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# ***Public Hearing***

before

## ASSEMBLY COMMERCE, TOURISM, GAMING AND MILITARY AND VETERANS' AFFAIRS COMMITTEE

*“Testimony on the feasibility of authorizing and regulating Internet gambling in New Jersey”*

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**LOCATION:** Committee Room 11  
State House Annex  
Trenton, New Jersey

**DATE:** May 31, 2000  
10:00 a.m.

### **MEMBERS OF COMMITTEE PRESENT:**

Assemblyman Joseph Azzolina, Chairman  
Assemblyman Nicholas Asselta, Vice-Chairman  
Assemblyman George F. Geist  
Assemblyman Guy R. Gregg  
Assemblyman Kenneth C. LeFevre  
Assemblyman Jack Connors  
Assemblywoman Mary T. Previte



### **ALSO PRESENT:**

Karlis C. Povisils  
*Office of Legislative Services*

Deborah K. Smarth  
*Assembly Majority*

***Hearing Recorded and Transcribed by***  
The Office of Legislative Services, Public Information Office,  
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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## TABLE OF CONTENTS

	<u>Page</u>
Anthony Cabot, Esq. Lionel, Sawyer and Collins Las Vegas, Nevada	4
Marc J. Falcone Vice President Gaming, Lodging, and Leisure Equity Research Group Bear Stearns & Company New York City, New York	13
Fernando DiCarlo Founder Gametronics Gaming Equipment, Ltd. Toronto, Ontario, Canada	23
Sue Schneider President River City Group, and Chair Interactive Gaming Council Missouri	38
Nicholas Casiello Jr., Esq. Sterns and Weinroth	48
James R. Hurley Chairman New Jersey Casino Control Commission	69
John Peter Suarez Director Division of Gaming Enforcement New Jersey Department of Law and Public Safety	69
Edward J. Looney Executive Director The Council on Compulsive Gambling of New Jersey, Inc.	83

## TABLE OF CONTENTS

	<u>Page</u>
Reverend Bruce H. Davidson Director Lutheran Office of Governmental Ministry in New Jersey, and Representing The New Jersey Council of Churches	134
<b>APPENDIX:</b>	
“Internet Gambling Markets and Nevada Gaming Regulation and Control” submitted by Anthony Cabot, Esq.	1x
Testimony submitted by Marc J. Falcone	37x
“Toward the Successful Regulation of Internet Gaming” submitted by Sue Schneider	42x
Remarks submitted by Nicholas Casiello Jr., Esq.	50x
Statement plus attachments submitted by Edward J. Looney	68x
Testimony plus attachment submitted by Reverend Bruce H. Davidson	121x
lmb: 1-137	

**ASSEMBLYMAN JOSEPH AZZOLINA (Chairman):** Good morning.

Karlis wants to make a statement first.

We have a couple of legislators -- one is stuck on the road and one will be a little bit later.

Go ahead, Karlis.

MR. POVISILS (Committee Aide): Good morning. This public hearing will be transcribed. We need to make a request that all the speakers today-- You have to make sure that you are speaking into this microphone here (indicating recording microphone), these little microphones in the stand. So, if you're giving a PowerPoint presentation, feel free to take this out of the holster and carry it with you. It's not going to project, but it will record.

ASSEMBLYMAN AZZOLINA: Good morning. The subject of this hearing today is Internet gambling. And I guess how we got started -- *Asbury Park Press* wrote a couple of articles, and he's here today to report, a James Roberts. And he questioned me, and he called me up and wanted to know what I thought of it. I really didn't know anything about it. And I called him back and I said, well-- I said, just off the cuff, I'm neither for it or against it. However, if it's being done in the islands and other areas and people in New Jersey are gambling and others are gambling, maybe we ought to look into it.

Then I called my staff -- Karlis and Deb Smarth -- here in Trenton, and I said, we'd better start some research on it. And then I told them we were going to research the subject matter. And off the cuff, I thought, well, maybe we should have it, and maybe we shouldn't have it.

And being in the supermarket business and being the military guy, you fight fire with fire. So, if they're gambling in this state, and it's not controlled like New Jersey, maybe we ought to consider it -- we're losing all that revenue -- and talk about it and get pros and cons on it. That doesn't mean that I'm for or against it or the Committee is for or against it. And that's how we got started.

