

THE COMMONWEALTH OF MASSACHUSETTS
MASSACHUSETTS GAMING COMMISSION

CHAIRMAN

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Bruce W. Stebbins

Enrique Zuniga

RE: Internet Gaming Forum

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BOSTON CONVENTION AND EXHIBITION CENTER

415 Summer Street, Room 102

Boston, Massachusetts

1 P R O C E E D I N G S:

2

3 CHAIRMAN CROSBY: Good morning,
4 everybody. If I could have your attention and
5 you could get your seats. I am pleased to call
6 to order today our public meeting today
7 committed to, devoted to the first Internet
8 Gaming forum. This is March 11. We are at the
9 Convention Center in Boston as we usually are.
10 And I am pleased to call this meeting to order.

11 I get to welcome you this morning.
12 And I get to introduce the session, although
13 the real architect of the session is
14 Commissioner McHugh whom you will hear from in
15 just a few minutes.

16 I want to read to you as I do this
17 the mission statement of the Massachusetts
18 Gaming Commission because this session relates
19 very much to that.

20 The mission statement reads: the
21 Massachusetts Gaming Commission will strive to
22 ensure that its decision-making and regulatory
23 systems engender the confidence of the public
24 and participants. And that they provide the

1 greatest possible economic development benefits
2 and revenues to the people of the Commonwealth,
3 reduce to the maximum extent possible the
4 potentially negative or unintended consequences
5 of the new legislation, and allow an
6 appropriate return on investment for gaming
7 providers that assures the operation of casino-
8 resorts of the highest quality.

9 Today's session is doing each one of
10 those things. We are conducting our session in
11 open, streaming on the public as part of the
12 participatory and transparent process that we
13 are committed to. We are having this gaming
14 forum in conjunction with the rollout of our
15 problem gaming framework in order that our
16 plans for Internet gaming can be developed hand
17 in glove with ours plans for problem gambling
18 and minimization of those issues.

19 We are obviously exploring new
20 revenue opportunities, which is a principal
21 mandate of ours. And we're doing it in
22 conjunction with our casino applicants and our
23 casino licensee, our one licensee. Penn
24 National, where are you? Welcome, thank you.

1 Because the only condition that we have
2 suggested to the Legislature that was central
3 to our approach to this is that as the
4 Commonwealth begins to deal with Internet
5 gaming, we shouldn't do anything serious until
6 the casino licenses are awarded. And the
7 casino licenses can be at the table as part of
8 that conversation.

9 They are going to spending hundreds
10 of millions, in some cases upwards of a billion
11 dollars to invest in the licenses that they are
12 being awarded. And it's only appropriate that
13 they be at the table when we figure out where
14 we're going to go with Internet gaming. So,
15 this public forum and this exploration of
16 Internet gaming is central to our overall
17 focus.

18 In the long run, it seems to me that
19 there are two issues that we have to deal with
20 in Massachusetts. Number one, is will we have
21 Internet gaming, and if so how will that be
22 organized? And two is, if we have Internet
23 gaming who will regulate it, and how will it be
24 regulated?

1 Commissioner Zuniga and I who is
2 another one of our Commissioners served on
3 Treasurer Grossman's Internet task force that I
4 think you may hear a little bit more about in a
5 few minutes. And we made one central point to
6 him as we were all sitting there together
7 starting to talk about in an earlier stage in
8 this evolutionary process how do we approach
9 Internet gaming.

10 And we said this cannot be about the
11 Gaming Commission protecting its turf. This
12 can't be about the Lottery protecting its turf.
13 Although the Lottery has a lot of turf,
14 important turf to protect. And this can't be
15 about the casino operators protecting their
16 turf.

17 This has to be a process by which we
18 rise up above the whole Magilla and look at the
19 broadest public interest. What serves the
20 public interest the best? What generates the
21 most revenues and other economic benefits?
22 What minimizes the damage? What is the fairest
23 most efficient, most effective process,
24 independent of the other things that we have

1 going on? That was what we felt was the most
2 important mandate for this process of figuring
3 out how are we going to handle Internet gaming.
4 And I know Treasurer Grossman agreed with that.

5 So, this is another step in the
6 evolution of that process to figure out where
7 we are going with Internet gaming.

8 My second responsibility today is to
9 introduce to you a man who is uniquely suited
10 to lead us in that conversation and to lead us,
11 introduce us to a fair process, Majority Leader
12 Stan Rosenberg, state senator from Amherst.

13 Senator Rosenberg's resume is in
14 your folder. I talked to his aide, Rose Adams,
15 the other day trying to learn a few things.
16 She didn't tell me any really good stuff, but I
17 wanted to learn a few things that weren't so
18 commonly known about Senator Rosenberg.

19 I didn't know that he was raised in
20 Revere. So, he has an interest in Western
21 Mass. but also in Eastern Mass. license. I
22 also didn't know that Senator Rosenberg was
23 raised in foster care, which maybe accounts in
24 part for the sensitivity that he brings to a

1 lot of the social issues that the Commonwealth
2 is wrestling with.

3 And that he created what is surely
4 the first and maybe the only foster care caucus
5 made up of members of the Legislature who had
6 been in foster care. How many are there? Are
7 there others? They were four. First foster
8 care caucus in the Legislature, fairly
9 remarkable notion.

10 I can tell you from personal
11 experience, and this is more remarkable than
12 anything, that Senator Rosenberg answers all of
13 his emails personally and quickly. I can tell
14 you unfortunately that a lot of emails to state
15 rep. and state senator's offices never get
16 answered by anybody.

17 Senator Rosenberg answers his and
18 quickly. I don't know how you do it, but it is
19 admirable and it says something about his
20 commitment to the people that he serves. Most
21 important of all is Stan Rosenberg was the
22 principal legislative architect of our
23 legislation in Massachusetts by which I hope he
24 will tell you some. All of the Commissioners

1 here, Commissioner Gayle Cameron, Commissioner
2 Jim McHugh, whom you'll meet, Commissioner
3 Bruce Stebbins, Commissioner Enrique Zuniga and
4 I have all talked about what a remarkable piece
5 of legislation we have.

6 Many regulators from across the
7 country have talked about what a remarkable
8 piece of legislation we have. To wit, we did
9 have a lot of your experience to build on. But
10 in terms of issues like problem gambling,
11 issues like local control, issues like the
12 independence of the Gaming Commission, issues
13 like research into the economic and social
14 impacts of gaming, on and on and on, we have
15 extraordinary tools to do the job as well as it
16 can possibly be done. And that was due in
17 very, very large part to the really remarkable
18 work of Stan Rosenberg.

19 Lastly, I just wanted to tell you in
20 my experience with him, and this is not
21 something you say every day about public
22 officials, he is a man of uncommon grace, of
23 uncommon integrity and of uncommon commitment
24 to the public good.

1 It's my pleasure work with him, Stan
2 Rosenberg.

3 SENATOR ROSENBERG: Thank you very
4 much. I didn't know I was coming to my funeral
5 this morning. Thank you those are very
6 gracious and generous comments. I have to say
7 this is a mutual admiration society, because I
8 think that all of the Commissioners and the
9 Commission staff under the leadership of Steve
10 Crosby is meeting the challenge as we laid it
11 out in the Legislature, the vision that we had
12 for an open, transparent, honest process that
13 would leave none questioning the decisions and
14 the integrity of the licensees, the licenses
15 and the operations of the Expanded Gaming that
16 we were voting on would be in any way suspect.
17 I think you guys have done an absolutely
18 terrific job.

19 There are always bumps along the
20 road, especially when you're creating something
21 totally new. And this is a very competitive
22 industry as we all know who are in this room.
23 So, I think you folks should take great pride
24 in the work that you are doing. I, as one

1 legislator, appreciate and acknowledge that in
2 every way any time that I can to anyone,
3 including this audience.

4 So, I have the easiest and most
5 pleasant task of the day, because I get to say
6 a few words and then I go back to the
7 Statehouse. Your job here today is to really
8 think deeply and learn from each other about
9 this new frontier that we have to deal with.

10 In my mind, it's really quite an
11 irony, maybe that's not the best word, but it's
12 really quite extraordinary that this state,
13 which is one of the last blue law states in the
14 country has been over the last 40 years or so,
15 it's probably heading onto 50 years now, been
16 gradually taking on the new frontiers and the
17 new opportunities that legalized gaming
18 provides. Understanding that gaming has been
19 part, games of chance and gaming of various
20 sorts have been part of human civilization for
21 as far back as we know and can study and learn.

22 And we were late coming to a lot of
23 these things, but when we come to them, we come
24 to them with great care and great attention.

1 And as most of you know in this audience, our
2 lottery is the highest per capita lottery in
3 the country, highest per capita spending on
4 lottery in the country is here in Massachusetts
5 with almost \$1 billion of proceeds going to our
6 cities and towns.

7 So, our schools and our public works
8 and our police and fire are now dependent upon
9 this revenue source. And our treasurers have
10 worked very hard with our lottery commission to
11 stay at the cutting edge of that field, and run
12 a good operation that has integrity and the
13 trust of the public.

14 And as a result, there's great
15 spending on lottery tickets. It provides
16 significant number of jobs, helps significant
17 number of small businesses where these keno
18 machines and lottery machines are located all
19 over the Commonwealth. And I think we do a
20 very credible job with that.

21 For decades, there was debate
22 generated from different quarters about whether
23 we ought to go into the next phase of legalized
24 gaming, which would be obviously casinos and

1 slot parlors. And the Legislature just off and
2 on, off and on for decade after decade after
3 decade.

4 Finally, I would argue with several
5 themes or several situations that we were
6 dealing with. The most significant of which is
7 Governor Patrick comes into office, realizes
8 that the Mashpee Wampanoag are very close to
9 gaining federal recognition, which then means
10 land in trust, which then means gaming under
11 federal law at the highest level allowed
12 without taxation, regulation or state
13 government interference. And he says this is
14 not a good idea.

15 We need to be partners. We need to
16 respect the tribe. We need to work with them.
17 We need to help them succeed at their economic
18 development and whatever else they may need to
19 work on. And if they're going to go into
20 gaming, and the tribe made clear that they
21 would go into gaming, then we had to put in
22 place a regulatory structure.

23 It didn't hurt or maybe it was
24 hurting that we're surrounded by casinos, New

1 York, Connecticut, Maine, Rhode Island casinos
2 or slot parlors. And it was draining \$1.2 to
3 \$1.4 billion worth of discretionary income into
4 surrounding states, creating jobs and tax
5 revenues from our residents.

6 So, we finally reached the point
7 where we understood that we couldn't ignore the
8 reality. And we weren't going to be probably
9 the last state, and we should definitely not be
10 the last state in New England if we wanted to
11 operate in a reasonable and productive fashion
12 here by going in this direction.

13 So, we put together, as the
14 Commissioner said, pretty aggressive
15 legislation. We have the benefit of knowing
16 what 33 or so other states have done, the
17 mistakes they made, the opportunities they
18 missed.

19 And we were able to craft
20 legislation to address the industry in a way
21 that would balance their success with
22 appropriate government regulation and benefit.
23 And also mitigate the negative impacts which
24 are regrettable but inevitable when you have

1 gaming.

2 So, now we are on a new frontier.
3 The truth is we couldn't get our heads around
4 Internet gaming during the final stages of
5 working on the legislation. So, working with
6 the State Treasurer, he put together a task
7 force because obviously the lottery has a
8 direct interest in how Internet gaming might
9 play out with our help or without our help.
10 And I think that's a critical point.

11 We can't control the Internet. We
12 can't control what's happening across borders.
13 So, we have to figure out how to manage it, how
14 to work with it.

15 In relation to gaming legislation,
16 we realized that was just too much for us to
17 take on to try to figure out at that time, how
18 to integrate the Internet gaming policy with
19 the new frontier that we were entering. So, we
20 decided not to try to take on more than we
21 could at that point. And we -- I guess the
22 technical term is that we punted and gave the
23 Commission the job of monitoring federal
24 legislation because then Congressman Frank had

1 legislation for online poker and Internet
2 gaming.

3 Then we would work together to watch
4 what's going to happen down the road, and try
5 to figure out how to do as good a job in this
6 area if we're going to head in that direction
7 as we did with setting up and managing our
8 lottery and now with our expanded gaming with
9 casinos and slot parlors.

10 So, you do the hard work today of
11 listening to some very good presentation and
12 engaging in active thinking and discussion as
13 part of a process where eventually we need to
14 craft some specific policy.

15 You're going to hear from Senator
16 Flanagan later today. She and I spoke on the
17 floor last Thursday, the floor of the Senate,
18 and she is I believe planning to attend a
19 couple of national meetings over the course of
20 the next couple of months on the subject of
21 Internet gaming so that we could start to build
22 some depth within the Senate in terms of
23 understanding the complexity of this issue, and
24 what we could do to manage this as well as we

1 are managing our other gaming activities if we
2 find ourselves in the position of putting
3 legislation in place.

4 I personally don't see how we avoid
5 it, because I don't know how you keep people in
6 their living rooms and dining rooms and
7 bedrooms with laptops from engaging. We don't
8 want to kill the goose that laid the golden egg
9 in our state lottery, and the new goose that is
10 hopefully going to lay some golden eggs for us
11 in the coming months and years, the casino and
12 slot parlor.

13 So, we look forward to working with
14 you in the coming months to see if we can get
15 our heads around this policy area. We will be
16 looking to the Commission for significant
17 advice and guidance, let's say guidance. Maybe
18 that'd probably be the strongest word we could
19 use, guidance. And we'll look to the State
20 Treasurer's office as well, given the work that
21 they've done.

22 And then we will look to people like
23 you in the audience here to help us figure out
24 the best path forward in this policy area so

1 that we do the best job possible. And we also
2 not only take into consideration the realities
3 of how we would manage this and deal with all
4 of the pieces on the business end, but also on
5 the social mitigation end.

6 And I think for many of us in the
7 Legislature for whom this was a difficult
8 issue, that is the creation of expanded gaming
9 in the form of casinos and slot parlor, we were
10 very, very mindful and very concerned about
11 social impacts.

12 And I think most of us take some
13 significant pride in the fact that we think we
14 got a lot of that right. And we're looking
15 forward to seeing under the Gaming Commission's
16 leadership and direction, ensuring that we're
17 treating our communities, those who are
18 stressed by addiction and our businesses from
19 the cultural organizations to the small
20 businesses on Main Street, that we always be
21 sensitive to them and try to be helpful as this
22 plays out.

23 And we need to do the same thing
24 when we get to the question of Internet gaming.

1 We have to think about all of the positives.
2 And we have to think about all of the
3 negatives. And we have to come up with a
4 balanced approach to ensure that we are getting
5 the best of what can come of it if we go in
6 this direction. And we address to the greatest
7 extent possible the downsides that might arise
8 as a result.

9 So, thank you for spending your time
10 here today learning, engaging. And we look
11 forward to working with you in the months ahead
12 in trying to craft sensible policy in this
13 area. Thank you.

14 CHAIRMAN CROSBY: Thank you very
15 much, Senator Rosenberg. We will be back in
16 touch.

17 It's my pleasure now to introduce to
18 you, as I said, the real architect of this
19 conference. Senator Rosenberg said the
20 Commission is tasked with trying to track
21 what's going on around the country and begin to
22 develop a position on where the Commonwealth
23 should go in collaboration with the Treasurer
24 and with the Legislature.

1 Commissioner Jim McHugh, former
2 Judge Jim McHugh volunteered to take on the job
3 of leading the Commission in its pursuit of
4 Internet gaming. And he has put this whole
5 thing together. He is in addition to being one
6 of the most, maybe the most distinguished
7 member of the Commission, previously was one of
8 the most distinguished members of the judiciary
9 in Massachusetts and actually across the
10 country. Jim McHugh, thank you.

11 COMMISSIONER MCHUGH: I didn't know
12 I was coming to my wake. Thank you very much,
13 Steve. It's a great pleasure to kick this off
14 today.

15 Steve said that I'm the architect of
16 it. Rick Day, our Executive Director and I
17 have been working closely together to put this
18 day together. And it's an important day.
19 We're a little shy of two weeks after issuing
20 our first license.

21 We've got another set of licenses to
22 issue in the upcoming months. And as that
23 building process that Senator Stan Rosenberg
24 talked about gets underway, we need to think

1 about the other components of the setting in
2 which it's occurring.

3 One of those components you've heard
4 about is the lottery. We want to talk about
5 that today. We have, as Senator Rosenberg
6 said, one of the most deeply penetrated,
7 probably the most deeply penetrated lottery in
8 the country. It is the largest source of
9 unattached aid to cities and towns throughout
10 the Commonwealth. They depend on it. It's an
11 asset that has to be preserved.

12 The Internet is another element that
13 we are all facing today, every one of us in
14 this room is facing today. It is now the
15 pervasive medium to which all of us turn daily,
16 if not hourly. And it has implications for all
17 of us. And it implications for this process.

18 So, how to combine the brick-and-
19 mortar casinos and the lottery and the Internet
20 is a real challenge. And a challenge that
21 we're going to explore today.

22 We're going to have discussion about
23 issues in this setting. This morning, we're
24 going to look at what is or could be available

1 on the Internet right now. The status of
2 Internet gaming domestically and across the
3 world, we'll take a peek at what's going on in
4 Europe. And we're going to take look at some
5 of the risks that this new medium poses.

6 After lunch, we're going to take a
7 look, a deeper look at what four states
8 Delaware, New Jersey, Nevada -- four states,
9 three states and a province, the government of
10 Ontario is doing and planning to do in this
11 space. And we'll wrap it up with a panel on
12 which we'll discuss the implications of what
13 we've heard during the course of the day. So,
14 that's the setting.

15 We're not focusing on a specific
16 outcome. We're not here to advocate a
17 particular outcome. We're here to explore.
18 We're here to learn. We're here to think. And
19 we're here to think deeply. We regret that the
20 lottery, the Massachusetts Lottery was unable
21 to send representatives to join us today, but
22 we look forward to continuing to work with them
23 as we proceed.

24 And we do have some terrific people

1 with deep experience both in lotteries and in
2 Internet gaming who have joined us from London,
3 from Ontario, from Las Vegas, California, up
4 and down the East Coast. And we're delighted
5 to have them with us.

6 This is as a most all of our
7 Commission meetings are being live streamed.
8 And our audience no doubt will be as eager as
9 we are to hear what all of the speakers have to
10 say. So, without further ado, let's get to it.

11 On the theory that it's better to
12 know what you're talking about before you begin
13 to talk about it, we're going to start with
14 some demonstrations of what we mean when we
15 talk about social gaming and Internet gaming.

16 James Stern who has joined us from
17 London who is the head of business development
18 and sales for IGT Interactive, a leading
19 provider of Internet gaming content will talk
20 about the Double Down, a leading social gaming
21 provider, and then show us a sampling of their
22 other offerings. So James, thank you for being
23 with us and it's all yours.

24 MR. STERN: Thank you. Does this

1 work? Perfect. Firstly, thank you very much
2 for inviting me to talk today about interactive
3 gaming and social gaming. I am here as Jim
4 pointedly said from London. I'm actually
5 joined by my colleague, and Director of
6 Compliance for IGT Interactive, Lynn Dayton who
7 is here to field any questions if any arise.

8 So, the topic I'm going to talk
9 about is really what is Internet and social
10 gaming. And I thought the best way to approach
11 this was really to look at social gaming to
12 start with.

13 So, social gaming and social games
14 are typically played online, on mobile device
15 and have a social element. Basically, from
16 what I'm trying to explain is that people play
17 with or directly against their friends,
18 participate in leaderboards, chat rooms or
19 share progress via the social network. So, it
20 really is what it's titled, social gaming.

21 There's a social element. It's all
22 about enjoyment. It's all about experience and
23 engagement with your friends and other people
24 online. It's estimated that 750 million people

1 play worldwide on games such as Farmville,
2 Candy Crush and a variety of social casinos
3 including Double Down, which is really where
4 I'm going to focus my presentation with regards
5 to social.

6 The vast majority of players do play
7 for free. However, it is possible to voluntarily
8 purchase virtual credits for extended or
9 enhanced play. And that would be through
10 progressions in leaderboards, unlocking of new
11 levels, etc.

12 And there are no payouts or prizes
13 in money or money equivalents. And no stakes
14 of value that can be won or lost. People
15 engage in casino style games typically for
16 entertainment and leisure purposes, and like I
17 say, to socialize and for a sense of
18 achievement.

19 So, Double Down casino, now it's the
20 fourth largest game overall on Facebook. It's
21 number four on iPad in 2013. Currently, we
22 have on average 1.8 million daily players and
23 that's actually unique players. And that's 6.6
24 million monthly unique players.

1 The average player spends
2 approximately 29.3 minutes per day. That's at
3 their computer or mobile device. That's
4 equivalent to what we are seeing in other
5 social games such as Candy Crush and Farmville,
6 Angry Birds and the such. The average user
7 session is approximately 19 minutes. And the
8 average player plays 1.6 times per day.

9 In Double Down casino, we really try
10 and offer the same experience that you'd expect
11 to achieve in a Vegas style casino but
12 obviously purely from an entertainment
13 perspective. So, we offer a variety of slots.
14 And we're constantly updating our slot
15 portfolio, releasing new games every two weeks.

16 We offer three different types of
17 poker. And that's actually multi-hand poker.
18 So, it's all the popular formats of poker Texas
19 Hold'em, Omaha, eight kinds of video poker.
20 There's also a bingo product and finally our
21 table content such as blackjack and roulette.

22 So, how to play Double Down. Double
23 Down is actually an app on Facebook that you
24 don't have to register on Facebook to be able

1 to play Double Down. You can go to
2 www.doubledowncasino.com and actually play as a
3 guest. And I'll explain this a little bit
4 further shortly.

5 This would be the landing page that
6 you'd hit if you go to Double Down. As you can
7 see it offers you the ability to login via
8 Facebook or play as a guest. If you're playing
9 as a guest, you're limited to 30 minutes just
10 to try the experience. And then really what
11 it's trying to do is prompt you to obviously
12 register through your Facebook.

13 It uses something called Facebook
14 connect which is what thousands of businesses
15 use worldwide. Effectively Facebook connect
16 pre-populates your registration by using the
17 information you've already entered in your
18 Facebook account. So, it's a simple one click
19 procedure to be able to actually register in
20 Double Down itself.

21 When a player first registers and
22 enters Double Down, they've given a million
23 dollars of virtual currency or chips. This is
24 totally for free. As I say, the player is then

1 able to play anywhere they like within the
2 actual Double Down casino experience itself.

3 Players do have the ability to
4 purchase more credits and allow them self to
5 progress further through the game and enhance
6 their experience.

7 So, I'm going to take you briefly to
8 Double Down because I realize we're obviously
9 tight for time. If I take you into the actual
10 Double Down casino itself, this is the landing
11 page and the lobby you'd see. So, here are my
12 virtual credits available to me. You have the
13 ability, like I say, to buy chips.

14 Every time you visit Double Down
15 casino, you're awarded more free chips in the
16 form of a wheel that's spun. And it allows you
17 to have a random number of free credits issued
18 each day. So, there's never any reason to
19 actually have to purchase credits. It's a pure
20 free playing model.

21 You also have the ability to gift
22 chips to your friends and other players. And
23 as you can see along the bottom, you actually
24 have the leaderboards itself showing the top 10

1 players. And obviously, you can drill down
2 further and see all of the various achievements
3 and awards other people have won.

4 So, I'm going to demonstrate poker.
5 But like I say, we have bingo, video poker,
6 slots, blackjack and roulette. My apologies
7 for the load time, but we're actually on the
8 Double Down casino live site. So, we are
9 restricted to the speed of the Internet.

10 I'm going to show you Texas Hold'em.
11 It works no different than any other Internet
12 poker product. In terms of the actual game, it
13 plays exactly the same as the land-based poker
14 product as well.

15 You choose your table by selecting
16 what blinds you want to play at. I'll just
17 pick the first one for ease. In terms of
18 Double Down, we've looked at our player
19 demographics and we can see between 65 to 70
20 percent of players are actually female. And
21 between 65 and 70 percent of the players are
22 also over the age of 35. The vast majority are
23 actually appearing between the 35 to 46 age
24 groups.

1 So, if I was to play in the hand of
2 click to sit at the table, I would choose my
3 buy-in for the table and then I'd be entered
4 into the actual game itself. As you can see,
5 all of the individual players sitting around
6 the table showing the denomination of what they
7 have available for the game.

8 And as I say, this is just purely
9 free play credit. So, the game plays no
10 different than any Texas Hold'em poker game.
11 You play this whole blind, a big blind. You're
12 dealt the community cards, the three initial
13 cards. Then there's the turn and then finally
14 obviously the river. And players take it in
15 turns obviously to bet through the poker
16 product itself.

17 So, I'll play one quick just to give
18 you an understanding. I'm dealt my cards. I'm
19 not feeling too lucky to be honest, but we'll
20 just for the purpose of this demonstration
21 call. There are various types of table. We're
22 playing on a turbo table. So, the idea is that
23 it actually plays out pretty fast, but there's
24 a variety of speeds that a player can obviously

1 play at.

2 Obviously, if you don't make your
3 choice within the allotted time, you're folded
4 from the hand. It keeps the play consistent.
5 I'm feeling very unlucky right now. But again
6 for purposes of demonstrations we'll keep
7 playing this one through.

8 As everyone noted, I'm also from
9 London. So, I'm quite a cautious poker player.
10 Even though this isn't my money, I won't get
11 too aggressive. As all of you will agree, I'll
12 make a very bad decision and just keep the hand
13 and I'll call this bet. Again, not my money
14 so, I'm not too concerned.

15 There is obviously fantastic sound
16 along with the graphics but obviously for the
17 purposes of demonstration you'd only be hearing
18 it from my computer. And my speakers aren't
19 the strongest. So, my apologies for that. And
20 I'll just for the sake of this, call again.
21 Come on ace.

22 So, there we have two pair.
23 Obviously, I'm holding a high card ace. I'm
24 feeling quite confident now, so I will bet the

1 pot for the purposes of this demonstration. As
2 you can see, down the side it offers hand
3 strength, but it can also provide you play-by-
4 play as well. What a surprise I lost. Feeling
5 very lucky today.

6 So, that's our poker product. AS I
7 say, we are obviously pushed for time today.
8 What I'd urge all you to do is obviously, as I
9 said, you can play just purely as a guest by
10 visiting Doubledowncasino.com. Please do join
11 and try out. It's, as I say, a totally free
12 experience. It'll give you a great
13 understanding of what we're able to deliver.

14 Next, obviously, I really wanted to
15 talk about Internet gaming. So, we touched
16 upon social. And I really wanted to
17 differentiate the two products themselves.

18 So, Internet gaming or online gaming
19 involves regulated and licensed gambling
20 services that allow players to place a wager on
21 a gaming of chance for the opportunity to win
22 money.

23 It involves the three elements of
24 gambling. And that's obviously consideration,

1 prize and chance. There's multiple products
2 available for play including poker, casino
3 games, sports book and bingo. And obviously
4 that's very dependent on the jurisdiction.

5 For example, in Europe we find as a
6 regulated market, France has only regulated
7 poker. For example, the Danish market has
8 regulated all products. In fact, the Danish
9 lottery holds a monopoly on their bingo
10 products as well. So, it's very much market
11 dependent in terms of what products have been
12 regulated. I stress maybe that's important
13 when you're looking into deciding your
14 regulation.

15 Players have the ability to access
16 operator websites either via the PC which we
17 call desktop in IGT or the mobile device. And
18 when I talk mobile device that's mobiles and
19 actually tablets. We support all formats of
20 mobiles. So, that would be Android and iOS
21 devices. And according to
22 PricewaterhouseCoopers, the market in Europe
23 was estimated to generate approximately \$15
24 billion in 2013.

1 So IGT have actually been in the
2 interactive gaming space since 2005. Our
3 mission is effectively to support our customers
4 by being the world's most successful regulated
5 iGaming provider.

6 Just to give you an understanding of
7 what our strategy and vision is, if we look at
8 the casino floor today you have multiple
9 vendors offering an array of content linked
10 through various systems including patron
11 management and casino management, cash desk,
12 etc. And what IGT wants to deliver is the
13 ability to offer multichannel offering. So,
14 that's the same game anywhere on any device.
15 And like I say, that would be either through
16 the PC, through mobile, through TV or through
17 EGMs.

18 I'm not going to touch upon this
19 much, because I know the gentleman to my right
20 is really going to be talking about platform.
21 But I really just wanted to highlight from the
22 perspective of this slide was that everything
23 in blue is what we'd consider the platform or
24 the RVB system with regards to an Internet

1 gaming product offering.

2 So, this is really the engine that
3 really drives your product offering. So,
4 everything in blue would be the pieces whereby
5 players would be registering. You'd be
6 verifying the player. You'd be handling all of
7 the transactions with respect to the deposits
8 and withdrawals.

9 You'd be handling all of the
10 affiliate promotions and loyalty. You'd be
11 doing your reporting and analytical piece
12 around that. And it also holds all of the
13 various responsible gaming modules and ID
14 verification checks, etc.

15 So, if I touch upon it once again,
16 Denmark as a regulated market, there's a unique
17 ID that each system in Denmark is allotted when
18 they're born. It's called an MID. And as part
19 of the registration process, the Danish
20 regulator requires that number to be entered
21 into the registration field.

22 And then that's actually served back
23 to the Danish Gaming Board into their server so
24 they're able to track their citizens' gameplay.

1 And they can monitor everything on a 24-hour
2 period. And that's against deposits,
3 withdrawals, gameplay per hand, per spin, what
4 types of games were played, how long games were
5 played for, etc.

6 And where IGT really feature is
7 actually the middle hexagon, which is where it
8 says casino style games. So, we are
9 predominately a supplier of casino content
10 only. So, we have a system called RGS. And
11 RGS is effectively to the right-hand side.

12 But really what RGS stands for is
13 it's a remote gaming server. We have four data
14 centers currently in operation. Two in Europe,
15 one in Gibraltar and one in Alderney that serve
16 our regulated markets in Europe. One in
17 Kamloops, which looks after the Canadian
18 provinces such as BCLC, Loto-Quebec and shortly
19 Ontario. And then one most recently in
20 Atlantic City that looks after our business in
21 New Jersey.

22 And what remote gaming server
23 effectively is it's your game library. So,
24 it's the provision of the game assets, the math

1 models, the logic as we'd call it in the
2 interactive space, the game engine itself and
3 the random number generator. And we have our
4 games tested and certified by seven separate
5 jurisdictions currently today. And as I say,
6 as regulation requires we then go through the
7 recertification process once more.

8 So, I thought I'd just leave on an
9 example of an Internet gaming site from one of
10 our partners. This is Lottomatica. It's the
11 Italian National Lottery. As you can see, this
12 a perfect example of an Internet gaming
13 website. So, my apologies it's in Italian. I
14 don't speak great Italian, but I can explain
15 exactly what's going on here.

16 So, as a player, you would enter
17 this site. And you'd choose in the top right-
18 hand corner you can see a blue button that says
19 registration. So, that's where you'd enter all
20 of your registration details. If you're
21 already an existing player, you'd use the two
22 gray boxes just to the left of the blue button.
23 And that's where you'd put in your unique
24 username and password that would allow you

1 access into the site.

2 And the green bar that runs across
3 the top has the various games that a person
4 would have the ability to play. So, it starts
5 with sports. Then there's the poker, the
6 casino, the live casino, the gioco d'abilita,
7 which I believe stands for skill games.
8 Apologies for any Italians in the room for my
9 pronunciation. And then obviously the lottery
10 products they offer as well.

11 And the main banner which what we'll
12 call in the industry a call to action actually
13 highlights three IGT games. So, that's the
14 DaVinci Diamonds, Siberian Storm and Diamond
15 Queen if anyone's familiar with our products in
16 other jurisdictions.

17 As a player, you would click on one
18 of the game icons that run along the bottom of
19 the screen. So, you can actually see four plus
20 another half of four. That would actually load
21 up your game. So, I'll take you onto our demo
22 site now and give you a quick demonstration of
23 our games as well.

24 So, IGT is obviously synonymous with

1 slot content. We produce over 100 land-based
2 slot games a year across multiple
3 jurisdictions. In IGT interactive we currently
4 have 79 available. What we do is we actually
5 have a mix of what we call ports which is
6 effectively taking a land-based game re-
7 creating the assets for an interactive version
8 and actually reusing math models but obviously
9 rewriting the math modeling into Java which is
10 the format you have to use with regards to the
11 logic.

12 I'll tell you the most interesting
13 and most skillful part with regard to
14 interactive gaming is we have to be concerned
15 with load times. Because when you have an EGM,
16 you have the ability to have six gigabytes
17 worth of space, which is effectively used just
18 purely for the assets to really give a visual
19 appeal and for sound graphics.

20 In the interactive space, we're
21 limited to 24 megabytes. And that keeps load
22 times quick and the actual spins quick. So,
23 the game plays out. And as I say, there would
24 normally be sound as well. So, you have the

1 ability to choose your lines, your number of
2 lines by here. So, this is a 20-line game.
3 You choose your number of lines.

4 You can choose your line bet that
5 produces a total bet size and then simply you
6 press and spin. In certain jurisdictions where
7 it's legal, you also have the ability to
8 actually have auto spin enabled. This is the
9 ability to effectively select the number of
10 spins and let the game play out for you. Then
11 obviously wait for your awards afterwards.

12 I know that as part of the topic, I
13 was asked to demonstrate our table games. So,
14 I will finish on our roulette and blackjack
15 variance as well. As I say, we are generally
16 recognized for our slot games but we do also
17 offer fantastic table content.

18 First, I'll start with roulette.
19 The roulette experience from an interactive
20 perspective should be no different to what
21 you'd expect in a bricks-and-mortar business.

22 So, we have the ability here to bet
23 on the splits, on the reds or the blacks, play
24 the dragons. We also have the ability to bet

1 on neighbors. So, if my lucky number for
2 example is eight, I'll take neighbor's five of
3 eight. I will choose my bet size, place my bet
4 and simply spin the wheel.

5 So, everything is based on the
6 random number generator. So, every outcome is
7 totally random. So, it's exactly the same
8 experience as you'd expect from a Vegas style
9 casino.

10 We also the ability to save
11 patterns. So, if you have specific best that
12 you do like to place, you can lay your chips.
13 You can save your pattern into a simple
14 location. I'll now clear these bets. And as
15 I've been so lucky today, I'll just spray paint
16 some chips across the table. As very popular
17 in the Asian market where players just throw
18 chips across the board.

19 It plays out and again, I'm feeling
20 very lucky. Once that bet has been finished, I
21 can then go back to the pattern I had
22 originally selected which would be one of my
23 standard bets and again spin away.

24 Then finally, I'll just quickly

1 demonstrate our blackjack product. So, again
2 blackjack follows the exact same rules that
3 you'd expect with regards to a bricks-and-
4 mortar casino. It's a very simple game
5 although it's very difficult in terms of
6 engineering from the random number generator
7 perspective.

8 So, you place your chips. You deal
9 your cards. The dealer is showing full stand.
10 And again very lucky. So, in general, that's
11 everything I have to present today.

12 As I say, we have a number of games
13 available. Lynn and myself are obviously
14 available outside of this time to answer any
15 questions you have. And if necessary provide
16 any demo links to our content feeds to be able
17 to try it yourself. Thank you.

18 COMMISSIONER MCHUGH: Thank you,
19 James. That was fascinating. I hope we can
20 spend -- hope, we're going to spend a little
21 bit of time this afternoon talking about the
22 social gaming piece as well as the online
23 gaming because there's some very interesting
24 implications there.

1 But do any of the Commissioners have
2 any questions for James? We have a few minutes
3 if you do, Steve.

4 CHAIRMAN CROSBY: When you said you
5 can in Double Down you can buy additional
6 chips, that's with real money?

7 MR. STERN: Yes. That's correct.
8 It's no different than any other social games.
9 So, if you think of games such as Candy Crush
10 or Farmville, you have the ability of purchase
11 your way to -- in certain games it would be to
12 unlock the levels, but in other ways it would
13 just be to increase your playing experience.

14 CHAIRMAN CROSBY: But there's no way
15 to win it back.

16 MR. STERN: No, there's absolutely
17 no way to win. This is purely for
18 entertainment value.

19 CHAIRMAN CROSBY: And Double Down
20 makes money from that revenue stream and what
21 else?

22 MR. STERN: I'll divert that to Lynn
23 on that one.

24 MS. DAYTON: That's our primary

1 revenue stream. And ironically, there's only
2 about three percent that pay for chips, but
3 we're worldwide with this product.

4 CHAIRMAN CROSBY: And there's no
5 advertising deal with Facebook somehow or
6 other?

7 MS. LINDA: We do advertise. And we
8 are part of the International Social Games
9 Association. That group is -- The core
10 function of that is to conduct social gaming
11 responsibly. We only advertise to over 18.

12 CHAIRMAN CROSBY: I meant
13 advertising as a revenue stream to you. I
14 meant after you bring people to Facebook.
15 Interesting. So, three percent of your
16 customers pay and that's the revenue stream?

