, the VTA's
perspective, I see it's on the agenda, and you mentioned it.

Just very quickly. You know, the Breeders' Fund is driven by total dollars, the system, and the number of economic opportunities available to those people, and that's racing days and whatever the backend awards are for breeders and stallion owners.

We have the smallest breeders fund in the mid-Atlantic. We have the fewest number of racing days in the mid-Atlantic. To suggest that the industry would do anything but contract, seems to me to be illogical. It literally is what it is.

So obviously, we, you know, view this argument from afield and are interested in the outcome, but I don't -- I've said this to the Commission before. I said it in my letter Monday.

We haven't found that 30 days or 40 days or 45 days will change anything. A $4 million fund and 100 days of races may change something in Virginia, but these incremental changes while these folks try to find a common sense foothold doesn't really impact the overall industry.

What's happened in our industry, and its happened everywhere, has nothing to do with any of this, I don't think. Is whenever major breeding
farms go out of business, they're never replaced.
Their family members don't pick them up.
Someone new doesn't come in. This has happened in
Maryland, Virginia, Pennsylvania, and on some levels
happening in Kentucky.

So there's a lot of different factors, so we
kind of boil it down to what's the simplistic look
at it. The most important thing we have going for
the Virginia-bred horse is the 100 percent bonus.
That is something that people understand. They get
it.

If we go in to this meet with a $30,000 maiden
race, if you have a Virginia-bred, that becomes a
$60,000 maiden race. Well, that gets somebody's
attention. Now it only gets their attention for
five weeks, because, you know, but it's the
compromise.

So obviously, we want there to be as many
racing days as possible so that the people in this
room that have Virginia-bred horses have as many
opportunities to run and make money.

Then you stop and you look at what these guys
are talking about, and I can -- if I'm sitting up
there and I'm you and I say, well, I can make the
horsemen happy, but it's gonna cost the racetrack
money. Or I could make the racetrack happy and make them money. It's gonna cost the horsemen money.

So with the difference in their economic needs and the economy that we live in, it strikes me it's impossible to make everyone happy. You're stuck with these kiss-the-sister compromises.

So we just try to look at how can we make it the best it can be, and it strikes me that 25 is better than 15, and you know, what are you gonna do? This is what -- in this economy, this is kind of where you are.

Now, Ian mentioned I was intrigued with the short meet. I was so intrigued with the short meet a couple years ago, I advocated one, and the biggest opponent to it was Tyler, the racing secretary, who convinced me you couldn't fill the races. So maybe now people will figure out how to fill the races. But it has always been a complicated question and a difficult one.

I think everyone leaves this room unhappy, but I don't think there's a model we can build that will make everyone happy and not cost somebody a big box of money.

I think we'd love to have 50, 60 days where Virginians could double their purse money, and we'll
do what we can to help us get there, and I will leave you with this, 'cause this is what I say every year.

We're arguing over Christmas. What happens the other 364 days a year is what's critical here and the political process to allow us to make the purse account bigger, Colonial Downs' coffers richer, the Breeders' Fund bigger, is the real name of the game.

I realize we're stymied by what's happened in Richmond, and there may not be an answer, but as soon as we get over this battle, let's look back to that one and start to figure out again how we make the pie bigger, because that's how ultimately we grow it.

We've sat around here for 15 years and argued about how to cut up the pie.

CHAIRMAN SIEGEL: Well said.

MR. S. REYNOLDS: I have a question.

CHAIRMAN SIEGEL: Go ahead.

MR. S. REYNOLDS: I'd like to ask the horsemen. You know, I've read the track letter about the race days and Ian talking about the losses they've suffered over the years, and various parts of the letter, it just talked about, you know, it didn't say anything about closing the track, but just if we
didn't make some changes, things were gonna be dire.

Nobody's talked about the possibility if we don't make drastic changes, then there's a very real possibility this track could close. Do you all have any comments about that? If this track closed, we've got zero racing days. So obviously, we're trying to compromise and do the best we can, but if we don't do something, the track very well could close, in my mind.

MR. PETRAMALO: I look at the financial reports that Jacobs Entertainment files with the SCC somewhat differently from Ian. It's true that the track has lost money; no doubt about it, but if you look at what they consider, at least what they tell the SCC is important, their IBIDA. I will call that cash flow. All the accountants are gonna jump up and down and pull their hair out and say that's not correct, but bear with me. Cash flow.

Their cash flow situation is fine. They average -- over the last eight or ten years, it has probably been between a million and a million-and-a-half, which means nobody's shelling out money out of their pocket to run this.

But by the time you take depreciation and amortization, bingo, you're doing a negative number.
Does that mean the track is going out of business? I don't know. That's up to the owner. The owner has got other gaming interests that are mostly casinos and truck stops. Some of them generate a lot, some of them you say, "My God, why is he hanging on to this casino? It's a dud." But that's their business decision.

They did put the track on the market, I think in 2008. I don't know whether that -- I'm getting in trouble here. I don't know whether that was for political purposes or not, but the public announcement at the time was the track can't make a go of it, because the legislature won't authorize alternative gaming, including instant racing. Now who knows what was going on there?

But they pulled it off the market. I don't know. You know, we don't downplay the significance of the financial problems in running a racetrack. It's not easy, particularly when you don't have alternate gaming.