I sent Karlis and Deb to Montreal. There was a conference up there, and some people from the conference are here today. So we had to learn a lot about it since the article, and we brought a lot of experts in today. So that's why we're here, because we really don't know anything about it. I think we're probably the first state, I believe, as a Legislature, to at least look into it. There's other states looking into it and so forth. So that's how we got going.

So I have a prepared statement I'd like to make first.

So this issue of Internet gambling is a complicated one. It involves legal issues and Federal legislation; economics and E-commerce; international approaches; and the very volatile question of prohibition versus regulation. I know the Federal government is working on legislation against it. So is the State.

I called this public hearing today because our Assembly Committee not only deals with gaming issues, but our jurisdiction covers economic development and commerce issues. We need to stay ahead of the curve. This hearing, which will provide the pros and cons of Internet gambling, will educate us and lay a strong foundation for us to respond to what may lie ahead. E-commerce and the Internet are here to stay. It's global. The Internet is the fastest growing telecommunications medium in history.

Of course, I don't know anything about this stuff. I'm in the supermarket business. All my kids are involved in the business. They deal with computers. I stay away from them, because I just don't want to know anything -- in my own business anyway. I have enough dealing with it. So I deal with the yes and nos, what we do and don't do.

This hearing will help identify the key components of the debate. Do we go down the path of prohibition, or do we take the path of regulation? These issues are being debated in Washington, D.C., and there's no reason why we should not study the issue from a State perspective on the legislative side.

I was here when we debated the lottery and the casinos with a lot of debate -- pros and cons -- and we finally did it.

This public hearing in the Assembly is a first step only. It should not be interpreted as an absolute green light for Internet gambling in New Jersey. I have promised from the outset a fair and in-depth hearing. Whether our findings lead to introduced legislation remains to be seen, but in order for us to set policy and open dialogue with Executive Branch regulators, the private sector, and others, we surely need education on this issue.

I want to acknowledge a colleague of mine, former Assemblyman Frank Catania, who served in the Assembly in the early '90s. He then went on to Atlantic City, as you all know. As you know, Frank also serves as the past director of the New Jersey Division of Gaming Enforcement, so he brings much knowledge from both the regulator side of the issue, the legal perspective, and the private sector side. I want to thank you for being here today, and I look forward to discussions with you on this matter and others.

Frank, will you stand up? I think everybody knows you anyway.

I want to thank the many individuals who took time from your busy schedules to share with us your perspective about this important public policy matter. Some of you traveled a great distance to be here today: Tony Cabot, from a law firm in Nevada; Nick Casiello, from a New Jersey law firm; Marc Falcone and Eric Hausler, from Bear Stearns in New York City; Fernando DiCarlo, from Gametronics in Canada; and Sue Schneider, from the River City Group in Missouri. So you can see they're from all over the country.

I want to also thank J. P. Suarez, our current Director of the Gaming Enforcement Division; former Senator Jim Hurley, now Chairman of the Casino Control Commission; and Ed Looney, of the Council on Compulsive Gambling, for participating in today's program. By the way, Jim Hurley and I served in the Legislature in my first term years ago.

Wherever this leads, I hope that today is the beginning of more dialogue to paint a true picture of what policy options exist and where we should be as a state on this matter. We look forward to hearing the presentations. We also look forward to the question-and-answer session, when the Committee members will have the opportunity to ask our panelists questions at the end.

Now I would like to call on-- The first panelist I would like to call on is Anthony Cabot. Would you start and say who you're with?

**ANTHONY CABOT, ESQ.:** Yes.

Mr. Chairman, members of the Committee, I'm Anthony Cabot. I'm with a law firm in Las Vegas, Nevada, called Lionel, Sawyer and Collins.

I've had the opportunity to be studying the Internet gaming area for the past five years and--

MR. POVISILS: You can hit the button. It should work now.  
(referring to microphone control knob)

ASSEMBLYMAN AZZOLINA: Is that it? Is it on? (referring to PA microphone)

MR. CABOT: Okay, there we go.

I've had the opportunity to work in the Internet gaming field for the past five years. I've had an opportunity to write a book called *The Internet Gambling Report*, and if I could, I'd like to spend the next 15 minutes or so kind of giving you an introduction to the Internet, Internet gaming, and E-commerce.