17 MR. STERN: Correct.

18 COMMISSIONER MCHUGH: But do have
19 any idea as to what the total social gaming
20 revenues are for all participants in that
21 space? It's a large number.

22 MS. DAYTON: Unfortunately, I don't
23 know that number.

24 COMMISSIONER MCHUGH: Maybe we can

1 spend some time on that this afternoon, because
2 there's some aspects of that I think are worth
3 exploring further.

4 MS. DAYTON: You know what, if you
5 give me just one minute, I may have that right
6 here.

7 COMMISSIONER MCHUGH: I'll come
8 back. Hold that thought and we'll try and do
9 it this afternoon. All right, James. Thank
10 you very much. That was a very succinct and
11 yet illuminating description of both social
12 gaming and Internet gaming for pay.

13 Jeffrey Allen is the Senior Director
14 of Interactive at Bally Technologies, another
15 major content and device provider. And he's
16 going to help us understand the kinds of
17 devices that will support Internet gaming if we
18 are headed in that regard.

19 James touched on it a little bit.
20 Jeffrey is now going to touch on it with a
21 little bit more depth. He's here with Katie
22 Lever, the Senior Vice President and General
23 Counsel who may have some comments about the
24 implications for brick-and-mortar casinos

1 briefly at the end if there's time. Jeffrey?

2 MR. ALLEN: Thank you very much for
3 the introduction. I really appreciate that.
4 Again, from Bally Technologies a heartfelt
5 thank you for inviting us to prepare and
6 present to you today. This is very exciting
7 for us.

8 We've been involved in the gaming
9 business for over 85 years and now in Internet
10 gaming and providing technologies to a wide
11 variety of customers for the past three years.
12 We are very pleased to be here to present to
13 you.

14 As I prepared for this presentation
15 and thought about some of the questions that
16 were posed to us, it included what is Internet
17 gaming? And most importantly how does a
18 company devise a cross-platform strategy?

19 As participators in gaming across
20 the landscape, both IGT and Bally, we are here
21 to forward technology for our land-based
22 customers. And to help them march into the
23 Internet space as they go forward.

24 They are all very successful

1 providing gaming to their players in their
2 land-based locations. And they're in need of
3 technology and expertise in order to provide
4 that to their players wherever they might be,
5 hence cross-platform strategy.

6 So, as I prepared this presentation
7 today, I wanted to break it up into two
8 sections. The first is an actual demonstration
9 of what is Internet gaming. And I'm going to
10 spend a few minutes and speak about what we've
11 launched in New Jersey.

12 We are here Massachusetts, so we're
13 not able to play. But I am able to log in and
14 I'm able to look at a couple of things that
15 differentiate Internet gaming from social
16 gaming. Similar in many regards, but different
17 in many other regards. And I'll walk you
18 through several of those.

19 And then I'd like to spend the
20 latter part of my presentations speaking
21 specifically about cross-platform strategy.
22 What that means to Bally and what we believe it
23 should mean to Massachusetts as well as you
24 attempt to bring technology to leverage your

1 land-based properties, as well as the Internet.
2 Bring them together and to create one all-
3 encompassing experience for the players.

4 So, for the next few minutes I'd
5 like to demonstrate the Golden Nugget New
6 Jersey site. Then I'll follow-up with a
7 discussion of some of the cross-platform
8 strategies that are in place and coming, and
9 then a little bit about the benefits for the
10 land-based casinos as we move forward.
11 Hopefully, an educational experience for you.

12 So, if you excuse me, I'm going to
13 sit down here and do a little bit of
14 demonstration.

15 So, what you see in front of you
16 right now is a live Internet gaming solution
17 that's being offered in New Jersey. It's one
18 of seven casinos, I believe seven that are
19 currently offering Internet gaming now. This
20 is the landing page. This page is being hosted
21 by the Bally iGaming platform.

22 What that means is that we have an
23 infrastructure based in New Jersey, in this
24 case at Golden Nugget, connected to a wide

1 variety of remote gaming servers from third
2 parties. One of them being IGT, Bally, Amaya
3 and in the coming months many other
4 manufacturers as well delivering game content.

5 We'll talk a little bit about what I
6 call ubiquity of content, bringing a mirror to
7 the floor as we get a little farther into the
8 presentation.

9 The first thing I'd like to show you
10 is the stringent registration process. I'm
11 going to spend more time on infrastructure
12 today rather than playing games and show some
13 of the nuances of a regulated gaming site.

14 This is licensed under New Jersey's
15 DGE. So, we follow their rules and regulations
16 for providing gaming. So, I'm going to go
17 ahead and click on the sign up button here.
18 What this page is is this is the page that will
19 be experienced by the players as they attempt
20 to register for an account.

21 And the one thing I want to note
22 here is the types of pieces of information
23 that's required, not optional but required for
24 the player so that we can do what's called a

1 KYC for them.

2 I'm not very savvy with Mac. My
3 apologies here. So, here what you see are some
4 of the fields, first name, last name, email,
5 password, password confirmation. The most
6 important things that I want to highlight here
7 are the need for a birthdate, a Social Security
8 number and mobile number, your home address.
9 What we're doing is we're providing a KYC of
10 the player before they register, meaning we use
11 a third-party service that's actually taking
12 the information provided by the player and
13 performing a know your customer validation.

14 So, that that player's age is
15 ascertained as well as their identification.
16 Only after those checks are done and completed
17 are you able to create an account for the
18 player. This is a little bit different from a
19 social gaming environment where you have less
20 stringent restrictions on being able to
21 register for an account. So, I've registered
22 for an account already. I've passed all of my
23 KYC checks.

24 Now I'm going to go in and I'm going

1 to actually login to the site with the
2 credentials that I have already. So, you see
3 here we have a lobby of games and services for
4 the player. We are aggregating content. We
5 are attempting to make a casino similar to what
6 you would see in your land-based casino where
7 you have a wide variety of games that are
8 available to you.

9 And I'm going to navigate to the my
10 account section and talk a little bit about
11 some of the specific features and things that a
12 player can do at this site. So, this is an
13 all-encompassing menu for the player.

14 This page you see right here, you
15 can see how old I am. I am not young. We have
16 an avatar to prepare a picture of me when I'm
17 playing online. We have a document section
18 where we're able to upload documents if we want
19 to enhance KYC. The site can actually take
20 documents and process them by the operational
21 customer service people of the site.

22 We can deposit money in. What good
23 is a gaming site if you can't deposit money.
24 As I scroll down here, you'll see some of the

1 various means of getting money into the site.

2 So, I'll describe these in just very
3 brief detail. Credit card and debit card, we
4 use a third-party payment processor. Automated
5 clearinghouse is a means of linking your bank
6 account directly to the site so you can
7 transfer money directly from your bank account
8 into your gaming account. Golden Nugget
9 prepaid card, this is a unique mechanism that
10 allows customers to get a Golden Nugget branded
11 credit card, if you will, that's rechargeable
12 with funds. The unique aspect about this
13 particular feature is money can be funded onto
14 this card outside of the gaming process as well
15 as money that you've won put back onto the
16 gaming card.

17 I believe you're going to get a
18 presentation later today possibly from a
19 payment provider. One of the most significant
20 challenges in the gaming industry today is
21 being able to accept deposits from credit card
22 companies. There are a series of, I wouldn't
23 say restrictions, but there's general weariness
24 from the credit card companies in being able to

1 fund gaming accounts. So, alternate means of
2 getting money into the gaming account is
3 extremely critical. And this prepaid card is
4 one of the most compelling ways of doing that.

5 Those bank transfers, there is
6 transfer from safekeeping. Here's your first
7 touch of a connection between your land-based
8 casino and your online account where you're
9 actually able to transfer -- take money out of
10 your land-based account through your host or
11 hostess at the casino and being able to put
12 that right into your iGaming account. We have
13 cashier's check, personal check as well as
14 credit card.

15 Withdrawals are very similar, a
16 variety of means of withdrawing money out of
17 the account. How much you have in your
18 balance, how you want to withdraw. We can
19 transfer between wallets. We can look at
20 history. Then I want to touch a little bit
21 more on responsible gaming and limits.

22 So, player protection in all sorts
23 of ways is extremely important to us and I
24 would assume it's important to you as well. We

1 want to protect the player from a game
2 experience by making sure that we have games
3 that are proven, tested and conform to a
4 certain payout percentage.

5 But equally important is the
6 requirement to be able to allow the player to
7 set responsible gaming limits right at the
8 website. So, the technology allows for deposit
9 limits, win wager limits, loss limits on poker
10 or casino games, how much you can deposit on a
11 daily or monthly, yearly basis.

12 So, that the player can monitor
13 themselves and provide the limits that they
14 feel they are comfortable with in order to
15 prevent problem gambling. These may be set by
16 a customer service operator in conjunction with
17 the player or set the website directly from
18 this interface here.

19 Equally as important is the ability
20 for a player to completely self-exclude. So,
21 if a player feels that they are in danger or
22 they're being counseled to exclude themselves,
23 they may exclude themselves voluntarily for a
24 one-year period or a five-year period, which is

1 generally irrevocable unless there is some
2 other sort of intervention. Once a player
3 self-excludes, they are not able to play games
4 again until that period expires. And that
5 interface is directly here on the website.

6 Then of course we have the terms and
7 conditions. These are all agreed to as part of
8 the process of enrolling for an account.

9 Overall the player is educated prior to getting
10 access to the site of all of the capabilities
11 that they have and all of the protections put
12 in place for them.

13 Last before I go back to the
14 presentation, just a little bit on the
15 promotions that are available to the player.
16 So, this particular casino, Golden Nugget, has
17 a land-based presence as well in New Jersey.
18 And as I will touch on in a little bit later in
19 the presentation, they see the Internet
20 application as a way of generating revenue. But
21 they also see the desire to take the players
22 whenever they can and to drive them back to the
23 land-based casino.

24 So, through a series of promotions,

1 tournaments and things of that nature, they're
2 able to create incentives for the player when
3 they're online to earn certain things and to go
4 back into the casino. So, through a variety of
5 promotions, through bonuses, through different
6 types of land-based awards, they build that
7 cross-platform drive. We call it round
8 tripping to take the player online, back to the
9 casino, from the casino back online. That is
10 one of the greatest benefits of Internet gaming
11 for a state that has both land-based and
12 Internet as well.

13 So, in the interest of time, what I
14 am going to do is I am going to go back to the
15 presentation and to spend a bit more time on
16 some of the cross-platform approaches that are
17 in the Internet today as well as coming in the
18 future.

19 So, as I was looking up cross-
20 platform strategies, I found this what I
21 thought was a pretty humorous cartoon here. If
22 only -- our little South Park friend here says
23 if Microsoft and Sony could only make cross-
24 platform gaming possible, I would be so happy.

1 It's been the goal for many
2 companies over many years to be able to bring
3 this collection of players together in a
4 seamless way. And some of the initiatives that
5 we have ongoing, and I'll talk through in the
6 next few minutes, try to bring cross-platform
7 to the gaming industry, especially in places
8 where there are land-based casinos as well.

9 So, what does cross-platform
10 strategy mean to Bally? The first is that
11 platform means not only land-based but also PC,
12 mobile and tablet. All of the devices you see
13 in green around you. And that's very similar
14 to what James had spoken to.

15 But it goes past that. The key
16 fundamentals of cross-platform strategy for us
17 are one mirroring the floor content. So,
18 having players be able to experience similar
19 content wherever they are, whether they're at
20 home or in the casino.

21 Second, expanding gaming access.
22 Third, bonusing players everywhere. We'll talk
23 to you on that in a few more minutes. And then
24 enterprise wide actionable data. When you

1 combine all of those together, it provides a
2 very powerful tool for casinos across their
3 entire touch points of their players.

4 So, the first is mirroring the floor
5 content. What does this mean for us? We are
6 an aggregator of content. So, Bally has some
7 extremely strong slot content and through the
8 SHFL acquisition, some very strong proprietary
9 table game content.

10 But when a player goes to an
11 Internet game site, they want to play the same
12 exact games that they have on the land-based
13 floor. So, Bally has gone and built
14 relationships with all of the companies that
15 you would see in the land-based casino. And
16 through an RGS integration, as James had
17 mentioned, we take their content and we
18 integrate that to our iGaming platform. And
19 distribute it across all of the platforms that
20 we have deployed today.

21 So, just some examples at the bottom
22 here. At Golden Nugget, you will see Bally
23 content, IGT content. You will see Amaya
24 content, soon SHFL Master content. So, a

1 player can play their favorite game no matter
2 where they are. So, it's an extremely
3 important aspect to being able to bring players
4 to a common experience across the floor.

5 Second is expanding access of
6 content. So, six months ago or a year ago I
7 could only play Wild Huskies on a slot machine
8 inside the casino. I'm familiar with it. It's
9 my favorite game. I want to play it. Now I
10 can take it with me on my laptop. I can take
11 it on my tablet. And I can take it on my
12 mobile phone.

13 And what's key here is the game is
14 identical with the exception of maybe format to
15 the game you play inside the casino. So, you
16 could be the same percentaging. You could have
17 the same play mechanics, the same bonusing, the
18 same types of sounds, the same symbols, etc.
19 It's virtually the same identical game wherever
20 you happened to be.

21 That doesn't just limit to slots.
22 Table games apply as well. So, here's an
23 example of a Mississippi stud game, one of our
24 products. We have that same exact game

1 available on PC, on tablet as well as on mobile
2 phones.

3 So, a player can become familiar
4 with the game in the land-based casino and be
5 able to take it wherever they are and play that
6 that same exact gaming experience. So, we want
7 to expand access to every piece of content
8 regardless of channel.

9 So, the next key aspect of cross-
10 platform strategy is the ability to expand the
11 bonuses that a player has in the land-based
12 casino out to online and vice versa. So, today
13 there are systems, you see at the bottom that
14 control the gaming experience in the land-based
15 casino. We also have systems like deployed at
16 Golden Nugget in New Jersey that control the
17 gaming on the Internet.

18 What Bally has done is we've
19 established a link between the two of them.
20 So, what we do is we actually take the iGaming
21 account and the land-based account and we link
22 them electronically. So, both platforms know
23 that Jeff Allen's land-based card and Jeff
24 Allen there is the same account as my iGaming

1 account. We've linked the two of them
2 together.

3 That allows us to do some very
4 unique things. It allows us where allowed by
5 law to be able to provide ratings for the
6 player from online and mobile play. It allows
7 us to give away loyalty points, land-based
8 loyalty points for online and mobile play. And
9 it also allows us to do other unique things
10 like create triggers from online play to give
11 away land-based awards.

12 So, an example of one of our core
13 integration initiatives is to be able to create
14 rules for activity online to be able to give
15 away land-based promotions. So, an example
16 would be a tournament entry. So, you have a
17 tournament entry in the casino. You get that
18 by possibly playing X number of games on a
19 land-based machine. We extend that to allow
20 that same tournament entry to be earned by
21 doing something online.

22 What does that do? That drives
23 players from their online activity back into
24 the land-based so we can round-trip monetize

1 them. In some markets, where this is allowed,
2 we're experimenting with that today.

3 The next is single -- what we call
4 single view of a player. So, today land-based
5 casinos can look at their CMS system and they
6 can view exactly what I played within the walls
7 of the casino, how many games I played, what
8 game I played, when I played in how much I won,
9 how much I lost.

10 Through the linking the two systems,
11 the online and the land-based system into a
12 common business intelligence solution in this
13 case, we're depicting Bally here, we can now
14 generate a wide variety of data that's
15 actionable by the casino.

16 So, for instance at the bottom you
17 see ratings. So, what's depicted there is my
18 play activity online as well as in the land-
19 based casino. So, the casino now has a better
20 snapshot of what I like to play, where I like
21 to play it. Better, more informed offers to
22 me.

23 Then other things we can do would be
24 things like conversion statistics and viewing

1 how well our promotions have been, how
2 effective they've been in order to drive
3 players from online back into the land-based.

4 So, you see some things such as
5 conversion, total registrations online,
6 sessions of play, this is all resident within
7 the business intelligence solution. So, the
8 bringing together of data so you can get a
9 better snapshot of what the player is playing.

10 Sum total of all of the cross-
11 platform benefits is that it provides more
12 opportunities for land-based casinos. So, some
13 of them that we have been working toward,
14 providing RLI's for is that we want to be able
15 to increase what we call the playership of the
16 players, wherever they may happen to be.

17 So, by being able to tailor the type
18 of content that you offer online and matching
19 inside your casino, we offer a more 360 degree
20 experience to the player. So, what they call a
21 rising tide lifts all boats. So, we're trying
22 to build that ubiquitous experience 360 degrees
23 for the player.

24 The second is it's a challenge. We

1 are trying to bring all manufacturers together
2 for the common good of the players. Our
3 approach is towards aggregation of content,
4 bringing IGT and SHFL and Bally and Aristocrat
5 and Konami all together. So, the benefit here
6 is that a greater cooperation between the
7 suppliers will benefit the brick-and-mortar
8 casinos as well.

9 Certainly, an online presence
10 increases the content distribution
11 opportunities for the casinos and increases the
12 revenue potential. And by having an online
13 presence, you're building brand awareness and
14 loyalty as well as getting players used to game
15 content before they come into your casino.
16 Table games is a good example. Being able to
17 get people to learn and understand table games
18 in a non-threatening environment. Those are
19 just some of the synergies between online play
20 as well as brick-and-mortar casinos.

21 Finally, a couple of items that I
22 might leave with you as challenges that we
23 thought of as we have started to deploy a
24 cross-platform strategy for online. I'll just

1 go touch on these very, very briefly. These
2 will probably be topics that you're going to
3 think about as you start to formulate your own
4 registration -- or your own regulations, excuse
5 me.

6 The first is a common wallet and
7 transfer of funds. Today in New Jersey we have
8 a separate wallet for your land-based casino
9 and for your online. And a concept that many
10 casinos have come to us with is how can I use
11 exactly the same wallet for both land and
12 online? And do you want to allow that
13 approach? What are the risks inherent with
14 that? I think that's going to be something
15 that you will be challenged with as you start
16 to legalize Internet gaming along with you
17 land-based.

18 The second is the mobile device is
19 becoming so common in the way we do our
20 everyday life that a mobile wallet is going to
21 be coming soon. So, the ability to take your
22 wallet and to tap on a game or to transfer a
23 code right at the machine or online is coming.
24 You'll be challenged with that. That access to

1 funds is extremely important for just obviously
2 the ability to game.

3 The third is throughout the United
4 States there are a variety models for
5 geofencing. New Jersey allows gaming both on
6 mobile and Internet anywhere within the state.
7 Nevada has chosen poker anywhere within the
8 boundaries of the state. But on mobile, you
9 have to be within the walls of the property.
10 Several other states allow wagering. But
11 you've got to be within the walls of the casino
12 or on a reservation.

13 So, the ability to wade through what
14 your geolocation strategy is is going to be
15 extremely, extremely important for you. You
16 are going to be hearing from some of the
17 geolocation partners in the industry about that
18 as well.

19 Enhanced validation and protection
20 of players, there's a fine line between how
21 much information you want from the player
22 compared to registration. Honestly, I'm
23 hesitant to give my Social Security number to
24 anyone. But in New Jersey if I want to wager,

1 I have to do that.

2 So, being able to navigate how much
3 you want to collect from a player and require
4 is going to be a challenge that you'll have to
5 overcome. And you'll find there are
6 sensitivities from various people there.

7 Unified player communication. With
8 the advent of the mobile phone platform and the
9 Internet, casinos now are able to send messages
10 as well as offers to players across all
11 platforms. And you're going to want to
12 understand and carefully monitor what types of
13 offers and how you communicate that to players.

14 I think it's safe to say on the
15 online technology front, the technology can
16 outpace what you're probably going to want to
17 do from a regulatory perspective. There's a
18 lot more that can be done than you may feel
19 comfortable with.

20 So, figuring out what portion of
21 that technology you want to use is going to be
22 extremely critical.

23 Then of course, I know you are
24 considering who you grant licenses to, whether

1 it be only to pure online or whether it's to
2 land-based. The United States is primarily
3 land-based. So, as we had mentioned before
4 there's lots of advantages to coupling online
5 with a land-based presence.

6 So, just some food for thought going
7 forward. With that are there any questions
8 that I may answer for you?

9 COMMISSIONER STEBBINS: I might have
10 missed it, but in allowing the online self-
11 exclusion does the self-exclusion on the game
12 mirror what a state would offer in terms of
13 self-exclusion terms and periods of time, etc.?

14 MR. ALLEN: It certainly can. It
15 certainly can. The one thing I will also
16 mention is that in some instances we actually
17 check upon registration land-based self-
18 exclusion databases to make sure that certain
19 players that have been prohibited from gaming
20 are prevented from registration. So, on
21 registration we'll actually do a check of that
22 electronic database in some cases if required.

23 COMMISSIONER STEBBINS: Thank you.

24 COMMISSIONER ZUNIGA: And on that

1 note, you mentioned seven casinos in New
2 Jersey. Would a person have to go self-exclude
3 from each one of the seven or can they do it
4 once for all seven?

5 MR. ALLEN: So, I will ask Eric to
6 assist me there. I believe, if I'm not
7 mistaken, that we are integrated to the self-
8 exclusion database in New Jersey.

9 MR. WEISS: The process in New
10 Jersey is that the Division of Gaming
11 Enforcement publishes a list of self-excluded
12 people. It's confidential list with the casino
13 industry. We also have a list of (INAUDIBLE)
14 from gambling within the casino and Internet.
15 In New Jersey you can self-exclude from the
16 Internet only and not land-based. But if you
17 exclude from land-based, you are excluded from
18 both Internet and land-based.

19 You have to go through a KYC process
20 online to register because you don't want
21 people registering as someone else as being a
22 problem gambler. So, if every website has to
23 give you the opportunity to self-exclude, once
24 you've gone through the KYC process and self-

1 excluded yourself, it gets transmitted to the
2 Division of Gaming Enforcement and then pushed
3 out to all casinos. So, you would be self-
4 excluded from every casino in Atlantic City.
5 That's the automated process.

6 CHAIRMAN CROSBY: Is there a
7 difference in the economic model between the
8 customer you service online and the customer --
9 Well, obviously there is.

10 But what are the economic models
11 between you're servicing a customer online and
12 you're servicing a customer in the casino?

13 MR. ALLEN: From Bally's
14 perspective?

15 CHAIRMAN CROSBY: Yes.

16 MR. ALLEN: So, in the land-based
17 casinos there's a couple of different models.
18 On the slot machine there's a game sale and
19 there's a participation game as well.

20 CHAIRMAN CROSBY: Share of revenue.

21 MR. ALLEN: Share of revenue,
22 correct. Online, it's primarily a share of
23 revenue is the common model. So, when IGT
24 gives content or Aristocrat gives content,

1 there is a relationship between those content
2 providers and the casino for a percentage of
3 revenue as well as Bally from a platform side
4 and from a content side.

5 CHAIRMAN CROSBY: And that's if
6 you're offering in collaboration with a bricks-
7 and-mortar casino.

8 MR. ALLEN: Correctness, and that is
9 the only way currently that is being offered.

10 CHAIRMAN CROSBY: In New Jersey?

11 MR. ALLEN: Correct. It's only
12 through a land-based casino.

13 CHAIRMAN CROSBY: From your
14 standpoint, presumably it would be better if it
15 was offered without the casino.

16 MR. ALLEN: We have chosen not to be
17 a business-to- consumer company. So, we are
18 pure business-to-business. We are technology
19 provider only. We are not providing gaming
20 directly to players. It's exclusively through
21 licensed land-based casinos or if there's a
22 jurisdiction, a licensed operator of gaming.
23 So, we are purely business-to-business at this
24 point. So, there's not even a possibility to

1 go directly to the player.

2 CHAIRMAN CROSBY: Is that true of
3 everybody in that business?

4 MR. STERN: I wouldn't necessarily
5 say everybody, but it's definitely IGT's
6 position as well for real money wagering.

7 MR. ALLEN: For real money wagering,
8 yes. Double Down is direct to consumer.

9 CHAIRMAN CROSBY: Okay. Thanks.
10 That's very interesting.

11 MR. ALLEN: Thank you very much.

12 COMMISSIONER MCHUGH: Thank you,
13 Jeffrey. And thank you again, James. That's a
14 good overview of what this is all about. And
15 the number of moving pieces is fascinating.
16 It's not limited now to this area.

17 I know of one major university
18 that's using some of this as part of its
19 admissions process. Of course, we hear when we
20 think about the profiles that Jeffrey talked
21 about, we hear about Amazon and some of the
22 things that they're doing in order to
23 anticipate what customers will need and when
24 they'll need it.

1 But we do have a good overview now
2 of what this is on both the social side and the
3 for pay side and how it works. Now we want to
4 spend a few minutes talking about what people
5 in jurisdictions are doing with it. First,
6 sort of a national and world perspective and
7 then some of the parameters that are here in
8 Massachusetts.

9 For the national perspective, the
10 Americas Managing Director of Gambling
11 Compliance, the publication that is a daily
12 supplier of enormous amount of useful
13 information is James Kilsby. He is probably
14 the premier chronicler of online gaming here
15 and across the globe. And we're fortunate
16 enough to have with us today to give us sort of
17 a synopsis of what's going on throughout the
18 country and a snapshot of what's going on
19 elsewhere.

20 MR. KILSBY: Thank you for that very
21 kind introduction. I just have a brief
22 presentation to give you a sense of which
23 states are looking at this area, which have
24 legalized already and then try to put that into

1 some global context of jurisdictions that have
2 gone before. Just give me a moment to load the
3 presentation.

4 As I mentioned, the purpose of my
5 presentation is really just to update the
6 Commission as Massachusetts addresses this
7 issue in its early stages of doing so, which
8 states would it potentially be looking to
9 follow. And where does this discussion fit
10 within the context of the nationwide
11 international debates about some of the key
12 policy issues in this area.

13 You see from this slide where we
14 stand today. Internet gaming, by that I mean
15 online casino games or poker, is now legal in
16 three states which is Nevada, New Jersey and
17 Delaware. There have been bills or proposals
18 probably likely to be considered in perhaps
19 eight to 10 other states and also before
20 Congress this year.

21 There also are three state lotteries
22 that are participating in online gaming through
23 either offering their traditional lottery
24 tickets for sale on the Internet or Keno or

1 instant type games being offered to their
2 customers online.

3 I think it was Senator Rosenberg
4 earlier mentioned that this is a new frontier
5 for the gaming industry. And I thought it was
6 a good point to consider why we now are
7 approaching this frontier now? And why is this
8 an issue that seems to be gathering far more
9 momentum in perhaps the last four years than it
10 had previously?

11 And among the many reasons why I
12 think that we're now discussing this issue I'd
13 probably like to highlight four. Firstly, I'd
14 suggest that there is now an increased interest
15 in iGaming as an opportunity among the industry
16 itself. And that's both the casino operators
17 and the suppliers, the likes of IGT and Bally.
18 Thinking the last perhaps four to five years,
19 those domestic companies are starting to
20 embrace this as more of an opportunity than
21 perhaps a threat to their businesses.

22 Secondly, we've seen an increasing
23 comfort that this activity can be regulated on
24 the part of the well-established gaming

1 authorities in Nevada and New Jersey
2 especially.

3 Thirdly, and it's important to note
4 that one of the reasons why we're now seeing
5 activity in this area is because it's becoming
6 increasingly apparent in that this is an
7 activity that states can pursue and can look to
8 regulate themselves under federal law.

9 I am absolutely not qualified to
10 give an overview of all of the federal laws as
11 they potentially apply to online gaming. But
12 there are certainly two that the Commission may
13 wish to consider in looking in greater depth.
14 Firstly, there you'll see the 2006 Unlawful
15 Internet Gambling Enforcement Act, which was
16 passed by Congress to prohibit deposits made to
17 unlawful Internet gambling websites. So, it's
18 effectively a ban on the processing of payments
19 for illegal Internet gaming.

20 That Act didn't offer an exact
21 precise definition of what unlawful Internet
22 gambling was. And actually, it appeared to
23 open the door for lawful Internet gambling.
24 And specifically said that that term unlawful

1 Internet gambling does not apply to
2 transactions that are initiated and received or
3 otherwise made exclusively within a single
4 state, subject to those states being legalized
5 and regulated.

6 So, that kind of opened the door for
7 states to consider about exploiting that
8 provision within the federal law.

9 Another key barrier that has been
10 removed in recent years is the 1961 Wire Act.
11 Under the previous administration, the US
12 Department of Justice had taken the stance that
13 this 1961 law prohibits all forms of Internet
14 gambling.

15 Where in December 2011 just before
16 Christmas the Department of Justice's office of
17 legal counsel published a memorandum reversing
18 that traditional opinion and stating that
19 actually the Department's view is that the Wire
20 Act only prohibits sports betting online.

21 So, really that cleared up one legal
22 question mark in this area about what the
23 states could do. And combined with that the
24 2006 Unlawful Internet Gambling Enforcement Act

1 that created a federal legal environment that
2 we are now seeing states like Nevada, New
3 Jersey and Delaware move into.

4 That brings me onto the fourth point
5 really as to why we're seeing increasing
6 activity. I think again that's an area of
7 federal law and federal legislation. I think
8 the states are seeing this as the potential for
9 Congress to act again in this area.

10 Perhaps the earlier adopters of
11 Internet gaming would be favored under any
12 federal legislation that does come down.
13 Perhaps even those that don't act to regulate
14 in this area may even lose the opportunity in
15 the future if Congress does decide to change
16 either of these two laws or pass a new one
17 again.

18 That's why we are here. And this is
19 a map really to show the state of play as of
20 the end of 2013. We have the three states
21 there. And just see Delaware and New Jersey
22 together and Nevada that legalized iGaming. A
23 total of nine states last year that either
24 considered formal legislation in this area or

1 legislative proposals and had discussions
2 around this activity.

3 We could shade the map another way
4 and shade in green Illinois, Georgia and
5 Minnesota, which are the three states that via
6 their lottery is participating in some form of
7 online gambling with more traditional lottery
8 products than the type we've just seen
9 demonstrated.

10 As with the land-based gaming market
11 across the country, that doesn't seem to be a
12 uniform expansion of Internet gaming even with
13 just the three states that have adopted it so
14 far. And the way that Rhode Island and New
15 Hampshire and Connecticut and Massachusetts
16 don't have exactly the same system in place,
17 the same structure.

18 That seems to be a pattern emerging
19 where states are taking the same approach in
20 regulating online gaming according to their own
21 policy objectives.

22 To illustrate that, Nevada is
23 regulated by the Gaming Control Board and
24 Gaming Commission and only allows licenses to

1 be obtained by the large resort style casinos.
2 And the only type of games that can be offered
3 by those interactive gaming licensees is poker
4 only. So, none of the casino style games or
5 slots that we've seen. The tax rate in Nevada
6 is 6.75 percent which is exactly the same tax
7 rate that is paid by the land-based casinos.

8 New Jersey, similar in the sense
9 that it's regulated again by the gaming
10 agencies, the DGE and the Casino Control
11 Commission. Again, similar in that only the
12 land-based casino resorts in Atlantic City can
13 obtain the licenses to operate Internet gaming.
14 But as well as being able to offer poker, the
15 license holders can offer all types of casino
16 games. The tax rate is -- effective tax rate
17 is about 17.5 percent, which is almost double
18 the tax rate that is applied to the land-based
19 operations in New Jersey.

20 Third is Delaware is a different
21 model altogether, where the state lottery has
22 procured one online gaming platform that it
23 controls, oversees and operates itself. But it
24 offers that on a white label basis to three

1 racetrack casinos in Delaware. So, there's one
2 platform, one backend to it.

3 The three casinos have their own
4 brands on three separate websites that use that
5 platform. And they market that to their
6 customers and share in the revenue on the same
7 basis that they do land-based gaming. So, you
8 see there are really -- the land-based gaming
9 regulatory models in Nevada, New Jersey and
10 Delaware are being brought online. And you
11 clearly see where the regimes are coming from.

12 One other point of note is certainly
13 worth mentioning and a very recent development
14 is that Delaware and Nevada have agreed to pool
15 their poker players for a multistate agreement,
16 which basically means that the poker players in
17 Delaware and the poker players in Nevada will
18 be able to compete against each other via one
19 platform.

20 This is -- The necessity for this
21 may become apparent but that's an early sign of
22 collaboration between states in this area.
23 Perhaps moving towards what we've seen in the
24 lottery industry with Mega Millions and

1 Powerball where states work together to create
2 games and products that are of greater consumer
3 interest than they would be in the individual
4 games that they operate themselves.

5 Just to illustrate again some of the
6 diversity of regulatory models that we're
7 seeing proposed either last year or carried on
8 into this year. Like I said, about a dozen
9 different states proposals are out there. Some
10 proposing different games, different oversight
11 and different operators and different tax
12 rates.

13 I guess to highlight just a couple
14 of those. Massachusetts, as I'm sure you're
15 very much aware, there are two bills that have
16 been introduced in the state Senate. One to
17 authorize the Massachusetts Lottery to offer
18 games online. And another to offer licenses
19 for iGaming to the prospective licensees that
20 will be under the Gaming Commission's
21 authority.

22 California is probably a state that
23 we expect to hear more about as this year goes
24 on. There's two bills to allow online poker

1 only that are pending in the Legislature there.

2 Pennsylvania, an official study that
3 the Legislature has requested is being
4 conducted and I believe should be presented
5 before May. But that would include a study of
6 the potential for online gaming in
7 Pennsylvania, which should give some sense of
8 the appetite and a context for a discussion of
9 online gaming in Pennsylvania.

10 Like I said, it's certainly worth
11 noting the two federal bills that are pending
12 in the House of Representatives. One of which
13 would authorize poker games only in one poker
14 casino and others. But what we are really
15 talking about there, rather there being a
16 nationwide scheme regulated directly by the
17 federal government, there would be new agencies
18 created in the federal government that would
19 set the standards for state regulators to be
20 qualified to issue licenses and regulate this
21 activity on an interstate basis.

22 As I say, one of the bills would
23 create that scheme solely for poker, and the
24 other for other games. And there's a lot of

1 different variables and fairly long pieces of
2 legislation. But certainly that's the
3 framework that's been under consideration in
4 Congress is that state agencies would play a
5 role in this area but they would have to show
6 they're qualified to do so.

7 So, we're seeing certainly some
8 momentum pick up in this area since 2010 and
9 2011, which like I said, the two things in 2010
10 are perhaps when federal legislation really
11 came into view as a possibility, and 2011 when
12 the Justice Department's position on the Wire
13 Act came out. We're seeing this clearly pick
14 up with both the number of states that are
15 considering bills in this area, and the states
16 that are considering allowing interstate play
17 as part of that system.

18 How fast and how much this is going
19 to pick up is really, really unclear. I'm sure
20 we'll see much more legislation considered in
21 this area. But I'm conscious of Senator
22 Rosenberg describing Massachusetts expanded
23 gaming debate has gone on for decade after
24 decade. So, there certainly is a sense of

1 political and legislative uncertainty within
2 here in terms of how many states and how
3 quickly they will get into this market.

4 Certainly, a lot of attention in the
5 next few months is being paid to New Jersey in
6 particular. That's the same with respect to
7 Nevada and Delaware, but I think New Jersey is
8 seen as the largest of those three states, the
9 complete range of products, poker and casino.

10 And I think the industry and all of
11 the stakeholders in there are watching New
12 Jersey very closely to assess not just whether
13 the regulation is working effectively and this
14 is an activity that can be regulated, but also
15 how is it functioning from an economic
16 perspective, both in terms of the revenue that
17 it's generating, and also is there any impact
18 of cannibalization on the Atlantic City
19 casinos.

20 Certainly, New Jersey is a very
21 informative case study for the next few months.
22 And I think the states that are considering
23 legislation are certainly aware of that.

24 So, quickly this is just a list, a

1 very nonexhaustive list of some of the key
2 policy questions that any state really would be
3 looking to consider in this area. The state of
4 federal oversight is a big one. Traditionally
5 gambling regulation has been left to the
6 states, but the question is as this involves
7 the Internet does that make it an inherently
8 interstate activity? Certainly, at the moment
9 it's the states that are taking the lead in
10 regulation and moving this forward.

11 If a state is going to regulate or
12 authorize this, (A) there's a question of who
13 should operate Internet gaming within that
14 jurisdiction and who should regulate it?
15 Nevada and New Jersey have gone the route of
16 having their casinos operate it with oversight
17 by the gaming agencies. Whereas Delaware which
18 there is Constitutional reasons for this, I
19 believe, but Delaware's lottery has been most
20 active and if perhaps that's not a straight
21 choice between one or the other, is there a way
22 that you can have the lottery and land-based
23 gaming companies participate in this area? And
24 how does that oversight work?