Charles Town, Penn National, even Philadelphia Park would be in tough shape if they didn't have slot machines. So all I'm saying is it may be a difference in emphasis. Ian emphasized the negative. I say, well, it's not really that
MS. BOUZEK: Can I respond to that?
CHAIRMAN SIEGEL: Yes.
MS. BOUZEK: While utmost respect for Frank, the bottom line does say that we make a million dollars, but it doesn't say that Mr. Jacobs gives us $2.7 million for capitol improvements. That doesn't show up anywhere in that number.

This is my personal opinion; it's not my professional opinion. I speak for me and not for the company. This is probably the first time I've ever been worried for my job.

I've watched -- I've gone to meetings with Mr. Jacobs and the upper management and it's tough. It's scary. And he may have a lot of money, but you know, not everybody wants to lose -- you know, every time we ask, it's gonna take $2.5 million to get EZ Horseplay, the OTBs where they need to be, the track where it needs to go, and guess what? We're gonna make a million two for you next year. I don't know how many of you guys would stay in business doing that.

I have a mother that I take care of and I need my job and I'm worried.

MR. STUART: You know, you look at financial
statements and IBIDA is kind of a, it's a nice word that investment bankers throw around a lot, but it ignores CAPEX, so you gotta subtract that number out, whether you like or not. Call it depreciation, spread it over the years or take it year by year. If you do, the number comes out close to zero when it's all said and done.

I think the point is, and I've said this to some other people before. You know, if you want racing to succeed, you have to have a better plan than we're gonna find a rich guy and get him to pay for it. The best plan is to have the thing be an economic success, and then you have a lot of people that want to do it.

CHAIRMAN SIEGEL: Last month, we approved the refinancing, and I think in your presentation, you mentioned that the refinancing would give the owners capitol to invest part of in this enterprise, and I do understand exactly what you're saying with regard to what the bottom line might be, but as far as CAPEX is concerned, I think that some of those funds that you talked about putting into the facility in CAPEX, I think is -- may relieve him personally of some of that obligation.

MR. STUART: Well, I mean at the end of the
day, he's the sole shareholder.

CHAIRMAN SIEGEL: Yeah.

MR. STUART: Like you say, you talk about IBIDA, and one of the letters in there is the "I word", interest. So when you go refinance, it means you're borrowing the money, so you gotta subtract that out, too. So it isn't a whole heck of a lot of money around. I can promise you that.

MR. PETRAMALO: Well, the track does provide some advantage to Jacobs Entertainment. I was looking at the connection with the refinancing. I was looking at the assets. Well, you leave aside the racetrack, the assets of Jacobs Entertainment, its casinos, et cetera, are encumbered almost to the level of 95 percent against debt; the racetrack, eight percent.

So I'm saying, well, maybe the racetrack is worth something, because I'm assuming that it's part of the collateral that's pledged for this new loan which makes them from 275 million to 430 million.

MR. STUART: I guess I don't follow that.

MR. PETRAMALO: Well, if you're looking to borrow money and you're mortgaged to the hilt on these assets over here, you gotta have some assets that aren't mortgaged to the hilt. I'm saying
that's Colonial Downs that's carried that 60 million bucks.

The debt outstanding, according to the balance sheet that you file with the SCC is $4.8 million. That's the debt against these 60 million in assets.

MR. STUART: That's because all the rest -- all the debt's on the corporate side.

MR. PETRAMALO: Well, yeah. That's what I'm saying.

MR. WEINBERG: But the lenders, Frank, don't segregate it that way.

MR. STUART: Right.

MR. PETRAMALO: That's my point.

MR. STUART: That's some capitalized leases on some equipment and some OTBs.

MR. WEINBERG: I'm suggesting the percentages that you're looking at are not in any way reflected in the lender's mind of how they loan money to the enterprise.

MR. PETRAMALO: Well, that's my point. You've got assets that -- you know, the casino is up to the hilt and you've got a racetrack with virtually nothing against it.

MR. WEINBERG: No. But what I am telling you is the full amount of the loan is against this
property.

MR. PETRAMALO: Yes. I understand that. I understand that.

CHAIRMAN SIEGEL: But is the loan for other purposes, I guess is what you're saying?

MR. STUART: All that's happened is on that balance sheet, they segregated out some individual debts that pertain to individual entities. So we have loans that are capitalized leases, basically, that are against some of our assets, but all the assets of Colonial Downs are pledged against that loan.

MR. PETRAMALO: No. I understand that.

CHAIRMAN SIEGEL: Yeah.

MS. BOUZEK: Well, I don't care how much money he has. He could have as much money as God, for all I care, but if he doesn't wanna have a racetrack anymore, that scares me to death.

I watch what else is happening in Louisiana and Nevada and Colorado, and I'm talking to my counterparts, and when this gets to be, you know, a gnat on the shoulder because -- you know, we lose.

It's scary. It's scary on a personal level. I've gotta go out there with the -- lay off people every day. Today's another day coming up on
Christmas laying off people.

This will address what Frank was talking about. The signal sales 34 percent down for the live racing, well, as a simulcast coordinator, and Dave's one, when you're a track operator, we don't have a lot of control over costs. I can control labor. I can control the rug, linen service. I can control the paper products we buy, and I can control the decoders, which is the signals that we bring in, and that's one of the most expensive ones.

