

STATEMENT OF
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BEFORE THE

FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

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Good morning Mr. Chairman, and Members of the Committee. My name is Michael Brodsky, and I am the Executive Chairman of Youbet.com, one of the largest legal online wagering companies in the United States.

Our company operates under the Interstate Horseracing Act of 1978, and only accepts wagers on pari-mutuel horse racing. I should also note that two weeks ago Youbet and Churchill Downs, owner of the Kentucky Derby, announced that Churchill will acquire Youbet. Please note that this announced transaction is pending and the closing is subject to achieving certain consents and approvals. There is no announced closing date at this time. Youbet will operate as a separate company until the transaction closes. I am appearing here today solely on behalf of Youbet.com.

To better describe Youbet.com, it is a diversified provider of technology and information services for the pari-mutuel horse racing industry. Our company provides customers with “racing content” in the form of video and live odds, wagering and analytic tools and a stable, secure and trusted wagering platform. Customers are offered the ability to access the platform through both the Internet and the telephone. Youbet’s subsidiary United Tote Company is a leading supplier of totalizator systems (equipment and technology that processes wagers and payouts), terminals and other pari-mutuel wagering services and systems to the pari-mutuel industry. Youbet.com has been publicly traded on the NASDAQ (ticker symbol UBET) since June of 1999.

The company currently has over 300 employees and is headquartered in Burbank, California. Youbet International began building Youbet.com in 1995 and started accepting wagers in 1998 with only two tracks. To date the company has processed over \$3.0 billion in online wagers and offers our customers the ability to wager on 180+ tracks worldwide. Youbet.com’s Web site offers members the ability to watch and, in most states, wager on the widest variety of horse racing content available worldwide. Based on information compiled by the Jockey Club, over 88 percent of pari-mutuel wagers on thoroughbred racing in the United States were placed at locations away from the host track. The shift toward off-track wagering through “advance deposit wagering companies” (ADWs) has been driven by the betting public’s desire for convenience and access to a broader range of horse racing content.

The Youbet.com wagering platform offers members commingled track pools, live audio/video, up-to-the-minute track information, real-time wagering information, phone wagering, race replays, simultaneous multi-race viewing and value-added handicapping products. The company's Players Trust™ revolutionized advanced deposit wagering by placing player deposits in the custody of a major U.S. financial institution. In addition, Youbet.com is the exclusive provider of horse racing content for CBS Sports.com and ESPN.com, two of the top ten sports Web sites

The combination of the Youbet.com and Churchill Downs businesses will enable further product improvements that could expand the appeal of horse racing – helping to bolster the racing industry as a whole. We believe that there is substantial growth opportunity yet to be realized in the online wagering market. Slightly less than 14 percent of all wagering on U.S. thoroughbred racing will be placed online in 2009 – growing from just over 9 percent in 2007. The online penetration for pari-mutuel horse wagering pales in comparison to other equally mature consumer segments such as music, tickets or books which reach penetration rates in excess of 65 percent.

In my testimony today, I will address the scope and scale of current illegal Internet gambling, discuss why I believe legalization is the only plausible solution to this problem, and how technology that exists today can be utilized to successfully regulate online gambling.

But first, Mr. Chairman, I want to thank you for your strong support of a rational approach to legalized Internet gambling and for holding this hearing today. I have long admired your stance on this issue, Mr. Chairman, because you have accurately described it as a question of personal freedom and common sense.

You need only look at lottery sales, bingo halls, charitable gaming festivals and pari-mutuel and casino gambling facilities throughout the country to see that legal forms of bricks-and-mortar wagering are established, accepted and regulated in our country. Why should most forms of online wagering be illegal?

Illegal Internet gambling in the U.S. is happening now, and growing. It's a big business involving billions of dollars a year. With the exception of pari-mutuel horseracing, U.S. Internet gambling is all underground – untaxed and unregulated. These billions upon billions of dollars are leaving our country, totally untaxed, with U.S. regulatory authorities having no control or knowledge of where that money is going.

Today's illegal online gambling is a "Wild West" affair: no meaningful curbs on underage gambling, no recourse for misdirected funds, no attempts to aid problem gamblers and no tax revenues for the U.S. For good reason, some have compared the passage of UIGEA to our nation's attempt early in the 20th century to ban alcohol via Prohibition, which by all accounts was a major failure. As with Prohibition, illegal online gambling is thriving as an underground economy. The vast majority of people who gamble on-line are law-abiding citizens who want to wager on a system that has integrity

and security. The only way to put any controls on Internet gambling is to legalize it and regulate it.

At Youbet we are first and foremost technology people. We understand how to run an e-commerce business – what works and what does not. Let’s be clear about this: In this Internet age, trying to maintain a U.S. ban on Internet gambling is a losing proposition. It’s virtually impossible to even slow it down, much less stop it.

