Betfair US, the US operating division of UK-based betting firm Betfair, engaged Global Betting and Gaming Consultants (GBGC) in January 2010 to provide an analysis of the current and forecasted poker market in California.

<u>Background on GBGC, Betfair and TVG</u>

- GBGC is one of the leading international gambling consultancies and has worked with over 400 clients, including governments, lotteries, and private operators.
- Betfair is one of the world's largest legal online wagering companies for horseracing, poker, sports, and casino games and currently offers licensed gaming products and services in the U.K., Australia, Italy, Malta, Germany, and Austria. Unlike other offshore operators, Betfair had never accepted bets from US residents until 2009 when Betfair purchased TVG, a state licensed and regulated advance deposit wagering (ADW) provider for horseracing.
- TVG accepts pari-mutuel wagers from residents of 17 states and is one of the largest ADW operators in California.
- Betfair is ranked the 11th highest revenue generating website in the world with over $550 million in annual revenues. TVG is the largest legal online wagering operator for horseracing in the United States with over $500 million in annual gross wagering.
- Betfair is a leader in consumer protection and utilizes "state-of-the art" age and identity verification systems; employs experienced teams to combat fraud, collusion and money laundering; and complies with strict data privacy and data security requirements imposed by international regulators. Betfair's Responsible Gambling Policy enables consumers to have access to self-imposed deposit limits, timers, and exclusion tools.
- Unlike other gambling sites, Betfair embraces regulation and works with lawmakers and regulators around the world to identify and combat illegal activity. Always an innovator, Betfair US insures consumer funds against financial disasters and invites state regulators to install bet monitoring systems on their desktop computers.

<u>Key Findings of the GBGC Study</u>

- GBGC estimates that California's share of the US Internet poker market was approximately $448M in 2009, with 778,000 active accounts. (Surveys show that approximately 30% of online poker players establish accounts on four or more websites.) **<u>This revenue is going to offshore, unlicensed, and unregulated sites which California is unable to tax</u>**.
- Under a licensed and regulatory regime that supports multiple operators, GBGC forecasts that **<u>California could capture tax revenues of approximately $650M over the first five years</u>**.
- Experience in other countries demonstrates that for every percentage point increase in the gaming tax, the offshore market becomes more attractive to customers. Since the online gambling industry is a low-margin business, a higher tax rate inhibits operators from offering customer rebates and promotions. Consumers will ultimately find "better value" on unregulated sites.
- Ensuring "liquidity" (enabling customers to play any type of game at any time of day) is key to retaining customers and preventing churn. Without adequate liquidity, consumers will go to unregulated sites.
- An open regulatory framework that supports multiple licensed operators is the best way to ensure that consumers find value in playing on regulated sites and that maximum tax revenue is captured.