So I sit there and say what can't I afford to bring in? If I don't work for Colonial, I'm not bringing in Colonial as one of the tracks because of the product. So that's what people in New York and California and Kentucky are looking at.

Simulcast coordinators are being, you know, you need to save money, save money, save money. You can only lay off so many people. You can only not have so much toilet paper in there. You can only make those cutbacks. The only place to cut it back is signals, and if I'm working in New York, Colonial Downs isn't the track I'm gonna take.

CHAIRMAN SIEGEL: Well, part of this effort is to improve things, so they will.

MS. BOUZEK: I hope so.
CHAIRMAN SIEGEL: And all we can do is try new things and see what comes of it.

MR. PETTY: Minus the crystal ball, which I think a lot this is, you know, we're trying to figure out where it's going and how it's gonna get there.

Is there any merit in inviting Mr. Jacobs to come visit us and have a conversation, and be it with two commissioners and some stakeholders, and it be a private meeting or it be a public meeting, and say we recognize you have this underperforming asset. What are you thinking? Are you thinking five years? Are you thinking two years? Are you thinking ten years? And he may not tell you, and Ian may not know, or he may know and he doesn't tell us, but I mean he may not know. Jim may not know. The only guy who may know is Jeff Jacobs. So we do all this with really no direct input from him.

MR. WEINBERG: Glenn, suppose he told you I think it should be three weeks of racing and 12 days. Would that change your mind? Would that change this discussion?

MR. PETTY: I don't think that's a question I was -- it would certainly be part of the equation. I would be interested in how he views what we all
see as his underperforming asset. That's kind of my question.

We all look at it in slightly different views, but we all know it's not doing what we want it to do. It's not as successful as we want it to be. I'm curious as to what he, you know...

MR. STUART: Well, it's tough for me to speak for Jeff. I'll tell you, you know, looking at it, and it's hard to look at it objectively from my standpoint, but you know, the advantage to owning the track is that some day there may be a slot machine. If there's a slot machine, you've got something. If you're willing to take a long enough point of view and stick it out long enough, maybe you'll get a slot machine. On the other hand, I don't know how much money Mr. Jacobs has. I think he has a fair amount.

So if this becomes too much of an aggravation, it's a lot easier just to lock the door and pay the taxes to the county and pay the insurance bill and wait for the day that a slot machine comes. So who knows. That's kind of the heart of the matter.

I don't think anybody at this stage of the game thinks they're gonna make a whole bunch of money in the horse racing business in Virginia.
MS. DAWSON: Mr. Chairman, I want to follow up with what Mr. Petty was talking about earlier. One of the responsibilities we have as a commission is the good, the benefits to breeding industry in Virginia, and I'd just like to hear your view on -- I know you wrote a letter to Mr. Siegel on Monday, and in it, you state that the number of racing days has nothing do with the condition of the number of foals being bred in Virginia, which has continued to decline. Can you tell us what you see as a way to help that situation?

MR. PETTY: Well, to be clear, the minimal number of racing days don't have an impact. The racing days have an impact, but if you're down here at 25, 30, 40, that doesn't change what people do when they make five-year decisions. That's what producing a race horse is; it's a five-year decision.

So I'm gonna breed a horse today. I would try to extrapolate what's gonna be happening in racing in Virginia in 2019, 2018.

So I think that where we've been in the last ten years with the back and forth between the 42 and the 24 to the 30, that hasn't impacted it. What impacts it is total dollars. We have one million.
West Virginia and Maryland have four million and growing. Pennsylvania has about 16 million. New York's about to go under the slot money and they're gonna have -- so you can't abdicate with a straight face to a business man. The breeding business has become a business. It's no longer a sporting endeavor like it was during our heyday, right up into the 80s, probably.

It is now a business and you can't look at a business man straight in the face and say, you come to Virginia and you win this award, I'm gonna pay you $10,000, but West Virginia is gonna pay you $40,000, and Maryland is gonna pay you 50,000, and Pennsylvania's gonna pay you 100,000, but you should do it here. It doesn't convince anyone.

We have wonderful land, we have great horsemen. We have all the intangibles that we all know are the reasons we've had the tremendous success we've had.

If you took any controlled group of breeders and brought them to Virginia and gave them the land and gave them a bunch of mares and gave them stallions, they would produce good horses. It's just inherent to what we are.

But if you don't love it here and don't want to live here, there's no economic benefit to doing
business here versus doing it other places.

What we see in Virginia, and we need to do another internal survey the check this out. There's still people that own mares. They just foal them elsewhere, whether it's Kentucky or it's Maryland or it's West Virginia, because the dollar they were gonna get here was $4 there.

So the only way you move that ball is to have what is probably an unrealistic in the regional national market, is to have 100 days of live racing or more, which would give people 100 days to earn their 100 percent bonus. But if you only have a $1 million fund, that 100 percent bonus isn't worth much. It's a catch 22.

What you need to change the trend is as big a race meet as you can have in the regional national market, which we know is contracting, whatever that number is, and you need a breeders' fund that's three or four times as big as it is.

That means you need more wagering, and more wagering means you need more outlets, or you need instant racing, or you need slot machines to pick however you want to get your -- but in the perfect world, this Racing Commission has control of the wagering product and the number of outlets there are
and can place them wherever they want. I think that alone would double. Any kind of positive movement like that might inspire people to stay home, but not until you get to four million and up, will you inspire people to come in from the outside to do business more.