1 The type of games will be another
2 one. In New Jersey and Delaware casino and all
3 games. But in Nevada and what's being
4 considered in California is poker only. Then
5 if you're going to allow all casino games or if
6 you're going to allow casino style games, is
7 there a limit to place on the type of games
8 that could be considered there. I think one of
9 the bills in Massachusetts would not allow
10 games that appeared like slot machines. Games
11 in that something that Spain and Italy and
12 Europe have done as well.

13 A big word and a big concept to bear
14 in mind in the fourth point there is liquidity,
15 which is particularly important for poker.
16 This is the idea that the irony really of
17 regulating Internet gaming versus land-based
18 gaming is that the borders around which you are
19 regulating online gaming seem to be more
20 defined actually than they are with land-based
21 gaming. Where if there's a casino that's on
22 the border of New Hampshire and Massachusetts
23 but within Massachusetts jurisdiction, the
24 number of players that can be drawn to that

1 facility is limited purely by the travel time
2 that it takes to get there -- the desire of the
3 players to do so.

4 Whereas for Internet gaming, if
5 you're regulating on a state basis, you are
6 confined to doing that and all players and
7 transactions within your state. So, the
8 greater pool of players that are available due
9 to state population really determines the
10 profitability of that market and the viability
11 of that market, more so in some respects than
12 the land-based side.

13 And that kind of strength of play
14 and depth of population is particularly
15 important for poker because poker operators or
16 poker players expect to have a large range of
17 games available. And they're competing against
18 other poker players. So, the more players that
19 you can have on a poker operation, the more
20 attractive it is to have a poker game, poker
21 regime where the small number of players is a
22 tricky one to do so. And tricky one for
23 operators that operate that in a profitable
24 way.

1 Next point is around geolocation and
2 ID verification and payment processing were
3 touched on the previous panel. And
4 particularly some of the hesitation at this
5 point of the banks that issue credit cards to
6 allow their cards to be used in Internet
7 gaming.

8 I think when you combine the
9 challenge of regulating in a confined
10 jurisdiction with liquidity, with the
11 geolocation and ID verification controls that
12 are required plus the difficulty around on
13 payments that really leads you to some open
14 question around the revenue potential and the
15 profitability of markets on a state-by-state
16 basis. Again, that's I think one of the
17 reasons why people are looking so closely at
18 New Jersey.

19 Two final ones are big ones, and I
20 won't get into, but certainly one I just wanted
21 in mind is the suitability standards you might
22 require of new suppliers that will be servicing
23 the online gaming industry.

24 I believe the Commission is just

1 starting the process now of licensing gaming
2 suppliers and technology providers for the
3 land-based casinos. With Internet gaming, you
4 may whoever the licensee are, they may look to
5 tap the expertise of companies that formerly
6 serviced the US market when it wasn't expressly
7 regulated.

8 So, that raises questions about what
9 should be the standards that apply to that?
10 And should this be an area that the regulators
11 or the Commission has the authority to decide
12 for itself or do you legislate around that
13 area?

14 So, lots of questions that really
15 don't have an immediate answer, but certainly
16 hopefully gives some context to watch as this
17 area is developing in real-time in the three
18 states that have allowed it.

19 And if we skip to some of the
20 international jurisdictions, you probably see
21 that some of the same challenges have arisen
22 there. I'll stick with Canada and Europe to
23 frame what's going on in the states in an
24 international context.

1 Canada, there are now three soon to
2 be four provincial lottery corporations that
3 are operating online casino and poker games.
4 You'll notice there that it's the lottery of
5 the Canadian provinces that is directly
6 operating. They've done similar to Delaware in
7 that it's the agency of the government that's
8 procuring the technology themselves and then
9 deploying it.

10 That's not so much a policy choice
11 as a limit around the Canadian federal law, the
12 criminal code that requires provinces to
13 operate gaming directly. But that's certainly
14 another example of lottery agencies being very
15 active in Internet gaming.

16 And Europe is a very complex and
17 fast-changing story in and of itself.
18 Essentially, what we're seeing is the vast
19 majority now of European Union countries
20 authorizing and regulating online gaming.
21 Either they've done that already or they're in
22 the process of doing so. That would include --
23 Licensing regimes are already in place now in
24 the UK, Italy, France, Spain and Denmark and

1 there are others in Eastern Europe.

2 And countries including Germany, the
3 Netherlands and Portugal and again others in
4 Eastern Europe that are actively undergoing
5 reforms to allow and license online gaming for
6 the first time. So, that's on the one hand we
7 have system of licensing regimes. There's a
8 few countries that are offering online gaming
9 directly through state monopolies often lottery
10 companies. And that would be Sweden, Norway,
11 Finland and Austria are examples of those.

12 Interesting to note really, and this
13 is where the lessons of Europe I'd exercise
14 some caution in looking at the impact of online
15 gaming in certain of these countries, because
16 they're doing a rather different thing in many
17 cases than what is being talked about in the
18 States where we are really talking about
19 bringing existing land-based gaming, land-based
20 casinos online.

21 The only country that's really done
22 that model to my knowledge is Belgium, which is
23 requiring a land-based license in order to move
24 online.

1 And essentially, Europe is a similar
2 thing. There's different games available in
3 different jurisdictions, different tax rates.
4 And some of the challenges, there's a big one
5 around conformity with European law, which has
6 driven the debate. That's certainly one that
7 exists here. The challenges would include how
8 to have a competitive enough offer to beat
9 unlicensed providers.

10 And how to best harness liquidity
11 and create pools of players that are wider than
12 just one country. And there is no defined
13 solution that you can look to in Europe as of
14 yet that would give you the answer to that.
15 But as I say, it's a fast-moving and fast-
16 changing industry. So, plenty to watch out
17 for.

18 I'll leave it that. I'm certainly
19 very happy to answer any questions that you
20 have.

21 COMMISSIONER CAMERON: I have one
22 question. James you mentioned the two bills in
23 Congress. But I don't believe you mentioned
24 the Wire Act fix being drafted. Does that have

1 to do with sports betting?

2 MR. KILSBY: No. There's nothing
3 that's been introduced but there is likely to
4 be legislation this year. There is one Senator
5 from South Carolina that has already stated
6 that he's drafting this. There's likely to be
7 legislation considered to undo the Justice
8 Department's opinion on the Wire Act, which
9 would essentially mean that that restriction
10 applied to all forms of Internet gambling and
11 not just sports betting.

12 So, I think that's a debate that's
13 probably going to happen. But as to whether
14 (A) how is that going to work in terms of
15 legally resetting the law and then (B) how is
16 that going to play out in Congress. And
17 whether it has prospects of passing is almost
18 impossible to say.

19 COMMISSIONER CAMERON: Thank you.

20 COMMISSIONER STEBBINS: James, do
21 you sense any hesitation from some states that
22 they'll wait and see if there's any action on
23 the federal level?

24 MR. KILSBY: Perhaps not on the

1 federal level we'd see that. The momentum
2 builds and that's with the states really. I
3 think is there is a sense that there is some
4 hesitation to move forward, my feeling is that
5 it would be kind of paradox of New Jersey
6 especially moving forward. On the one hand
7 that's going to prove the case from a
8 regulatory perspective that this is something
9 absolutely that states have the ability to
10 effectively control.

11 On the other hand I guess it may
12 have a certain that cools the momentum slightly
13 because now states can have a very real example
14 that they can look to from a revenue
15 perspective and otherwise.

16 So, there could be a sense that some
17 states now that there are three markets live,
18 looking to draw conclusions from those early
19 adopters and apply them. And for all three of
20 them, it's the early days. So, perhaps it's a
21 sense of wait and see for a few months to be
22 able to draw those conclusions.

23 COMMISSIONER STEBBINS: Thank you.

24 COMMISSIONER MCHUGH: All right,

1 James. That's a great snapshot of what's going
2 on here and a little bit about Europe.

3 Let me just thorough -- before I
4 turn to the next one, take the flip side of
5 Commissioner Stebbins question. Have you seen
6 any suggestions anywhere or suggestions
7 anywhere that states are perking up interest in
8 trying to get in ahead of whatever federal
9 legislation may come on the theory that if they
10 are established the federal legislation will
11 have to take account of what's already there
12 and what's already been licensed?

13 MR. KILSBY: I am not sure that -- I
14 don't know that that's necessarily been so much
15 part of the debate in terms of what states have
16 done in their processes. Certainly, something
17 I think that advocates in this area have, I
18 know, they discussed.

19 There are those proponents of
20 wanting the gaming industry to embrace Internet
21 gambling and have really seen the opening the
22 door with the Wire Act as an opportunity for
23 states to move forward. I guess the reverse of
24 that is if the door is open, perhaps someone

1 would come along one day and close it. I think
2 that the kind of picking up the momentum is
3 more that opportunity of arriving rather than
4 it potentially disappearing.

5 COMMISSIONER MCHUGH: Thank you.
6 Whatever the case in the future, it's clear we
7 can't to here now. And to tell us why Pat
8 Hanley, Patrick Hanley is the chief of the
9 Gaming Enforcement Division of the
10 Massachusetts Attorney General's office.

11 He's an experienced law enforcement
12 officer. Has had a number of law enforcement
13 positions. He's one of our partners in making
14 this thing work, making sure it works with
15 integrity. And he's going to outline for us
16 now in broad terms at least what the
17 Massachusetts framework is and is not.

18 MR. HANLEY: Good morning. Thank
19 you for the introduction. I'm fortunate enough
20 to be the last speaker before the break, so, I
21 hope everybody is barely awake and I say
22 something interesting.

23 We're here under the impression or
24 the assumption that much of what we are talking

1 about is in fact illegal in Massachusetts.
2 There isn't a law in Massachusetts that says
3 you can't gamble on the Internet. But there's
4 a whole bunch of other laws that were generated
5 largely before there were even computers that
6 those overlapping laws make it clear that you
7 can't gamble on the Internet under the existing
8 laws.

9 In my experience, prior to this job
10 largely, we have prosecuted gambling cases
11 where folks were what's called organizing and
12 promoting gambling organizations. Often what
13 would happen would be -- and that's under
14 General Law 271 16A. Generally, individuals
15 would place bets on the Internet. There'd be a
16 bookie what was physically here in
17 Massachusetts. The Internet part would be
18 offshore somewhere. But if you won, your
19 bookie would come meet you or an agent for that
20 bookie would come meet you and pay. If you
21 owed, that bookie would probably find you and
22 you'd have to pay them.

23 So, in Massachusetts I mentioned
24 cases, United States versus Todd Lyons and

1 Daniel Eremian is a recent First Circuit case.
2 It was a Massachusetts wiretap, but it explains
3 how historically Internet gambling has been
4 prosecuted in Massachusetts. I also prosecuted
5 a case that pled against a guy named Joseph
6 Gialanella and one of his agents Gerald Sower,
7 which basically worked the same way.

8 But the framework in Massachusetts
9 that deals with gambling, the criminalizing
10 gambling is basically found in two places under
11 23K section 37, which outlaws operating any
12 game or gaming device as defined in the
13 beginning of that chapter. A game or gaming
14 device is defined pretty broadly to include I
15 think a game operated via the Internet, unless
16 it's authorized by the Gaming Commission.

17 But more than that under General
18 Laws under Chapter 271 which is where most of
19 the historic gambling crimes can be found, and
20 they are historic, almost prehistoric in the
21 way they are written, but these laws make it,
22 as I said, not illegal to gamble on the
23 Internet. It doesn't say that. But it says
24 it's illegal to offer gambling devices for sale

1 which arguably would include software.

2 Under for example 271 section 7, it
3 makes it illegal to, aside from sports bets,
4 but for nonsports bets any type of game of
5 chance which is defined as a lottery, you can't
6 place any bets, those types of bets.

7 Under Chapter 271 sections 9 and 11,
8 it outlaws both the sale and the advertising of
9 any out-of-state lottery tickets. I know that
10 there's been discussion nationally about
11 different states wanting to offer the sales of
12 lottery tickets from their state in another
13 state in order to boost business. You can't do
14 that here in Massachusetts.

15 Again as I mentioned, Chapter 271
16 16A, that's our big felony, organizing and
17 promoting statutes, 15 year felony if you
18 violate this. And it basically says that if
19 you have four or more employees, four or more
20 people that are functioning as part of an
21 operation to offer any type of bet that is
22 illegal in Massachusetts.

23 So, I imagine that almost any
24 Internet gambling company has at least four

1 employees. So, it's under that statute that is
2 sort of the big deterrent to doing it here in
3 the Commonwealth.

4 271 section 17 outlaws keeping a
5 place for registering bets. So, arguably if
6 there were a kiosk where you could go and place
7 bets via the Internet at a kiosk that would be
8 illegal as well.

9 Section 17A says you can't use a
10 phone for registering any kind of bet. It
11 doesn't actually say anything about the
12 Internet, but arguably using a phone, the
13 Internet uses a phone line in most cases. That
14 arguably would be illegal as well.

15 You can't possess records related to
16 gambling under section 20. You can't send or
17 receive any information about gambling. So, an
18 email saying hey, you've won probably illegal
19 under section 22.

20 You can't place bets on horses or
21 illegal horse races in Massachusetts unless of
22 course it's authorized horseracing. And the
23 most absolute law in Massachusetts on betting,
24 you can't bet on boxing in Massachusetts in any

1 way, shape or form.

2 The reason I just offer this, and I
3 have this cheat sheet here on what the statutes
4 are, like I said, there's no places that it
5 says you can't gamble on the Internet in
6 Massachusetts. But there's a whole bunch of
7 other laws that sort of blanket the territory.
8 And to the extent that the Commonwealth would
9 choose to make it legal in some circumstances,
10 there'd have to be a carve out as there is more
11 brick-and-mortar businesses under Chapter 23K.

12 All of these 271 statutes that I
13 mentioned all have carve outs except where
14 authorized under 23K by the Gaming Commission.

15 That's it. Any questions? Thank
16 you.

17 COMMISSIONER MCHUGH: There aren't
18 many rough edges there. So, I think what we'll
19 do now with thanks to the panel for these
20 thoughtful and stimulating discussions is take
21 a break from this gathering to discuss illegal
22 activity. And we will resume in 15 minutes.

23 Executive Director Day will lead the
24 next two segments of the program, 15-minute

1 break and then we will resume.

2

3 (A recess was taken)

4

5 MR. DAY: I'd like to make just a
6 couple of quick informational remarks at least
7 for our presenters and our panelists and our
8 staff, we will be providing lunch for you just
9 next door where we were this morning. We're
10 going to take that lunch break at 12:30
11 according to our agenda.

12 I would also like to acknowledge
13 Janice Reilly and Maryann Dooley who have been
14 the two who have been actually organizing this.
15 Jim and I are just the good-looking guys
16 providing the entertainment. Thanks Janice and
17 Maryann. We appreciate your help and work.

18 Our next panel is going to be a
19 little discussion about the risk to Internet
20 gaming, in particular money laundering, problem
21 gambling and verification. At least it's been
22 my experience that the idea of this topic,
23 these are subjects that almost any discussion
24 of Internet Gaming and whether or not you're

1 going to have Internet gaming in a jurisdiction
2 usually end up in these subjects somewhat along
3 the line.

4 And I think even as we opened up our
5 discussions this morning, our previous speakers
6 have already touched on some of those issues.
7 The idea of this topic to finish this morning
8 is if time permits we'll check for questions
9 after each speaker is done, but we'll try to
10 move right on through their presentation. And
11 depending on how quick we're able to get
12 through it, we're going to allow them about 20
13 minutes to summarize each one of the topics.

14 I'd like to talk briefly. Our first
15 will be Tim Richards. Tim is right to my
16 right. Tim is the General Manager and Senior
17 Vice President of Global Cash. Tim joined
18 Global Cash in 2011 as the Senior Vice
19 President for product development. In February
20 2013, he was named to the GM and Senior Vice
21 President of the new interactive solutions
22 division with a goal of establishing Global
23 Access's market leadership position into the
24 iGaming space.

1 So, prior to Global Gaming Access,
2 Mr. Richards worked in product innovation
3 related executive positions for Interblock,
4 IGT, Progressive Gaming and Gaming Systems.

5 So, the topic we've asked Tim to
6 address for us this morning is about money
7 laundering and age verification. And with that
8 Tim, it's all yours.

9 MR. RICHARDS: Good morning. I
10 think some of you may have heard of Global
11 Cash. But just to give you a quick background
12 on the company is we provide cash access
13 services, ATM services for the majority of the
14 gaming markets. We are very much focused on
15 the casino market in the US. We have about 70-
16 75 percent of the casinos. We process about
17 \$20 billion each year in transactions for
18 casinos.

19 And we also operate about 15 or 18
20 cash checking booths, which allows us basically
21 to provide check cashing cash access services
22 for those casinos which they've asked us to put
23 those booths in. Basically run that part of
24 the cage for them.

1 And for that as a company, we have
2 to follow a lot of these same AML rules. And
3 it's something that we've not only built into
4 our products, but it's something we have to
5 practice on an operational basis each day.

6 So, I spent a good amount of time
7 with our product compliance folks in that
8 department, and gathered some information
9 through them. And hopefully we can make this
10 informative but feel free to follow up with any
11 questions if I missed anything.

12 Please understand this is the based
13 on our practical experience. Of course,
14 there's a lot of legal ramifications and
15 probably a lot more questions that will need to
16 be answered than what can probably be answered
17 in 20 minutes.

18 The first question is what is AML or
19 what is money laundering? AML by the way I'll
20 probably throw that out there is anti-money-
21 laundering. But I went out and I found two
22 definitions on the Internet. The first one
23 that came up was basically it's consuming of a
24 source of the illegally gotten money. That was

1 from WordNet. I'm not sure I've used that site
2 before but I thought it was interesting.

3 So, I'm a little bit warped. And I
4 thought well, I'll go to Urban dictionary and
5 see what Urban dictionary has to say. That
6 will probably be kind of funny.

7 And it was actually a really good
8 definition. It was probably the best one I had
9 come up with. Basically, the process of hiding
10 the source of illegal income by processing it
11 through a large turnover entity who takes a
12 premium from it and then receiving the income
13 from that entity to avoid suspicion. I'm sorry
14 it's a little hard to read up here.

15 Basically, it's what it is. It's
16 hey, I've gotten some illegal money. How do I
17 run it through a few sources and make it appear
18 to be legal and legitimate. And generally
19 there's a vig I'm going to have to pay in order
20 to make that happen.

21 I wanted to just throw a few
22 examples out there. I think generally speaking
23 in the news we hear of money-laundering, We
24 hear of this sort of thing. And in the past,

1 it's happened through banks. I apologize if
2 you can't see that in the back. But these
3 seven dots basically represent fines over the
4 past few years for some of the major banks. I
5 think the first big dot is \$1.92 billion was
6 the fine that HSBC paid for their actions
7 mainly in Latin America where they were kindly
8 taking cash in the banks and allowing it to be
9 laundered through their banks.

10 As you can see, there are several
11 others. I wanted to throw this up there
12 because I think it is something that FinCEN and
13 the US take very seriously especially within
14 the banks. I'm not sure from a gaming
15 perspective that we've ever reached these
16 levels of fines, but it is something the banks
17 are keenly aware of. And of course, all of
18 this ties together. And it generally prompts a
19 lot of questions from the banks and why we've
20 had issues with payment processing, if you
21 will. I know it was mentioned earlier.

22 While we've had issues with payment
23 processing in the iGaming and Internet lottery
24 space, generally speaking, the banks are very

1 concerned about iGaming. And oftentimes they
2 cite that reason they won't process for iGaming
3 is there's a reputational risk.

4 As opposed to other things banks
5 have done, I'm not quite sure it's that great
6 of a risk. But, today in iGaming there is
7 really just one processor and one bank that
8 will process for iGaming in the US. So, it is
9 a bit of a concern.

10 So, money-laundering in the iGaming
11 space, generally speaking money-laundering in
12 the iGaming space has been related to
13 accusations related to essentially offshore
14 sites allowing iGaming in the US.

15 Maybe not a great example, but I
16 think it's sort of if you think about the
17 reason the mob or the mafia always gets
18 arrested, it's usually tax evasion. It's not
19 the crimes they really committed. I think that
20 this ends up being a way that the Feds. have
21 been able to go after illegal offshore gaming.

22 And it's basically they're
23 essentially money-laundering. They're taking
24 money under the false pretenses of using errant

1 or wrong category codes through processing.
2 They're posing it as different transactions.
3 And generally speaking, that's where money-
4 laundering has been enforced, if you will, in
5 the iGaming space, because there hasn't really
6 been any legal iGaming.

7 You've probably heard there's
8 certainly been a few money-laundering and
9 reporting fines that have been issued to some
10 of the land-based properties in the US. But
11 from an iGaming perspective that's tended to be
12 the reasoning is basically not using proper
13 category codes for payments; accepting funds
14 through UWALL (PHONETIC), not using the codes
15 and then moving those funds to the gaming
16 sites. So, there's been a few major fines in
17 that area. Off the top of my head I know one
18 of them was upwards \$160 million that one
19 company paid.

20 So, where is money-laundering found
21 and how does this happen? Generally speaking,
22 money-laundering is going to be much more
23 prevalent in unregulated gaming and illegal
24 Internet gaming. The reason being is there's a

1 bit of internationality, if you will, to the
2 funds flow. That funds can flow between
3 countries a little bit easier when you're
4 working between unregulated markets. Often
5 there is very little KYC or know your customer
6 type of verification that we would consider
7 here. There's potentially anonymous play.
8 There's markets with no taxes on high wins. So
9 certainly, it makes more sense to play in those
10 markets.

11 You're able to play very high
12 percentage games, games like Baccarat or maybe
13 playing a craps game with a pass line and
14 taking all of the odds. Or playing blackjack,
15 maybe some advantage play there or basic
16 strategy. You can get the percentages to those
17 games down to call it less than two percent if
18 not less than one percent on turnover. That's
19 a pretty effective way to launder money.

20 What you see here is that we process
21 for a few of the lotteries, North Carolina and
22 Minnesota for Internet purchases. And
23 laundering always comes up from a lottery
24 perspective. I don't think I'm telling any

1 secrets, but lotteries hold about 50 percent of
2 funds.

3 So, if you're going to launder
4 money, I don't think buying lottery tickets and
5 hoping you win Powerball is probably the right
6 way to go. There's certainly more effective
7 ways.

8 Certainly, it's something we track,
9 we monitor for suspicious activity in that
10 space but there's limits on daily purchases. I
11 think maybe it's \$50 and deposits of \$350, \$500
12 depending on the state. So, you can see it's
13 going to be really tough to manage AML or I'm
14 sorry to actually want to launder money in that
15 space.

16 Even with the processes that we've
17 put in place, if you deposit funds for
18 wagering, you have to wager those funds. You
19 can't withdraw those funds until you win,
20 unless of course it's a refund or you've made a
21 make a mistake. Certainly, you can call up and
22 ask for a refund.

23 So, there's some ways that money-
24 laundering has been combatted in that space.

1 And I don't see the lottery space as being an
2 effective way to launder any money. Certainly,
3 there are some games that could be attractive.

4 There's also no physical goods
5 involved. There's higher stake games in some
6 markets. And so it makes it attractive to
7 money launderers, especially in unregulated
8 markets.

9 So, some examples of money
10 laundering are, maybe I go and I buy a bunch of
11 prepaid cards, fund an anonymous account and
12 then withdraw those funds. Maybe I fund with
13 some large deposits, maybe I make a few small
14 wagers, I play a little bit and then I withdraw
15 those funds. Maybe I open up several accounts,
16 deposit withdraw amounts that are below the AML
17 tracking limits.

18 So, generally speaking, when
19 fraudsters hit you, they're going to try
20 smaller transactions. We see this. For
21 instance, we have a check-cashing business.
22 We'll see guys that maybe will cash \$50, \$100
23 checks. And they'll do that three or four
24 times. Once they gain your trust or once they

1 begin to learn your limits, they either begin
2 to play just under those limits or they hit you
3 really big for fraud.

4 Generally, they're testing you and
5 you need to look for that. I can tell you and
6 we can see from a check cashing perspective
7 guys that might do four dollar transactions for
8 an ACH online. They see if they can do it.
9 Then they hit us with a \$500 transaction. So,
10 it's just something you have to be aware of.
11 And you can spot that type of activity if
12 you're actively monitoring it.

13 Certainly, you don't want to allow
14 any peer-to-peer transfers between accounts.
15 That's generally almost against every
16 regulation in any state that's looked at this.
17 You can attempt to withdraw funds to an account
18 other than where your funds were deposited
19 from. What that means is I could deposit funds
20 from my checking account and try and withdraw
21 them to Rick's checking account, into a
22 different checking account. And that's how I
23 can move the funds around.

24 Generally speaking, you want to send

1 it back to a known account, a vetted account or
2 to the same account.

3 There's a thing called chip dumping.
4 I decide to jump online and play poker. Maybe
5 I have multiple accounts, maybe I'm in
6 collusion with somebody and I magically go all
7 in every single time and lose all my money to
8 my partner who then wins. Generally speaking,
9 many of the poker systems and I'm sure these
10 guys can tell you better, have ways to try to
11 vet that and look for chip dumping. But that
12 certainly can be a common practice.

13 And of course, the use of digital
14 currencies. Bitcoin and these kinds of things
15 you just don't want to bring them in.
16 Obviously, I don't think anybody would
17 seriously consider that today, but I think that
18 they just need to mature before they even
19 become considered as valued, payments methods.

20 So, some signs of potential
21 suspicious activity, patrons conducting
22 transactions that I mentioned, multiple
23 transactions in a short period of time.
24 Basically, allowing people to register multiple

1 accounts, which can be stopped through KYC
2 processes, using proper KYC companies.
3 Monitoring for smaller transactions and then
4 the larger transactions need some thresholds.
5 I touched on most of this.

6 So, is there a strong risk of AML in
7 iGaming? And I certainly take the opinion I
8 don't think that there's a huge risk of AML --
9 I'm sorry for money-laundering in iGaming. And
10 I think there's a lot of safeguards. There's a
11 lot of vetting of the accounts.

12 There's just a ton that we do in
13 gaming space to try to deter this. And I think
14 that unlike land-based, everything is monitored
15 through an account. It's generally a
16 registered account, somebody who you've KYC'd.
17 It just doesn't seem likely that's a great
18 place for people to money launder especially in
19 regulated markets.

20 So, what are some of the
21 responsibilities of an operator? Most
22 operators as in New Jersey and Nevada are going
23 to have land-based AML programs already in
24 place. Look at those programs, expand them,

1 make sure that they cover this business
2 segment. Work with the businesses.

3 I think from a compliance
4 standpoint, you want to work hand-in-handing
5 with the business, hand-in-hand with what the
6 regulators want to see to ensure that you have
7 a policy which matches your business needs.
8 Not just put a policy in place which could
9 hinder your business or not be what your
10 business wants. It may even be bigger than
11 what your business wants.

12 You need to identify what type --
13 what your role is in the process. Are you from
14 stored value perspective, how you're holding
15 the funds. Are you responsible for this? Is
16 your payment provider, your wallet provider?
17 Where do you fall in that list?

18 Basically, you want to make sure
19 you're obviously putting your transaction
20 monitoring and looking at your thresholds.
21 It's something you need to do on a daily basis
22 looking for suspicious activity.

23 You want to ensure that your
24 technology is capturing this. You're going to

1 have a ton of transactions, how are you
2 analyzing it? What analytics are you doing?
3 Are you using some intelligence try to identify
4 this? Is it something you're doing on
5 spreadsheets? How are you bringing it together
6 with your land-based program? Are you required
7 to combine all of your businesses into one AML
8 program and look that way across your
9 businesses? Just a lot of questions that need
10 to be answered beyond just what you're doing in
11 iGaming.

12 Obviously, it's out there by FinCEN
13 and certainly able to find a ton of information
14 online and a ton of good consultants who can
15 come in and help you set this program up.

16 I did mention there at the end, you
17 want to make sure it's easily auditable. I
18 think as a company we're audited probably by
19 four or five banks. We're audited by Visa,
20 MasterCard. We're audited for each of our
21 money transmitter licenses, check-cashing
22 licenses. We probably have the potential to be
23 audited -- We have outside AML auditors that
24 come in probably upwards of 50 times a year.

1 They don't always audit you every
2 year. So, you make sure that your data is
3 easily get at and it's easy to be presented to
4 the auditors. Of course, we're in a different
5 situation than a single site would be in. We
6 have, I don't know 36 money transmitter
7 licenses. And we're operating in different
8 countries.

9 So, it's something when they come
10 in, you certainly want to make sure that you
11 can easily get at that information. Auditing
12 is a huge expense and time.

13 This process just sort of walks
14 through the AML requirements. But basically,
15 you're going to conduct your KYC. Initially,
16 you're going to do proper age verification. You
17 want to do an OFAC check. You want to look at
18 all of the suspicious lists.

19 You're going to establish your
20 reasonable monetary thresholds. You're going
21 to limit deposits and ACH and credit to an
22 appropriate alternative payment sources.
23 Meaning you don't want to bring in some crazy
24 stuff, bitcoin, those kinds of things.

1 You want to make sure they're
2 credible sources that are being allowed to
3 deposit funds. That you know them. That they
4 have audit processes in place. That they're
5 not going to get you in trouble.

6 Obviously, prohibiting peer-to-peer
7 transfers. Obviously, conducting proper
8 geolocation within the markets which I think
9 Lindsay will touch on. Ensuring cash out.

10 Geolocation is important in payments
11 as well. Because if you're beginning to see
12 that you're receiving a ton of transactions
13 from the same IP address or the same location,
14 you have to think is this a guy in his basement
15 with 100 fraudulent cards trying to hit me.

16 In the payment space, we make a very
17 small percentage of each transaction. So, if
18 you lose \$1000 it's going to take probably
19 \$100,000 for us to make that up. It's not
20 something easy for us to take when you're
21 selling cash.

22 Combating money-laundering,
23 obviously there's a lot of safeguards that can
24 be put in place. Licensing, vetting the

1 operators, requiring the AML processes to be in
2 place. Doing all of the validation that I
3 spoke about, extremely important. Enabling the
4 account limits, you can have daily, weekly
5 limits as well. I think responsible gaming
6 plays a strong part in this. I think it helps
7 in that role.

8 Obviously, having proper analytics,
9 fraud detection, working with some of the
10 service providers out there, doing proper
11 device fingerprinting. There's just a ton out
12 there that can really help route this out.

13 Then just to touch on age
14 verification a bit. Obviously, it's a big
15 question. How do we know that somebody is 21?
16 I think there's very good ways to vet the
17 accounts. However, there is certainly a bit of
18 trust. I think there's a bit that goes in the
19 parents' hands. I think that I don't believe
20 that this is a huge -- I don't believe this is
21 a huge issue. But I think it's certainly
22 something that needs to be addressed.

23 Basically, by doing proper KYC
24 verification, doing the date of birth

1 verification, looking for things and ensuring
2 that they match each of the accounts. You can
3 even through some of these services throw back
4 challenge questions that maybe a child may not
5 know of the parents. For instance, where is
6 your mortgage? Which bank is it with? What
7 kind of car did you register with the state in
8 1984? I don't know. But there is certainly a
9 list of knowledge based questions that
10 companies like Experian and others can provide
11 you.

12 And our partner for this process is
13 Experian. So, I do use a little bit of their
14 information here. But their data is constantly
15 being updated. There's new credit applications
16 continuously going in. They basically have
17 access to 37 states for driver's license
18 information. It includes a ton of data, a ton
19 of data that's out there.

20 Here is just a few statistics that
21 they've provided me. I'm not sure if you can
22 see that. Basically, 200 plus records related
23 to credit applications that are being updated
24 every day. Consumer credit data, hundreds of

1 millions of records there.

2 They use other data besides
3 Experian. So, the question always is what if
4 you're not in that database. And I'm speaking
5 to Experian, but certainly all of the other KYC
6 providers do the same.

7 They roll up to things like utility
8 databases, cellular phone databases, things
9 that maybe somebody who doesn't have a credit
10 rating would have done -- maybe would have
11 purchased. So, you can really effectively get
12 at 98, 99 percent of the folks out there.

13 There's always going to be corner
14 cases. I take the opinion in everything I do
15 that if I can manage 98, 99 percent of base
16 really, really, really well that's probably
17 better than worrying about a few of the corner
18 cases that I might lose. Especially if it's
19 somebody that's unbanked or maybe isn't quite
20 known today. I think that may be okay. I
21 think you have to do certain things very, very,
22 very well, and do the best as you can. And I
23 think that's better for business.

24 Certainly, they have a huge fraud

1 database that they're looking at everyday as
2 well. So, I think there's a lot of good KYC
3 providers out there. And they probably are --
4 Frankly, they're all sharing and buying a lot
5 of the same data and databases. That
6 concludes. I don't know if there's any
7 questions.

8 COMMISSIONER STEBBINS: Just one
9 quick question. You used the term proxy
10 piercing. What is that?

11 MR. RICHARDS: I might actually
12 leave that to Lindsay to discuss. Basically,
13 it's trying to get through somebody's proxy on
14 their PC as you want to make sure they're not
15 fraudulently disguising themselves. Being able
16 to go beyond their browser information, the
17 information that they're portraying to you.
18 You almost don't rely on that.

19 Is that something you touch on,
20 Lindsay?

21 MS. KINNIMONTH: Yes, I will go over
22 that. Pretty much looking where a person is
23 trying to pretend they are versus where they
24 actually are, getting through to their original

1 source location.

2 COMMISSIONER STEBBINS: Thank you.

3 MR. RICHARDS: Thank you.

4 MR. DAY: Thanks, Tim. Appreciate
5 it. Our next presenter will be Mark Vander
6 Linden. Mark is our Director of Research and
7 Problem Gambling for the Massachusetts Gaming
8 Commission. Mark also serves as the lead for
9 our large research project.

10 I might say prior to joining the
11 Commission, Mark was the Executive Officer of
12 the Office of Problem Gambling and Prevention
13 at the Iowa Department of Public Health. And
14 Mark serves on the board of directors for
15 Problem Gambling Service Administration and the
16 National Center for Responsible Gaming. So,
17 we've asked Mark to lay some foundation work
18 and also to introduce Mr. Whyte. Thanks, Mark.

19 MR. VANDER LINDEN: Thank you. So,
20 in graduate school, I took a course on critical
21 thinking, Dr. Eileen Gambrill. And she spent a
22 lot of time talking about drilling down to what
23 is the key answerable question. I think it was
24 a fantastic course because for one I remember

1 it.

2 But one of the things that it fell
3 short at was I can understand the need to
4 identify the key answerable question. And
5 that's fine. And I think that we're doing a
6 good job of that. But it's finding the answer
7 that goes without too much debate is the real
8 challenge. And I think that I am finding that
9 day in and day out at the Commission is
10 drilling down to what is the true answer to
11 these questions.

12 So with that, I find for this topic
13 that the key answerable questionable will the
14 legalization of online gaming lead to an
15 increase in the rate of problem gambling and
16 related social issues? So, it's clear that
17 there are fundamental differences between
18 online gambling and what's legally available
19 today in the US. What impact will it have on
20 who plays and how they play? I am just very
21 briefly going to take these issues on and I
22 think that it's going to tee up Mr. Whyte quite
23 well.

24 The fundamental differences, just

1 really briefly, Internet gambling provides
2 greater convenience and easier access for one.
3 One can play while intoxicated. They can play
4 while intoxicated and easily go unnoticed and
5 without intervention. Internet gambling
6 provides the ability to play on multiple sites
7 and/or games at once.

8 Anonymity or at least a perceived
9 notion of the anonymity. Some of the
10 characteristics of online gambling may be
11 particularly attractive to novice gamblers as
12 they're learning this skill. It's a great way
13 to practice. It's a great way to go and get
14 some experience at this when you perhaps don't
15 have the experience and have to go in front of
16 a group of people.

17 Those are some, certainly not all of
18 the differences between what you would see
19 between online gambling and the traditional
20 brick-and-mortar.

21 One other factor that doesn't
22 necessarily neatly fit into that but I think
23 that certainly deserves attention is that
24 between online gambling and traditional brick-

1 and-mortar is that problem gamblers will have a
2 much more difficult time avoiding gambling
3 venues which are at the click of a mouse.

4 This is of particular concern for
5 persons who are experiencing gambling problem
6 as well as those who are recovering from a
7 gambling problem.

8 Second is I wanted to talk about
9 what does the evidence tell us about the link
10 between problem gambling and online gambling?
11 Certainly, there's a growing body of evidence.
12 And this is one of those areas that we're
13 finding some variation in what the evidence is
14 telling us.

15 Studies by Dr. Williams and Dr.
16 Woods funded the Alberta Gaming Research
17 Institute found that the rate of problem
18 gambling disorders are three to four times
19 higher among those who gambled on the Internet
20 compared to those non-Internet gamblers.

21 A second study also by a well-known
22 researcher Dr. Mark Griffith and others in 2007
23 British Gambling Prevalence Survey found that
24 those who gambled on the Internet were

1 disproportionately represented by problem
2 gamblers.

3 This is where it gets a little bit
4 more complicated, because certainly there is
5 other types of evidence that we need to take
6 into consideration when we look at this issue.
7 Not so far from home, we have Dr. Howard
8 Shaffer, Dr. Debi LaPlante and others at the
9 Division on Addiction at the Cambridge Health
10 Alliance.