I have a PowerPoint presentation. I hope you can all see it. (begins presentation) We start out with the Internet. The Internet is simply interconnected networks of computers. What it does is allows computers from all over the world to share data. So you can see, it's hooked up to over 100 countries. It allows communications. It's cheap. It's popular, and it's available.

The Internet group, from about 1992 to 1997, came up with these connectivity maps, which shows where the Internet is available. The purple area on the display is where the Internet was connected to in 1997. They don't do these maps anymore because, basically, the entire world is now connected to the Internet.

The Internet has a lot of components. You hear about E-mail, file transfers, newsgroups, but the one that gets the most recognition is the World

Wide Web. The World Wide Web is where they have those multimedia rich Web pages that have text, graphics, video, and audio.

One thing I want to stress today is that the Internet is no longer for personal computers alone. We're starting to see a lot of consumer products that are hooked up to the Internet. These are just a few, telephones, Net appliances, and things of that nature.

What I'm showing you right now is a telephone. It's a Web telephone. They have particular Web telephones -- shows the weather. That was taken off the Internet for the area that the person happens to be located, but it could very easily be a betting screen. So, if somebody was at a football game or a basketball game, you could show the current odds on the game and the current amount in your account and the ability to gamble using your telephone. These type of information appliances are going to grow rapidly. Twelve million units were sold in 1999. More than 300 million units will be sold in the year 2005.

I think the greatest application of the Internet is going to be with television. Today we have something called WebTV, which is necessary, because most of our televisions are analog and not digital. The computer signals are digital. What WebTV does is it converts digital signals so it can be displayed on a regular television.

One thing that's kind of interesting about this picture is it shows a football game in progress, which would be like normal television, then it shows statistics around the television screen. Those could be -- as easily be basic betting information, which would allow a person sitting on his couch to check the odds on the game, check the odds on any particular play, whether

it be a run or a pass, how much is in their account, and the ability to bet from their couch.

The convergence of the television into the Internet is coming in a big way. If you look at -- in the year 2000, there's going to be \$2.4 billion worth of these on-line digital TV set-type boxes, like WebTV, with sales peaking at \$4.8 million in the year 2003. The reason it's peaking in 2003 is because, by 2006, the FCC mandates that all televisions sold be digital televisions. Not surprisingly, the Web had grown tremendously. If you look at from 1996 to the end of last year, 1999, the number of Web sites has gone from less than a million to almost 10 million.

And who's using the Internet? Principally, Americans. One hundred and six million Americans use the Internet, compared to the second highest, which is Japan, at less than 20 million. And it's going to continue to grow. These are, I think, fairly startling statistics. By 2005, 91 percent of all U.S. homes will be on-line. Ninety percent of these will have PC-based Internet connections, but 73 percent will also have interactive television or other type of Net appliances.

And along with the growth of the Web comes the growth of E-commerce. By the year 2003, \$1.25 trillion will be spent over the Internet with, again, the U.S. leading the way with over 52 percent of all the E-commerce. And this E-commerce is going to include gambling. These are figures compiled by Christiansen Capital, which indicate that this year there's going to be \$2.3 billion spent on Internet gambling. But, by the year 2003, that number is going to be well over \$6 billion.

The gambling that occurs on the World Wide Web -- there's everything you can imagine. This is a screen showing a sports book where you can bet on your favorite game. There's casino gaming. These look incredibly like the same video screens that you would see in any New Jersey casino or Nevada casino. There's lotteries -- this one is the Plus Lottery, out of Liechtenstein, which happens to give a portion of its proceeds to the International Red Cross; bingo, typical bingo cards; and horse racing.

One thing that is kind of different about horse racing from the others is horse racing not only shows the current tote board at the track, but also shows a live video feed of the race as it's being run. How's it breaking down? Well, the \$2.2 billion that's going to be spent this year on Internet gambling, approximately 45 percent of sports betting, 40 percent is casino games, 10 percent lotteries, and 5 percent everything else.

There are some obstacles to Internet gambling. Probably the major one is providing an adequate system for funds transfer. There are five customer concerns over the Internet when it comes to funds transfer, and that means, how do I get my money from my computer over to your site and back again if I win? The first is, the funds transfers have to be immediate. They have to be secure. They have to be cost-efficient. They have to be anonymous, and that system has to be available.