What we'd like to do right now is stop the bleeding, but I don't see how the current $1 million-plus fund in any of the models of racing days would help us do that. The folks that are still in it are dedicated to it. They're doing it because they love it.

Now, we are in the process of starting a little bit of a marketing campaign, trying to figure out how to spend it. The word is, "spend," in that when Ned Evans left and his horses go out of the system, the population of Virginia-bred horses will be reduced to say from 270 to 200. He produced 50 to 70 a year.

While this is bad in terms of looking at the foal crop, and say it continues to shrink, what it does, is if you're still in, it's more money for me. The horses that are still left have more earning power because our back end awards are all on a pro rata basis.
If your horse wins ten percent of what all the horses win, you get ten percent of the money. Well, when you take all of Ned Evans' horses out of the win, four million a year, what your horse does is suddenly more valuable. So your $5,000 breeders award could become a $10,000 breeders award. For the folks that stay in it, there's more money because there's fewer horses.

But there's nothing out there that says to the people in other states, "You need to come do business here." The 15-day model doesn't fix that. The 40-day model doesn't fix that. The 40-day model gives you more numerical opportunities to earn the money, but you're still only competing for a million bucks.

So until we get that $1 million up, I think we're having the same conversation with the breeders fund people that we have with the purses. How do we carve out this pot? What's the best way to buy this money so it impacts the most people, the most positive, the most ways?

Everybody's trying to figure out how to reinvent the wheel and it's still round with a hole in the middle.

We fight it every year. We have a two-hour
meeting, everybody comes, we all say the same things
to one another, and we reach the same conclusion.

It just is what it is, and I don't have any
better answer, other than you can sprinkle pixie
dust on the House of Delegates and get them to say,
"This Racing Commission can distribute the product
however it sees fit." Until that happens or until
Mr. Jacobs gets his slot machines in five, ten, 20,
25 years, whatever that number is, we're kind of
stuck, you know, stirring the pot of soup that we
have.

MS. DAWSON: Deal with what we have.

MR. PETTY: I wish somebody had a better answer
and someone would please come tell me. But I've
been studying it for 30 years and been here since
the day the racetrack opened, and we've had the same
conversation and we fought same battle, and it is
ultimately about more money in the purse account and
the Breeders' Fund, not necessarily how you divvy it
up.

CHAIRMAN SIEGEL: It has been a long time since
we've had a significant lobby at the General
Assembly. Is there an appetite for that, and do you
think the outcome would be any different if there
was enough money put into an effort to lobby the
legislature? I'm asking anyone that question.

MR. PETTY: I don't know that you can significantly overcome what has been the primary hurdle, which has been the Speaker of the House. I just don't know. I'm not an expert on that. We certainly have made efforts. We have had conversations with him again and again. We have had members of our association conduct fund raisers for them, and he takes money and says, "Thank you, but I'm not gonna vote for your issue."

CHAIRMAN SIEGEL: You're a one-man band.

MR. PETTY: It's tough. I don't know how you overcome that. I think that's -- you know. And I don't know that the next guy that comes up is gonna be any better. I think maybe a little bit, but I don't know that you can end-run around the Speaker of the House if he is determined that what we're doing is gambling and the expansion of gambling is bad. That's my take. These guys may have a different view

CHAIRMAN SIEGEL: It would probably be a long time before you get slot machines. Given this organization and the ability to deal differently with purses and putting more money in this, certainly part of the solution.
MR. PETTY: I have had a long-term frustration in going to those people and using the lottery comparison. Create a lottery, create a lottery, let the lottery distribute the product. There's thousands and thousands and thousands of lottery machines at outlets and it's a tremendous success.

You say to us you can't do that, even though we impact agriculture and open space and other good stuff, you can't do that. We're gonna make it harder for you, not easier.

And everyone does what you're doing, Mr. Chairman. They go, "Um-hmm. Yep. You're right, but we're not doing it." I do not know how you overcome that. I've had the conversation hundreds of times, and everybody understands the common sense of that particular argument. They're unwilling to take the political risk necessary to change it.

MR. WEINBERG: I would just echo what Glenn is saying. As long as the dialogue is framed in the context, well, this is the expansion of gambling, we are not gonna overcome, no matter how much money I think you spend lobbying, overcoming that argument.

CHAIRMAN SIEGEL: So you don't frame it that way though.

MR. WEINBERG: Pardon me?
CHAIRMAN SIEGEL: So you don't frame it that way.

MR. WEINBERG: Well, and so that brings me to my second point. Until there is a crisis, such as the transportation crisis, where pari-mutuel wagering is viewed as a vehicle for solving another problem, in addition to solving our problem, that's the best opportunity, I believe.

And so we had a significant opportunity when transportation was perceived to be a crisis, and I think that's the closest we've ever come, barring the impediment that Glenn --

MR. PETTY: And that never got out of the committee on the House side.

MR. WEINBERG: Well, I think you remember it came to the floor, but he caucused all the Republicans and said if you want to have a future in this Commonwealth, you won't vote for it.

MR. PETTY: It's exasperating.

CHAIRMAN SIEGEL: Absolutely.

MR. WEINBERG: So I think there are opportunities, but it's not opportunities of our making, necessarily.

CHAIRMAN SIEGEL: Right. Well...