11 They studied the actual wagering
12 transactions of 40,000 online gamblers on the
13 Bewin website, which is one of the largest
14 gambling companies in the world. They found
15 that a majority of the Bewin players wagered
16 moderately when compared to the overall betting
17 patterns of other subscribers.

18 They also found that approximately
19 five percent of the online gamblers studied
20 appeared to engage in what they considered to
21 be "excessive betting behavior patterns" in
22 terms of time and/or money spent.

23 It should be noted that this was not
24 a diagnostic tool. So, they weren't able to

1 actually diagnose whether or not these
2 individuals had a gambling disorder but their
3 behaviors that they were able to track were in
4 line with a gambling problem.

5 Their conclusion was that the
6 gamblers that were gambling online appeared to
7 be consistent with the overall prevalence of
8 gambling disorders population wide. So, really
9 no difference between those who are gambling
10 online versus those who are not gambling
11 online.

12 Second, how many people are gambling
13 on the Internet anyway? And are they problem
14 gamblers? In California, Dr. Rachel Volberg
15 who is with us today, did a study in California
16 in 2006. She found that although only two
17 percent of the respondents ever gambled on the
18 Internet, 11 percent of those individuals are
19 classified as pathological gamblers with
20 gambling disorders. And another 19 percent
21 were classified as subclinical or problem
22 gamblers.

23 In Massachusetts, the Massachusetts
24 Council on Compulsive Gambling led a study last

1 summer, the Massachusetts Statewide Gambling
2 Behavior Opinions and Needs Assessment. They
3 found that only three percent of social
4 gamblers had ever bet in the last 12 months on
5 an Internet casino. Almost all of them only
6 played a few times in the past year.

7 About 15 percent of persons taking
8 the survey met the NODS criteria for problem
9 gamblers, and that had bet within the last 12
10 months. Or 12 percent had bet once a week or
11 greater. And approximately 45 percent of all
12 persons taking the survey that met the NODS
13 criteria for probable pathological gambling had
14 bet money in the last 12 months on an Internet
15 casino. Thirty percent had bet once per week
16 or greater.

17 This is something we're going to be
18 following up on as well through our SEIGMA
19 study as we take a look at what are the
20 gambling behaviors of persons living in
21 Massachusetts, with Internet gambling is
22 certainly one of the types of gambling we'll be
23 paying attention to.

24 In Iowa where I had come from before

1 moving to the great Commonwealth of
2 Massachusetts, in 2011 we conducted a study
3 that looked at the gambling attitudes and
4 behaviors. Found that five percent of adult
5 Iowans had ever gambled on the Internet. And
6 two percent within the last 30 days. The fact
7 was that Internet was actually one of the least
8 reported gambling types that was out there. It
9 was beat out by Keno. It was beat out by
10 high-risk financial trading and a whole host of
11 other types of gambling behaviors.

12 In a separate study evaluating our
13 treatment services in Iowa in 2013, so looking
14 at individuals who actually came and sought out
15 treatment for a gambling disorder, four percent
16 had said they gambled on the Internet in the
17 last 30 days prior to seeking treatment.

18 Interestingly and kind of drilling
19 that down a little bit further, only 17 percent
20 of that four percent had indicated that
21 Internet was a primary way in which they had
22 gambled, while 29 percent said it was secondary
23 and 53 percent said it was tertiary, which kind
24 of lens this idea that Internet gambling is

1 typically something that people add onto their
2 repertoire of gambling behaviors.

3 So, I'm sure you're not surprised to
4 hear that it's a complicated issue. Research
5 has yet to reach a consensus. A couple things
6 I am certain of. I'm certain that legalization
7 of online gambling will lead to risks. I'm
8 also certain that it will lead to certain
9 opportunities to implement safeguards to
10 promote responsible gambling. Safeguards that
11 simply don't exist in the type of gambling that
12 we have legally available today.

13 Leading that charge and I think one
14 of the great forward thinkers on this issue is
15 Keith Whyte. Keith and the National Council on
16 Problem Gambling have led a number of different
17 initiatives on this looking forward to the
18 advent of legalization across the country. So,
19 I'll let him describe this further.

20 But let me introduce him real quick.
21 Keith Whyte has over 19 years of public policy
22 experience at the national level including more
23 than 17 years of involvement with gaming and
24 problem gambling issues. Recognized

1 internationally for his work on gaming policy,
2 Mr. Whyte has presented on gambling issues in
3 39 states and 13 countries. He has testified
4 before United States Congress four times and
5 appeared before numerous state legislative and
6 regulatory bodies.

7 He has written numerous articles,
8 studies, book chapters on gambling and is
9 frequently quoted in many different areas. I
10 won't go into all of those, but I am going to
11 turn it over to Keith. Thank you so much,
12 Keith.

13 MR. WHYTE: It's not all that. I
14 really appreciate the chance to be here.
15 Again, I just really commend the Commission for
16 taking an opportunity to provide a real
17 thorough look at a lot of these issues. This
18 is the third or fourth time I've come up there
19 for you all.

20 Again, it's just a fantastic
21 opportunity as we were talking at the break, to
22 engage in a discussion with all of the
23 stakeholders, which is part of the mission of
24 the National Council and our Massachusetts

1 chapter as well. To bring everybody together
2 from the pro-gambling side, media, impartial
3 mutual folks like us, regulators to discuss
4 some of these issues and try to find some
5 common solutions.

6 So, what I'd like to do today is
7 very briefly hit on the Internet gaming
8 especially social gambling, which I think is
9 one of the most exciting areas, and look at it
10 from a regulatory perspective. What is it that
11 you may face as you go down the road?

12 Again, for those who don't know the
13 National Council on Problem Gambling was
14 founded in 1972. We are neutral on legalized
15 gambling. We are here mainly to advocate for
16 problem gamblers and their families.

17 One of the things that we've looked
18 at a lot and what I think has been a little bit
19 missing from this discussion today even is the
20 fact that obviously, Internet gaming is already
21 here. There's a lot of flavors of it already.

22 So, what I try to do is look at
23 what's available here in Massachusetts today,
24 whether or not it's legal. If you're a

1 gambler, especially if you're a problem
2 gambler, what do you have access to now online?

3 You've got racing, which is I think
4 curiously left out. Racing has had sort of --
5 They've had kind of a monopoly on legalized
6 Internet gambling going back to the OTV and
7 phone wagering days, but certainly since the
8 passage of the Interstate Horseracing Act,
9 which the Federal Department of Justice has
10 never challenged, which is giving them in most
11 states if you see here can anyone be a TVG
12 subscriber? And it says yes. To open a TVG
13 account, you must be at least 21 years of age,
14 and operate in a state where racing services
15 are available.

16 And it goes onto list all of the
17 states including Massachusetts. There's a
18 little note here that residents of
19 Massachusetts may not be able to place wagers
20 on certain tracks. I'm not sure what that's
21 about. And I'm sure Dominic or someone else
22 can tell us.

23 According to TVG at least, and most
24 of the other national online racing providers.

1 You're perfectly able to wager online as long
2 as you're playing the ponies from Massachusetts
3 and you can bet on the tracks over the place.

4 So, then you've got the lottery,
5 obviously. And Massachusetts whether or not
6 selling tickets directly over the Internet like
7 many lotteries has been creeping ever closer to
8 this. So, you've got your VIP, your Red Carpet
9 VIP club, which gives you all sorts of second
10 chance sweepstakes and all sorts of other
11 things.

12 And we see this, quite frankly, the
13 lottery is probably the second most aggressive
14 mover in the non-casino space. And again,
15 there's I think James said, a dozen states that
16 are in some way, shape or form selling,
17 subscribing VIP club online. There's some very
18 interesting things happening on the lottery
19 side.

20 Then of course you've got casino.
21 We look at here Satoshi Dice. Bitcoin has been
22 in the news lately, but Satoshi Dice, one of
23 the first bitcoin sites was the casino. And
24 there are now hundreds of Internet casinos that

1 take and you can bet in bitcoins.

2 I think sweepstakes got left out a
3 little bit. Anybody that's gone to the
4 Publishers Clearinghouse site and there's a lot
5 of folks like Publishers Clearinghouse, this is
6 an aggressive proto-gambling site. You would
7 not believe, if you go onto
8 Publishersclearinghouse.com and give them your
9 email address, when I was preparing this
10 presentation, I've now received over 20 emails
11 from Publishers Clearinghouse in the past week
12 telling me desperately to go online. I'm going
13 to lose my chance if I don't go online right
14 now and click on their site right now to win my
15 \$7,000 today. It has to be today. You've got
16 to click today. You'll lose your chance
17 forever. It's unbelievable these guys.

18 So, it's a traditional sweepstakes,
19 but win \$7000 for life, bigger bucks millions.
20 To me this looks a lot like, it may not be a
21 gambling site but it looks a lot like gambling
22 type activity.

23 And that brings us, of course, to
24 social. You have of course companies like

1 Double Down and others that I think are doing a
2 very good job of this. But there are a lot of
3 competitors in the social space -- And I'll
4 focus on this a little bit more. -- that are
5 doing things like Bible Slots.

6 You're not going to find this in a
7 regulated market. Bible Slots is of course
8 gambling related activity. I think it's funny,
9 if you will. And we can't leave out fantasy
10 sports.

11 So, you've got social. You've got
12 fantasy sports. You've got social fantasy
13 sports and this real interesting combination of
14 daily social fantasy sports, which is explained
15 in a UI to carve out and some gray areas in the
16 law to create some daily fantasy leagues for
17 money and for lots of money. And I think
18 that's an emerging industry as well.

19 This is what's available today. We
20 don't even know what's going to be available
21 tomorrow given the innovation in this sector.
22 And obviously, we've got some concerns about
23 the downside.

24 I want to be very clear. We're not

1 saying that social gambling by definition is
2 bad. But we think the limited age and KYC
3 verification is an issue. You heard some great
4 stuff about what we're doing in the AML and KYC
5 side on the real money sites. But many of
6 these same operators are operating social sites
7 with little or no age or KYC verification. And
8 I'll get to that in a second.

9 We know also that especially among
10 the youth video and social gaming is correlated
11 with gambling behavior. So, if you're likely
12 to do one, you're also likely to get into
13 another. Of course, early onset of gambling,
14 this is associated with problem gambling.

15 Some social gaming features are
16 associated with addiction. And we're
17 specifically looking at things like high rates
18 of play, both frequency and duration, some of
19 the opaque terms and conditions, the game
20 mechanics of this.

21 It seems, I think, fairly clear and
22 we talked about this this morning, recreational
23 gamblers may not converge. You may have folks
24 that are just plain social and they stay on the

1 social side and that's fine. A couple of years
2 ago, that was the big question is whether or
3 not you're going to be able to -- We're talking
4 about cross-platform. And I think some of that
5 happens, but not as much as we thought.

6 But problem gamblers may well
7 converge. They have much higher rates of
8 participation in gambling and gambling type
9 activity cross-platform. So, while your
10 recreational folks may stay in one channel or
11 the other, the people that maybe perhaps your
12 heaviest customers may cross-platform.

13 If you look at the numbers of people
14 that are gambling on social casino sites,
15 that's about 200 million monthly average users,
16 just at the general population level, if
17 they're just average folks, that's about two to
18 three million monthly social gambling customers
19 that are likely, just based on general
20 population average, to have gambling problems.

21 That's not even accounting for the
22 fact that if they're heavy into gambling they
23 may be more likely, as Mark said, they may be
24 more likely to have gambling problems. So,

1 some percentage of users are likely people that
2 also have gambling addiction.

3 It's not a causal factor but it's
4 just some. If the general population, if those
5 numbers are true, it's a least a couple of
6 million people a month that are playing on
7 social sites that may also have problems. So,
8 there may be some opportunities to catch them.

9 And again, because this is
10 classified kind of legally and technically as
11 not gambling, there's no regulation period in
12 most jurisdictions, which is I think an issue,
13 whether it's self-regulation or commission led
14 regulation. And it's moving and evolving so
15 quickly.

16 So, let's look at kind of what we
17 are. One of the things that concerns us --
18 This on the left is what I get on my Facebook
19 page because I go to a lot of these sites.
20 Warning, highly addictive. That's actually
21 seen as a positive thing. In the gaming world,
22 highly addictive in the gaming small G like
23 video game, highly addictive is a good thing.

24 But when you're doing a social

1 gambling site the term highly addictive to me
2 is pejorative. In the gaming side of things
3 that's a great thing. World of Warcraft is so
4 addictive. Let's go on it.

5 So, either it's the terminology
6 that's odd. Obviously, you've got appeals for
7 guides. New slots game pays you six million
8 dollars given away during the tournament. But
9 this is what really concerns us a little bit,
10 which you wouldn't see in the regulated market,
11 the exhortation to play every day.

12 The more you play on this particular
13 site, the more chips you're going to get. And
14 if you stop playing days in a row bonus chips,
15 watch out if you miss a day you've got to start
16 over.

17 So, it's a real exhortation, a real
18 aggressive encouragement to play every single
19 day to always play every day or else you're
20 going to lose. You're going to get a lot more
21 if you keep playing every single day. Again,
22 that's something on the regulated side we don't
23 see very often.

24 You've got some other social factors

1 that are kind of interesting. The monetization
2 of this, I think, it's important to say as we
3 said earlier most people on the social side do
4 not monetize. You're looking at two percent or
5 so by and large.

6 But those who do, it's pretty
7 interesting. So, you see here you can buy one
8 trillion chips for \$4.99. A trillion chips,
9 how can you possibly lose a trillion chips?
10 Well, this site, the minimum bet is like a
11 billion. Most people are betting like 500
12 million. It's hilarious.

13 But then you get down here at the
14 bottom. There's 175 trillion chips for \$299,
15 \$499. Of course, at the bottom here what are
16 you taking, credit. Again, you can spend a lot
17 of money on a free to play game. And I won't
18 go into the difference between the freemium
19 model and free to play except to say that you
20 don't have to buy chips in most of these sites.
21 But when you run out that's when you start to
22 buy them.

23 So, here we look at another daily
24 bonus screen where there's some pro-social

1 things, inviting your friends. But you're
2 looking at again bonus every day, you've got to
3 play every day to get your full bonus. Play
4 more and you'll get more. Bonus for successful
5 games, the more you win the bigger your bonus
6 is.

7 There's some really interesting --
8 And this is just a fraction of what's out
9 there. I guess it's just to say that there's
10 some very interesting stuff, aggressive stock.

11 Again, we're not as concerned on the
12 social side about stuff like Farmville. I
13 don't care how many silos you buy. There may
14 be some people that have problems with that.
15 There may be people with impulse control
16 disorders. It's not a gambling addiction.

17 This is gambling. It may legally
18 not be gambling, but it's gambling like. It's
19 poker, blackjack, craps. We saw James say,
20 these are the slot titles you have in your
21 casino, they just happen to be online. And
22 because it's on Facebook and because you can
23 start to play for free, it's somehow treated --
24 it's not somehow, it is treated very

1 differently under law and regulation.

2 What we see today, and this is from
3 some IPOs is that free tends to be more
4 lucrative than pay, which is pretty
5 interesting. But if you think about the
6 psychology of gambling especially the
7 psychology of addiction that makes a lot of
8 sense.

9 So, you can't really see this, but
10 what I'll tell you is that the green bar is
11 King which is the maker of Candy Crush. And
12 when you drill into their IPO, as our friends
13 at Gambling Compliance did, thank you guys,
14 what you'll find is that their conversion rates
15 are up here at about four percent. In other
16 words, four percent of their players start to
17 play to get some weird bonus on Candy Crush
18 versus about one half percent for Caesars.

19 However, when you look at the
20 average revenue per user, the monthly revenue
21 average per user, it's obviously the gambling,
22 the social casino sites are doing much better
23 than Candy Crush.

24 But what it turns out to is that

1 Caesars is grossing twice the amount of money
2 from their free players as they are from their
3 real money players. If you go to
4 Worldseriesofpoker.com you play on the average
5 twice as less as you play on their free sites,
6 which I just think is fascinating.

7 And you've got whales in the social
8 gaming space. This comes from the industry
9 trade. One guy, I don't know if he was
10 boasting or bragging or just making a joke, but
11 we had one player that spent over \$13,000 over
12 three months on one of our free play sites.

13 And this is where unfortunately when
14 you get to social gaming because it's not seen
15 as gambling what you have are some interesting
16 things like this. These services are intended
17 for 21 years of age. Great, we love it. But
18 without diminishing the foregoing, you've got
19 to be 13. And if you're under the age of 18,
20 you declare that you've got the consent of a
21 guardian. That's checking the box, I have
22 guardian consent. And just to reiterate,
23 really the minimum age here is 13 years old.

24 And if you're not doing good KYC, if

1 you're relying on Facebook to verify your age,
2 that's probably fair, because that's really all
3 you're going to get. Facebook's not doing good
4 KYC. So, you wind up having to rely on that
5 platform to verify your age. This is from the
6 Delaware Lottery. It's a state regulated site
7 that was set up before their live Internet,
8 real money site went up to familiarize players
9 with the games that are going to be offered.

10 So, that was the purpose of setting
11 up this site to make sure that people knew.
12 And they went into is saying that really
13 anybody 13 and up can become familiar with
14 ours. And we want to transfer them into the
15 real money side.

16 I've asked Delaware, how many people
17 under 21 signed up in this site? And why would
18 you set up a legalized regulated site that's
19 intended to be 21, but really it's 13 plus? To
20 me that seems like there's some issues there,
21 again, knowing everything we know about youth
22 gambling access. And I haven't heard back from
23 them yet.

24 So, what we hear a lot there is that

1 regulation -- This is not gambling. And if you
2 try to regulate, it's going to kill the
3 industry. I think regulations actually worked
4 pretty well, especially in gambling. We've
5 known that the gambling has always had to meet
6 a higher historical bar. And I think \$119
7 billion in revenues last year, I think that's a
8 fairly successful industry that's heavily
9 regulated.

10 So, I understand that there's a
11 concern about regulation and overregulation.
12 And we encourage voluntary self-regulation.
13 But in the absence of that, it's important to
14 have from the commission perspective a thought
15 about how maybe to look at social.

16 We all know obviously, another big
17 argument for this is well you can't win money,
18 which is true. But for addicts, it's not about
19 the money. People don't develop a gambling
20 problem because they're interest in just
21 winning money. They develop a gambling problem
22 because they're preoccupied. They're obsessed.
23 It's the action that they seek.

24 Right now they say well, we're not

1 required to do the same regulations we would on
2 a real money site. So, we're not going to do
3 it until you can prove there is a problem. And
4 it's sort of saying we're going to be
5 responsible when you make us be responsible.

6 Let's be positive. Let's get out of
7 the gate and say we're going to in an abundance
8 of caution, we're going to adopt some of this
9 stuff, because we know that there's lots of
10 good reasons to do responsible gaming because
11 it's good customer service. Because it builds
12 good support. Because it mitigates individual
13 harms and ensures sustainability.

14 If you don't want to be regulated a
15 good argument would be do it yourself ahead of
16 time. So, as Mark said, we tried to get a
17 little bit ahead of the curve. We launched our
18 Internet standards in 2012, our social consumer
19 protection in 2013. And what I'll talk about
20 real briefly is our review of the New Jersey
21 regulations.

22 We took best practice from around
23 the world where there's in some cases we've got
24 a decade's worth of experience. So, we went to

1 the very good jurisdictions, took their
2 standards, distilled them down. And frankly
3 reduced them a little bit for the United States
4 market. They're mainly in eight areas. They
5 track extremely well with Massachusetts
6 responsible gaming framework because it's based
7 on a public health and informed player choice
8 model.

9 And we've consulted with all three
10 of these jurisdictions. We've encouraged them
11 to adopt the standards. And what you're
12 looking at is in some cases a little bit more
13 than between half to two-thirds the regulations
14 were put into place in each of these
15 jurisdictions.

16 It's fascinating. Everybody did it
17 a little bit differently. Some folks did real
18 heavily on self-exclusion others did research
19 but not this. So, like I said, I won't go into
20 it in detail. These are all publicly available
21 on our website.

22 We encourage that. This is a great
23 framework. If you want to get into the
24 Internet gambling business, sort of on the

1 responsible gambling side, we're telling you
2 here's what you need to do. And if you're
3 already offering a jurisdiction
4 internationally, you're already doing it.

5 Because if you're offering it in a
6 well-regulated place, you already meet every
7 one of these standards. It's of course we
8 believe unfortunate that the three commissions
9 that have gone on the casino side so far have
10 not adopted these fully, but we'll keep
11 working.

12 On the social gaming side,
13 (INAUDIBLE). It applies again to gambling like
14 monetize games. I'm going to stay out of
15 Farmville. I don't want to know about your
16 cows. We believe there needs to be responsible
17 gaming or call it consumer protection if you
18 will if it's not legally gambling. We'll call
19 it consumer protection. That's fine.

20 Age controls, again, if you're going
21 to say these games are intended to be 21, but
22 I'm going to allow you to play at 13, I don't
23 think that's acceptable. I don't think that's
24 accurate when it's a gambling like game. If

1 you want to play Candy Crush at 13, go ahead,
2 feel free. That's all right. If you're
3 monetizing and you're monetizing aggressively
4 at hundreds of dollars a transaction, and you
5 can't tell me if you're 16 or not that's a
6 problem.

7 Data driven research, as Mark said,
8 there's a lot we know and there's lot more we
9 want to know. The analytics on this are
10 incredible. And it can really lead us into
11 great places.

12 Then player education, let's give
13 people some understanding of the odds and
14 randomness. And I think there are very pro-
15 social ways to do this. If you're giving
16 people free coins, why not give them free coins
17 to fill out a little risk quiz or watch a 30-
18 second video on responsible gaming. Or 20,000
19 free coins if you set your limits.

20 You don't have to set a limit, but
21 there are some very pro-social ways with social
22 gaming to use what's great and rich unique
23 about that to also deliver a responsible gaming
24 experience.

1 We're not seeing a lot of that, but
2 we're optimistic that operators will embrace
3 some of these steps.

4 Just to wrap up, I think for the
5 Commission, one of the things you think about
6 in this space is we're kind of trying to wrap
7 our arms around what's here and now, and that's
8 changing tomorrow.

9 We have to think outside the box.
10 It obliterates all of these traditional
11 distinctions we make in law, in practice, in
12 regulation between what's bingo and what is
13 Keno and what is racing. You're seeing some
14 amazing hybrids. You're seeing a lot of
15 aggressive stuff. Daily fantasy sports is
16 technically not gambling related, but people
17 use it much like it is.

18 Every aspect of the game can be
19 manipulated. I won't talk about reflexive odds
20 and algorithms very much except to say that on
21 many social sites, you don't play the game.
22 The game plays you. So, you can't calculate
23 odds, because it really doesn't have odds. The
24 game itself will say if you've lost a lot, then

1 we'll sort of change the algorithms so that you
2 win more, because we want you to stay on this
3 device as long as possible. Or come back and
4 play as many times per day as possible.

5 Again, it may look like a gambling
6 game, but it plays absolutely not like one at
7 all. And there's not always a lot of
8 transparency in either the game mechanic itself
9 or when you're transferring between a game that
10 is random and a game that is not.

11 It evolves on a daily basis. We see
12 sites that are doing alpha beta testing where
13 the site is changing within the hour or within
14 the day based on who's monetizing the most.
15 What was there tomorrow may not be there today
16 literally.

17 And but I think as Mark said,
18 there's a lot we can do on the Internet. We
19 are very pro-responsible gaming on the
20 Internet. I think there's some fantastic
21 things we can do.

22 On the Internet side, we've got that
23 down. I think we know very well what you can
24 do and it's contained in our standards to

1 minimize risk for Internet gambling. You'll
2 never eliminate it, but I think you can
3 minimize it. So that's known. That's done.

4 Social, we don't know as much. And
5 I'm very sensitive to the need that we don't
6 want to smash an industry that there may not be
7 massive problems. But I think there's a lot of
8 concerns and risk there that we do need to
9 address. That's where I think it can be both
10 more risky and more responsible and it's how we
11 all address it. But it's especially I think
12 relevant for the Commission.

13 That'll wrap up and I'd be happy to
14 answer any questions. Thank you.

15 MR. DAY: Thank you, Sir. We'll
16 have to hold questions a little bit if we can
17 because we are way over our time limit here.
18 If we can hold them and get them right at the
19 end if we've got time, I'd appreciate it.

20 I'd like to make sure we've got
21 sufficient time for Lindsay Kinnimonth.
22 Lindsay is operations manager for GeoComply, a
23 geolocation technology solution provider to the
24 regulated gambling online industry. Since

1 launching in 2011, GeoComply has quickly become
2 the industry's trusted solution for reliable,
3 accurate and precise geolocation services.

4 Prior to GeoComply, Lindsay spent
5 five years in business product development at
6 GLI in the gaming compliance testing company
7 serving both iGaming and land-based marketing.
8 During that time, she worked with some of the
9 largest operators and vendors in North America
10 as well as regulators across Europe and North
11 America itself.

12 Lindsay we appreciate you taking the
13 time to talk to us about geolocation location
14 technology. And it's all yours.

15 MS. KINNIMONTH: Thanks a lot Rick.
16 And thank you very much to the Commission for
17 inviting me. I'll be telling you everything
18 you need to know about geolocation in about 15
19 minutes. Is it not working?

20 MR. DAY: Mr. Chairman, you had a
21 question while we're doing our technology here.
22 Maybe we can get that into Keith.

23 CHAIRMAN CROSBY: I was interested,
24 Keith, you talked about social gaming and at

1 first I thought you were operating with the
2 same definition that we had earlier, which was
3 without any investment for a potential gambling
4 return. Then your models had racing and had
5 fantasy football and so forth. I'm not sure
6 what you were-- What definition of social
7 gaming were you using in that presentation?

8 MR. WHYTE: I think that's exactly
9 the point is that social gaming is what you
10 think it is. No one knows. We would say it's
11 any game that you play on a social network that
12 doesn't have at least initially one of the
13 three legal elements. So, it doesn't have
14 either prize, chance or consideration.

15 So, many of these games you don't
16 start out with those three -- One of the
17 elements is missing, let's say traditionally
18 it's for a prize. You can only win virtual
19 coins or you don't have to pay to play. But
20 then once you get within the game, you actually
21 I would argue start meeting a lot of these
22 criteria. You're paying to play within the
23 game.

24 So, even though it's free to start,

1 you're paying to play. But there's virtual
2 social fantasy racing. It's just this
3 amazingly evolving industry. So, it's very
4 hard to put your hands around what actually is
5 social. I guess another way to say it is
6 anything that would be on a social network
7 that's not regulated as gambling but uses
8 gambling mechanics.

9 That's where we see a lot of,
10 frankly, concerns. There's lots of different
11 ways to deliver gambling, taking out one of
12 these elements using technology and social
13 networks. But it still looks and feels an
14 plays in many ways like gambling and may have
15 some negative impacts. If that answers your
16 question. It's a hard thing to get your hands
17 around. It's a very hard thing.

18 CHAIRMAN CROSBY: Thanks.

19 MR. DAY: I appreciate it. And are
20 we ready Lindsay? Keith and Mark, a special
21 appreciation. This is Problem Gambling
22 Awareness month. So, we should acknowledge
23 that.

24 MR. WHYTE: Actually, today is

1 National Problem Gambling screening day that
2 Harvard Medical School is doing. So, we're
3 uniting healthcare providers across the country
4 to screen their clients at least on this day.
5 People that are coming in for alcohol problems,
6 even physical health problems, say have you
7 gambled in the past year? If so, start to ask
8 them a few questions. And we're getting some
9 really interesting results.

10 CHAIRMAN CROSBY: Do you have any
11 idea what level of participation you've got on
12 that?

13 MR. WHYTE: Talking to Harvard last
14 time we had over 40 organizations across the
15 nation. And we don't know yet the catchment
16 area is, but it's probably in the thousands
17 already. Based on these 40 organizations,
18 they'll see thousands of clients within this
19 day or at least within the week that will
20 receive a basic gambling screening.

21 And we're trying to see how far we
22 can work back and get the results of that.
23 It's just been a wonderful effort.

24 MR. DAY: Great, thank you. I think

1 we're ready. Lindsay go right ahead. We're
2 just going right next door for lunch.

3 MS. KINNIMONTH: Hopefully guys can
4 hold up a little bit longer on the hunger. So,
5 as a lot of people mentioned this morning
6 geolocation seems to have become a very crucial
7 part to making online gaming happen, especially
8 in the US where you pretty much need to stay
9 within the walls of the state. And I think the
10 technology that's available right now quite
11 recently is really remarkable in how to make
12 that happen.

13 Adding the Internet really adds a
14 whole bunch of new challenges when you're
15 trying to define a jurisdiction. You have an
16 activity that traditionally people play in
17 person, trying to find them when they're at
18 home playing really brings about questions like
19 where exactly are they? How are you go to
20 block them if you need to?

21 Is it legal for them to access this
22 kind of a site? Or what kind of device are
23 they using? How are they accessing the gaming
24 site? What tools can you use to control that

1 activity?

2 As regulated iGaming continues to
3 grow across the US, these are all going to be
4 really important questions for the stakeholders
5 involved. Talking about federal legislation,
6 UIGEA pretty much says that you need to have --
7 be within the walls of the state in order for
8 Internet gaming to occur. You also have to
9 have enabling legislation for such actions.
10 And you also have to have the proper location
11 verification tools in place to ensure that the
12 player is where they say they are within the
13 state itself.

14 Various states have also enacted
15 legislation about geolocation, namely New
16 Jersey, Nevada and Delaware. I also mention
17 Utah here because they explicitly ban Internet
18 gaming.

19 Why is that relevant to the state of
20 Massachusetts? If there is an online gaming
21 site here that accepts a bet from someone in
22 Utah, there's obviously various criminal or
23 civil implications involved across state lines
24 and on the federal level as well.

1 But really what all of the state
2 legislation has in common is that it talks
3 about geolocation in very broad terms using
4 reasonably designed or reasonable certainty or
5 the ability to reasonably detect where a player
6 is.

7 It's quite vague and is really up to
8 the directives of that specific state to
9 determine how geolocation tools are going to be
10 mandated. And it can often get quite specific
11 depending on how the user is accessing the
12 site, what kind of a device they're using, how
13 they're accessing the Internet varies greatly.

14 But really the main goal is to
15 create a first line of defense to ensure that
16 someone out of state is not getting in where
17 they're not supposed to. And the implications
18 of allowing them of course in range anywhere
19 from fines to shutting down a site to perhaps
20 jeopardizing a land-based license for a casino
21 operator, which has massive implications for
22 them. So, a very small slip up and can really
23 cause widespread peril.

24 So, how exactly does geolocation

1 work? Geolocation is really any technology
2 that you may use to locate a player online.
3 When we're talking about online gaming, we use
4 a bunch of different location data pieces to
5 find out where you may be.

6 There are a number of methods at
7 your disposal. And really depending on how the
8 player is accessing the gaming product and what
9 device they're using, you may want to use a
10 full gamut of these types of location data
11 sources, IP addresses, Wi-Fi, GPS. There's
12 various methods of cell tower geolocation. And
13 I think what we've learned in places like New
14 Jersey is that you're going to need the ability
15 to draw on all of these types of sources to be
16 able to locate your players effectively.

17 And it might depend whether they're
18 on their cell phone or whether they're on their
19 laptop. Having a full range of these types of
20 tools at your disposal is going to ensure the
21 most success for finding your players and
22 making sure that you aren't excluding ones that
23 might even be eligible and for some reason
24 can't get on.

1 But depending on what source you
2 draw upon, you can find out information not
3 only about the state or city that they're in,
4 but even maybe the name of the street and the
5 latitude and the longitude of their location.

6 And the idea being that more of
7 these sources you have, the better it will be
8 to achieve this reasonable certainty that the
9 legislation often talks about.

10 Relying on one source alone, if that
11 single source is being spoofed, if it's a fake
12 location, it doesn't carry much weight at all
13 if you can't trust it.

14 What exactly does geolocation look
15 like? This is a little video showing you --
16 We'll zoom in closely on New Jersey. -- of
17 geolocations pathing in New Jersey. You'll see
18 a couple of red flags, people that can't get on
19 that are out of state. But live gaming is
20 happening in the US right now in a few
21 jurisdictions and geolocation tools are making
22 that happen.

23 If you look at New Jersey you can
24 see the state line along the Hudson River is

1 really pinpointing where that fine line is
2 between the state and ensuring that people can
3 play right up to the border but not across it.

4 Just to talk a little bit about New
5 Jersey more specifically what's happening there
6 right now is I think quite remarkable. There's
7 more than five and a half million geolocations
8 happening per month.

9 Most of that play is happening
10 within a very small distance from the border.
11 So, the advanced technology that's available
12 even just the last one to two years has enabled
13 play right up to that border in very densely
14 populated areas.

15 And I think New Jersey is quite
16 relevant to the state of Massachusetts because
17 it's also a very small state. You have more
18 than six and a half million people. There's
19 bound to be a lot of potential players near the
20 border. And you need to be able to accurately
21 pinpoint which side of the border that they're
22 on.

23 Talking about New Jersey, most of
24 the population is coming from the greater New

1 York area and the Philly area. And when we
2 look more closely on what's happening on the
3 map, you can see there's people playing up to a
4 block from the Hudson River. So, you have the
5 ability to block other people that are just
6 over the line, but make sure that those close
7 to it are still able to play.

8 Talking about Massachusetts, this is
9 what you envision as a play zone. So
10 technically, if you were on a boat and you were
11 still within the waters of the state, you would
12 have the ability to geofence playing activity
13 within an area like this. And then if there
14 were specific requirements to block off certain
15 areas like schools or government buildings,
16 libraries, tribal reservations, you would also
17 have the ability to do that.

18 Talking about spoofing or faking
19 your location, pretending you are somewhere
20 where you're not. Like I said, if your
21 information that you gather on a player's
22 location is not trusted, it's pretty much
23 worthless. You need to ensure that there are
24 layers of checks to make sure that no one is

1 spoofing their location. That the data that
2 you have on them is where they actually are.

3 And right now, if you go to YouTube,
4 you can watch all kinds of two-minute videos on
5 how easy it is to make it look like you're
6 somewhere else.

7 You can spoof your IP address very,
8 very easily. Mark mentioned a study that the
9 Iowa Racing Gaming Commission did in 2011. One
10 of the things that they determined in that
11 study was that IPs can be spoofed so easily,
12 some other means of technology has to be in
13 place to ensure that doesn't happen.

14 You can go to a free proxy site,
15 pick from a drop down menu where you want to be
16 in the world. And within a second, you're
17 already somewhere else. So, unless you're
18 checking to make sure that players aren't using
19 a service like that, you are going to have a
20 lot of problems.

21 Also, using a VPN to connect
22 remotely to another location, it's something
23 people do all of the time to login to their
24 work network remotely. It also gives you the

1 ability to make it look like you are somewhere
2 you're not and remote into the state of
3 Massachusetts if you're on a work trip back in
4 New York or anywhere else in the world. You
5 have to have the ability to check to see if the
6 player is using those types of programs and
7 assess the risk of whether or not that is going
8 to compromise an operator.

9 Remote desktop software, similarly
10 pretty much gives you the ability to remotely
11 control a computer. You might have used
12 GoToMyPC or GoToMeeting for a webinar.
13 TeamViewer, LogMeIn, these are all very common
14 programs. If they are running on a player's
15 device, there is a very large risk that they
16 could in fact be in another state. You need to
17 be checking for these along with making sure
18 that the location that you have on the player
19 is consistent with what you need to accept.

20 If you're on a mobile device, there
21 are also further risks like mobile apps that
22 you can use for GPS spoofing. If you have a
23 phone that's been jail broken or hacked, you
24 can upload programs that might not be allowed

1 in the App Store that are legal and accepted.

2 And unless you're looking for those
3 specific spoofing applications, someone could
4 easily be using them and you would be
5 unknowingly be accepting an illegal app. It's
6 really important to be scanning in a whole
7 bunch of places the activity of the player and
8 the programs that they are running at the time
9 that the bet is taking place.

10 So, really, I think I need to say
11 that you should expect to require some kind of
12 advance geolocation technology. It's going to
13 be needed to make sure that you are federally
14 compliant, that you're compliant with state
15 regulations whatever does end up happening here
16 in Massachusetts. That you're looking at
17 multiple sources of location data to cross-
18 reference that information and make sure that
19 it's indeed trusted and hasn't been spoofed.
20 That you're layering on spoofing checks to make
21 sure that the information you have on where
22 that player is really is where they say they
23 are.

24 And supporting geolocation methods

1 across all devices. The way that you need to
2 find a player is very different on a desktop
3 computer as opposed to an Android phone. And
4 you have to have technology that's been
5 specifically designed to collect the location
6 data on each of those devices.