So you'll see some things just don't work very well. Wire transfers and bank transfers are infrequently used, principally because it's not an immediate form of getting on-line and gambling. You have to go down to your bank. You have to wire the money to the account where the Internet gambling operator is, set up an account, and then start gambling. Checks are the same

way. You have to send a check. It has to clear before your account can be opened and you can start.

Credit cards are the way things are being done today. Probably over 85 percent of the time, a person who is gambling on a Web site is using their credit card. The reason is, it's immediate. You can get on the site, give them your credit card number, open up your account, and begin gambling. It's a fairly secure way of doing it, although there's still a lot of customer distrust. Cost efficiency -- the only way it makes sense to do it today is to set up your account using your credit card, take a certain amount off your credit card, put it on account, bet against it, and if you win, have your account credited at the end of your play. So not every single roll of the dice or every single spin of the wheel results in a credit or a debit to your account. It's not anonymous, but it is widely available and widely used.

Debit cards are like credit cards. They're used about 10 percent of the time. This shows you the different ways that people on-line pay for purchases. And as you can see, it pretty well tracks about 85 percent use of credit cards.

But the thing in the future that we have to be aware of -- the thing in the future that's going to be, perhaps, more applicable to Internet gambling -- is E-cash. E-cash is just really electronic versions of real cash that you store on your computer when you go to buy things. You send it electronically to the merchant on the other end of the Internet, and they send you your products or goods. It has real application in Internet gambling, principally, because a number of different forms of E-cash are anonymous. So it has a huge advantage over regular types of credit card transactions where you have to give

your identity in order to make a purchase. It is immediate. You can go on-line and do it. Will it be secure? Probably. It's not quite cost-efficient yet, because it's not widely used, and the costs per transaction are fairly high. But when it becomes available, that cost efficiency will come down. It will be widely used.

How widely used? Global Concepts, which tracks financial transactions, indicates that -- while as you see in the year 2000, there's very little use of E-cash on the Internet, less than \$2 billion, by the year 2005, they're projecting well over \$20 billion. And if you look at the yellow part of that chart, it shows Internet gambling, which indicates that over \$6 billion will be done through E-cash by the year 2005.

The second obstacle is in securing the transaction for packers. This is something that is common to all Internet transactions and something that, in order for E-commerce to work, needs to be taken care of and is being taken care of by the various software companies.

The third obstacle is overcoming concerns of operators' integrity. We'll talk a little bit later today in the legal section, that most of the Internet gamblers today -- the 800 sites out there -- are operating basically unregulated out of the Caribbean. I think it's difficult for customers to have a high degree of confidence that these sites that are operating today out of the Caribbean are necessarily something they should trust.

The major solution to operators' integrity is to be licensed in a quality jurisdiction. And we'll note this afternoon, a little bit, we'll talk about Australia, how Australia became the first, I think, top-level country in the world to start to legalize and regulate Internet gambling.

There's some other ways to get integrity, having a great brand name like one of the major casino companies, forming alliances with racetracks or other land-based casinos. Some people have some of the big six accounting firms certify their site. Some are associated with nongaming brands or celebrities, like the Kenny Rogers Casino, and some are publicly traded.

The fourth obstacle to Internet gambling is overcoming the legal issues. Licensing and integrity are connected because licensing in a first-rate country brings credibility to the site. But again, while there's over two dozen jurisdictions that will license private concerns to operate worldwide, Australia was the first major country to legalize, regulate, and tax Internet gambling. As you know, it's not necessarily legal in the United States, Korea, and other countries.

The last thing is, can Internet gambling compete with other forms of gambling and other forms of Internet entertainment for the consumer's dollar? What we have is-- To compare on-line gambling to traditional gambling, you have to look at a number of different factors. Is it accessible or more accessible than traditional gambling? Is the quality of play the same? Do you have the same amenities and ambience? Do you have the same trust and the same value?

The killer rap, in my opinion, is and will continue to be sports books, because they're easily accessible. The quality of play and the amenities is irrelevant because the person is generally at home or in a place where the game is being shown, and so he doesn't need the ambience or the quality of play.

Is the trust there? Yes. Now, with Australia on-line. Is the value there? Clearly, they're offering at least the same odds as the traditional sports books in Nevada and other places. It doesn't cost-- It doesn't create a high technical degree of difficulty in putting those sites on the Internet.