MR. PETTY: And it's frustrating because you
can say, look how hard these people work. Look how much they contribute. You can go to a governor who is pro-business and pro, you know, and you can give -- you can frame it in all the good, positive ways, and it always comes back to that key issue.

So you get some support because you can, you know, look at this farm. Look, they employ this many people. They pay this much in taxes and they work and they do all this great stuff, and it's all funded by gambling dollars is the way they see it, and then that's the problem. You just hit the wall there.

CHAIRMAN SIEGEL: Well...

MR. PETRAMALO: One thing we have never had or I'm not even sure explored, is the support of a governor, regardless of who the governor was, whether it's Tim Kaine or the current governor, makes no difference whether Republican or Democrat.

We never had any support from the governor to push what we wanted. We have always gone directly to the legislature, always been very successful on the Senate side and less successful, depending on the issue, on the House side, and for the most part, the governors have just kind of stayed away from this. I don't know whether they regard this as --
CHAIRMAN SIEGEL: Political risk there, too.

MR. PETRAMALO: -- toxic or what.

CHAIRMAN SIEGEL: Well, I think you're gonna need a Republican governor, if you're gonna deal with the Speaker.

MR. PETRAMALO: Oh, that would be helpful.

MR. PETTY: I've advocated an audience with the governor and haven't been able to get one. You need 20 or 30 minutes with the guy to kind of explain, because it's a little bit complicated.

Mark Warner has been the only governor I've had a conversation with that was meaningful, and I think he was ambivalent to us. He didn't get in our way. He didn't lead the charge, but he just was like, "I get it. I understand. Have at it and good luck."

But usually, you can't even get in. They'll channel you off to the Secretary of Commerce and Trade, who oversees you guys, and they will shake their head yes at all the right times and all the right things, and they will go back to doing what they were doing. It's frustrating.

But you're right. A Republican governor that the can maybe broker a deal with the Speaker and say, "Mr. Speaker, can you hold your nose and help these people out? This industry is dying if you
don't help it."

You could write a book and say The History of Virginia Racing and Breeding, A Modern History of Virginia Racing and Breeding, and you can subtitle it How the House of Delegates Killed horse racing and Breeding In Virginia.

When all the smoke clears 10 or 20 years from now, we'll be able to look back and see because of this gridlock that we hit there in our inability to grow this industry, we just stair-stepped our way right down to the floor.

The unfortunate part is they don't care. We don't swing a big enough stick, control enough votes, have enough general public or media pressure to make the delegate from Herndon or the delegate from Halifax or the delegate from Westmoreland care about what we do. Even with little windows like the Secretariat movie where you can wave the flag, it's not enough.

People who advocate for agriculture will tell you the same thing is happening in Virginia. The agriculture is less understood than it has ever been and is having a harder time getting what it needs.

We're a small subgroup of agriculture, so our battle is even tougher. I'm full of good news, if
you want to ask me anything else.

CHAIRMAN SIEGEL: Well, this is helpful
dialogue --

MS. DAWSON: Yeah, very good.

CHAIRMAN SIEGEL: -- I think to everyone in the
room, not the least of which would be this
Commission, and I think there's not a lot of
surprises, but I think there's a lot more clarity as
to what the issues are now, having had this
dialogue.

Any other comments from anyone regarding the
proposed race dates? If not, the Chair will
entertain a motion for approval.

MS. DAWSON: I so move.

MR. S. REYNOLDS: Second.

CHAIRMAN SIEGEL: Motion is seconded. Any
discussion further? If not, all in favor say aye.

NOTE: The Commission votes aye.

CHAIRMAN SIEGEL: I think that's all of us. We
approve.

MR. WEINBERG: Thank you very much.

CHAIRMAN SIEGEL: And good luck.

MEMBER OF THE PUBLIC: Can I ask a question?

CHAIRMAN SIEGEL: Sure.

MEMBER OF THE PUBLIC: Is there any sort of
safety net or back-up plan for the horsemen if they
close their doors? Is there anything for the money?
I mean most of the horsemen have three to five years
as breeders invested in this. What will happen to
the fund and Breeders' Fund? Is there any sort of
safety net for the horsemen?

CHAIRMAN SIEGEL: Frank?

MR. PETRAMALO: I'm just trying to think within
the context of the Racing Act what would occur if
there were no live racing. I don't think the
racetrack would be able to simulcast, that's clear.
What the impact would be on ADW and the statutory
shares, I don't know. I've never thought about
that. The answer is, I don't know.

MR. PETTY: I don't know if you could say that
you didn't run in 2014 and there was, you know, half
a million bucks in the Breeders' Fund.

I don't know if you could tailor the rules to
pay it out based on -- well, I guess you could
re-allocate it to just the breeders awards and
stallion award proportion, so you could spend what
you had until you ran out, based on not the 100
percent of awards here, because they wouldn't be
here, but on the other part of the fund.

CHAIRMAN SIEGEL: To support those breeders.
MR. PETTY: Yeah. What happens, I think your purse dollar, don't you have to spend that here at a licensed race meet?

MR. PETRAMALO: Well, but the ADW money is different.

MR. PETTY: That's a different cat. Yeah.

CHAIRMAN SIEGEL: Good question to ponder, and I think Frank will study it.

Okay. We have to now deal with Standardbred dates, and I'm not sure whether the Standardbreds are represented here or not, but certainly Colonial is, and Jim, are you gonna present?