7 So, the way that the player accesses
8 the game, even kind of what game they're
9 playing, the Internet connection that they're
10 using and what type of access to cell towers or
11 Wi-Fi or any kind of location services how
12 those all impact how you can find them and how
13 successful you can find them.

14 Thank you very much. I'm not sure
15 if anyone has any questions on that.

16 MR. DAY: Lindsay, you mentioned the
17 location services. How do they work together?
18 There's not one method of verification but
19 there's several methods that are used to reduce
20 the risk and make sure somebody is where they
21 are. Can you talk a little bit about those
22 actually work together?

23 MS. KINNIMONTH: Yes. In somewhere
24 like New Jersey, they look at the different

1 kinds of location data are available, and
2 decide which ones are highly accurate like GPS
3 or Wi-Fi and able to pinpoint your location
4 within a very small margin of error.

5 Then something that's used more
6 traditionally like an IP address that would
7 help identify what language to display or
8 website to a player say if you were in Europe
9 for instance, is a good guideline for that
10 secondary check, but isn't going to provide you
11 the accurate information you need as a primary
12 determinant of where that player is.

13 So, it really depends what device
14 you're on and how you're playing. And if
15 you're on a mobile device, you have tools like
16 GPS available to you. Whereas if you have a
17 player playing poker on their laptop at home,
18 you won't necessarily have the ability to find
19 them by something like GPS.

20 MR. DAY: Questions, Mr. Chairman.

21 CHAIRMAN CROSBY: You didn't exactly
22 say this, but I guess it's implicit that a
23 company like yours has the technology to defeat
24 all of those spoofing and fraud strategies or

1 the lion's share of them. I assume that's what
2 you think, right?

3 MS. KINNIMONTH: No. I think it's
4 safe to say that there's no system that's 100
5 percent unspoofable, just like someday someone
6 is going back into a bank system, someone's
7 going to hack into an FBI database, if you have
8 the time and money and resources to make it
9 happen. We'll never tell you that it's
10 impossible.

11 But going back to what federal
12 regulations require saying reasonable
13 certainty, reasonably designed. If you had to
14 be defendant in court, I know I definitely
15 would want to say here are all of the ways we
16 checked the player's location. Here are all of
17 the different spoofing checks we did to go to
18 reasonable lengths to make sure they were where
19 they said they were.

20 If the player is moving beyond that
21 at that point it's more of a malicious player
22 that is looking -- set out to thwart the system
23 and defraud the system as opposed to your
24 average player.

1 CHAIRMAN CROSBY: How do you know
2 how many you're not getting?

3 MS. KINNIMONTH: That's a good
4 question. You'd have to ask Eric from the DGE
5 if he has any players that are calling him
6 saying, hey, I'm in Massachusetts and I've been
7 playing on your site. It's really hard to
8 know. We're not aware of any specific players
9 in New Jersey that are accessing websites there
10 from out-of-state. But we also understand that
11 no system is foolproof.

12 But the main challenge we are
13 finding day to day is based on how robust and
14 conservative the regulations are in somewhere
15 like New Jersey, you obviously put a lot of
16 roadblocks in front of players. And they
17 really have to be an eager player to overcome
18 those along with the payment methods that they
19 need to deal with, the checks that they've
20 never done before, KYC. Those are all hurdles
21 that they have to overcome.

22 And there is definitely a small
23 percentage of players that want to play that
24 are in New Jersey and because of one reason or

1 another, what program they have running on
2 their computer, they're being blocked when they
3 should in fact be allowed in. So, minimizing
4 that percentage of players as false negatives
5 is a challenge that operators would have to
6 deal with on a regular basis.

7 COMMISSIONER MCHUGH: You talked
8 about the system, the geolocation system has to
9 be able to recognize all kinds of different
10 devices, the Android device, the different
11 platforms. Is the default that if you can't
12 recognize the device you can't get in? Or can
13 somebody with an unrecognizable device --

14 MS. KINNIMONTH: You'll always able
15 to see the device or what the operating system
16 is. The challenge will be making sure all of
17 the right signals are available. So, do they
18 have Wi-Fi turned on? Is GPS available or are
19 they on an old desktop? Desktops aren't going
20 to have GPS.

21 Gathering enough sources of location
22 information is usually the main challenge as
23 opposed to trying to figure out what device
24 they're on specifically. Each device has its

1 own device information that you can use even
2 for payments or responsible gaming.

3 So, the same way that you may block
4 a player from out of state, you can also block
5 based on their IP address or the fingerprint
6 that we take of their specific device. So,
7 there's a lot of crossover. The geolocation
8 tools that may not be designed for that
9 specifically, but the information that's
10 gathered when you locate a player is useful for
11 a number of other verification checks.

12 COMMISSIONER MCHUGH: Reframe
13 slightly, my question I should have said if you
14 don't know where the player is is the player
15 excluded?

16 MS. KINNIMONTH: Yes. If you can't
17 accurately pinpoint them where you need them to
18 be then they can't get on. And it would be up
19 to the regulator to define what is that
20 threshold for pass and fail. And also up to
21 the operator to determine what level of risk
22 they're willing to take on before they say pass
23 or fail.

24 COMMISSIONER MCHUGH: Thank you.

1 CHAIRMAN CROSBY: Just one more, I
2 know nothing about this. But there must be
3 some kind of a system where you could feed back
4 to the person who wants to play something that
5 was your system for identifying where they
6 were. And they couldn't play unless they used
7 that software or that mechanism.

8 MS. KINNIMONTH: Geolocation is
9 usually embedded in the gaming software itself.
10 So, it's automatically triggered in the
11 background. If you were trying to feed into
12 that through a remote connection, some sort of
13 a program that allows you to remotely access or
14 remotely control that computer, someone like
15 GeoComply would be searching for that activity
16 and detect it right away.

17 But no one is going to stop a guy
18 from calling his friend in New Jersey and say,
19 hey, login to my account. Here's my password
20 and use my credit card to deposit this money.
21 That's technically you still have the person
22 that's taking the action of the bet itself
23 still where they need to be. Does that answer
24 your question?

1 CHAIRMAN CROSBY: Yes.

2 MR. DAY: Lindsay, before somebody
3 is blocked, there's a series of tests basically
4 they would have to go through before they would
5 actually be blocked, isn't there?

6 MS. KINNIMONTH: Yes. It all
7 happens in the matter of a second or two. But
8 a bunch of location data is collected. Then
9 that data is run through checks for spoofing
10 activity. And then it's filtered against the
11 rules that would have been set out by the
12 regulator of the jurisdiction to determine what
13 constitutes a pass or a failed.

14 So, was the information accurate
15 enough? Were they within the state like they
16 were supposed to be? Did they have the right
17 data sources around? That would all constitute
18 a pass or a fail. And it's completely
19 configurable.

20 MR. DAY: Thank you. Any other
21 questions? Thank you, panelists. We
22 appreciate the time and the discussion.

23 It just so happens after lunch our
24 topic is going to be, we've got a

1 representative from Nevada, Delaware, Ontario
2 and New Jersey to talk with us about some of
3 things we just were. Come back.

4 CHAIRMAN CROSBY: What time?

5 MR. DAY: About 1:30.

6

7 (A recess was taken)

8

9 MR. DAY: Just to warm us up a
10 little bit, I just wanted to kind of just
11 comment on as I was listening to these
12 presentations. For a long time I thought I was
13 fairly current about Internet gaming but as I
14 listen to our speakers, it is clear nothing
15 about Internet gaming stops and waits for you
16 to catch up here. This is definitely a rapidly
17 changing environment in the industry.

18 Our next topic we're asking our
19 panel to talk about what's going on with
20 Internet gambling in their jurisdiction. We
21 hope to hear about what is planned, went well
22 and any areas of challenge. What I'd like to
23 do is I'm just going to introduce our full
24 panel, and we'll go from there.

1 Starting on the backend down here or
2 the far side Eric Weiss. Eric is the Chief of
3 Technical Services Bureau and Slot Laboratory
4 for the New Jersey Division of Gaming
5 Enforcement. Eric Weiss has been with the
6 Division since 1991 and has held positions in
7 the Administration, Investigative and Executive
8 Bureaus.

9 He briefly served as Assistant to
10 the Chief Investigations before being asked to
11 oversee the slot laboratory in November 2007.
12 Since taking control of the Technical Services
13 Bureau, Mr. Weiss has been recognized for his
14 efforts to improve the oversight and regulation
15 of casino systems and games. This past year,
16 he played a key role in the introduction of
17 Internet gaming in his state of New Jersey.

18 Mr. Weiss was responsible for
19 researching Internet gaming policy evaluating
20 Internet gaming systems and establishing and
21 overseeing the approval and successful
22 deployment of seven Internet gaming platforms.
23 He is also responsible for establishing
24 monitoring tools and procedures designed to

1 ensure the ongoing integrity of Internet gaming
2 systems in New Jersey. We know as we were
3 going through our discussion, Eric was already
4 being called on. So, we expect great things as
5 we move forward.

6 MR. WEISS: No pressure.

7 MR. DAY: Next to Eric is George
8 Sweny. George is the Senior Vice President for
9 Charitable and iGaming Ontario Lottery and
10 Gaming Commission. George, we welcome you.
11 We're glad you took the time to come south of
12 the border.

13 MR. SWENY: Good to be here.

14 MR. DAY: George Sweny began his
15 career at the Ontario Lottery Corporate in 1975
16 and has served in a number of capacities
17 including Senior Vice President responsible for
18 both lottery and bingo business units during
19 this time.

20 Mr. Sweny was Senior Vice President
21 responsible for -- I already said that. Mr.
22 Sweny was also President of Interprovincial
23 Lotteries Corporation from July 2005, 2006 and
24 served as a member of the ILC's executive team

1 which governs the national lottery games across
2 Canada.

3 Prior to joining OLG, Mr. Sweny
4 worked as the Chief Strategy Officer for the
5 Alcohol Gaming Commission of Ontario. In this
6 role, he was accountable for formulating and
7 driving and implementing the AGCO's strategy
8 consistent with the Division's overall
9 organizational alignment. His role also
10 included accountability for the audit and
11 gaming compliance function within the
12 Commission.

13 Mr. Sweny is a member of the Board
14 of Directors for the Responsible Gaming Council
15 for Canada and has served on the Board of
16 Directors of the North American State
17 Provincial Lotteries Association.

18 Next to George is Rebecca Goldsmith.
19 Rebecca is the Deputy Director for the Delaware
20 state lottery. We'll definitely enjoy hearing
21 from you, Rebecca. And we encourage your
22 participation here.

23 Rebecca Goldsmith joined the
24 Delaware Lottery in mid-2012 as Assistant

1 Director of Operations and Administration. And
2 as I understand is the brains behind Delaware's
3 conversion to Internet gambling. Prior to
4 coming to Lottery, Ms. Goldsmith had a 12-year
5 career with the Delaware Department of Finance,
6 serving first as a Senior Economic Analyst and
7 then as Assistant Director of Unclaimed
8 Property.

9 Rebecca's responsibilities during
10 those years included a broad range of duties
11 included a broad range of duties ranging from
12 complex legislative research related to tax
13 policy matters to internal reorganization of
14 the state's unclaimed property compliance unit.

15 Most recently she is credited with
16 her work for the Delaware Lottery and leading
17 the implementation of the state's first in the
18 nation full scale online casino offering
19 including poker, table games and video lottery.
20 Rebecca earned her master's degree in economics
21 at Colorado State University.

22 And closest to me is Jim Barbee.
23 Jim, thanks again for hosting our CIO and our
24 operation. We appreciate all of the assistance

1 that you've given us.

2 Jim Barbee is the Chief Technology
3 Division for the Nevada Gaming Control Board.
4 Jim Barbee joined the Gaming Control Board in
5 2000 and was appointed to his present position
6 as Chief of NGCB's Technology Division in 2011.

7 As Chief of Technology Division, Mr.
8 Barbee's responsibilities included oversight
9 and review and approval for all gaming related
10 technology used in Nevada and advising the
11 members of the Gaming Control Board and
12 Commission on matters related to technology and
13 gaming.

14 Mr. Barbee received his BS in
15 computer engineering from UNLV in 1999.

16 Again, welcome to all of you to
17 Massachusetts. And the way we're going to try
18 to do this is I'd like to give an opportunity
19 for each of you to spend a few minutes
20 introducing your agency and summarizing where
21 you are in each of your jurisdictions.

22 And to do that, I'd like George to
23 start off for us. Thanks, George.

24 MR. SWENY: Thank you very much,

1 Rick, for the kind introduction. And thank you
2 very much to the Commission for the invitation
3 to speak here today.

4 I know I've been given about 10
5 minutes to speak today and I'm going to try and
6 stick to that. Ten minutes is about the time
7 it took my beloved Toronto Maple Leafs to choke
8 away a three-goal lead in game seven of the NHL
9 playoffs to your hometown Boston Bruins last
10 year. So, as another visitor to this fine city
11 in the Commonwealth, I hope to use my 10
12 minutes a little bit more productively than the
13 Leafs did and hopefully you will be just as
14 pleased with the outcome.

15 So, Rick did cover my introduction,
16 I'll just basically tell you I've been involved
17 in the business of government run gambling for
18 about 30 years now. I've worked in Ontario.
19 I've worked in British Columbia. I've worked
20 in the public sector, the private sectors.
21 I've worked in regulation oversight, covered
22 gaming, slots, casino and charitable gaming and
23 now the wonderful world of Internet gaming.

24 We're in the midst of rolling out a

1 whole new suite of electronic games in Ontario
2 to the bingo centers across the province. And
3 we are getting very close to launching a very
4 safe, secure and responsible Internet gaming
5 platform under the banner PlayOLG.ca.

6 And I thought before I got into the
7 detail about the Internet, I'd give you a
8 little bit of context about the Ontario Lottery
9 and Gaming Corporation and really the Canadian
10 landscape, because obviously I think you need
11 the context to understand why we are where we
12 are.

13 So, provincial legislation
14 specifically the Ontario Lottery and Gaming
15 Corporation Act, dictates what OLG really
16 exists for. And that's to do four things. In
17 essence, our purpose is to stimulate economic
18 development, to generate revenue for the
19 government of Ontario, to advance a very
20 dynamic responsible gambling agenda, which I
21 will talk about. And to make sure that all of
22 those things are done in the best interest of
23 the province and the people of the province.

24 I think I can proudly say that OLG

1 is very good at doing all of those things. And
2 we really try hard to live up to our
3 legislative mandate.

4 We launched our lottery business in
5 the mid-70s. It was all launched based on
6 community support. And casino gaming arrived
7 in Ontario in 1994 with the opening of our
8 first facility right across the river from
9 Detroit in Windsor, Ontario.

10 So, today OLG is one of the largest
11 gambling companies in North America. Our
12 lottery terminal network span about 10,000
13 points-of-sale. And through that network, we
14 process more secure transactions than both Visa
15 and MasterCard combined. We've got 24 gambling
16 sites either racinos or casinos in the
17 province. And the largest number of our 17,000
18 employees work at those sites.

19 So, the two longest standing
20 businesses. lottery and gaming, drive about \$7
21 billion in revenue to the province of Ontario
22 and \$2 billion of that is profit. As I
23 mentioned earlier, we've got about 60 bingo
24 centers in a unique partnership with the

1 charity community in the province. We've got
2 20 of those now up and running with new
3 electronic games. And we'll be rolling out
4 across the rest of them over the next 18
5 months. And we're moving very, very quickly to
6 the launch of PlayOLG.ca.

7 Our annual profit is returned in its
8 entirety to the provincial government. And
9 it's used to support healthcare, hospitals,
10 community infrastructure, charities, not-for-
11 profits and amateur athletics. All told OLG
12 spurs about \$3.7 billion of annual economic
13 activity in the province of Ontario.

14 So, things like hosting fees to our
15 casino communities, our employee payroll,
16 payments to a host of stakeholders including
17 first nations. And OLG regularly receives very
18 strong international recognition and rewards
19 for its RG programming. We spend about \$50
20 million a year on research, prevention and
21 treatment in terms of problem gambling.

22 One of the key objectives of our
23 corporation again, spelled out in legislation
24 is to conduct and manage lottery schemes. And

1 I need to spend a little bit of time on this
2 with you, because those three words you see
3 underlined right there really are the
4 foundation of the gaming business in Canada.

5 They are lifted right out of the
6 Canadian criminal code. And our colleague from
7 Gambling Compliance talked about this a little
8 bit earlier in his remarks, but these are the
9 words that really make gambling legal in my
10 country.

11 What the criminal code dictates is
12 that a provincial government or its designate
13 agency, in this case OLG has to conduct, must
14 conduct and manage the gaming activities or
15 we're offside of federal law and my colleagues
16 and I don't want to go to jail. So, we are
17 pretty clear about what we have to do.

18 What do those three words mean? And
19 to help you, I've included a bit of a checklist
20 up here on the screen. These are the factors
21 that have been identified through case law as
22 being relevant to determining whether OLG is
23 conducting and managing.

24 So, to be clear, we can contract out

1 our operational side to private sector
2 operators and we do. And we will be doing more
3 of that. But to meet our legal obligation to
4 conduct and manage, we must demonstrate control
5 over all of these factors. So, we can't simply
6 license out the gaming activity to the private
7 sector.

8 So, we're the operating mind and we
9 will demonstrate on a regular basis that we are
10 the operating mind, and really the strategic
11 entity of the gaming business in the province.
12 So, depending on the line of business, these
13 factors can change a little bit. And it's very
14 acceptable that they morph to fit the
15 particular business that we're talking about.

16 So, in the Internet gaming law we're
17 going to talk about we're focusing basically on
18 items one, three and seven. So, that would be
19 one, setting strategic direction and
20 establishing clear operational policies.
21 Number three, owning and retaining all of the
22 customer data, which I'll talk a bit about.
23 And number seven, compensation models.

24 So, in our iGaming model, OLG will

1 handle all of the dough. That's our job. And
2 we will compensate our suppliers. We manage
3 those contracts.

4 This model is really a bit complex.
5 It does morph from province to province. It
6 does come from the federal criminal code.
7 These factors have really been approved by our
8 attorney general and came out of joint work
9 between OLG and our regulator, the Alcohol and
10 Gaming Commission of Ontario, my former
11 employer.

12 And the AGCO is a multi-purpose
13 regulator. It provides oversight over legal
14 gambling in the province, along with the sale,
15 service and consumption of alcohol. So,
16 specific to gaming, it works to ensure a strong
17 regulatory environment by registering all of
18 the manufacturers, suppliers to the gaming
19 industry, employees of OLG of those
20 manufacturers and suppliers.

21 It establishes standards and
22 requirements. It approves rules of play. It
23 tests and inspects gaming equipment, has a
24 full-blown laboratory at the commission. And

1 it investigates noncompliance.

2 As we moved through the steps to
3 establish our Internet gaming business, we have
4 been very, very careful to square up everything
5 we're doing with our colleagues at the AGCO.
6 That has paid bonuses for us. And the clear
7 kind of clean open lines of communication are
8 absolutely imperative.

9 When I think back over the process
10 of establishing our Internet business, I am
11 reminded by some pretty wise words from a
12 former executive chair of one of the biggest
13 banks in Canada and now one of our board
14 members, so I have to be extremely respectful
15 to him. He basically said when you're dealing
16 with big technology projects like this, they
17 generally cost twice as much as you think they
18 will and they'll take twice as long as you
19 think they will to set up.

20 He wasn't far off when he said that,
21 at least in the aspect of timing. This has not
22 been an easy endeavor for us. So, back in
23 2010, our board got from government a renewed
24 mandate, which included amongst other things

1 the direction to move forward with Internet
2 gambling.

3 The government was very clear. You
4 are going to do it with extreme care. In
5 essence, this was driven by a number of
6 factors, one of which was to repatriate some of
7 the half billion dollars that leaves our
8 province every year to offshore Internet
9 gambling operators.

10 We knew we had to be good and we
11 knew we have to be good to get Ontarians to
12 choose us over the other games that they had
13 become very use to playing.

14 So, we looked at various options.
15 And we ultimately arrived as an operating model
16 where OLG would conduct and manage a single
17 Internet gaming platform. And it would do so
18 by engaging and overseeing the efforts of a
19 third-party service provider, which would
20 manage for us day-to-day operations.

21 Public interest principles shaped
22 our process. Provincial elections got in the
23 way of timing a little bit. And our priorities
24 for an operator included a company with the

1 skills and experience to help us be competitive
2 and to move forward with a very effective
3 Internet gaming strategy.

4 We wanted a company that could
5 promote responsible gambling, stand as a leader
6 in that field. We wanted some company that was
7 adept at identifying identity fraud, particular
8 focus on preventing access to minors.

9 We wanted an operator that had a
10 demonstrated and proven ability to protect
11 personal information, integrity of the games,
12 and to detect money laundering, which of course
13 we heard a little bit about earlier this
14 morning, and other related criminal activity.
15 We also had a stipulation that all key computer
16 servers would have to be located in Canada and
17 preferably in Ontario.

18 So, an RFP went out for that
19 operator's role at the end of 2011. And after
20 close to a year, a very fair, open, competitive
21 process, we identified a preferred vendor. By
22 the spring, a contract was approved by our
23 government and we executed with that vendor.
24 And that vendor is GTECH.

1 We've since been engaged with GTECH
2 in various cycles of development,
3 implementation, testing, really moving our
4 business along so that we are very prepared to
5 launch it.

6 Our Internet gaming solution is
7 about to be delivered to our regulator. We are
8 weeks away from handing the final solution to
9 the AGCO for regulatory testing. And pending
10 that review, we will launch basically in a two-
11 stage process. A soft launch where we'll
12 invite some of our players out of our loyalty
13 program at the casino business. And we'll let
14 them test the system out, quite frankly, and be
15 ambassadors for us for four to five weeks.
16 Then we will open it up to the province likely
17 late summer, early fall.

18 So, here's the model that we arrived
19 at with GTECH. In looking at it, I'd like you
20 to remember those three important words I
21 mentioned earlier from the criminal code,
22 conduct and manage. OLG can't just hand over
23 the operation to GTECH or as I said earlier,
24 create some kind of licensing arrangement. We

1 have to be the operating mind behind the gaming
2 business. And we're going to do that by
3 maintaining accountability for defining
4 policies, setting strategy, retaining all
5 customer data and managing all of the money.

6 For its part, GTECH will be
7 providing its software. They'll be managing
8 day-to-day operations and they'll be handling
9 customer inquiries through a call center. And
10 that call center will actually be integrated
11 right into our larger operation so that various
12 -- according to protocol, various complaints or
13 issues will be shot right into the OLG call
14 center. So, that will be like a tier three
15 kind of issue.

16 Our plans call for a phased rollout.
17 The initial product offering will feature
18 interactive casino style games for online play,
19 slots, video poker and table games. PlayOLG
20 will also allow customers to purchase their
21 favorite lottery products. So, our version of
22 Powerball and Mega Millions is LottoMax and
23 Lotto649. And then over time, we're going to
24 introduce bingo followed by poker, peer-to-peer

1 poker and sports wagering.

2 In those second and third phases, we
3 will be enhancing our mobile device
4 capabilities. Obviously, recognizing the huge
5 growth that we're seeing worldwide through our
6 eyes and through the eyes of GTECH on the
7 popularity of mobile.

8 So, you can actually get onto
9 PlayOLG.ca right now. It's a live site and it
10 will basically give you information about where
11 we're going and when we're going there.

12 All of this is underscored by a
13 commitment of working towards the gold standard
14 for responsible gambling. Those were the
15 Premier's words when he announced that OLG
16 would be getting into the business. And it is
17 a business priority for us at OLG.

18 Our public position is really quite
19 clear. If you're a problem gambler, we don't
20 want you. Our role in RG is very well defined.
21 Our program is designated and designed to
22 deliver independent provincially funded
23 agencies like the Responsible Gambling Council
24 and the Center for Addictions and Mental Health

1 to weigh in and give us advice. And we have
2 designed our program with very much of their
3 advice.

4 The core elements of the program,
5 player education, employee training, support
6 tools for our players and voluntary self-
7 exclusion are consistent actually across all of
8 our lines of business.

9 Certainly, as we built our site and
10 we thought about this business and we took
11 advice from organizations like Responsible
12 Gambling and the Center for Addictions and
13 Mental Health, we took them to heart. The
14 result is that the work has been embedded --
15 was embedded into our RFP, is embedded into our
16 contract with GTECH, and is embedded right into
17 the platform itself.

18 It'll feature tools allowing players
19 to self-educate and manage. You heard a little
20 bit about that from our colleagues at Bally and
21 IGT this morning. And you can see what some of
22 those things are in the bottom left-hand corner
23 of the slide that's up there right now.

24 So, things like spending limits,

1 player duration limits really can help people
2 control their gambling habits. As with our
3 land-based gaming sites, we will also offer
4 voluntary self-exclusion. So, any player that
5 wants to take a break for a variety of periods
6 of time, we will not let them or we will use
7 our very best efforts not to let them back on
8 our site. And we'll also bridge them right
9 into counseling and make our very best efforts
10 to see that they get the help that they need.

11 Naturally, we are a little bit
12 reticent to go with detailed financials in a
13 public way, but this afternoon I am happy to
14 share certain information with you. Our peer
15 agencies like British Columbia, Manitoba and
16 Quebec have been in the Internet business for
17 some time now in one way, shape or form, either
18 with lottery tickets, bingo or casino games.

19 And they are very good in terms of
20 sharing their information with us. So, based
21 on their figures, other market research that we
22 have done, our own player data, our population,
23 we actually think it's reasonable that by year
24 four or five of our business, we'll be

1 providing \$100 million in incremental profit to
2 the province through our Internet business.

3 It's really part of a larger effort
4 at OLG that we're referring to as
5 modernization. And modernization is intended
6 to address the shortcomings of our business
7 model. Foremost amongst those shortcomings as
8 an example is we are not always where our
9 players want us to be in a number of ways, in
10 the lottery business, in our casino gaming
11 business, in our bingo business. Nor do we
12 have the games they always want to play.

13 Certainly, offering our consumers a
14 safe, secure, responsible Internet gaming
15 platform is a very important step to help us
16 address those issues and to help us with our
17 overall modernization of our business model.

18 It goes without saying that the
19 Internet is rapidly changing our business.
20 We've seen it in the music business. You've
21 seen it in the media industry. And we do not
22 want to be left behind. And that is a real
23 driver for us to be moving ahead with
24 PlayOLG.ca.

1 So, we're actually very excited.
2 We're getting very, very close, as I said
3 earlier to handing the product over to our
4 regulator. We believe that what we're doing
5 and how we're doing it fits with that purpose
6 and mandate that I talked about earlier. We
7 know it will create economic stimulation for
8 the province. We're working on some
9 interesting things with our colleagues at GTECH
10 on that front.

11 It will generate incremental profit.
12 it will definitely advance our responsible
13 gambling agenda. We will actually get real-
14 time insight into the gambling patterns of our
15 players. And it will keep the bucks in the
16 province or as many of them as we possibly can
17 keep in the province to do good work in
18 Ontario.

19 So, that basically is the extent of
20 my remarks here. And I'm happy to answer any
21 questions that you may have.

22 CHAIRMAN CROSBY: What is the
23 population of Ontario?

24 MR. SWENY: The population is about

1 13.5 million.

2 CHAIRMAN CROSBY: Twice
3 Massachusetts.

4 MR. SWENY: Yes, adults just under
5 10.

6 CHAIRMAN CROSBY: That's
7 interesting, because our lottery contributes a
8 billion dollars and we're half the size. And
9 you contribute two billion dollars. So, on a
10 per capita basis, it's about the same.

11 MR. SWENY: The Massachusetts
12 business on the instant scratch and win is
13 unparalleled anywhere in the world. And we
14 look at that thirsting. Thank you very much.

15 MR. BARBEE: If it's acceptable to
16 the Commission, I've prepared an oral
17 affirmative presentation. I don't have a slide
18 show, but I'd like to just sit here, maybe talk
19 to you a little bit about what we do in Nevada.
20 My goal is to give you just a brief overview of
21 the Nevada Gaming Control Board, our regulatory
22 structure. Talk about what led up to Internet
23 gaming in Nevada and then just give you a
24 general idea of where we are currently. Feel

1 free to, if you have questions along the way,
2 to interrupt as we go.

3 My name is Jim Barbee. I am the
4 Chief of the Technology Division with the
5 Nevada Gaming Control Board. And thank you for
6 considering us to come and speak with you
7 today. I did have the opportunity to interact
8 with your organization in the past. And it's
9 been a great experience so far. I really
10 appreciate the approach that you're taking.

11 So, to talk a little bit about
12 Nevada and the Gaming Control Board. Nevada
13 has a two tiered regulatory structure. We have
14 a Gaming Commission and a Gaming Control Board.
15 Our Gaming Commission is a lay body. It
16 consists of five members that are appointed by
17 the governor. These are a group of people,
18 they're part-time employees. They meet once a
19 month. The purpose of the Commission is to
20 make final ruling decisions on all licensing
21 matters in Nevada, and to promulgate the
22 regulations that govern gaming.

23 The Nevada Gaming Control Board is
24 the full-time body. The Board is governed by

1 -- I'm sorry. The Board is led by three
2 members, one of them acts as the Chairman. The
3 current Chairman is A.G. Burnett.

4 The Board consists of six divisions.
5 There's an audit, an enforcement, a technology
6 division -- I usually save myself for last, so
7 I forgot what the other guys are, audit
8 enforcement, investigations, tax and license.
9 Each of the divisions, we have a core set of
10 responsibilities.

11 My particular area of responsibility
12 is gaming technology and any technology that's
13 used in Nevada relative to gaming. The Board
14 has a staff of approximately 420 full-time
15 employees. The Technology Division, my group,
16 I have a staff of 25 professionals. They range
17 from computer engineers to electrical
18 engineers, computer scientists, mathematicians
19 and IT auditors.

20 Throughout our discussion today,
21 we're probably going to talk about tech.
22 standards and MICS and regulations and whatnot.
23 So, I'd like to give you just a brief overview
24 of the Nevada regulatory structure.

1 It all starts at the state level.
2 Our Legislature comes together and they come up
3 with our statutes. So, we might talk about
4 NRS. The primary enabling legislation in
5 Nevada is our NRS 463. It's called the Gaming
6 Act in Nevada. Below the NRS is our gaming
7 regulation. Those are the daily requirements
8 on the gambling industry. Those are crafted by
9 our Gaming Control Board and approved by our
10 Gaming Commission.

11 The primary regulation in Nevada
12 that deals with -- we call it interactive
13 gaming. I don't know who came up with
14 interactive gaming, Internet gaming. But we
15 refer to it as interactive gaming that's our
16 regulation 5A and our regulation 14.

17 Just below our regulations, we have
18 two operating guidelines. We have what we
19 refer to as the technical standards. That's
20 how systems have to operate. For example, you
21 have to have this many games in game recall.
22 These are the standards that apply to a random
23 number generator. These are the geolocation
24 requirements. Those are again the technical

1 standards. And I am responsible for those.

2 We also have what we refer to as
3 minimum internal control standards, MICS. Our
4 MICS govern how the systems have to be
5 operated. So, the technical standards say how
6 they have to work. And the MICS dictate how
7 the operators use those systems. Our chief of
8 audit is responsible for the internal controls.
9 So, that's a little bit of background on the
10 Nevada Gaming Control Board and the Gaming
11 Commission.

12 To give you a little bit of history
13 about how we got into Internet gaming. In
14 2001, Nevada had its first enabling
15 legislation. And that authorized the Nevada
16 Gaming Commission to adopt regulations for
17 Internet gaming. And it also established the
18 minimum demographics necessary to hold an
19 operator's license. And I believe it was
20 mentioned a little earlier today that that's
21 our bricks-and-mortar and what size of location
22 that that had to be.

23 Let me fast forward to 2011. It was
24 in 2011 that there were modifications or an

1 amendment to the legislation. And that again
2 made more clear the Nevada Gaming Commission's
3 ability to adopt regulation. And it also
4 established a couple of conditions that in
5 order for us to offer Internet gaming, we'd
6 need to have some federal law authorizing
7 Internet gaming or have a notice from the
8 Department of Justice that it was acceptable in
9 Nevada.

10 It was pretty apparent in 2011 that
11 there was activity on the federal front for
12 interactive gaming. And that it was time for
13 us to kick it into gear and start looking
14 seriously at how are we going to regulate that.

15 So, in 2011 we started our
16 regulatory process. That's where we started
17 developing our regulations, and concurrently we
18 developed our tech. standards and internal
19 controls.

20 In December 2011, I don't know if it
21 was shortly the day after or the day before the
22 Department of Justice released their opinion,
23 but we did adopt our regulations to govern
24 interactive gaming. And then in January 2012,

1 we adopted our internal controls and our
2 technical standards.

3 Throughout 2012, we were working
4 with the industry to get systems online either
5 to develop the system manufacturers and the
6 development of their systems.

7 And then in 2013 there was an
8 amendment to the 2011 legislative session,
9 which removed the prohibitions about the
10 federal law in requiring input from the
11 Department of Justice. As well, it authorized
12 our governor to enter into multistate
13 agreements with other jurisdictions where
14 interactive gaming was legal.

15 Then we fast forward to April 2013,
16 we had our first system go online. That was
17 Ultimate Gaming. In September our second
18 system went online. That was the World Series
19 of Poker brand with 888 as the manufacturer
20 there.

21 In February, just last month we had
22 our third system come online. That was the
23 Real Gaming that's related to the South Point,
24 an operator there in Vegas. And then most

1 notably here last month we had the interstate
2 agreement signed between the governors of
3 Delaware and Nevada.

4 So, that's a little history on how
5 we got to regulating Internet gaming. But to
6 talk to you a little bit more about the details
7 of what was involved in that process, and it
8 had a lot to do with exactly -- the process was
9 quite similar to what it appears you're doing
10 here today.

11 There was a steep learning curve
12 involved. The first thing you have to figure
13 out once you realize or you have the enabling
14 legislation that it's legal, you have to figure
15 out who do I license? How far into this space
16 do we need to go?

17 And I think for us, there was a lot
18 to learn there. There's a lot more vendors
19 that have critical impact on the operation of
20 interactive gaming than let's say your bricks-
21 and-mortar. In your bricks-and-mortar, I'm not
22 saying that the payment processor or the folks
23 who are bringing the cash, the Brinks truck
24 that rolls up isn't critical to that operation,

1 but they don't have as great an impact on the
2 potential integrity of their bricks-and-mortar.

3 Whereas in the online space, those
4 operators, your payment processors, your KYC,
5 your geolocation, they have a significant
6 impact on the potential integrity of your
7 industry. So, you have to make that decision
8 how far into that space do I want go as far as
9 the licensing goes.

10 Then as you delve into that space,
11 the next decision is how deep do I want to
12 license those folks? As you go through the
13 process to get a bricks-and-mortar license or a
14 manufacturer's license, you're providing 20
15 years of tax records. You're basically giving
16 a government top-secret clearance. Do you need
17 to apply that same level of licensure to the
18 service providers? They're critical to the
19 function of the industry, but do you have to go
20 that deep? That was another decision that we
21 had made there.

22 Nevada has established three tiers of
23 investigations for licensure. Tier I is a
24 full-blown licensing where basically you give

1 carte blanche to do the investigation. It
2 takes a bit of time and it's a bit more
3 expensive.

4 A Tier-II review that one might cost
5 in upwards of \$10,000 tops, I believe \$2500.
6 And that would apply again to the ancillary
7 service providers like those geolocation, the
8 payment processors and the KYC. And then the
9 Tier III is for the marketing affiliates.

10 As you go and understand the
11 interactive space, there are a lot of terms
12 that get thrown around. So, that was another
13 area that we had to learn a little bit more
14 about.

15 Player liquidity for example, just
16 in a recent meeting with a policymaker in my
17 own organization, they finally asked me what is
18 player liquidity? I hear that term all the
19 time. What does it mean to have player
20 liquidity? I know it's important, but what
21 does it mean?

22 The more people you have, the more
23 games you can offer. The more games you can
24 offer, the more attractive it's going to be to

1 potential players. If a person comes to the
2 table and they want to play \$5.00, \$10.00 poker
3 but you don't offer it, well they might go and
4 watch TV instead.

5 If however, because you have a
6 greater player liquidity base, you have more
7 people who are interested in \$5.00 and \$10.00
8 tables. Now you can actually offer one. So,
9 when the person goes to find a \$5.00 or \$10.00
10 table, it's available to them. And they'll sit
11 down and play.

12 Little things like that trying to
13 define that common vocabulary. So, what we did
14 to define that or to establish that we brought
15 in through a series of training for all of our
16 policymakers and people who would have
17 influence or impact on regulating Internet
18 gaming, we had training sessions.

19 We brought in both industry
20 professionals and professionals from our
21 professors from UNLV to first start off with
22 what is the Internet? What is Internet gaming?
23 What does it mean if somebody talks about
24 penetration testing? What does it mean if we

1 talk about servers? What is a firewall? So,
2 let's establish that baseline.

3 The next sort of training we had was
4 on fraud. What are some potential Internet
5 fraud possibilities? What are the risks that
6 we're potentially going to be faced with?

