



Testimony of Gerard Cunningham, President of Betfair US & TVG
California Senate Committee on Governmental Organization
Informational Hearing on Intrastate Internet Poker
February 9, 2010

Chairman Wright and Members of the Committee:

My name is Gerard Cunningham and I am President of Betfair US and TVG. Thank you for the invitation to testify before you today on intrastate on-line poker.

Despite my British accent, I am a long-time California resident. After living all over Europe and Asia, 15 years ago I selected California as the place to make my home. As a resident of this state, I would like to help us reclaim tax revenue lost to illegal offshore operators, while protecting California residents.

Betfair Limited, which is based in the UK and is the parent company of Betfair US and TVG, is the largest legal online betting community in the world, with the highest standards of integrity in the on-line industry.

When I say "legal," I mean that our company has a strict "white hat" regulatory policy. Betfair never took a bet from a US resident even prior to the passage of the federal Unlawful Internet Gambling Enforcement Act (UIGEA) as we viewed the legal environment in the U.S. as "grey," and therefore against our corporate regulatory policy.

And when I say "largest," I mean that our company is about to take more bets every day than the New York Stock Exchange processes transactions, across poker, casino, horses and other sports wagering.

As one of the largest on-line operators in the world, with more than 10 years of experience in many jurisdictions around the world, Betfair has built the largest integrity unit in the industry. Our integrity unit oversees security, fraud, cheating, collusion, anti-money-laundering, age-verification, and problem gambling.

The integrity team uses a combination of analytical tools and human interactions to identify potential problems and works closely with regulators in all jurisdictions. We have cooperated in a range of investigations. It is worth pointing out that every year UK regulators conduct "mystery shopping" of the online gaming operators in the UK, and every year they fail to get an underage player to place a bet on Betfair's site.

As a regulated business, Betfair has no interest in making money from any potential problem areas. We invest heavily in hardware, software and people to ensure we mitigate these types of issues on our site.

TVG is the largest legal operator of on-line wagering in the US. Our business is taking bets on horse races and placing those bets into the pari-mutuel tote system at each track. For over a decade we have operated TVG.com across numerous states in the U.S. We follow a very tight regulatory policy, accept wagers from residents of 17 states, and have created 200 jobs across the US including about 150 in California.

Identity confirmation, age verification and geo-location processes are already in place with TVG. As you heard earlier, they work, and can be used today. We are also working closely with state regulators to give them visibility into our operations, by placing bet monitoring systems on their desks, and meeting with many of them on a monthly basis. These systems are already in use in Oregon and Virginia.

As I already stated, California is losing tax revenue to illegal off-shore operators. Betfair US commissioned a study by Global Betting and Gaming Consultants (GBGC), a leading international consulting firm in this space, to help size the market and estimate lost tax revenue. A copy of that study has been provided to the committee.

GBGC estimates that in 2010 the overall market for poker in the US will be approximately \$1.5B in revenue from about 3M accounts. (Many on-line poker players establish several accounts on various operators.) Also for 2010, GBGC estimates that the illegal operators will generate approximately \$490M in revenue from about 800K accounts in California.

If regulation takes place utilizing a fair and reasonable tax rate, GBGC projects that the market will grow dramatically. Achieving this kind of revenue growth and ensuring the state maximizes its tax revenue requires that the licensed operators in the market can compete against the illegal operators.

On-line poker is an incredibly fast-moving technology market. Best practices around the world suggest that competing against these illegal operators to capture lost tax revenue requires an open, competitive market that encourages innovation in technology, marketing, and customer service.

The state needs a strict licensing regime that limits operators to those with the highest standing, financial wherewithal, the technical capability to operate an Internet business, and a culture of transparency in order to be regulated and audited in the normal course of doing business in the state.

In closing, best practices around the world in this rapidly evolving market suggests that for California to maximize tax revenue and compete with the illegal operators, California needs an open competitive market.

Mr. Chairman, please consider myself and our company as a resource to you and the committee as you work through the next steps in this process.

Thank you.