MR. WEINBERG: I'm happy to present. The presentation is consistent with our letter requesting 24 days of Standardbred racing for 2013, which would commence on Wednesday, September 18th, and on Sunday, October 27th, 2013.

This request is consistent with the same number of days we ran in 2012, and is consistent with the requirements of Section 7A of the Standardbred horsemen's agreement.

So we are asking for the Commission's approval of a deal that was struck with the horsemen at the time we entered into the agreement and we're prepared to continue.
The normal schedule will be much like it was in 2012; Wednesday, Thursday, Saturday, Sunday, with racing four days per week and a post time of one p.m.

CHAIRMAN SIEGEL: September 28 to October 27; is that right?

MR. WEINBERG: September 18th.

CHAIRMAN SIEGEL: I'm sorry, 18th. Okay.

Anyone have any questions or comments with regard to the Standardbred dates?

NOTE: There was no response.

CHAIRMAN SIEGEL: If not, do we want to entertain a motion to approve them?

MR. S. REYNOLDS: So moved.

MR. TROUT: Seconded.

CHAIRMAN SIEGEL: All in favor, say aye.

NOTE: The Commission votes aye.

MR. WEINBERG: Thank you.

CHAIRMAN SIEGEL: Okay. Are there any members of the general public that would like to speak?

Public participation? Good opportunity to do that, if you wish.

NOTE: There was no response.

CHAIRMAN SIEGEL: Mr. Secretary, are there any other issues or questions, other than to set the
MR. HETTEL: The only other pending issue is the necessity for a December meeting.

CHAIRMAN SIEGEL: Right. We'll get to that next, but I don't know if you had anything. Dave, do you have anything?

MR. LERMOND: Depending on whether you want to set a December meeting or not.

CHAIRMAN SIEGEL: It has been suggested that since we're meeting today, that we not schedule a December meeting, but schedule a January meeting. There are a couple of issues pending; the renewal of the horseman's contract and ADW licensees. It has also been suggested that we extend those contracts to January 30th, and then deal with those two at the January meeting. Is there any reason not to do that, that anyone is aware of?

NOTE: There was no response.

CHAIRMAN SIEGEL: Okay. So we don't need to vote on that. So if that's okay with everyone, we'll just do that. I'm gonna suggest some dates for January that are somewhat arbitrary, but I certainly think we should meet mid-month since we will not have met for sixty days.
Where are you?  Playing polo somewhere?

MR. PETRAMALO:  Beg your pardon?

CHAIRMAN SIEGEL:  Are you playing polo in

Monaco?

MR. HETTEL:  West Palm.

MR. PETRAMALO:  You're not gonna believe this,

but this is true.

CHAIRMAN SIEGEL:  Of course.  Came from your

mouth.

MR. PETRAMALO:  We have a horse in England

that's gonna be racing there at the end of January.

CHAIRMAN SIEGEL:  That's the end of January.

MR. PETRAMALO:  Yeah.

CHAIRMAN SIEGEL:  So you're not gonna be gone

the whole month, are you?

MR. PETRAMALO:  No, no.  The end of January.

CHAIRMAN SIEGEL:  Let me depose -- propose a

date and see how that one floats with everyone.  We
generally have been meeting on Wednesdays, so if we

continue that, then Wednesday, January 16th.

Mr. Reynolds, Jr., here and I and the secretary

feel that's a good date, but we want everyone to buy

into it, if possible.  We have alternates, but

that's the best date.  Wednesday, January 16th.  Did

he go to the men's room or to get his calendar?
MR. WEINBERG: He went to get his calendar.

MS. DAWSON: It works for me.

CHAIRMAN SIEGEL: Okay. Stran, does it work for you?

MR. TROUT: That does work for me. I've checked my calendar.

CHAIRMAN SIEGEL: It seems like the Commission is good. You have a questioned look on your face, Frank.

MR. PETRAMALO: Let me consult with counsel here.

CHAIRMAN SIEGEL: We have a side bar going on between counsel, between lawyers.

MS. DAWSON: That could take a long time.

CHAIRMAN SIEGEL: And if there are issues on the horsemen's contract, you guys need to get together on it before January 16th.

MR. PETRAMALO: Well, what we've just decided to do was to seek your approval for an amendment to our contract that will extend its expiration date from December 31st to January 31st.

CHAIRMAN SIEGEL: Yeah. I think that's what I was suggesting in order to meet in January instead of --

MR. PETRAMALO: Yeah. That's fine with us.
CHAIRMAN SIEGEL: Right. So if the January 16th date works, let's entertain a motion, since it does require contract extensions, to extend the horsemen's contract and the ADW licensees' contract to January 31st, and set a meeting date. Well, there doesn't have to be a motion, but let's just do that. All in favor?

NOTE: The Commission votes aye.

CHAIRMAN SIEGEL: I guess that's a motion as well. The next meeting date will be set for Wednesday, January the 16th.

MR. TROUT: Will that be at ten a.m.?

CHAIRMAN SIEGEL: Yes, ten a.m. All right. Is there any other business to come before this Commission?

MR. STUART: I'd like to say one thing. I mentioned to Dave the other day that Twinspires is running this Luckety [ph] game and I was asking if he could check to make sure the handle was in the Twinspires handle.

MR. LERMOND: I checked with Brad Blackwell from Twinspires, and he did assure me that Luckety is kind of a simplified version. When you go on there, it's gonna say -- it goes to the next race.