7 And the we brought that training
8 down even more focused and brought in some
9 industry professionals that dealt specifically
10 with Internet gaming in foreign jurisdictions
11 and whatnot. So, there's a large learning
12 curve there.

13 So, once you have a basic
14 understanding then you need to understand the
15 technology that's involved. So, we spent a
16 fair amount of time dealing with technology
17 providers. Having them come in and demonstrate
18 their technology, talk to us about it.

19 And one of the main questions you
20 want to ask any technology provider when they
21 come forward is not just tell me how great your
22 technology is, but tell me what's the risk that
23 is involved in your field? And how do you
24 mitigate that risk?

1 Once you get past, and I apologize
2 to any technology providers out there, but once
3 you get past their sales pitch where they're
4 telling you how great their technology is, and
5 you get past them hoping you're going to write
6 their technology into your regulation, once you
7 put that part aside and you get down to it, the
8 technology providers are excellent educators.

9 So, I think what you really need to
10 understand or what we really tried to
11 understand was what don't we know. And let's
12 talk to people who do know. So, that was a
13 large amount to our learning curve.

14 Now that we've gotten the baseline
15 established, the whole reason that we're here
16 was for not only to offer entertainment for the
17 patrons of our state, but there's tax revenue
18 implications. So, how do we report on that?
19 We did define a very specific reporting
20 infrastructure. We went so far as to say every
21 system, regardless of who provides it, you have
22 to have a report that's called this. This is
23 what needs to be in this column, that column
24 and the other. This is how you tie all of

1 those together.

2 I think just overall, the learning
3 curve was pretty steep. We had a short period
4 of time to get up to speed on that. I believe
5 we are in a good position with it now. And I
6 see like this form is a prime example of you
7 doing pretty much that same thing.

8 Where are we now? We currently have
9 three operators, as I mentioned. The most
10 senior Ultimate Gaming. They've been live
11 since April, April of last year. Then we have
12 World Series of Poker went live in September.
13 And then the South Point or Real Gaming went
14 live last month.

15 With those systems we are seeing
16 with Ultimate Gaming, their second- and third-
17 generation software submissions. These are
18 including more patron bonuses, more variations
19 on the games of poker, system enhancements and
20 whatnot.

21 The 888 World Series brand, that
22 system is being approved, going through our
23 final approval process now. They should get
24 approved later this month. Once 888 gets

1 approved, they will be providing that system to
2 one or two other operators in Nevada. So, I
3 expect within the next three to six months to
4 see a few more operators coming online. Then
5 with South Point, they're three weeks into it.

6 As we went through the licensing
7 process, Nevada has licensed 12 operators.
8 That would be 12 bricks-and-mortar locations
9 who can perform interactive gaming. We have 24
10 service providers. The service providers would
11 be the manufacturers of the systems, the 888's,
12 the Bally's, the IGT's of the world. Then we
13 have 30, approximately 30 secondary service
14 providers licensed. Those would be the ones
15 who provide the geolocation, the patron
16 identification and the KYC.

17 More importantly, where are we as a
18 regulator? Now we are at least a year into it.
19 We see where we struck right on. We see where
20 we were a little off-based. So, we're going
21 through our regulatory structure now. We've
22 made some recent changes to our patron
23 protection in our regulations to adjust to
24 limits that we had initially set. We're going

1 through now to do a technical standard an
2 internal control review. And that's what I
3 have for an affirmative presentation.

4 MR. DAY: Thank you very much. I
5 appreciate your time. Rebecca?

6 CHAIRMAN CROSBY: Do we have
7 questions, Rick? Are you going to skip
8 questions or --

9 MR. DAY: Questions.

10 CHAIRMAN CROSBY: If you have time,
11 yes. A couple of quick ones. You only are
12 licensing, only giving the option of offering
13 Internet gaming to bricks-and-mortar license
14 holders?

15 MR. BARBEE: That's correct, Sir, as
16 the operator.

17 CHAIRMAN CROSBY: As the operator.
18 And what are your the revenue projections now
19 as -- What is your revenue performance compared
20 to what your revenue projections were?

21 MR. BARBEE: I'm not certain. And I
22 would go with my friend up north being a little
23 hesitant to relay that information in a public
24 meeting. First, because I don't know and I'd

1 hate to lead you down the wrong path.

2 I think our revenue projections, we
3 may have projected slightly over what we're
4 currently receiving. But I don't think we were
5 -- We didn't have grand revenue projections
6 based on our population size. I am familiar
7 with accounts created and whatnot. And I do
8 know that the accounts created information is
9 consistent with what our projections were
10 there.

11 There's an excellent resource that's
12 available online. And one of the things you'll
13 learn is you can learn a lot online. There's a
14 couple of websites, pokerscout.com for example,
15 is great website to go and look at for
16 information on the industry. You could login
17 to PokerScout now and see how many people are
18 playing on any particular site.

19 But more importantly, the
20 information that you can get there is, I
21 believe, it was Poker Stars may have released
22 up to 10 years' worth of their demographic
23 information worldwide. And there was a
24 professor, maybe he was out of Germany, he put

1 a paper together. It's a really good paper if
2 you get the opportunity to read it. Maybe it's
3 the University of Hamburg. And through the
4 demographic information that he compiled, he
5 went state-by-state and jurisdiction-by-
6 jurisdiction. This is approximately how many
7 poker players are available in that particular
8 jurisdiction.

9 I know that the policymakers didn't
10 look at that information. I should remind you
11 that I am not the policymaker. I'm the
12 technology guy, the nuts and bolts guy to tell
13 you if it works or not. But I'm also the
14 technology guy who goes on the Internet and
15 does a bit of research myself. The information
16 that was contained in that paper, I'm seeing as
17 consistent with what turned out to be the
18 number of accounts that were created in Nevada.

19 COMMISSIONER CAMERON: Quick
20 question, Jim. You have 12 operators.
21 Everyone that's a licensee has the ability if
22 they chose to?

23 MR. BARBEE: Everyone who is
24 currently licensed, yes, they could. However,

1 in Nevada we have, and I am going to be a
2 little off on my numbers, but we might have
3 3000 licensees. Of those 3000 licensees, maybe
4 2000 to 2500 we consider restricted locations.
5 Those would be places with 15 or fewer slot
6 machines. They are not eligible to receive an
7 operator's license.

8 You have to have brick-and-mortar
9 presence with a certain minimum number of hotel
10 rooms, a certain minimum number -- I believe a
11 county with a certain number of people. Out of
12 those, I don't know the potential there. Maybe
13 it's two to four hundred of Nevada's current
14 brick-and-mortar operators would be eligible
15 for the license. But you do have to go and get
16 the license. It's not de facto that you get it
17 simply because you have an operator's license
18 for brick-and-mortar.

19 COMMISSIONER CAMERON: You apply for
20 it and qualify. And you have three systems.
21 I'm not sure of your terminology. Like Poker
22 Stars is one of the three. If others want to
23 participate, will they have the potential or
24 are you going to cap that number?

1 MR. BARBEE: No, Ma'am. And Poker
2 Stars isn't in Nevada. That is with the
3 example, I believe they are the ones that
4 released that data.

5 We have three system providers. And
6 when I talk about systems that would be the
7 manufacturers. The corollary would be to slot
8 machine manufacturers IGT, Bally, Aristocrat,
9 Konami. We have three. We don't have a limit
10 on the number who are eligible. We'll let the
11 market dictate how that will play out.

12 Of the three that are currently
13 operating, there's 888 who is working with
14 Caesars and the World Series brand. There is
15 Ultimate Gaming. Ultimate Gaming is affiliated
16 with Station Casinos. They're the manufacturer
17 of the system as well as the operator. And
18 then there's Real Gaming. Real Gaming is
19 associated with the South Point. And are also
20 the manufacturer of the system as well as the
21 operator.

22 COMMISSIONER CAMERON: Some of those
23 systems participated when it was illegal,
24 correct? How are you looking at that when

1 deciding whether or not they are eligible to be
2 an operator in Nevada.

3 MR. BARBEE: I believe that was part
4 of the legislation in 2013. At the state
5 level, they established a covered asset and a
6 covered person clause. Covered asset and
7 covered person, the person would be the entity
8 performing the operation, the asset may be the
9 trade name. Anyone who accepted wagers after
10 December 12 that UIGEA went into place in 2006,
11 anyone who was found to have violated UIGEA, I
12 believe has a five-year minimum cooling-off
13 period before they can apply for a license in
14 Nevada.

15 COMMISSIONER CAMERON: Thank you.

16 MR. DAY: Rebecca, when you comment,
17 we heard about the agreement between the two
18 governors. Maybe you can comment on that.

19 MS. GOLDSMITH: We'll get to that.
20 That's definitely in the plan. Good afternoon,
21 everyone. Again, my name is Rebecca Goldsmith.
22 I am the Assistant Director of the Delaware
23 Lottery. And most recently, I was responsible
24 -- most recently I was the project lead on the

1 implementation for the iGaming launch in the
2 state of Delaware.

3 Really it's that role that brings me
4 here today to speak with you about some of the
5 processes that we took to actually launch
6 Internet gaming and some of the hurdles, the
7 challenges that we faced because certainly
8 we've been in your shoes for sure.

9 And to everyone's credit to this
10 point, there's quite the learning curve.
11 There's no doubt about that.

12 In Delaware, we are a little unique
13 relative to our counterparts in Nevada, New
14 Jersey in that the state lottery is both the
15 operator and the regulator of casino gaming in
16 Delaware. Meaning we've got ourselves a little
17 more in the weeds maybe on the operational side
18 than the average.

19 We have a particularly unique
20 relationship with our three licensed video
21 lottery agents that actually operate our
22 casinos on the state's behalf.

23 You'll find I use a couple of
24 unusual terms throughout this process. Really

1 in Delaware there are two forms of gaming that
2 is actually legal. One is lottery the other is
3 horseracing. Legislatively over time as gaming
4 expanded, the term lottery sort of continued
5 down that road. So, for us a video lottery
6 machine is commonly known as a slot machine.
7 And a video lottery agent would be a casino
8 operator in our case. So, you'll know what I'm
9 referring to when you hear those terms.

10 With us, our story really starts
11 back in June 2012 when the State Legislature
12 passed a Gaming Competitiveness Act that
13 included many provisions, but the most relevant
14 at this point is the legalization of Internet
15 gaming within Delaware. That particular piece
16 of legislation basically required that our
17 three casinos act as the front-end portals
18 offering the websites associated with their own
19 names and brands, while the Delaware Lottery
20 managed the platform or the system on the
21 backend. So, that's been a little bit of a
22 unique component relative to our counterparts
23 in the United States.

24 Again, I think somewhat in the very

1 beginning of today's session talked about not
2 wanting to -- And I wrote it down. --
3 jeopardize the goose that laid the golden egg
4 with respect your land-based casinos. That was
5 directly what was taken into account in this
6 legislation here is hoping to supplement that
7 activity, to create players both online and
8 land-based. And to grow both businesses
9 together. So, I think we're all looking at the
10 same topic broadly speaking.

11 Again, because we are a little bit
12 unique in that we are a government agency
13 responsible both for the operation and
14 regulation of casino gaming, we too went to
15 bid. So, in January 2013 we issued an RFP for
16 an Internet gaming system solution. In doing
17 so, we also issued our technical
18 specifications. So, that came out in January.

19 Once that process started, we
20 immediately turned into the development of our
21 regulatory environment. What were we going to
22 do to regulate this new activity in the state?

23 And we knew that we were really
24 comfortable with our regulatory environment for

1 land-based casinos. And wanted to be prudent
2 enough to use as much of those processes we had
3 already established as possible making
4 reasonable modifications for your online
5 environment.

6 And I think to Jim's point, talking
7 about who are you licensing. Instead of
8 licensing somebody who is walking across your
9 casino floor, now you're trying to license
10 somebody who has access to your backend
11 technology to make modifications to tables and
12 areas of your system. So, dealing with
13 security in that way.

14 We did a couple things to further
15 our research. One was looking at other
16 regulated environments. I think we really
17 looked at Spain, Italy. We looked to our
18 friends in Nevada to see what they had already
19 done going before us. Alderney, Malta,
20 Gibraltar and we reached out to other technical
21 experts who had experience really ferreting
22 through the degree of regulations that are out
23 there.

24 And I'll mention GLI currently as

1 they sit in the back of the room, because they
2 are heavily involved in evaluating certain
3 systems to various standards. And there was a
4 really good opportunity for us to seek out
5 technical input throughout the process.

6 From there as we designed our
7 regulatory environment, we were making
8 selections on our platform provider. And that
9 for us ended up being Scientific Games and 888
10 who had co-bid for the business.

11 Throughout that process, there were
12 any number of multifaceted decisions that are
13 going to have to be made. Which payment
14 options you are going to accept. How are you
15 going to conduct your geolocation? How many
16 fallbacks you are going to have. What exactly
17 are you going to do? Are you going to use the
18 cell phone component with SMS delivery? How do
19 you implement identification verification?

20 And quite frankly, for us on the
21 operational side, how are we going to establish
22 a new customer service group to accommodate the
23 volume of inquiries and players that are going
24 to be coming and having questions?

1 As we did that we tried to look to
2 the experience. Again, unfortunately for
3 Nevada and both positives for Nevada, they went
4 first. And we were able to try to glean from
5 them some of what was going to happen to us
6 next. And the two issues that really stood out
7 were on the banking side and on the geolocation
8 side, trying to get those as right as possible
9 for what was really going on.

10 The first issue on banking was
11 trying to find institutions that would accept
12 deposits from players who were making Internet
13 gaming related deposits to our casinos. So,
14 all three casinos are very well-established,
15 well respected, have long-standing
16 relationships with lending institutions in our
17 state.

18 But when they went to move forward
19 to actually open up accounts where they could
20 accept players' funds that was a little bit of
21 a different story. One of our casinos was
22 immediately told no. They had to go try to
23 seek out an alternative company. The other two
24 actually had accounts opened in a relatively

1 brief period time. We thought we were ready to
2 go.

3 And no kidding one month before
4 launch, the bank who had approved these two
5 accounts be open started asking a number
6 questions related to 2006 UA that related to
7 our system verification checks, related to the
8 2011 Wire Act decision. And at some point,
9 three to four weeks prior to launch, determined
10 they could no longer allow these accounts to be
11 active and shut them down.

12 So for us that's a showstopper if
13 you can't accept funds and you can't accept
14 deposited monies you really can't gamble online
15 period. So, it was a 180 degree spin trying to
16 find an institution that understood the legal
17 offering that was being provided in our state
18 that was willing to accept whatever level of
19 perceived risk was out there.

20 And to move forward with
21 prioritizing any kind of background checks and
22 vetting process for our two casinos now. And
23 to do all of that within a three to four week
24 timeframe.

1 And we did it. And it was amazing.
2 One particular institution really did a great
3 job at sort of bridging that gap for us and it
4 didn't affect our launch. But those are the
5 kind of things that you don't expect.

6 You feel like you're in really good
7 standing, and then all of a sudden something as
8 big as that comes out of nowhere and you are
9 stuck scrambling. So, we went through that.

10 Another issue we tried to head off
11 at the pass was credit card acceptance, which I
12 think we touched on earlier and the dreaded
13 Visa 7995 code.

14 And a quick overview of that is
15 there are something like 8000 credit card
16 issuing banks in the United States. Each one
17 of those banks is allowed to decision on its
18 own the various payments that come through.

19 So, 7995 is a code for Internet
20 gaming. So, every transaction that Visa uses
21 to deposit directly to an online casino carries
22 that particular flag with it. And every Visa
23 card issuing bank has the right to determine
24 whether or not they want to accept that charge

1 or decline it.

2 Visa has an extremely high decline
3 rate. In our situation, it's like 70 percent
4 approval for MasterCard, 30 percent for Visa.
5 So, on the front-end we have an active card
6 acquiring bank who is meeting regularly with
7 the two card brands trying to promote education
8 on what's actually happening. But we also have
9 another opportunity in our cashier to try to
10 configure our system to help the player realize
11 that if they're getting a decline there are
12 other methods of deposit that are available to
13 them.

14 And one of the things that we did
15 was strategically allow our default in the
16 credit card portion to be MasterCard. So,
17 that's the first that you go to. And if a
18 player wants to use a Visa, they certainly have
19 that option. They pick from that drop down
20 menu. And when they do that it triggers a
21 reminder for them that allows them to
22 understand that if their card is declined, it
23 may be that their card issuer has a relatively
24 high decline rate, and they can choose

1 something else. So that once that person
2 receives a decline, they're not gone forever.
3 They understand that there is another
4 alternative out there for them.

5 It's those kind of decisions I think
6 that are going to make the difference in the
7 business being successful. It's how you
8 communicate that to the individual player. So,
9 we started out on that front on a pretty good
10 note.

11 And then we got down to the
12 geolocation piece. And I think geolocation,
13 the way it's being used in the US gaming
14 industry is particularly new. And there are a
15 wide variety of options that are going to be
16 available to you.

17 At some point, as a regulative body,
18 you have to come to terms with what degree of
19 false declines are you going to accept? So,
20 there are going to be some people who are
21 blocked from being on. They may be riding a
22 peripheral boundary. They may be in a
23 particular location. And it is going to
24 happen. It's to what degree are you

1 comfortable with it.

2 And then looking forward, I think
3 for us, we're really hoping that because this
4 technology is so new at least the way we're
5 using it that going forward it's going to
6 change. There's going to be a bigger
7 refinement and more tools available to use so
8 that you can kind of grow with the technology,
9 grow with the industry and move forward so long
10 as you keep up on the technology. And you
11 understand how we all are using it to make the
12 best decisions possible for your particular
13 business. So, some margin of error is sort of
14 to be expected, I think, at that point. And to
15 Lindsay's, I think, comment earlier, it's the
16 reasonableness standard as well.

17 That takes us through January, June
18 contracting decisioning and then by late
19 October we actually launched with three online
20 gaming casinos and I guess the nation's first
21 shared liquidity poker room.

22 Right now when you logon to any one
23 of our three casinos to play poker, those folks
24 actually sit in a common location and play

1 poker with each other. And what that does for
2 us is it again it creates more games that are
3 available at any time of day, more players who
4 want to play at those particular stakes at the
5 same time, etc.

6 So, the more folks you have coming
7 on, the easier it is to find a game at the rate
8 and time you like and the more attractive and
9 fun the whole process is.

10 As we went into launch, our real
11 focus kind of like, I think, everyone in this
12 case was the soft launch approach really
13 heavily focusing on the stability of the
14 platform, of the backend processes, of the
15 games, making sure we didn't have any
16 unanticipated issues. Once we were comfortable
17 with that, moving forward with a heavier
18 marketing strategy. And I think what that's
19 meant for us is more modest revenue growth in
20 the first four months. And I think we were
21 okay with that.

22 But no matter what, as we turn our
23 attention to acquisition, we still have to be
24 cognizant of our demography and our geography.

1 So, in Delaware we are a small state. You can
2 go from the northernmost piece to the
3 southernmost piece in roughly two hours. Our
4 population is 900,000 people. Of that some
5 portion of them are of legal gaming age. Of
6 those who are of legal gaming age, some of them
7 want to play online, some don't, etc.

8 So, as you get down to it, you are
9 restricted by your boundaries. And that's what
10 made this multi-jurisdictional agreement with
11 Nevada so important. It's the legal framework
12 that was established and announced in February
13 allows the two states the latitude to try to
14 combine a poker room so that you can attract
15 more players, make your game more fun and allow
16 more offerings to occur. Again, it was just
17 the legal framework that was established. Now
18 we've got to work on how we actually do that
19 technically. But it was a major first step.

20 And I think that really takes us in
21 Delaware to where we are now. And then moving
22 forward the conversation is really focusing
23 again on mobile alternative forms of gaming,
24 etc. So, I think that's it in a nutshell.

1 MR. DAY: Great, questions?

2 COMMISSIONER ZUNIGA: Can I ask a
3 question about that legal framework? Has there
4 been any challenges to that cooperation? Is
5 that in somebody's mind crossing state lines
6 whether it takes place in cyberspace or not?

7 MS. GOLDSMITH: No. I think that's
8 the entire purpose of the multi-jurisdictional
9 agreement is that if you've got the two
10 entities saying, like Nevada and Delaware, that
11 we agree between ourselves that our players
12 adhere to, I'm going to call it, the
13 traditional geographic limitations, which are
14 your players are in Nevada, our players are
15 particularly in Delaware, but they're actually
16 allowed to play in a common poker room. And
17 again, playing a game that is actually legal in
18 both spots.

19 So, in Delaware we have we call
20 full-scale offering. You can play table games,
21 poker or slot machines. Then in Nevada, it's
22 the poker product that's really legal. So, for
23 us we're restricted by that piece. So, what we
24 are offering is a shared liquidity poker room

1 because that's legal in both locations. Did I
2 answer?

3 COMMISSIONER ZUNIGA: Yes. I'm
4 curious why do you think the credit card
5 companies have such high or different levels of
6 rejections? Are they conducting a credit
7 analysis or risk analysis of every player?

8 MS. GOLDSMITH: One of our partners
9 Vantiv, is very active in this particular area.
10 And I would sort of encourage you to speak with
11 them because they are so heavily involved
12 monitoring what's actually happening and doing
13 outreach.

14 I think part of it is a business
15 decision, a risk aversion business decision by
16 the individual issuing banks, period. And I
17 think it's that long-standing belief from that
18 2006 unlawful Internet Gaming Enforcement Act
19 saying that you will be sanctioned by the
20 federal government if you allow transfers of
21 funds for these purposes.

22 And it's when you have that 2011
23 Wire Act decision come forward, it's a matter
24 of adjusting to history of declining that 7995

1 code under all circumstances.

2 So, in our state what we tried to do
3 was meet with the Bankers Association to
4 educate them as to what was legal, what's not
5 legal, what we do in our state to authenticate
6 who you are, validate identification, etc. And
7 then help them do outreach with local banks.

8 And I think it's that process, it's
9 that communication that's going to take some
10 time for everyone to come to terms with -- to
11 see change. That you're used to this being an
12 illegal process and that you've spent all of
13 this time trying to prevent it, and now you can
14 open the doors a little bit. It's okay here.
15 It's okay in certain jurisdictions to accept.

16 But it's the same conversation
17 happening throughout the United States
18 throughout the card brands. It's not specific
19 I think to any one of us. We are all
20 struggling. And we're seeing improvement, but
21 it's a process.

22 CHAIRMAN CROSBY: Who owns the
23 player data in your model?

24 MS. GOLDSMITH: In our model, the

1 player data is actually owned by the individual
2 casinos. But we have the authority to have
3 access to it at any time. They are competing
4 with each other, so they don't want to share
5 player data amongst themselves. But as the
6 lottery we are able to see all of it.

7 COMMISSIONER STEBBINS: Rebecca, is
8 there a difference -- I'm looking at something
9 that shows kind of a varied tax rate. Can you
10 explain why you may or may not have a varied
11 tax rate?

12 MS. GOLDSMITH: The rates for
13 Internet gaming actually follow our land-based
14 tax rates. So, the revenue-sharing agreement
15 is like 43.5 percent for table games and 29.4
16 percent, I believe, for video lottery. And
17 that's the intent for the Legislature to
18 support this activity and to continue mirroring
19 what's going on in the land-based. Otherwise,
20 it's no different online than what it is in our
21 land-based casinos.

22 COMMISSIONER STEBBINS: And your
23 revenue projections because obviously you have
24 a lot of people here in the Delaware beaches

1 and shores during the summer, do you see -- was
2 there revenue modeling which showed a probably
3 higher percentage of usage during the summer?

4 MS. GOLDSMITH: I think we're trying
5 to stay away from that conversation honestly as
6 much as possible. And I think it's been
7 interesting because again, we're the regulators
8 not the policymakers.

9 So, it's trying to be realistic
10 about again, what's actually happening in our
11 state and the attractiveness of the product.
12 But we are hoping that the tourism season will
13 be a good opportunity to attract new players.
14 To use that acquisition for those folks who are
15 coming from outside, giving them something else
16 to do while they are here, etc.

17 COMMISSIONER STEBBINS: Thank you.

18 MR. DAY: Thank you, Rebecca. We
19 might be back to you if we end up with any
20 time, but we better get to Eric. Eric, if you
21 would, it seems when you and I were talking
22 about we're kind of interested in regulation.
23 We walked on the casino floor and take a look.
24 I think you commented to me as well that you

1 have been working on monitoring specifically
2 for Internet gaming how that might come about.
3 So, if you would as you go in your comments
4 please mention that. I'd appreciate that.

5 MR. WEISS: Again, I'd like to
6 reiterate what everyone was saying and thank
7 all of the Commissioners for having us here.
8 It's a great opportunity to let everyone know
9 about the good things that are happening in New
10 Jersey. I will try to be a little bit more
11 brief and to give more time to you guys for
12 questions, because I know we are pressed for
13 time.

14 Really in New Jersey this whole
15 process started -- we dove headfirst into it.
16 And everybody thinks it happened very quickly
17 like nine months from the time the bill was
18 authorized to the roll out of Internet gaming
19 in New Jersey. But it really started more like
20 two years prior when we passed a legislation
21 that authorized mobile gaming inside of a
22 casino.

23 So, that legislation basically said
24 that mobile doesn't necessarily mean it's a

1 handheld device. It's just that you can have
2 gaming, inter-room gaming, mobile gaming inside
3 the four walls of a casino. When that
4 legislation was passed and we started
5 researching how we were going to regulate that
6 we recognized very quickly that the technology
7 behind mobile gaming in a casino is the same
8 technology behind the Internet gaming.

9 You have your account based
10 wagering. You've got your geolocation issues,
11 those type things. So, we really at that point
12 started researching the Internet regulations.
13 And we knew that if the governor ever passed
14 the legislation, we would be in a better place
15 to regulate it. That's really what gave us the
16 foundation.

17 And the legislation eventually came
18 out. And the governor was very clear that he
19 wanted this legislation to one, address
20 responsible gaming issues. He was very
21 concerned about that. The other one that it
22 was intended to revitalize Atlantic City to
23 help our casinos. So, our model really, and I
24 know there's going to be some discussion about

1 can Internet and casinos and lotteries coexist.

2 And the idea in New Jersey was yes,
3 there's a synergy there. And it would help our
4 casinos. Only casino licensees can offer
5 Internet gaming. And it's no secret. There's
6 been a lot of competition on our borders. And
7 people are leaving the state out of
8 convenience.

9 So, the people that are living along
10 those borders now can gamble online in Atlantic
11 City. Our Atlantic city casinos can maybe
12 reach out to people that maybe have never had a
13 relationship before. And what's good about
14 Internet gaming is that you can't do anything
15 anonymously. So, you know who the players are.
16 You know where they're coming from. And you
17 know what value they are to your organization
18 from the standpoint of how much they play. So
19 you can market to them better. That's the
20 background really that introduced Internet
21 gaming and authorized it and how we got to
22 where we are with the legislation.

23 New Jersey right now we think is a
24 good place from a regulatory standpoint. We

1 currently have six casinos that have received
2 permits that are authorized to conduct Internet
3 gaming and are conducting Internet gaming. We
4 had 100 new companies come to New Jersey and go
5 through the licensing process. And Jim talked
6 about the different levels of licensing
7 depending on the kind of work that you do or
8 service that you offer. It's very, very
9 similar in New Jersey as it is in Nevada.

10 From the system side, we test and
11 approve the equipment ourselves in-house. We
12 have a lab. And we tested and approved seven
13 Internet gaming platforms. We offer casino
14 games and poker. So, of those seven platforms,
15 four are currently approved for poker.

16 We have four RGS, remote gaming
17 systems or servers approved. And we have about
18 250 casino games authorized to be conducted in
19 Atlantic City. And we're still getting
20 submissions and we're still approving them.

21 It was an aggressive schedule that
22 we had. And one of the things that I heard
23 discussed in industry was that New Jersey had
24 this huge hiring process in order to get ready

1 for Internet gaming. And that wasn't really
2 the case in New Jersey. Today, today we have
3 less staff than we had when Internet gaming was
4 passed. So, you ask how did you do that,
5 right?

6 We had attrition, obviously. We
7 restructured the organization, reallocate staff
8 especially from the licensing standpoint. And
9 we did hire. We did strategic hiring, cyber
10 security people, network administrators, DBA's
11 those type of people to bring in to help us
12 through this process.

13 We also hired an Internet gaming
14 consultant Mario Galea, who was a regulator in
15 Malta, he was the chief regulator in Malta.
16 He's experienced from the standpoint of
17 licensing, which is very important to us and
18 all of these companies that are overseas in
19 Europe that he's licensed now in New Jersey.
20 So, he gave us some good insight there.

21 And he's also very technical. So,
22 he's an ethical hacker. He's an electrical
23 engineer. So, it was a very good fit for New
24 Jersey as a consultant.

1 From the operations standpoint,
2 we're seeing a tremendous amount of patron
3 growth. We're averaging around 37 percent of
4 an increase month to month on new patron
5 registrations, new patron accounts.

6 Today, we have about 248,000 patron
7 accounts in New Jersey. And from a revenue
8 standpoint, we're seeing about 23 percent
9 growth. I don't want to get into projections,
10 kind of like Jim and Rebecca here but I can
11 talk about facts.

12 So, we are. We are at 23 percent
13 revenue increase month after month. We've
14 generated over \$26 million in Internet gaming
15 revenue. And there's another point to talk
16 about with Internet gaming revenue that I've
17 heard talked about out there and have read and
18 that's that poker is the economic driver on the
19 Internet. It's poker that is the one that is
20 the most important to have.

21 In New Jersey at least, the
22 experience that we've had is that casino games
23 account for about 70 percent of all gross
24 gaming revenue. And poker is only about 30

1 percent at this point. That's not across the
2 board. There are some casinos that have
3 partnered with an Internet gaming provider that
4 really is more poker centric. But even in
5 those cases, casino games outpace the poker on
6 the Internet world, at least in New Jersey.

7 So, it's still early right now.
8 We're still in the infancy stages of gaming. I
9 don't know if these numbers are going to change
10 or how that's going to play out. So, that'll
11 be interesting to watch as we progress through
12 this.

13 We talked a little bit about some of
14 the challenges. And clearly, geolocation and
15 payment processing have been issues in New
16 Jersey just like probably in every other
17 jurisdiction.

18 From the payment processor side,
19 primarily Rebecca talked about the 7995
20 designation for the FCC code versus the 9754.
21 9754 is a different code that MasterCard uses
22 which helps them get more percentage of
23 approvals through the credit card process.

24 But what's very interesting -- Let

1 me just talk about credit card processing and
2 the real issue. The real issue are the issuing
3 banks and how much risk they're willing to
4 accept. So, they look at things like
5 regulatory risk. They look financial risk.
6 Those are the two key issues that they are
7 dealing with.

8 Rebecca talked about for all of
9 these years 7995 is bad. You can't do it. And
10 the regulatory risk in some cases they're
11 scared they're going to face that from the
12 federal government.

13 So, what we have done is we've
14 worked with the Department of Banking, the
15 Office of the Controller of the Currency to
16 really talk to them about what's going on, the
17 problems we're dealing with, the fact that it
18 is legal in New Jersey. And we're hoping that
19 we get an advisory issued from those
20 organizations within the next couple of months.
21 We're very hopeful that that will happen. So,
22 that will alleviate some of the regulatory
23 risk.

24 The financial risk, which is really,

1 really interesting is that if you look at --
2 people talk about fraud being a problem and
3 things like that with Internet gaming. And
4 there's going to be problems financially with
5 those aspects of it. But if you look at
6 chargebacks as a measure of that risk,
7 financial risk, the reality is that in New
8 Jersey we're running at around 20 basis points
9 which is tremendous. It's very, very good.

10 It's a very low level of financial
11 risk especially when you compare it to online
12 retailers and the people like that who are
13 running at 50 to 100 basis points. So, from
14 the standpoint of financial risk, it's very
15 low. So, that information needs to get out.
16 It needs to get out to the banks. As that
17 does, I think you're going to see a higher rate
18 of approval.

19 We're already seeing 78 percent of
20 the transactions from MasterCard getting
21 through. We're seeing currently from Visa 44
22 percent. So, it's a lot better. It started at
23 around 10 percent of those transactions were
24 getting through. We're not at about 44

1 percent, which is very good. So, we're doing
2 well.

3 Really there's two primary methods.
4 There's ACH transfers. I think Tim Richards
5 talked about that earlier in his presentation.
6 And there's credit card transactions. And now
7 the casinos are getting very creative with some
8 of the other payment methods. But they account
9 for very, very little when it comes to the
10 total number of patron deposits. Those are the
11 kinds of things you're going to be dealing with
12 from the standpoint of payments. If you can't
13 fund your accounts, you can't game.

14 The other issue I'd like to talk a
15 little bit about is the geolocation issue. I
16 know Lindsay presented up here. And what's
17 very similar between us and Massachusetts is
18 the density of population, the number of people
19 you have around your borders is very high. So,
20 if you have a large buffer, you exclude a lot
21 of people from being able to gamble.

22 It was very important to us that we
23 were able to get very close to the borders as
24 part of the geolocation process. And as we

1 were evaluating the different technologies that
2 could be used, we became concerned that they
3 could be defeated or circumvented each
4 individual one individually.

5 And when we talked to the director
6 about some of the challenges there were, he
7 made it very clear to us, he made it clear that
8 he wanted not a reasonable assurance, he wanted
9 more than a reasonable assurance that this
10 geolocation process can't be defeated and that
11 it would work properly.

12 So, what we did is we issued an
13 advisory. Our regulations are very vague. It
14 has to be effective. It has to make sure that
15 the people that are gambling are in the state
16 of New Jersey. But we had a team that
17 evaluated all of the technology and came out
18 with an advisory, a baseline if you will of
19 what we would expect.

20 And we challenged the industry to
21 come back and propose to us how they can meet
22 that standard. They didn't necessarily have to
23 do it the way we suggested you had to do it,
24 but they had to address the issues. And

1 Lindsay talked about some of the things that
2 she does. And you asked her questions about
3 anti-spoofing and things like that.

4 So, there are things that she didn't
5 talk about that are built into their system
6 that really raises the bar. It's very
7 difficult to circumvent those controls the way
8 they have them implemented. It gives us a very
9 high level of assurance that it's working.

10 And one of the -- I don't know if
11 it's a misrepresentation or a misnomer about
12 what's happening with regard to geolocation.
13 That geolocation is this is a big issue, it's
14 not. The reality is as Rebecca talked about is
15 there are some people that are just not going
16 to be able to gamble because they don't have
17 Wi-Fi for instance in their house. Or they're
18 in the Pine Barrens of New Jersey and we can't
19 geolocate them. So, there's going to be
20 instances that you are in New Jersey and you
21 just can't gamble.

22 But the data shows that 95 percent
23 of the geolocations that come through of all
24 geolocation tests are passing. The five

1 percent that are not passing, some of those are
2 from people outside the state of New Jersey.
3 Some of them are from we call false negatives
4 or false positive, people that are in New
5 Jersey but for environmental reasons or
6 technological reasons they can't be geolocated
7 to the satisfaction of the state. So, they
8 can't gamble.

9 I think part of that was a growing
10 process too, because these casinos are
11 partnered with vendors. And they've been doing
12 business in Europe. And geolocation is not an
13 issue in Europe as it is in the United States
14 because they implemented from a national level
15 and we're implementing on a state-by-state
16 basis. So, we have to geolocate those borders.

17 Just educating the consumer when
18 they're calling the helpdesk and telling them
19 you have remote desktop software on there and
20 this is the reason. How you treat your
21 customers when they dial-in helps alleviate a
22 lot of those concerns.

23 And there was an article today in
24 the paper that said New Jersey relaxed its

1 standards for the geolocation. And that's just
2 simply not true. We've never done that. So,
3 if you see that it's not true. I think things
4 are getting better. We're having a 95 percent
5 pass rate. And part of that is through
6 education. Part of that is people are starting
7 to understand the technology. So, it's
8 important to note that for all of you.

9 We'll just lastly talk about the
10 monitoring tools that we use in New Jersey.
11 So, it was very important to us that the data
12 could not be compromised. You're collecting a
13 whole bunch of data about everybody. There's a
14 couple of things we've done. This has been a
15 real challenge for us.

16 One of them was from the land-based
17 experience that we've had, we look at all of
18 the different casinos. And every casino
19 individually has their own slot monitoring
20 system whether it's SDS, IGT, ACS.

21 So, when our investigative staff
22 would go out and they'd have to do an
23 investigation and interrogate data or revenue
24 certification, people would go out in the

1 field, they had to learn individual systems.
2 They had to understand the data structures of
3 those systems in order to perform SQL queries
4 and things like that.

5 So, with the Internet world what we
6 did is we created what we call is an XML
7 schema. What we decided to do is to
8 standardize all of this data. So, we said this
9 is how we want it. This is the information we
10 want you guys to give us. This is the format
11 we want it. And this is how we want you to do
12 it so that it's standardized. You don't have
13 to learn system to system to system. We just
14 have the data we need to interrogate and it's
15 available to us.