The Youbet.com leadership is comprised of highly experienced online business, media and technology experts with a history for delivering success to their respective companies. In addition to me, our senior team is made up of President and Chief Executive David Goldberg, Chief Financial Officer Susan Bracey, Chief Marketing Officer Jeffrey Grosman, General Counsel and Secretary Dan Perini and United Tote President Dawn Haden. Members of our Youbet senior team and I have been executives at leading edge technology companies such as Orbitz, Ticketmaster, Careerbuilder.com and Network Solutions – and we understand how technology can be used to safeguard consumers.

I understand the concerns about underage gambling. As a parent, I want to see online gambling legalized. Why? Because I want it managed. As a society we can make Internet gambling operators subject to U.S. supervision, holding operators accountable. The fact is that enacting HR 2267 is the most effective way to achieve the stated goals of some of the bill’s harshest critics.

Today’s out-of-control Internet gambling situation was made possible by the revolution in technology, and it will take technology to fix it. Today at Youbet we use technology that would ensure effective regulation of Internet gambling. The already-existing, totally legal, online pari-mutuel horserace wagering industry is a U.S.-based model of how to provide a responsible online wagering experience for adults – one that is clean, regulated and scrupulous about both collecting and paying taxes.

Additionally, without getting into specifics, there are a number of patented technical innovations that we, and others, are working with to further ensure that customers are not only of age but also comply with the provisions of the legislation when they engage wagering services.

Youbet.com is a public, Sarbanes Oxley-compliant, company that uses the latest technology and vigorously maintains its own Youbet Responsible Wagering Program, developed over 13 years. It is designed to prevent underage gambling and combat problem wagering. The technology enables us to conform to all federal laws and the laws of those states in which we operate, including meeting all tax withholding and reporting requirements.

Mr. Chairman, Congress today faces a stark “either/or” public policy choice: as a country, we can either legalize, regulate and tax online gambling – or, allow it to continue to flourish in an offshore “black market” that allows easy access for anyone with a

computer and Internet connection. Based on our experience at Youbet, we believe that the best solution is for the federal government to legalize and regulate online gambling, working with already-existing technology that combats underage and problem gambling, and properly accounts for much-needed federal and state revenues. Congress needs to enact HR 2267.

In my testimony today, I have referred to the Youbet Responsible Wagering Program, and for the record I am placing below a substantial portion of the program text as it is displayed on the Youbet.com Web site. Thank you for the opportunity to testify today, and I look forward to answering any questions you may have. The program description follows:

Youbet.com Responsible Gaming

Online horse race wagering is one of the most exciting, exhilarating ways to participate in this thrilling sport. At Youbet.com, we take our commitment to providing you with the best experience possible very seriously. That includes ensuring all members enjoy a safe, secure and healthy relationship with horse racing and wagering. That's important for you, for us and for the entire online wagering community.

How we help protect our members

As the largest legal online wagering website in the U.S., Youbet.com goes further in providing all the safeguards necessary for members to have a robust, positive experience. Our Responsible Wagering Program was established to address a range of important criteria, and through cutting-edge technology we have the means to meet a variety of objectives:

- Prevent underage wagering
- Help fight problem wagering
- Comprehensive transparency to ensure compliance with all state and federal laws
- Compliance with all tax withholding and reporting requirements for our members

Preventing wagering by juveniles is an important commitment at Youbet.com.

Our technology enables us to institute a comprehensive set of procedures and precautions that limit horse race wagering to only qualified adult members. Youbet.com takes a very strict stance toward wagering by anyone under the age of 21, even in states where the legal age is 18. Our strict account number and password verification process ensures only adults over the age of 21 can make wagers, while third-party identity and age authentication services verify all information before any wagering account subscription applications are accepted or activated. It is not only our corporate policy, we've made it an integral part of our site functionality through built-in safeguards that restrict access to anyone but the registered adult member. For example, even before an account can be established, our third-party identity and age authentication services carefully screen potential members. All information is verified before any wagering account subscription are accepted or activated

As another service to our members, we have limits on the aggregate dollar amount of credit card deposits during set time periods. Along with those limits, members may request the closing of their wagering account and that they be placed on our "self-exclusion" list.

Providing Support

As a member-based organization, we're here for you. Part of our commitment is that we encourage and help members to stay within reasonable wagering guidelines and avoid illegal and unregulated wagering websites. Youbet.com is U.S. based and U.S. licensed, and works hard to make online horse race wagering pleasurable, and all the protective measures we've adopted help make that a reality.

Recognizing the problem is the first step to solving it.

Good horseplayers know their limits, and that includes when to seek help. To learn more, player can read the Myths & Facts, take the self evaluation with 20 Questions from Gambler's Anonymous.

Problem wagering is a progressive behavior disorder that can lead to an uncontrollable preoccupation and urge to gamble. It is a diagnosable and treatable condition, so if you or someone you know might have a wagering problem, there are many resources available to help. This is especially true if you are dealing with teens or other underage people.

<http://www.youbet.com/wagerresponsibly/evaluation.asp>

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