In other words, let's say Philly Park's five
minutes to post. It may pick the number for you, but you're actually betting on that race in Philadelphia Park, so it's gonna show up on the normal handle report just like an account holder in Virginia betting on Philadelphia Park, whether it was through the Luckety or just a regular wager. It still will show up, it still will get the state tax, the Breeders' Fund, the source market fees will still go to the parties.

MR. PETRAMALO: What's the business plan? It's kind of like spinning a wheel?
MR. WEINBERG: Looks like a video game. Have you seen those?
MR. PETRAMALO: No.
MR. LERMOND: It does, but you're actually -- pari-mutuel.
MR. PETRAMALO: I have seen that. I understand that.
MR. LERMOND: It's approved by the Oregon Racing Commission and the California Horse Racing Board as being pari-mutuel.
MR. PETRAMALO: Are they generating any handle on that?
MR. LERMOND: It's kind of a soft opening. They really haven't publicized it yet.
MS. BOUZEK: So Dave, does that handle show up in Twinspires, because --

MR. LERMOND: It will, yes.

MS. BOUZEK: Well, because like we wanted to see what it was like and it doesn't give you a Twinspires account number. How does it...

MR. LERMOND: It's supposed to be the same system --

MS. BOUZEK: I understand. I read that, too, but I'm just saying we -- it gives you an account number. Owen and I did it. It gives you an account number, but it's not an account number that'll get you in to Twinspires.

CHAIRMAN SIEGEL: Sounds like we need to do a little more investigation as to whether it's being properly applied.

MS. BOUZEK: It's hard to put money into Horse Play if you don't have a Horse Play account, so I don't know how the money is going into Twinspires if you don't have a Twinspires account. That's my question.

MR. STUART: I have no reason to believe that they are telling Dave anything that isn't true.

MS. BOUZEK: No.

CHAIRMAN SIEGEL: But the question is a
legitimate question. How do you do it?

MR. PETRAMALO: I thought this was just kind of a free experimental thing that they were doing.

MS. BOUZEK: No.

MR. PETRAMALO: They're taking money on it?

MS. BOUZEK: You put money in and it's just like account wagering. You put $25 in. You have 25. This little thing spins the wheel, picks numbers for you. If you win, it pays track prices. But my question is, we tried to use our account number to go into Twinspires, and it says it's not an accurate number, so I don't know how you can get --

MR. WEINBERG: They could be any two accounts. They may be curious how Jeanna bets legitimate Twinspires versus Luckety.

MS. BOUZEK: As long as they're merging them.

MR. LERMOND: Twinspires has to keep it separate on their end, because they may pay a track more for wagers that are bet through the Luckety than through the regular Twinspires.

MS. BOUZEK: I guess maybe I'm speaking out of turn for Ian's concern, but make sure that that money is accounted for in the Twinspires money. If they're gonna keep it separate, make sure they put
it back at the end of the month.

MR. STUART: They are a licensee, just like we
are, so you have all the same opportunities to gain
their operation. So I would think that they could
verify it to you in writing, if that's where that's
going.

CHAIRMAN SIEGEL: And we should do that with
all of them.

MR. LERMOND: Sure.

CHAIRMAN SIEGEL: With that in mind, since we
are talking about that, I think Mr. Reynolds has a
question or a comment.

MR. S. REYNOLDS: I meant to ask this earlier,
and I apologize, but I think it's pretty important.

We talked in previous meetings a little bit
about putting a signal out on say a TVG or a horse
racing TV network, and obviously, I think you said
it's too expensive to do. Could you elaborate a
little bit and tell us, you know, what it costs to
do that, versus --

CHAIRMAN SIEGEL: Is it cost-prohibitive or
will there be some advantage? Will we get more
attention and increase the handle enough to offset
that?

MR. STUART: Well, let's talk about TVG for a
minute. For argument's sake, TVG handles about $20 million in Virginia in a year. Right now, the horsemen get $1 million. They get five percent and we get $1 million, say it's five percent.

What they would like is for us to give them a discount in order to put our product on their network. They want a discount off the money they are paying us. I don't know what that number is, but I would be willing to bet you it's probably two-and-a-half points.

CHAIRMAN SIEGEL: Does everybody get that discount?

MR. STUART: No.

CHAIRMAN SIEGEL: Just us specifically they want it from?

MR. WEINBERG: No. Just by way of background, before the statute changed to provide for a fixed fee, there were contracts in place with each of the providers, and TVG was the first mover.

I think they had a pretty favorable contract and was willing to commit to long-term and commit to putting us on their channel and do all these favorable things. They let that contract expire. They weren't interested in renegotiating it and then the law changed to ten percent.
We went back and said, "Do you want to negotiate?" They said, "No. We are sort of happy where we are." And then that's when the story picks up.

MR. STUART: Okay. Well, right now, they have to pay a ten percent source market fee to the state. My guess, in order to put our product on their network, they'd probably like that source market fee to be seven-and-a-half percent, which would mean that instead of the horsemen getting $1 million from TVG, they'd get $750,000 from TVG and we'd get $750,000 from TVG. TVG would pick up half a million bucks.

But what they'll tell you is, okay, we're gonna put your signal out there and you're gonna make, I don't know. They'd probably give you three or four percent.