16 And we take SHA-1 signatures of that
17 data. And the casino has to maintain that.
18 And they transfer that data to us as well. So,
19 the casinos are really the ones responsible for
20 the data storage. And SHA-1 is a digital
21 signature of the data that they've generated.

22 We have all of those digital
23 signatures locally in our system so that we
24 know that the data hasn't changed from the time

1 it was generated so that we can do our
2 investigations. So, from a monitoring
3 standpoint, the data issue is a very important
4 one.

5 The other thing we're doing, and if
6 you come we've done tours for people. As they
7 come through our offices, we have these
8 monitors. And one of the things is our
9 geolocation monitor. And Lindsay showed you
10 these pin drops. And you see actively people
11 getting geolocated in New Jersey. It's kind of
12 neat. You can see geographically where they
13 are. You see the red pins come in. And you
14 can click on that and say oh, this is the
15 reason this person didn't get through. He has
16 remote desktop processing software.

17 But we also use a tool called
18 Nagios. Nagios is an external monitoring tool.
19 And what we did with that is we've automated a
20 process where we remotely ping each individual
21 website, hey, are you there. So, we know when
22 the systems are up.

23 We're taking SHA-1 digital
24 signatures of their terms and conditions the

1 player protection page. So, we know if they
2 ever change. We have high visibility remotely.

3 From an internal monitoring
4 perspective we have installed data collectors
5 or basically servers behind the firewall of
6 every casino. And we have insight. We can
7 monitor all of the Internet traffic that's
8 coming in the HTTP traffic, the VPN traffic
9 from the behind the firewall and behind
10 networks.

11 So, we can see everything, all of
12 the transactional data and what's happening
13 behind the firewall, where it's going.
14 Basically, it's an investigative tool. There's
15 certain transaction. You can see the volume of
16 the data. You can see how much data. You can
17 see data going from New Jersey out to Europe.
18 And it's an investigative tool. So, you find
19 out what is going on. Why is this happening?

20 What you see is you get accustomed
21 to the normal transactions and then all of a
22 sudden something will pop up that's out of the
23 ordinary, which would spark an investigation.

24 So, from an external monitoring

1 standpoint, an internal monitoring standpoint
2 we have a high-level of insight into what's
3 going on in those regulated systems.

4 Then you have the lab. Everything
5 that can be used out in the field has to come
6 to our lab. Our engineers and statisticians
7 know these systems inside and out. Everything
8 that comes in, any critical system, anything
9 that is revenue related, game outcome related,
10 anything that the systems do to comply with
11 regulations would be considered critical
12 function.

13 All of that stuff has to come
14 through the lab has to be tested. We get a
15 digital signature of all of the stuff that
16 comes in. That's how we know what we've
17 approved in the lab is out in the field.

18 We are part of the change control
19 process through something called release notes.
20 We require the casinos, once something is
21 approved that they have to notify the Division
22 when they want to install it. We've gone and
23 we've gone to every IT shop and we've analyzed
24 the architecture, their network architecture.

1 We've sealed all of their game hardware with
2 Division seals. And we've inventoried all of
3 their systems with Division serial numbers so
4 that we know exactly what's out in the field.
5 If the seal is broken, there has to be a
6 notification to us.

7 So, that's how we keep control of
8 the hardware that's out there. The release
9 notes and the software process, through the
10 release notes we have visibility into all of
11 the changes and what is actually running out
12 there. They really can't do anything without
13 us having visibility into it. That's basically
14 it in a nutshell of how we regulate and what
15 we're doing from the standpoint of monitoring.

16 So, if you guys have any questions,
17 I'd be happy to answer them.

18 COMMISSIONER CAMERON: One quick
19 question. Eric, you said there was a 23
20 percent increase; is that correct?

21 MR. WEISS: Correct.

22 COMMISSIONER CAMERON: Is that on
23 average? Are those individual facilities, is
24 there a decrease in the number of folks or the

1 revenue in the actual casino itself?

2 MR. WEISS: Right now, we're not
3 seeing that. But like I said, this is early.
4 In the long run we hope and it's really
5 designed that you'll be able to market to new
6 people. You'll have new relationships. Start
7 a poker tournament online, finish it in
8 Atlantic City.

9 So, we hope to see positive
10 correlation, growth in Internet, growth in
11 casino visitation in Atlantic City. Time will
12 tell whether that happens or not.

13 COMMISSIONER MCHUGH: Eric, you said
14 something about 70 percent of something was
15 casino games. And 30 percent of that was
16 poker. I missed what that was.

17 MR. WEISS: In New Jersey all forms
18 of casino games are authorized. We talked
19 about the regulatory model in New Jersey only
20 casinos can use it. Only casinos can offer
21 Internet gaming kind of like the deal with Jim
22 Barbee, but we offer all forms of gaming like
23 Delaware does.

24 We also offer which no one has done

1 yet, is live casino games online in which we'd
2 be streaming. And we've seen that in Europe
3 where they've done that very effectively where
4 you're playing with a live person spinning a
5 roulette wheel. And our regulations authorize
6 that.

7 So, the revenue associated with
8 casino games which would include roulette,
9 blackjack, craps and slot machines, so that's
10 casino games, 70 percent of all gross gaming
11 revenue is coming from those.

12 COMMISSIONER MCHUGH: And the other
13 thing I wanted to ask about is what is the
14 permitting scheme? If you have a casino
15 license, you can get permitted to run Internet
16 gaming, right?

17 MR. WEISS: Yes.

18 COMMISSIONER MCHUGH: Can you get
19 more than one permit? I read, I thought,
20 things about the casino operators getting more
21 than one permit and then having --

22 MR. WEISS: I think what you are
23 referring to is the Internet gaming platform.
24 So, a casino would only have one permit to

1 offer Internet gaming, a licensee.

2 Now how many Internet gaming
3 platforms like 888 can be a platform provider
4 which provides the back office and things like
5 that. Then Bewin may also be a provider. So,
6 what we did was for the opening we limited the
7 number of platform providers that a licensee
8 could hold. And we limited that to one.

9 COMMISSIONER MCHUGH: Thanks.

10 CHAIRMAN CROSBY: We're running
11 over. I had a question, but I think maybe we
12 ought to move it along just because we're
13 running over a little bit.

14 MR. DAY: I think we're at break
15 time. Thank you very much.

16

17 (A recess was taken)

18

19 COMMISSIONER MCHUGH: One of the
20 interesting and valuable things about this
21 industry, I think all of us on the Gaming
22 Commission have been learning is the
23 willingness of people from other jurisdictions
24 who have been through these things to come and

1 share their concerns and their information,
2 their insights with us.

3 This afternoon, we're going to try
4 to pull together some of the things that we've
5 heard during the course of the day and try to
6 get some thoughts and opinions about policy and
7 the way forward, at least at a high level.
8 There are many aspects of this that we could
9 talk about. And I've selected several of them
10 that I'd like to talk about with this very
11 distinguished and very balanced and varied
12 panel.

13 I'm not going to read all of their
14 biographies. They're distinguished each of
15 them. Their biographies are in the handouts
16 that you have. And if I read the biographies,
17 we'd have 10 minutes left for the program.

18 So, let me simply introduce them in
19 the order in which they are up here in front of
20 you. To my immediate right is Senator Jennifer
21 Flanagan from Leominster. She is the vice
22 chair of the committee on Ways and Means of the
23 Massachusetts Senate and has had a
24 distinguished career in that body.

1 Next to her is Senator Bruce Tarr
2 from Gloucester. He is the minority leader of
3 the Massachusetts Senate, has had an equally
4 distinguished career. They're both very
5 thoughtful people who have filed bills coming
6 from slightly different directions dealing with
7 Internet gaming that I hope we can talk about a
8 little bit this afternoon.

9 Next to Senator Tarr is Stephen
10 Martino. He is the Director of the Maryland
11 State Lottery and Gaming Control Agency. He's
12 had a long career in the gaming industry, was
13 on the Kansas Lottery Control Board before
14 coming to Maryland and has got great
15 experience.

16 Next to him is Vernon Kirk, the
17 Director of the Delaware Lottery. We've heard
18 about Delaware and what it's just gone through.
19 I want to loop back and talk about some more
20 those things as we proceed.

21 Next to him is George Sweny, the
22 Senior Vice President of Charitable and iGaming
23 for the Ontario Lottery and Gaming Corporation.
24 We heard his presentation a minute ago. And

1 we'll loop back there too and get some
2 additional information.

3 Next to his right is Chuck Bunnell.
4 He is the Chief of Staff for External and
5 Governmental Affairs for the Mohegan tribe,
6 involved with Mohegan Sun's activities and a
7 long career in this industry and in legislative
8 relations and liaison.

9 To his right is Kim Sinatra, the
10 Senior Vice President and General Counsel and
11 Secretary of Wynn Resorts. And has had a
12 career in various aspects of the legal end of
13 the entertainment industry, I think, is fair to
14 say on a broader scale.

15 Next to her is Tom Beauchamp. He's
16 the Senior Vice President of IT for Penn
17 National Gaming, our licensee since two weeks
18 ago.

19 Next to him is Marcus Prater who is
20 the Executive Director of the Association of
21 Gaming Equipment Manufacturers, a nonprofit
22 organization that represents the interests of
23 the gaming manufacturers, gaming equipment
24 manufacturers.

1 So, we're going to spend some time
2 talking about a series of questions that come
3 out of the discussion that we've been having
4 during the course of the day.

5 And then I'm going to ask at the end
6 for each of these distinguished panelists to
7 take just a minute to leave us with one big
8 thought. What is it that they'd like the
9 Commission to carry away from this gathering
10 with respect to Internet gaming? I think it'd
11 be a shame if we let such a distinguished group
12 go away without getting that last nugget in.
13 So, that's the way we will end the program.

14 But to begin with, let's take a look
15 at what's going on right now. I'm going to ask
16 -- going on right now in the relationship
17 between the lottery, the brick-and-mortar
18 casinos, the Internet, where that relationship
19 exists and where parts of it exist without all
20 three legs of the stool.

21 And I'm going to start by asking
22 Stephen Martino, if I might, to tell us a
23 little bit about the relationship between the
24 brick-and-mortar casinos in Maryland, which are

1 growing by the moment and the lottery which --
2 and I ask that question to begin with because
3 where they are despite a slightly different
4 regulatory mechanism, is where we will be when
5 the final license is issued.

6 They've got a strong lottery. They
7 will have and do have a strong casino presence
8 as will we. So, Stephen could you give us some
9 thoughts about that?

10 MR. MARTINO: Sure. Thank you,
11 Commissioner. It's always nice to be in
12 Boston.

13 So, I bring a little bit different
14 perspective than maybe what you experience in
15 Massachusetts because in Maryland we are the
16 Lottery and Gaming Control Agency. So, we are
17 the owner, operator, marketer, chief encourager
18 of the traditional lottery, which in this state
19 is obviously operated by the Massachusetts
20 Lottery.

21 But we are also as part of our work,
22 the regulator of the commercial casino industry
23 that is growing. We have four casinos opened.
24 We'll have another one in downtown Baltimore

1 that will open in July or August, September
2 sometime. Then we will have a sixth and final
3 casino that will open in suburban Washington,
4 DC sometime in 2016.

5 So, we are in some ways both
6 complementary and in conflict with ourselves.
7 We are encouraging people to play the lottery
8 while on the casino side we are strictly a
9 regulator. We are calling balls and strikes
10 and making sure that we have good clean
11 operations in the state, which we do.

12 Obviously, you have the Internet
13 that has crept into the discussion.
14 Obviously, with Internet operations now going
15 on in New Jersey and with our neighbor to the
16 east in Delaware, we are keeping a close eye on
17 that. We have tried to kind of parse out how
18 Internet operations could potentially look in
19 Maryland. Obviously, we are subject to the
20 approval of the Legislature and perhaps even a
21 constitutional vote on that. So, it's not
22 imminent.

23 But we think it's important to map
24 out and encourage both of the participants, the

1 traditional lottery which we think would be
2 appropriate to have a presence in the internet
3 lottery sales and the casino operators. And
4 they I would want to offer gaming like is done
5 in Nevada and New Jersey and Delaware and make
6 sure that everyone kind of knows what lane
7 they're in.

8 So, in Maryland we have staked out
9 the notion, subject obviously again to approval
10 by the Legislature that the lottery itself
11 would be the operator, marketer of a
12 traditional lottery sales platform on the
13 Internet, while we would work and be the
14 regulator of Internet gaming with an idea that
15 we would really want to focus the benefits of
16 that and the operations with the six
17 traditional commercial casino license holders,
18 the brick-and-mortar license holders in the
19 state.

20 We think that that's appropriate
21 given the fact that in some cases they will be
22 making close to a billion dollars' worth of
23 investment into their casino, brick-and-mortar
24 casino infrastructure in the state.

1 And that seems to have been
2 generally well received. Whether we go the New
3 Jersey model and allow each casino to operate
4 their own platform, or whether the Legislature
5 might think it best to go more of a Delaware
6 route and have more a central operating system
7 and have each casino skin their own front but
8 be able to benefit from the marketing efforts
9 that they would put in, those are public policy
10 decisions that have not been contemplated,
11 haven't been made.

12 But we clearly see a divergence
13 between the traditional lottery and the
14 commercial casino enterprise and think that
15 both can coexist. So, that's kind of where
16 we've mapped out initially in this new world of
17 the Internet.

18 COMMISSIONER MCHUGH: The lottery
19 was there first, Stephen and then the casinos
20 came. What if any measures were taken to
21 preserve the lottery's space, if you will?
22 Observations have you made with respect to that
23 space and the casino space since the casinos
24 arrived?

1 MR. MARTINO: Well, I don't think
2 that much was done to preserve the lottery
3 space. We have started to see some
4 cannibalization of traditional lottery sales
5 because of the casinos. We opened two -- The
6 first two casinos that opened in the state were
7 modest. Penn National opened what ended up
8 being about an 1150 slot facility in Northeast
9 Maryland. Then there was an 800 slot facility
10 that opened on the Eastern shore close to Ocean
11 City had no effect on traditional lottery
12 sales.

13 Then Maryland Live opens. It starts
14 with 4750 slot machines. That's been reduced,
15 but they now added table games. They now have
16 close to 140 table games, a 50-table poker
17 room. In the last fiscal year that ended June
18 30 of '13, our traditional lottery sales were
19 down about 2.5 percent.

20 We're down another about 2.1 percent
21 as of this week in traditional lottery. I
22 think that it was anticipated, maybe not to
23 that degree. We've actually put out some
24 consulting help to try to project what the

1 long-term impact is going to be to our
2 traditional lottery from the casinos.

3 We talked about this a little bit at
4 lunch, so I'm prepared, overall when you
5 combine the revenue that comes from the
6 traditional lottery and from the casinos in
7 fiscal year '13, we were up \$179 million from
8 the previous year, which was an increase of
9 27.6 percent. So, actual money coming into the
10 state is increasing. It's just obviously we're
11 seeing a shift in where some of that
12 discretionary entertainment spending is being
13 done.

14 We're typically being affected in
15 our Keno. We have a very robust Keno
16 operation. We have the second-highest per
17 capita sales in the United States in our Keno
18 game. We're seeing some effects on our
19 scratch-off tickets. We know that those are
20 the most casino like games that we offer. And
21 people are now able to easily access a very
22 large, very nice commercial casino where
23 frankly the payouts are higher and they're
24 voting with their dollars.

1 COMMISSIONER MCHUGH: Vernon Kirk,
2 you too have both of those. You have a lottery
3 and you have casinos. You also have the
4 Internet. We've heard about that and I want to
5 come back and talk a little bit more about that
6 later.

7 And you have a different regulatory
8 structure as well. How do you see the
9 relationship between now the Internet, the
10 casinos and the lottery?

11 MR. KIRK: There's a peaceful
12 coexistence between all three since the lottery
13 runs all three. So, everything we do we do in
14 conjunction with the casinos and starting with
15 the Internet.

16 So, that was an effort that as
17 Rebecca mentioned earlier came out of the
18 Delaware Gaming Competitiveness Act of 2012.
19 And it was done in consultation with the
20 casinos. And allowed them to have the portals
21 where you could access them. So, we think
22 everything is -- the coexistence between all
23 those genres are really good for us.

24 Our only problem is sitting next to

1 me on my left here, Director Martino and his
2 fantastic casinos. Our traditional products
3 are up eight percent. Our table games are down
4 30 percent. And our video lottery is down
5 about 12 percent. That's our biggest
6 competition right now is Maryland.

7 That's why we had the Gaming
8 Competitiveness Act was to try to fend these
9 things off. Every time we introduced
10 something, the surrounding states also jump in.
11 We started with video lottery in '94. We added
12 sports betting in '09 through the casinos. We
13 added table games in '10 through the casinos.
14 We added Internet gaming in '12 through the
15 casinos.

16 It's all tools in the toolbox to try
17 to compete with some of our more ambitious
18 neighbors, shall we say, including
19 Pennsylvania.

20 COMMISSIONER MCHUGH: Friendly
21 competition we've brought here today. One
22 enters the online casinos through the lottery
23 portals, one can do that?

24 MR. KIRK: Through the casino

1 portal.

2 COMMISSIONER MCHUGH: But there's a
3 link on the lottery page?

4 MR. KIRK: We operate the platform,
5 but you can't get on by going to delottery.com.
6 You've got to go to one of our three casinos
7 and logon there to get on the Internet. We are
8 transparent. You can't see us in the
9 background. It says Delaware Park on the back
10 of the card but when the ace turns over, we
11 control that.

12 COMMISSIONER MCHUGH: You host the
13 Internet sites but you do so transparently?

14 MR. KIRK: Correct.

15 COMMISSIONER MCHUGH: Marcus Prater
16 you have some statistics, very early, very
17 preliminary but some statistics nonetheless.
18 And I think they're in part of everybody's
19 packet, dealing with the symbiosis or lack
20 thereof between Internet players and casino
21 players.

22 Could you touch on some of the
23 highlights of what those statistics show? And
24 maybe tell us a little bit how they were

1 compiled and when.

2 MR. PRATER: Sure. My background is
3 in marketing. I'm also an online consumer in
4 Nevada where when sports betting came to my
5 iPhone, it dramatically reduced the number of
6 visits I would make to my local casino every
7 week. And I have been waiting to see how the
8 local casino operations respond to that and how
9 they cross market, cross promote the idea of
10 being able to bet on your phone, but also don't
11 forget to come visit us at the casino. So,
12 that's been in my mind as New Jersey has rolled
13 out.

14 When I was in London for the iShow
15 in late January, Clarion Events which runs the
16 iShow, published a study through their
17 commercial intelligence division. And it was
18 basically -- It's a survey of 506 active online
19 players in New Jersey. It's really the first
20 study of some of the habits that have been
21 taking place in New Jersey.

22 Again, the full bullets are in your
23 packet. But some of the highlights for me when
24 I thought about the cannibalization issue were

1 35 percent of online players surveyed were new
2 to online gaming in New Jersey since November
3 2013 when gaming went live.

4 So, there was a lot of people
5 playing illegally, still are, but these 35
6 percent represented new players that had never
7 even dabbled in the online space. Thirty-eight
8 percent of those who previously played on
9 illegal sites had now migrated to approved
10 sites. So, that's certainly good news but
11 still leaves a lot of room for the rest of the
12 players that are still playing. This survey
13 was of online players total not just the
14 approved sites but the illegal sites as well.

15 There's clear brand correlation
16 between land-based casinos and online brands
17 used by New Jersey players. I think we've seen
18 that in the results with the Borgata and
19 Caesars in particular. Ninety-seven percent of
20 New Jersey online players also gamble in land-
21 based casinos, but actually visited relatively
22 infrequently. Forty-eight percent visit a
23 casino a couple of times per year or less.
24 Twenty-nine percent visit at least monthly and

1 18 percent visit casinos only once per year.

2 So, it shows that these players are
3 not multiple visitors to the land-based and
4 then now they're staying home, playing online.

5 The other interesting thing,
6 certainly new online players are influenced by
7 promotions in general. And 35 percent are
8 influenced by promotions that can be redeemed
9 at the land-based casinos with hotel stays
10 being the most important promotional offer.

11 Seventy-nine percent of online
12 players expect to visit land-based casino as
13 frequently as before or feel that they are now
14 more likely to visit. And then separately from
15 the study, in some of the quarterly reports,
16 the Borgata has noted that 85 percent of its
17 online players were not recently rated players
18 at the casino.

19 So, very early but the whole
20 cannibalization issue is one to keep an eye on.
21 So far, New Jersey I think they are trying
22 different marketing offers to get people to
23 come to the casinos and also sign up. And I
24 think that over time, the different offers when

1 the player start responding over more than just
2 a few months period, then we'll have a better
3 idea of what that is going to look like in the
4 future.

5 COMMISSIONER MCHUGH: What is the
6 big picture you take from this preliminary
7 recognizing that it is preliminary?

8 MR. PRATER: I think it's good news.
9 I have not obviously been able to play from
10 Nevada, but I did talk to several New Jersey
11 players on the phone. And they frankly have
12 been a little disappointed in the amount of
13 marketing. Other than the sign-up bonuses and
14 so forth, they also expected that they would
15 get more marketing messages from the land-based
16 to come visit the property.

17 Again, using my sports book analogy
18 that when you logon and there's no offers that
19 entice you, the one guy I talked to said he has
20 not visited a -- He lives in Fort Lee and he
21 has not visited either Bethlehem or Atlantic
22 City since the online went live. Part of the
23 reasons he cited was simply because they hadn't
24 made it attractive enough for him to get in the

1 car and drive.

2 So, I think the survey of the
3 players is good news in terms of the attitudes
4 and the idea of staying tied to the land-based
5 but I think that the land-based casinos have to
6 step up and keep trying new marketing offers to
7 see which ones the players respond to.

8 COMMISSIONER MCHUGH: Thank you,
9 Marcus. George Sweny, as I understood your
10 presentation here a few moments ago, you are
11 about to roll out the PlayOLG as a unified
12 package of Internet offerings, all of which are
13 run by the corporation. And you presently have
14 four branded operators in destination casinos.

15 Do you anticipate an impact on them
16 from what amounts to a new source of potential
17 competition?

18 MR. SWENY: Jim, much like my
19 colleague Vern to my left, I don't think we're
20 going to see that kind of cannibalization.
21 What we'll be looking for down the road is
22 where we can leverage the synergies. So, OLG
23 does have four of its sites that are operated
24 by the private sector Caesars, Penn and FMC.

1 We also have 20 sites that OLG operates
2 themselves.

3 As I said earlier, we've got the
4 lottery business, the casino business, soon to
5 come the Internet business and the bingo
6 business. And our challenge down the road will
7 be how do we collect the synergies amongst all
8 of them?

9 From what I have seen as I look
10 around the world either in the UK or our
11 colleagues in British Columbia, Quebec and
12 Atlantic, Canada is we've not seen
13 cannibalization. As they've introduced various
14 forms of Internet gaming for instance on the
15 lottery side, there have been high level of
16 concerns with lottery retailers about
17 cannibalization. Hasn't happened. It's all
18 been incremental. And that would be consistent
19 from jurisdiction to jurisdiction that we've
20 had a look at.

21 So, don't want to make arbitrary
22 decisions for our consumers. We want them to
23 be able to make choices. And we have to figure
24 out how to leverage the synergy between the

1 various channels.

2 COMMISSIONER MCHUGH: Is there a
3 collaborative exercise, enterprise with the
4 destination casinos to deal with that?

5 MR. SWENY: Not at this point, but
6 in the bigger picture at OLG in this program
7 called modernization, we're actually going to
8 move more to the private sector model. And
9 we're going to outsource the operations of all
10 of our casinos.

11 So, as our thinking evolves in that
12 effort, we will be looking to - Again, you've
13 got to respect the criminal code. OLG must
14 conduct and manage, but white labeling sites
15 for casino operators in our pan is certainly
16 something that we are thinking hard about. And
17 again, figuring out what is that synergy
18 between the branded land-based casino and OLG's
19 Internet offering.

20 COMMISSIONER MCHUGH: Thanks. Tom
21 Beauchamp, you and I talked some time ago. And
22 your biography reveals what we talked about
23 that your background -- you spent a lengthy
24 time in general merchandising with some of the

1 biggest retailers in the country.

2 And you told me that you looked at
3 the development of the Internet today, Internet
4 gaming today the way you looked at the
5 development of E-commerce about 15 years ago.
6 And I wonder if you could offer some thoughts
7 on that as to the parallels you see with
8 respect to the development and then moving into
9 the future what you might anticipate.

10 MR. BEAUCHAMP: Thanks for saying it
11 was only 15 minutes ago. It's actually been
12 longer. First of all, I'd like to thank the
13 Commission for the vote of confidence in
14 awarding the license to Penn. We're very
15 excited to be here in Massachusetts.

16 I do view the Internet as another
17 channel as opposed to a replacement. To me
18 there's a number of different lines of
19 business. Our expertise is in the casino
20 business both slots as well as tables as well
21 as horseracing. And lottery is a different
22 line of business that we don't participate in.
23 We hope to become a retailer for the
24 Massachusetts Lottery.

1 But we found within our land-based
2 businesses and what we've seen with online is
3 you have very different customers. And it's
4 important to offer all of the different
5 channels of gaming. And there are different,
6 I'll say, business processes and rules. And I
7 think it's important to have specialists who go
8 after the different types of gaming.

9 In our environment, we feel very
10 good about casino operations, table games and
11 that's what we do well. We also know that as
12 we have opened up our loyalty program to multi-
13 property that the most valuable customers are
14 the customers that visit us in more than one
15 property.

16 And I think we're going to find in
17 what I'll call multichannel, which is again my
18 background that customers that visit you online
19 and come into your land-based property are
20 worth much more than a customer that visits you
21 in a single channel.

22 So, that's really our objective
23 would be for the lines of business that are
24 legal that we participate in those but both

1 online as well as off-line.

2 Probably the best example is a few
3 Amazons and Ebays that are out there but there
4 are many more of the traditional retailers that
5 embrace the Internet and are very successful.
6 Consumers expect to be able to find an online
7 and an off-line offering. We don't want to be
8 a Blockbuster. We don't want to be a Tower
9 Records. There's many examples where
10 traditional, I'll say, consumer-based
11 businesses did not adapt to the Internet and
12 are now no longer here.

13 COMMISSIONER MCHUGH: You attribute
14 to their sort of dinosauric disappearance to
15 their failure to adopt rather than a business
16 model change?

17 MR. BEAUCHAMP: It's probably both,
18 but I think there's a lot of candle makers that
19 said the light bulb was never going to catch
20 on.

21 COMMISSIONER MCHUGH: Chuck Bunnell,
22 from your standpoint, and not focusing
23 specifically on you necessarily, on Mohegan
24 Sun, but where do you see this Internet piece

1 fitting into things over say the next five
2 years? Where do you think this industry is
3 going to be insofar as brick-and-mortar and
4 Internet in five years?

5 MR. BUNNELL: Judge, thank you,
6 thank you members of the Commission for giving
7 us the opportunity to be here.

8 We've given it a lot of thought.
9 And I think pending the federal government
10 coming in and making a decision for all of us,
11 which is something that we all need to continue
12 to watch because there are a lot of things that
13 are happening in Washington that would impact
14 all 50 of the states or at least 47 of them as
15 three have already made that step.

16 I would say as Stephen said, if the
17 player stay within their lane, that we can all
18 prosper. I believe that if lotteries are
19 offering subscription services and selling draw
20 games on the Internet that they have the
21 opportunity to reach to a different generation
22 that they may be losing, and that they'll
23 prosper. I think that traditional commercial
24 operators that have the ability to market and

1 contact their existing customer base and
2 potentially expand on that customer base
3 through the Internet they will prosper.

4 I think where things get difficult
5 and it's really important that regulators and
6 legislators come together and help guide us as
7 operators to establish the boundaries and those
8 lanes in which we stay in.

9 I think with your guidance I think
10 we can all prosper and be successful.

11 COMMISSIONER MCHUGH: Kim Sinatra,
12 let me ask you the same question. You look at
13 it as other operators do. Where do you see the
14 Internet, casino, lottery space in five years?

15 MS. SINATRA: I don't know. My
16 crystal ball is usually a little foggy, but I
17 will do my best.

18 It's interesting because I think
19 that this issue among all others has caused the
20 most divisiveness in our industry. Because as
21 you see even our trade association the AGA,
22 can't decide what its position is because there
23 are people who fall on both ends of the
24 spectrum.

1 There are people in our industry who
2 tell us we're going to be Blockbuster or Tower
3 Records tomorrow unless we adopt and go online
4 straightaway. There are others who say it's
5 not safe. We don't believe in it. It's
6 immoral and we're going to stay away from it.

7 Our company and I'm going to make it
8 a little specific because that's what I know,
9 has wrestled with this issue for years and
10 years and years without a clear consensus, I
11 must tell you. I think that what we do is
12 incredibly specialized. Ours is an
13 experiential luxury experience.

14 So, as Steve Wynn says, I can't
15 distinguish myself on a 17-inch screen. I
16 don't get it. So, from our perspective
17 creating tourism, providing hospitality and
18 luxury experience is sort of what we do.

19 There are people who believe very
20 much in providing the experience and the
21 product on the Internet. I think that the
22 important thing to understand is the
23 segmentation. Who is your customer? Are the
24 same customers -- And that's the

1 cannibalization argument, right? Is the same
2 customer who comes to a table games customer at
3 Wynn the same person who you're trying to get
4 at the lottery or at an online casino or at a
5 slot machine in a local casino? And I think
6 that a lot of people will say those customers
7 are different.

8 In preparation for this panel, I
9 started pulling some of the academic research
10 about this issue. First of all, there's not
11 very much in the US yet because the legalized
12 online business is so new. But there are some
13 things that people know from looking at the UK.
14 Is there substitution? There usually is. And
15 somebody said it earlier. Is there
16 substitution between the lottery and online,
17 yes, there probably is some cannibalization
18 there.

19 Is the person who is online the same
20 guy who's going to the Borgata or not going to
21 the Borgata, probably not. The early returns
22 in New Jersey would tell you they're probably
23 not the same customer. We don't feel like
24 people substitute online for a Wynn experience

1 at this time and maybe ever.

2 So, I guess I'm going to jump ahead.
3 The cautionary part is go slow. You don't have
4 to eat the elephant all today. I think that a
5 lot of people are going to find out as the
6 smaller states like Nevada and New Jersey and
7 Delaware and Maryland wade into this territory,
8 you're going to learn a lot. What are the
9 effects upon the lottery? What are the effects
10 upon bricks-and-mortar. And considering sort
11 of the different governing patterns that you
12 have here, some trends are going to emerge.

13 COMMISSIONER MCHUGH: As you look at
14 this and as you've summarized the look you've
15 taken, do I understand you to say that there is
16 a piece of this that may be casino specific or
17 website specific? I.e. if there is a
18 particular standout experience at a casino or
19 at a website that's going to matter more than
20 some general trend might otherwise?

21 MS. SINATRA: We know that's true in
22 bricks-and-mortar. We know that you can drive
23 a premium in a premium facility. So, that we
24 know in bricks-and-mortar.

1 On the Internet, I think that the
2 jury is out. Usability is important. And the
3 ease of processing payments is essential. So,
4 people are finding those real struggles in the
5 early days. Those are affecting people
6 uniformly. So, we haven't even gotten to the
7 place where can you distinguish between World
8 Series of Poker and someone else's poker.

9 They are different and the animators
10 will tell you they're different. And you would
11 think that a discerning customer can tell. But
12 it feels like ease-of-use on Internet
13 invocability and convenience are the things
14 that people care about. We're not so sure that
15 they distinguish between what color the felt
16 is.

17 COMMISSIONER MCHUGH: One of the
18 things we talked about this morning at some
19 length was social gaming. And want to spend
20 just a second or two talking about that. Under
21 the general framework of where that is going to
22 go over the next five years and how will its
23 trajectory affect the Internet and traditional
24 casinos and lotteries?

1 Stephen Martino, I'm going to come
2 back to you, if I might, to give us an insight
3 on your thoughts on that. There is free play
4 on at least one Maryland casino now. We heard
5 this morning about free play. We heard about
6 freemiums. You start off free and then you buy
7 and pay actual money for more. And we heard
8 about -- I guess that's the second line.

9 Where do you see that piece -- And
10 we've also seen we heard this morning about
11 significant monetary revenues coming in to
12 people from the paid social gaming. What if
13 any thoughts do you have about where that's
14 going to go over the next few years?

15 MR. MARTINO: You're right.
16 Maryland Live, Maryland's largest casino is
17 operating through its Aristocrat player
18 tracking system a free online play system,
19 which they say has been wildly successful in
20 helping them market and promote their casino.
21 It's not freemium. You don't start free and go
22 to premium.

23 There is no consideration. You just
24 go on. You play. You don't win anything. We

1 don't allow the accumulation of any kind of
2 player reward points. It's just a way for them
3 to brand their casino, extend their reach.

4 I hear when I go to conferences like
5 this, industry conferences I hear a lot about
6 regulation of social gaming. I can tell you in
7 the incredible number of things that the
8 Maryland Legislature has asked this agency to
9 do over the past five years, never once has
10 anyone even remotely brought up the notion of
11 regulating social gaming.

12 I don't know that at a state public
13 policymaker level that it's on anyone's mind.
14 That doesn't mean that it's not important.
15 Ultimately, we have to stay in our lane as an
16 agency, as a regulatory authority. And we
17 don't have any in that area.

18 Clearly, our casinos don't have the
19 ability to go to Internet gaming. So, right
20 now even if they wanted to they couldn't
21 transition. Maryland Live couldn't transition
22 their Internet site to some kind of pay to
23 play. So, to get into the area of the Candy
24 Crush and the Farmville and the poker which

1 Keith Whyte was talking about in his
2 presentation today, I think that's going to be
3 a much deeper conversation.

4 You're going to start bringing the
5 Facebooks of the world, the platforms where
6 these are at. I don't know. It's a legal
7 issue probably. I'm certainly not acquainted
8 with it at this point in time. I'm not even
9 sure that we've got the legal authority on a
10 state level to do that nor as near as I can
11 tell there's certainly no interest at least in
12 the state of Maryland right now to going into
13 that area.

14 COMMISSIONER MCHUGH: Vernon Kirk,
15 one use of it is as a stalking horse for the
16 full version of online gaming, that's the use
17 of it that you put, do you see the use of that
18 continuing? Do you see any other uses of that
19 continuing over the next five years? Are there
20 other uses that would be helpful?

21 MR. KIRK: First, let me say I agree
22 with Steve. Delaware has not been asked these
23 questions either as far as regulatory for
24 promotional or free play. And I think there's

1 a distinction that Delaware did use IGT's
2 Double Down for about one month prior to going
3 live with our games. Again, as a player
4 acquisition and just do player education to get
5 people more associated with gaming online.

6 Once we went live, we took the
7 Double Down sites down. But they were very
8 popular. There's at least one proposal out
9 there now from one of our casinos to put back
10 up a different free play site which they think
11 can help them market to their play for pay.

12 I think the distinction, and Stephen
13 kind of touched on it right at the end is
14 between when you talk about social gaming, to
15 me that pushes aside the free play casino style
16 things and brings more into the Facebook crowd
17 that are playing against each other in a lot of
18 the games you've seen on TV, those types of
19 games.

20 I personally think from the lottery,
21 not necessarily online or a casino perspective,
22 but from the lottery perspective, I think those
23 types of games are the future. That's where
24 your new customer base is going to come from,

1 whether it's translated via an instant ticket
2 maybe or something like that.

3 But it's going to be something where
4 right now you have tournaments for Warcraft or
5 Halo. These are going to be converted at some
6 point in time, I'm convinced, into some sort of
7 a revenue producing. You're going to operate
8 tournaments for profit to play against your
9 friends in Family Feud or something like that
10 where somebody is hosting it for some sort of
11 monetary.

12 There's prize consideration and
13 chance that has to be involved to make that
14 happen. And I don't know how it's going to
15 happen or whether it's going to be in that
16 format. But I believe in X number of years,
17 three years, five years or whatever that's
18 really the next horizon.

19 COMMISSIONER MCHUGH: Do you see
20 that -- You said one of the magic words there.
21 Do you see that as an environment where chance
22 determines the outcome or where skill or is it
23 going to be ambiguous in your view?

24 MR. KIRK: I think it's going to be

1 ambiguous. There are games now, there are some
2 video games now that require a certain amount
3 of skill. I think that line is going to get
4 blurred. I really do.

5 COMMISSIONER MCHUGH: Chuck?

6 MR. BUNNELL: I just might direct
7 the Commission and your staff, it's been an
8 issue of great debate in California as they
9 evaluate the potential legalization of Internet
10 gaming there. They've had hearings on the
11 definition of social gaming dealing with a lot
12 of the questions that you are raising, Judge.
13 There is actually a record in California on the
14 subject matter.