Well, you divide a half a million dollars by three or four percent, you're gonna need, I don't know what the number is, $100,000 million or something. I get lost in the zeros. If somebody has a calculator, they can do it. You're gonna need to practically double or triple our signal in order to make back that money they want. It's just not economical.
MR. LERMOND: Are you saying the other ADW companies are paying ten percent, or are they paying seven-and-a-half?

MR. STUART: No. Each one has different deals. If you think about it, think about what each one brings to the table.

Churchill Downs, it's all about content. Churchill Downs controls the Churchill Downs content, the Calder content, the Arlington Park content, and the Fair Grounds content, not to mention, and I don't know the exact other ones; I forget it, but I could find it for you. There's two or three other tracks they negotiate for.

So basically, the dynamic here is they hold this content that they sell to us at a price, and the other side of the dynamic is we have a source market fee. If we say, okay, Mr. Churchill Downs, we want ten percent as our source market fee, they'll come back to us and tell us one of two things. Either, A, we're not gonna sell you our content; or B, the price of our content is gonna go up.

So between this dynamic, we found a happy medium. They get a little bit off the ten percent, we get, you know, access to their content, and
probably they don't squeeze us quite as hard as they possibly could.

If you look at Xpressbet, they're sort of in a similar situation, in that they control -- Magna controls the content for Golf Stream, Santa Anita, some smaller tracks.

MR. PETRAMALO: Maryland tracks in Portland Meadows.

MR. STUART: Maryland tracks. You've got the same dynamic going on here. The difference here is years ago, we signed a long-term contract with Xpressbet that everybody was happy with until the change of the Breeders' Fund, but I think that part can be resolved.

Xpressbet and Churchill Downs jointly own HRTV, which is the other racing network. We've had numerous discussions with both Xpressbet and Churchill Downs about gaining more access to HRTV.

They basically come back and tell you, well, sure, we'll help you out. You can be on after we have Churchill Downs, Golf Stream, Calder, Arlington. We got a list of, you know, 15 tracks, but you're right there, right after we take care of all those 15. We'll be happy to help you out.

CHAIRMAN SIEGEL: So you don't think a
significant amount of volume opportunity for us by
being at TGV, you know, with some kind of compromise
with them, and you may not make money on that, but
if you get -- you attract more people and get us
better known and whatever the other benefits are,
there's no offset?

MR. STUART: Well, if you can make the thing --
I'm not saying that being on TVG has no value. I
don't think it has the value they want for it.

MR. WEINBERG: And said another way, if we
could get the price to be right, so much as we have
done with Churchill Downs and Xpressbet, where we
feel that the discount and the trade-off for content
or exposure is a fair exchange, we'd do the same
with TVG.

I think what we're trying to express is TVG has
never come with a realistic number where we thought
what they're asking to give up in certain revenue
was equivalent to both the hard and the soft
benefits that would be attributable to the --

CHAIRMAN SIEGEL: Is there any value in
re-instigating some discussions with them, or do you
do that from time to time anyway?

MR. STUART: Actually, a third party approached
me, I don't know, a month or two ago, and I went
through dynamics with them. They went back to TVG and I never heard from TVG. I'm not opposed to it.

CHAIRMAN SIEGEL: It's something to think about, because they are out there with lots of folks watching.

MR. LERMOND: If you could get to an arrangement where the ten percent source market fee stays as it is and you could just take a lesser host fee, even if it's one-and-a-half percent, one-and-a-half percent of something is better than five percent of nothing.

MR. STUART: Well, we offered them the signal at probably less than that.

MR. PETRAMALO: I think we offered to give it to them for nothing.

MR. STUART: Pretty close.

MR. PETRAMALO: Yeah. They wouldn't even take it for free.

CHAIRMAN SIEGEL: Well, we're not really important to them.

MR. PETRAMALO: That's true.

CHAIRMAN SIEGEL: That goes back to everything we've been talking about for last hour.

MR. PETRAMALO: You know, depends on what you've got to give them. For example, they show
Prairie Meadows in Iowa. They do that because they've got a nice little deal with Prairie Meadows where they, in effect, run an ADW statewide for Prairie Meadows racetrack and the Iowa horsemen, so they're more than happy and they make money off that. They're more than happy to show the Prairie Meadows content.

For us, they're not at all concerned about whether they show our signal or not, because it really means nothing to them.

Quite the contrary, you could argue that it costs them money. To the extent that they show us and generate handle on us, it's costing them more in terms of the source market fees they have to pay. Right?

MR. WEINBERG: Only if a Virginian is wagering on it.

MR. PETRAMALO: That's right. That's right.

CHAIRMAN SIEGEL: So it's a question worth certainly looking at on a periodic basis. Hopefully, sometime down the road we'd be able to do it.

Any other issues or questions to come before this Commission?

NOTE: There was no response.
CHAIRMAN SIEGEL: If not, we're adjourned to January 16th. Happy holidays to everyone in advance and be safe.

NOTE: The hearing is adjourned at 12:33 p.m.
CERTIFICATE OF COURT REPORTER

I, Sandra G. Spinner, hereby certify that having first been duly sworn, I was the Court Reporter at the meeting of the Virginia Racing Commission at the time of the hearing herein.

Further, that to the best of my ability, the foregoing transcript is a true and accurate record of the proceedings herein.

Given under my hand this 4th day of January, 2013.

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SANDRA G. SPINNER
COURT REPORTER