15 COMMISSIONER MCHUGH: We certainly
16 need to keep our eye on that because some of
17 the numbers involved in some of the articles
18 I've read are enormous.

19 George Sweny, do you see any role
20 for social game or free play gaming as the
21 stalking horse for your rollout that's going to
22 come?

23 MR. SWENY: I do. Much like Vern
24 has said, I don't know exactly where it's going

1 to go, but as we watch companies like Facebook
2 monetize their games. So, they're in the bingo
3 business now in a pay to play way. That's kind
4 of a step in that direction. You can just see
5 the potential convergence of the games, the
6 demographics and the gaming side merging
7 together.

8 So, we don't have a mandate for it
9 today. We're watching it carefully. We talked
10 to our colleagues at IGT about Double Down and
11 where they're going with it and why they're
12 going there. So, we're in full open eyes, open
13 ears, listening hard and we'll figure out where
14 it's going and whether or not we'll leverage it
15 in the future.

16 COMMISSIONER MCHUGH: Let me shift
17 gears slightly now because we started out
18 talking about the three legs of the stool, if
19 you will, the Internet, the lottery and
20 casinos. And I want to spend a second thinking
21 about whether or not they should have separate
22 spheres of exclusivity.

23 Senator Flanagan, you introduced a
24 bill that would authorize the conduct of online

1 lotteries. And in connection with introduction
2 of that bill, did you think about this three-
3 legged stool issue? And if so, what if any
4 conclusions did you come to?

5 SENATOR FLANAGAN: I think back in
6 2012 when the Internet Gaming Task Force was
7 formed under Treasurer Grossman, we began to
8 look strictly at the lottery products which
9 would be the lottery games. Because at that
10 point we weren't sure what was going forward
11 with the casinos.

12 So, I think in Massachusetts because
13 we are so early in the expanded gaming phase,
14 we don't even have our casinos built yet. We
15 wanted to tread very lightly. So, the
16 legislation that I filed which came from the
17 task force recommendations was to allow the
18 lottery to look into the possibility of it.
19 There is no money even attached to this to go
20 out and get consultants or to utilize
21 consultants.

22 So, it was truly the lottery
23 products because at that point the lottery has
24 full control over it. It was filed also as a

1 conversation starter. Because where are we
2 going to go in Massachusetts and how are we
3 going to proceed, given the fact that the
4 lottery does not oversee expanded gaming or the
5 casinos or the slot parlor in Massachusetts.

6 COMMISSIONER MCHUGH: Has you're
7 thinking evolved at all since that bill was
8 filed?

9 SENATOR FLANAGAN: It certainly has.
10 I think as we progress with the expanded gaming
11 in Massachusetts, we certainly need to look at
12 how it's going to affect casinos once they are
13 built. It's going to affect the slot parlor.
14 And how it's going to affect just players in
15 general.

16 Certainly, there's a concern when we
17 talk about Internet gaming. With my
18 constituency you hear people say my families
19 are going to go broke. All of a sudden they're
20 just going to be able to use credit cards or
21 debit cards. And that's not what this is
22 intended for.

23 We have small businesses that are
24 concerned. The convenient stores, they won't

1 get the residual sales from people coming in to
2 buy a couple of scratch tickets or the Mass.
3 number.

4 So, I think it's evolving. I'm not
5 too sure that we have a final product because I
6 think it has to evolve as we move forward with
7 the casino process in Massachusetts. And once
8 we know where everything is sited. And we also
9 need to think -- We also need to give the
10 casinos room to breathe. We just did expanded
11 gaming in Massachusetts. There is a thing as
12 too much too soon.

13 So, we need to certainly look at how
14 much we're going to put forward in front of the
15 players in Massachusetts but keep in the back
16 of our minds that there are three states that
17 have looked at this. There are states looking
18 at moving forward. So, it's evolving.

19 COMMISSIONER MCHUGH: Let me ask you
20 Senator Tarr, if I might, a similar question.
21 You too introduced a bill to allow Internet
22 gaming. Part of that bill said that the
23 authorization, if the bill were enacted, would
24 not include anything that simulated or

1 resembled a slot machine or was in conflict
2 with a game that was run by the state lottery.
3 Could you expand on your thinking behind that?

4 SENATOR TARR: I sure could. And I
5 think it's important to understand first of
6 all, that from my perspective we are talking
7 about a situation of inevitability. This kind
8 of gaming is occurring throughout the world.
9 It's occurring even by players in Massachusetts
10 with folks that are unlicensed and unregulated
11 in many respects. So, this is a situation
12 where we have to closely examine our model for
13 gaming and to say is it capturing all of the
14 potential that it should be capturing.

15 So, when we talk about trying to
16 develop that model even further, we've already
17 seen that in Massachusetts. We've seen it over
18 the last several decades. We've seen Keno.
19 We've seen lottery products. Now we've seen
20 casinos.

21 So, as we evolve that model, one of
22 the questions is how do the pieces fit
23 together. Certainly, to have Internet gaming
24 to capture dollars that we aren't currently

1 capturing, and I think we've already heard
2 comments about that today, makes sense. But to
3 do something that would so closely and so
4 directly would compete with an existing product
5 doesn't make sense at the present time.

6 There's also another issue with
7 regard to the slot machine activity and that is
8 that in the Internet format, it might be too
9 susceptible to someone developing an addiction
10 or developing an overuse relative to the
11 availability of the necessity of skill with
12 regard to playing that particular game.

13 So, there are a number of reasons
14 why we chose in our bill at this point to
15 exclude that particular modality.

16 COMMISSIONER MCHUGH: And the
17 exclusion was not to give it to somebody else
18 but to exclude it period.

19 SENATOR TARR: Correct.

20 COMMISSIONER MCHUGH: One of the
21 things that everybody needs to think about is
22 what the most helpful legislative role is.

23 We've got situations in which the
24 states -- and the default modality is that the

1 states regulate this area. We've got some
2 federal bills that have been introduced. The
3 Reid-Kyle bill being one and there are others
4 that are in play now. Then there is some
5 effort, some sustained effort to prohibit the
6 entire thing from start to finish.

7 Senator Tarr, do you have any view
8 as to the role of the state and federal
9 Legislatures in this space at a very high level
10 and without committing you to any permanent
11 position?

12 SENATOR TARR: First of all, I want
13 to let you know that I've been lobbying Senator
14 Flanagan for my bill while we've been sitting
15 up here.

16 It's not even referenced at the
17 table, and that is I think the most important
18 role of the federal government right now is to
19 provide some clarity on the issue. There is
20 certainly folks trying to explore all of the
21 different contours of the existing laws and
22 that's before we get into the laws that might
23 be proposed in the area.

24 It seems to me that the states are

1 already engaged in gaming. The vast majority
2 of the states are engaged in gaming. And it
3 should be allowed to continue within the rules
4 that they can establish.

5 And it seems to me that the federal
6 government would be well served by looking at
7 what the states have developed and try to do
8 something that harmonizes with them rather than
9 something that necessarily preempts or
10 conflicts with them.

11 That being said, it's important for
12 the states, I think, to try to develop a
13 regulatory rubric here as quickly as possible.
14 Because again, this isn't a situation where
15 this activity isn't occurring because we don't
16 regulate it. Quite the opposite, this is a
17 situation that is occurring in many cases and
18 we don't regulate it.

19 So, it seems to me that in many ways
20 the federal government now trying to do
21 something that is preemptive would be swimming
22 against the tide and it would be somewhat in
23 the nature of prohibition, to be honest. So,
24 it seems to me that we have to figure out the

1 right way to approach this. And to infringe on
2 a states' rights I think would beg a conflict
3 that isn't necessary or productive in the field
4 of law that we're talking about.

5 COMMISSIONER MCHUGH: Senator
6 Flanagan, do you have thoughts in this area?

7 SENATOR FLANAGAN: I think Senator
8 Tarr is right in that fact that we need to work
9 together to do this. Certainly, we are moving
10 towards more gaming in our states. People are
11 looking at dollars that aren't being captured.
12 Here in Massachusetts, we have a very
13 successful lottery. And we need to preserve
14 that. And also figure out how we can expand
15 gaming.

16 So, if the feds and the state
17 Legislatures or governments do not work
18 together, there's going to be a lot of
19 unnecessary conflict and it may set us back.
20 So, it's important that we do work together so
21 that we can move forward productively. And we
22 know that we're moving forward, we just have to
23 figure out a way to do it.

24 COMMISSIONER MCHUGH: Stephen

1 Martino, do you have some thoughts on this
2 topic from the regulator's standpoint? You're
3 closely involved with the day-to-day
4 regulation. You've been regulating it for
5 years. And now you see these issues arising.

6 MR. MARTINO: In particular, being
7 in Maryland and so close to Washington we've
8 been involved in those discussions as well.
9 Probably unlike just about every lottery, we
10 staked out a position several years ago that
11 said that we would have been okay with some
12 federal involvement in this. Obviously,
13 depending on what that federal involvement was.

14 In particular, the Reid-Kyle bill is
15 not something we could be supportive of because
16 of how limiting it was. Obviously, it was just
17 poker only. But also it was really mandating
18 to states who the participants could be in the
19 jurisdiction. It does seem very heavily
20 weighted towards Nevada.

21 I think in general, we think that
22 each state should adopt its own sensibility on
23 this issue. Nevada, New Jersey, Delaware have.
24 They've passed legislation allowing for

1 Internet gaming. Georgia and Illinois,
2 Minnesota, North Carolina through subscriptions
3 are al selling lottery products. Michigan and
4 Kentucky say that they'll be selling Internet
5 lottery products by the end of this year. So,
6 I think ultimately each state can make its own
7 decision.

8 Maryland hasn't reached that point
9 yet. But when public policymakers decide that
10 it's in the best interest of the state to do
11 so, then it will. As Senator said before, it's
12 inevitable.

13 At some point in time, each state is
14 probably, if they have an inclination towards
15 gaming, is probably going to adopt this because
16 they are going to be looking to capture revenue
17 that's lost. Frankly, every state continues to
18 need revenue.

19 COMMISSIONER MCHUGH: Marcus Prater
20 from the equipment manufacturer's standpoint,
21 does it make any difference what model is
22 adopted?

23 MR. PRATER: Well, it does in that
24 we are at the mercy of our customers who are

1 right now the majority of them are the bricks-
2 and-mortar casino operators. So, we typically
3 align with what the operators want going
4 forward.

5 And then our individual members are
6 also in the Internet space with the Bally and
7 the IGT and all the others creating not only
8 the engines that drive Internet gaming but the
9 content and ultimately the marketing and the
10 systems behind it.

11 So, we definitely have a vested
12 interest in this. I would say I agree with
13 Senator Tarr that in a perfect world having
14 some level of federal oversight or framework or
15 clarity would be a wonderful thing. I'm not
16 sure we're going to get there anytime soon but
17 then yes, it becomes a state's issue. We would
18 like this thing to roll out and be very orderly
19 and it's just not going that way.

20 I think we also have to be aware of
21 what's happening with the potential of a
22 federal ban that's a real threat that will
23 affect, as Chuck said, 47 of the 50 states if
24 it goes through. So, there's probably not a

1 whole lot we can do about it other than what
2 we've been doing collectively. And that's
3 sharing information and working through the AGA
4 and other sources. I guess time will tell
5 where it all ends up.

6 COMMISSIONER MCHUGH: Another
7 offshoot of the state regulated model is the
8 multistate agreement model underneath the broad
9 form of individual state regulation. That is
10 something you just entered into, Vernon. Could
11 you explain how that is working and what it was
12 that lead you to do it. And whether that gives
13 you some insights and some base for favoring
14 one or the other of these models that's in
15 play?

16 That's a big question, but you can
17 take any piece of it you'd like.

18 MR. KIRK: Basically, the agreement
19 between Delaware and Nevada was a legal
20 framework to share poker liquidity. It's yet
21 to be determined exactly how that is going to
22 be accomplished or with whom for that matter.

23 There are several casinos in Nevada
24 offering online gaming. Of course, all three

1 casinos in Delaware will be participating when
2 and if we get to that stage.

3 But I think the most important part
4 of this is it was designed to have enough
5 foresight to be able to include other states as
6 they come around. As Steve was saying, when
7 and if the states pass their own legislation,
8 this agreement has made it very easy for other
9 states to come into this agreement. So, it
10 should expand pretty quickly when and if other
11 states get there.

12 How it's going to work, it's still
13 pretty unclear. The premise of course is
14 always revenue. That's the big 800-pound
15 gorilla in the room. But frankly, the indirect
16 reasons are more important they end up
17 producing the revenue. That is giving your
18 players the most positive or entertaining
19 playing experience.

20 It was mentioned earlier today about
21 this happens by being able to go to a poker
22 room and find the game of your choice at the
23 stakes of your choice at the hour of your
24 choice. Maybe you're a shift worker and you

1 can only play at three in the morning or
2 something.

3 In Delaware, I can tell you with
4 some degree of certainty you will not find a
5 game of poker online at three in the morning
6 but maybe with Nevada you will or Nevada and
7 another state or another state. So, it's about
8 enhancing the player experience. They will
9 come. And if they don't find their game, they
10 might leave or they might just play a little
11 bit and go. But if they find their game, they
12 might play longer. That's how it generates
13 revenue.

14 Then who knows what's around the
15 corner? It's so new that right now it's poker
16 with Nevada. If we agree with another state
17 and it includes table games, then maybe you
18 come and play blackjack at a Delaware table.
19 Or a Delaware player goes and plays a slot
20 machine at an undisclosed state's table. We
21 just don't know how it's going to end up, but
22 we laid the groundwork. So, we'll see what
23 happens now.

24 COMMISSIONER MCHUGH: Is the

1 Powerball model something that is a useful
2 model?

3 MR. KIRK: It is. It is called the
4 multistate agreement. Powerball is operated by
5 the Multistate Lottery Association. To say we
6 borrowed liberally from that agreement might be
7 an understatement. But it does have a really
8 good infrastructure and one that we can utilize
9 with some reasonable modifications.

10 As a matter of fact, we consulted
11 with the Multistate Association about the
12 structure of their agreement, our agreement and
13 Delaware's and Nevada's agreement. That's one
14 of the areas when people talk about a federal
15 law for consistency and stuff, there is no
16 federal law that governs Powerball or Mega
17 Millions. And they're operated by a wide
18 variety of states and quite well, I might add.
19 So, there's a difference of opinion in that
20 arena, I think.

21 COMMISSIONER MCHUGH: Do the
22 operators have any preference? I know you'd be
23 delighted to operate with whatever regulator is
24 there. But Kim Sinatra?

1 MS. SINATRA: I think you have to
2 look at -- That compact was sort of necessity
3 because as Vern alluded to, the liquidity,
4 poker is all about liquidity. How many people
5 are playing at what time, at what level.

6 Both Delaware and Nevada are pretty
7 puny on liquidity. So, they needed to sort of
8 expand the base to have any sort of viability
9 to the business at all. California could do
10 poker on its own, right, because there are
11 enough people there. So, the desires of the
12 states are going to differ.

13 There is a huge divide between
14 people believing that poker only is the
15 solution versus casino games. The liquidity
16 issue isn't the same really with casino games.

17 COMMISSIONER MCHUGH: You mean poker
18 only for the Internet?

19 MS. SINATRA: Yes, I'm talking only
20 Internet at this point. So, I think that there
21 is very much that's undecided and up in the
22 air. And drawing really broad conclusions at
23 this stage of the operation of the business is
24 premature.

1 I thought it was kind of interesting
2 that people were not wanting to talk very much
3 about revenue and real potential because the
4 prognosticators have been out there for years
5 talking about billions and billions of dollars
6 you're going to make in online gaming on the
7 Internet.

8 The early returns have not been
9 good. A lot of it has to do with the practical
10 realities of how do you get the money to flow.
11 The payment solutions have been very, very
12 tough and very slow to go. So, very slowly,
13 bank by bank, inch by inch people are making
14 some progress on that.

15 But the idea that's there just
16 truckloads of money that are going by that you
17 should be scared that you're missing I think is
18 probably not the way I'd look at it.

19 COMMISSIONER MCHUGH: Chuck?

20 MR. BUNNELL: I think it very much
21 depends on what games you're willing to offer.
22 As the other panelists have said, liquidity
23 really only matters for a very limited number
24 of games like poker. For the other games, it's

1 not required. So, you don't need a multistate
2 compact.

3 Then again you have to weigh what
4 games you as a jurisdiction want to put in
5 everyone's home. And that's a very serious
6 policy question that you as a regulatory body
7 and legislators will sit down and discuss.
8 There's a lot to weigh.

9 COMMISSIONER MCHUGH: Tom, did you
10 want to weigh in on this?

11 MR. BEAUCHAMP: I would. We are
12 currently operating in 19 different states
13 today. Each one has its nuances. While I
14 think the federal government, the premise would
15 be an overlying consistency, I think undoing
16 many of the things that are unique state-by-
17 state would make that a very difficult
18 proposition.

19 It would be very helpful if we knew
20 exactly what the rules were and if the threat
21 of a ban was off the table. But beyond that,
22 we are not proponents of federal legislation.
23 At this point, I think it is much better to
24 deal with it at the state level. And there are

1 very different priorities across the individual
2 states.

3 The other thing from my perspective
4 would be very helpful is the right pace. And
5 to me the right pace is to go slowly. There is
6 a lot of changes that have occurred. We've
7 been looking at Internet gaming very seriously
8 for about three years now, and have made
9 literally no investments other than continuing
10 to watch the market.

11 And the reason that's the case is
12 it's changing constantly. And I think as we're
13 seeing, and Kim had mentioned, it's going to
14 start slowly. There's going to be a lot of
15 learning. And quite honestly, it's very good
16 to start in some of the smaller markets where
17 the investments can be a little smaller and we
18 can just as much from it.

19 The only thing I would encourage is
20 as we move forward, in particular in
21 Massachusetts that we take it at a reasonable
22 pace. And you'll have to define what
23 reasonable is for you. But from a Penn
24 perspective starting with the casino side in a

1 traditional land-based market is a great place
2 to start.

3 And then you've got a great lottery
4 that may be a good model to start with as well.
5 But to go full-blown on all types of gaming
6 very quickly I think would be very difficult to
7 implement consistently.

8 CHAIRMAN CROSBY: Are you going to
9 bring us in?

10 COMMISSIONER MCHUGH: Now is a good
11 time because I was going to take one more
12 topic. Actually, let me take one more topic
13 and then I'll bring you in. And then I'm going
14 to ask these thoughtful people for their final
15 word.

16 But I don't want to leave this
17 discussion without a focus on responsible
18 gaming, which we heard about this morning.
19 George Sweny, you said that responsible gaming
20 was baked into your model. And we saw that.
21 Did you do things differently on the Internet,
22 are you planning to do things differently on
23 the Internet than you are in principle at least
24 in the brick-and-mortar casinos?

1 MR. SWENY: Actually, I would say
2 our approach is going to be to take a very
3 consistent approach to RG across all of our
4 lines of business. You will have different
5 tools for different parts of the business.

6 In the casino world, we have
7 developed biometric facial recognition. And
8 that is proving to be an incredibly effective
9 way to keep self-excluded patrons out of our
10 casinos much more effective. And we've got
11 16,000 of them in the province of Ontario than
12 the system we had in place before.

13 So, we are going to take I would say
14 a common philosophy across all of the lines of
15 business, but we will use effective tools where
16 we can use them.

17 So, the Internet piece and I
18 explained some of the tools that we've got in
19 there. We committed to a gold standard. We've
20 committed to a gold standard across all lines
21 of business.

22 We see our RG as really a
23 competitive advantage to us in the long run.
24 We don't want problem gamblers in any part of

1 our business. We would much rather have a very
2 broad base of players that's a sustainable base
3 of players spending less money than a few
4 players playing a lot of dollars.

5 And it's critical to the future of
6 our business. That would be what I would call
7 one of our Achilles' heels if we do not address
8 the responsible gambling file appropriately.

9 COMMISSIONER MCHUGH: Stephen
10 Martino, you are the chair of the responsible
11 gaming committee of the National Association of
12 State and Provincial Lotteries. Has that
13 group focused on any Internet specific
14 responsible gaming issues as of this point?

15 MR. MARTINO: Not on the Internet.
16 We have really been focused on lottery related
17 issues. The committee had not particularly
18 active until the last couple of years. So,
19 we've made significant progress and working
20 collaboratively with the National Center for
21 Problem Gambling on some issues.

22 Obviously, in Maryland, we don't
23 have Internet gaming or Internet lottery. But
24 I would expect that when we do, we would make

1 sure that we have robust responsible gambling
2 awareness and problem gambling treatment. We
3 already have a very effective, I think, problem
4 gambling treatment awareness framework in the
5 state of Maryland that is funded by the brick-
6 and-mortar casinos.

7 We charge \$425 per year per slot
8 machine on the floor, \$500 for a table game.
9 That money goes to the Center for Excellence
10 that was created by the state Department of
11 Health and Mental Hygiene that's housed at the
12 University of Maryland School of Medicine.

13 I think if we add Internet to the
14 portfolio then we'll adapt accordingly and make
15 sure that there's awareness and treatment for
16 those who choose to play on the Internet.

17 COMMISSIONER MCHUGH: Senator Tarr,
18 among your many accomplishments is your
19 master's in mental health -- I'm sorry, Senator
20 Flanagan, among your many accomplishments is
21 your master's in mental health counseling.
22 This must be an issue that you have given some
23 thought to. Could you share those thoughts
24 with us please?

1 SENATOR FLANAGAN: Even when we
2 filed the gaming bill a couple of years ago,
3 before it passed the Legislature, one of the
4 biggest components that I was concerned with
5 was problem gamblers. And not only because it
6 affects your business, but because it affects
7 our entire Commonwealth. And it affects
8 families, which in turn really comes to the
9 heart of the economy of our state. Is that we
10 want to make sure people are playing
11 responsibly. And if we see that there are
12 problems then we can intervene.

13 Obviously, right now, what's in the
14 front of everyone's mind is drug addiction and
15 how that affects family. Well, gaming
16 addiction is similar in the fact that it's not
17 deadly but it brings you into just despair as
18 any kind of addiction would.

19 So, as we look at the addictive
20 personality and we look at players who may be
21 addicted to gaming, and it's not necessarily a
22 land-based facility. There's people who can
23 walk into a casino and not play a slot machine
24 but give them any Red Sox or Patriots game and

1 they're betting illegally or legally depending
2 on where they are.

3 So, we recognize the fact that this
4 encompasses all areas of gaming. And we want
5 to make sure that any and all actions that we
6 take as a Commonwealth we keep that in mind.
7 And I think Massachusetts has a really great
8 organization to deal with compulsive gambling
9 and to deal with addiction. So, we work with
10 them to ensure that we're paying close
11 attention to this.

12 And as we move to the Internet
13 phase, it's really going to get concerning
14 because you're not in that place wherever they
15 are. You're not on that Smartphone. You're
16 not on that computer or that iPad. So, that's
17 really where we're going to have to rely on the
18 industry, which we're happy with the fact that
19 the provisions that are put in place now for
20 land-based casinos is that people can sort of
21 be swiped out of a casino and you can never
22 really utilize your cards there again.

23 We are going to rely on that for
24 Internet base. And I think that's where the

1 gold standard is really going to help us move
2 forward in this conversation. Because at a
3 time when people are still looking for jobs and
4 people are still trying to keep the jobs that
5 they have and keep their families sort of above
6 par and not be homeless and not have all of the
7 economic problems, this could be a trigger for
8 some.

9 So, while we can't save everyone
10 from themselves, we have to do what we can to
11 save the Commonwealth and the people in the
12 Commonwealth from going down that road.

13 COMMISSIONER MCHUGH: Thank you. I
14 apologize for that slip. I made it because I
15 meant to say that Senator Tarr told me in
16 advance he'd have to leave early. So, that's
17 why he left.

18 Thank you very much, Senator
19 Flanagan. Now before I ask each of these folks
20 for a last thought, if there are questions,
21 let's have them.

22 CHAIRMAN CROSBY: There seems sort
23 of consensus to the extent we can estimate that
24 these three pillars can coexist with probably

1 relatively minimal cannibalization as long as
2 everybody stays in their own lanes.

3 And somebody, Tom maybe said what
4 are those lanes. I'm interested, particularly
5 you who are supervising all of them, is it
6 pretty clear in your mind or in anybody's mind
7 that you can make a clear distinction between
8 online lottery games and online casino games?
9 Are those lines clear enough that in an
10 environment where you might have two different
11 regulators as we might in Massachusetts where
12 you can draw those lines?

13 MR. KIRK: I think the answer is
14 yes. The only blurring areas if you try to do
15 electronic instant tickets online. Otherwise,
16 if you're selling a Powerball ticket or a Mega
17 Millions ticket off the lottery website, I
18 don't think it really equates to the casino
19 experience.

20 But there is some talk of doing
21 electronic instant tickets online. And that
22 could blur the line a little bit. But I'm
23 still not quite sure that it's not a different
24 customer.

1 MR. BUNNELL: We in the industry are
2 waiting to see. Minnesota has just in the last
3 few weeks put scratch tickets online. Those of
4 us, the commercial operators are a bit
5 concerned that three pineapples or three bells
6 in a scratch ticket that you instantly push
7 looks a lot like a slot machine.

8 CHAIRMAN CROSBY: Right. Are you in
9 Minnesota?

10 MR. BUNNELL: We are not, but we're
11 watching each state.

12 COMMISSIONER MCHUGH: George?

13 MR. SWENY: I think the comment is
14 fair that some of the electronic instant
15 tickets could start to blur the lines. That
16 really is going to be determined by the payouts
17 and the pay structures that you put against
18 them.

19 Our lottery base is a much larger
20 base of players. About 53 percent of Ontario
21 adults play lotteries on a regular basis, once
22 every two months at least. The casino
23 demographic is smaller. It's about 25 percent
24 of adults.

1 But we do know that most of our
2 casino players are also lottery players. In
3 fact, we develop products specifically lottery
4 products specifically to market to our casino
5 players. And we provide different types of
6 prizes to our lottery players that may
7 encourage them to go and try a casino product.

8 So, we're managing the overall
9 marketplace. There will always be challenges
10 there but I think that's an opportunity for us
11 more than anything else.

12 COMMISSIONER CAMERON: I had a
13 question about sports betting. Senator, you
14 just mentioned the Red Sox or the Patriots.

15 I'm very well aware, spending a lot
16 of time in New Jersey, how prevalent the
17 illegal sports betting is as it is here in the
18 Commonwealth. And I had an interesting
19 conversation with a legal bookmaker in Europe
20 about what a significant piece of business that
21 is in Europe and mainly on our teams by the
22 way.

23 And I know the pushback from the
24 professional teams along this line. But I was

1 wondering particularly with our panelists who
2 do business in Las Vegas and Canada about that
3 book of business and how a big piece it is, and
4 what we think the future of that will be. As
5 we're speaking of online gambling, what do we
6 think the future of sports betting is in a
7 legal manner?

8 MR. SWENY: I can start from the
9 Canadian front. OLG has a product, it's a
10 lottery based product called ProLine chromite.
11 It's a parlay wagering system. We do about
12 \$300 million a year in volume. So, all parlay
13 wagers. That's two or more. It's usually
14 three games. All of the major sports leagues
15 we offer other than the NBA.

16 And that was a deal that was carved
17 out between the province and the NBA when they
18 expanded into Canada with the Raptors. They
19 basically said we don't want you to offer the
20 NBA on your ProLine list and we won't let the
21 Raptors come to town unless you take it off.
22 So, that's the deal.

23 The Canadian Senate is currently
24 considering a bill that was passed through the

1 House of Commons unanimously to take a
2 prohibition out of the code, which prevents the
3 wagering on single event sports. So, we are
4 all watching that with great interest. That is
5 a massive piece of business.

6 And we are doing considerable
7 research around what that would look like if in
8 fact the senate moves forward with that piece
9 of legislation.

10 MS. SINATRA: From an operator's
11 perspective, the sports book is not a
12 significant part of our business at all in Las
13 Vegas including pari-mutuel and that entire
14 segment. That said, there's sort of a
15 constitutional issue in the United States. And
16 New Jersey is trying to push against at least
17 the conventional wisdom that passed about which
18 was a federal law that was passed that said
19 only three states who opted in within a certain
20 period of time had the right to offer sports
21 betting.

22 So, unless and until that legal
23 rubric changes, it's currently in the federal
24 courts and New Jersey is not doing well. But

1 unless they make some progress, it's sort of a
2 dead issue. But it's something that we offer.
3 It's not a significant part of our business.

4 COMMISSIONER MCHUGH: Any other
5 thoughts? Any other questions? All right,
6 then let me do as I promised and ask for one
7 big thought as we wind up. And I'll start at
8 the far end and just work down this way because
9 the Senator gets the last word. Marcus?

10 MR. PRATER: Thank you, Sir. Thank
11 you for the opportunity to be with you today.
12 My thought is that these type of events are
13 exactly what's needed when a new state or a new
14 jurisdiction, a new country any group that's
15 considering a new form of gaming.

16 Obviously, you're headed down a
17 road. You've had the lottery. Casinos are
18 coming, things are progressing there. Now
19 we're talking about Internet. But as long as
20 we have sort of forward thinking groups that
21 are doing their homework in advance, I think
22 that everything will work out just fine.

23 I've been in this business now a
24 little over 20 years. And like others have

1 said, this industry is full of very intelligent
2 good people. It's an entertaining industry to
3 be in. But there's regulatory bodies, and
4 there's probably too many trade groups frankly
5 in our industry.

6 So, everybody's interests are
7 already represented by the various groups. But
8 for all of the behind-the-scenes politicking
9 that goes on, these groups work very well
10 together. And you've done a good thing by
11 reaching out to all of the different people
12 that have been here today to act as resources.

13 You are learning, the public learns
14 and eventually everyone feels good about at
15 least the process has run its course. And no
16 stone has been left unturned.

17 So, I have great confidence in this
18 industry and the people in it. And I think
19 good things are coming to the Commonwealth.

20 COMMISSIONER MCHUGH: Thank you.
21 Tom?

22 MR. BEAUCHAMP: I won't repeat
23 everything that Marcus has said, but I agree.
24 I think it's great to solicit input from all

1 constituents.

2 The other thing I would encourage is
3 look outside of gaming. While there are a lot
4 of nuances because gaming is regulated state-
5 by-state, there are a lot of differences but
6 there's a lot that can be learned in moving to
7 the online space in particular from financial
8 services, healthcare, retail, a lot of other
9 industries that have gone further down the road
10 than gaming has. And you have to layer that
11 with the things that are unique to the online
12 gaming industry.

13 I learned a lot today. It was
14 great. Thanks for the invitation.

15 COMMISSIONER MCHUGH: Kim?

16 MS. SINATRA: I am going to echo the
17 thoughts of the two previous panelists. I
18 think this is always a helpful dialogue. I
19 assume that the Commonwealth will continue upon
20 it's methodical path to try to get to the right
21 place. That was a compliment, Commissioner.

22 Look at Delaware and Maryland
23 sitting together, Mohegan and Wynn sitting
24 together. This is quite the peaceful

1 organization right here. I would encourage you
2 not to be deterred by the hurry, hurry, hurry
3 emergency part of this conversation.

4 I think that it's helpful to see
5 what other states experience as they journey
6 down this path. And oftentimes, you can learn
7 a lot. And the experience will translate.

8 COMMISSIONER MCHUGH: Thanks.
9 Chuck?

10 MR. BUNNELL: I'd make a joke of
11 being the fourth person. I was going to say
12 the same thing, but I won't. We are a
13 resource. We've spent a lot of time in this
14 field. We've testified before Congress three
15 times now. We've testified at the state level
16 three or four times. We have a free play site.
17 We have data that we'd be willing to share with
18 the Commission if it's helpful to you to look
19 at the crossover that we have. We consider
20 this a partnership, and a relationship that
21 we've been involved with for a long time. We
22 concur. We are a resource and we want to
23 continue to be one.

24 COMMISSIONER MCHUGH: Thank you.

1 George?

2 MR. SWENY: Final thanks to the
3 Commission for inviting me here today. I've
4 met some great people. I've learned lots.
5 That has been critical in my career in gaming.
6 There is always something to learn.

7 There are challenges on the horizon.
8 I mentioned our player base in lottery, it used
9 to be 70 percent. It's now 53 percent of
10 regular players. What's it going to look like
11 five years from now? How can you leverage
12 different channels in different ways to look at
13 growing the opportunities down the road? I
14 agree with Tom, there's a lot to learn outside
15 of gaming business. Sometimes we're a little
16 bit narrowly focused. So, I really think
17 that's a great idea as well.

18 COMMISSIONER MCHUGH: Vern?

19 MR. KIRK: I'll certainly agree with
20 my colleagues before me. Take your time, but
21 I'll add to that choose your partners very
22 carefully.

23 COMMISSIONER MCHUGH: Great, thank
24 you. Stephen?

1 MR. MARTINO: I would encourage you
2 to be supple in your approach and adaptive to
3 change. Who knows when Internet gaming,
4 Internet lottery may come to Massachusetts.
5 Who knows when it might come to Maryland. If
6 it's a couple of years, it's almost certain
7 that it won't look then like it looks now. And
8 you'll have to approach things differently
9 building upon the cumulative progress that
10 other states have chartered. Thank you for
11 having me.

12 COMMISSIONER MCHUGH: Senator
13 Flanagan.

14 SENATOR FLANAGAN: Thank you for
15 allowing the Legislature be a part of this. I
16 think as we did during the expanded gaming
17 debate, we want to do our due diligence as a
18 Legislature as we talk about iGaming.

19 And one of the biggest concerns we
20 have is how it affects our constituency
21 especially with the beginning of the casino
22 industry coming to Massachusetts.

23 So, my suggestion and the suggestion
24 I've had to my colleagues is that we tread

1 lightly into uncharted territories here in
2 Massachusetts. And make sure that we do this
3 right. And we do it with the amount of
4 transparency that we conducted the expanded
5 gaming legislation at in making sure that
6 although we pay attention to the other states,
7 we do what's right for Massachusetts. And if
8 that means we need to take our time, then we'll
9 certainly have those debates on the floor of
10 the House and the Senate.

11 COMMISSIONER MCHUGH: Thank you. In
12 summing up, it is clear from today and today's
13 thoughtful presentations that there are
14 numerous pieces that go into this area. And it
15 is also clear that the complexity of trying to
16 ensure protection for the lottery, which is
17 part of our fundamental mission, it's a great
18 resource for the Commonwealth, while at the
19 same time giving room for its new industry that
20 promises great benefits to the Commonwealth,
21 room for that to grow and grow adequately and
22 exponentially is an enormous challenge.

23 And we are greatly added, and I know
24 I speak for all of the Commissioners -- greatly

1 aided by the willingness of all of you to come
2 and share your thoughts with us today. And for
3 all of the other presenters who came from
4 across the world and across the country to be
5 with us today and to share your thoughts. So,
6 a great thanks to all of you for your
7 willingness to share. And we are now
8 adjourned.

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10 (Conference adjourned at 4:43 p.m.)

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1 GUEST SPEAKERS:
2 Jeffrey Allen, Bally Technologies, Inc.
3 Jim Barbee, Nevada Gaming Control Board
4 Tom Beauchamp, Penn National Gaming
5 Chuck Bunnell, Mohegan Tribal Nation
6 Sen. Jennifer L. Flanagan, Massachusetts Senate
7 Rebecca Goldsmith, Delaware State Lottery
8 Patrick Hanley, Massachusetts Attorney
9 General's Office
10 James Kilsby, GamingCompliance
11 Vernon Kirk, Delaware State Lottery
12 Stephen Martino, Maryland State Lottery &
13 Gaming Control Agency
14 Marcus Prater, Association of Gaming Equipment
15 Manufacturers (AGEM)
16 Tim Richards, Global Cash Access
17 Sen. Stanley C. Rosenberg, Massachusetts Senate
18 Kim Sinatra, Wynn Resorts
19 James Stern, IGT Interactive
20 George Sweny, Ontario Lottery & Gaming
21 Corporation
22 Sen. Bruce E. Tarr, Massachusetts Senate
23 Eric Weiss, New Jersey Division of Gaming
24 Enforcement

1 Keith Whyte, National Council on Problem
2 Gambling

3

4

5 MASSACHUSETTS GAMING COMMISSION STAFF:

6 Mark Vander Linden, Director of Research and
7 Problem Gambling

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C E R T I F I C A T E

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I, Laurie J. Jordan, an Approved Court Reporter, do hereby certify that the foregoing is a true and accurate transcript from the record of the proceedings.

I, Laurie J. Jordan, further certify that the foregoing is in compliance with the Administrative Office of the Trial Court Directive on Transcript Format.

I, Laurie J. Jordan, further certify I neither am counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken and further that I am not financially nor otherwise interested in the outcome of this action.

Proceedings recorded by Verbatim means, and transcript produced from computer.

WITNESS MY HAND this 14th day of March, 2014.

LAURIE J. JORDAN My Commission expires:
Notary Public May 11, 2018