Casino gaming -- you're going to have some play in casino gambling simply because it's very accessible. People can get on-line in their home and begin gambling immediately. They don't have to go to a casino. Therefore, people who are remote from casinos, who just simply want to engage in some casual gambling, can get on-line and gamble very quickly. The quality of play in many sites is as good as the quality of play that you see in the video games in the casinos. Again, it doesn't have the ambience or the amenities. As I always say, I don't see somebody making a decision, you know, I might go into Atlantic City or Las Vegas this weekend, or I'm going to stay home and play on my computer.

Trust is there now that Australia has licensed it. One thing the Internet casinos can do is because they don't have the high cost of construction, the high cost of labor, is they can actually give better odds than the traditional casinos. And you start to see that the odds given by Internet casinos are going to be better than the odds given by the traditional casinos and as somewhat technical, but some of the sites are very, very well done.

Lotteries are going to be on-line, I think, very shortly. The state lotteries -- I think it's going to help the state lotteries tremendously because people no longer have to go to the convenience stores or the gas stations or wherever they buy the tickets. They can just simply go on-line and get tickets for the various lotteries in their own states.

The horse racing industry has looked at the Internet as potentially the savior of their industry. And the reason is, is because it makes horse racing more accessible to more Americans, that instead of having to find the track in your area -- there's very few tracks left in the United States -- they can go on-line, they can experience the excitement of horse racing on-line, make the same bets as you make at the tracks.

The one thing that is difficult about horse racing on-line is it's very technical. It requires streaming video. It requires a tote board that's real time. In other words, the tote board updates on your computer at the same time it updates on the track. But there's a number of people, Liberty Broadcasting, You Bet, and a number of others, that have gotten into this area to deliver horse racing to the home.

That was my overview, and I guess we'll have a question-and-answer session at the end, so I'll hold on till then.

ASSEMBLYMAN AZZOLINA: Thank you very much.

Next, we're going to hear from -- the sort of economic perspective of the Internet gambling industry. Marc Falcone, Vice President, Gaming, Lodging, and Leisure Group at Bear Stearns, and Eric Hausler, Equity Research Analyst at Bear Stearns.

**M A R C J. F A L C O N E:** Good morning.

ASSEMBLYMAN AZZOLINA: Give your name?

MR. FALCONE: Good morning. Can you hear me?

ASSEMBLYMAN AZZOLINA: Put the other one off. (referring to PA microphone)

MR. FALCONE: Good morning. My name is Marc Falcone, and I currently serve as the Vice President of Gaming, Lodging, and Leisure Equity Research at Bear Stearns. We cover 100 publicly traded companies in our universe and make recommendations on these stocks to institutional investors around the world.

I would first like to thank you for allowing myself and Bear Stearns to share our opinions on the current state of the Internet gaming industry and its potential impact on the State of New Jersey. We applaud this Committee for taking a look at the complicated issues involved with the Internet gambling industry. In our opinion, the greatest impediment to the growth of Internet gambling is the lack of sufficient regulation and legal clarity. As such, legitimate operators, such as those licensed in New Jersey, have been very prudent about not entering this market. However, with a legitimate, well-regulated platform, we believe that both the State of New Jersey and casino operators could benefit from this emerging technology. Over the past 12 months, we have spent considerable time analyzing the Internet gaming industry and what its emergence means to the \$50 billion of infrastructure that occurs around the United States relative to land-based casinos.

Our primary objective has been to determine whether Internet gaming will have a negative impact on the existing casino gaming businesses that operate nationwide. And while we have concluded that we believe there will be little or no impact on the bricks and mortar casino industry, we also believe that Internet gaming in its current form offers little incremental benefits to both the Federal and state governments.

Going forward with the settlement of numerous legal and regulatory issues, we believe that as the E-gaming environment evolves there could be a significant upside to a fully regulated Internet platform in America. To put this in perspective, total worldwide Internet gaming revenues comprise less than 2 percent of the total North American gaming revenues. Specifically, according to research conducted by the River City Group and Christiansen Capital Advisors, worldwide Internet gaming revenues were an estimated \$1.2 billion in 1999. Meanwhile, Bear Stearns estimates that land-based, riverboat, and Native American casinos in North America generated approximately \$35 billion in revenues in 1999, and that does not include lotteries or any international casinos that have legalized gaming around the world.

Before I delve into the ramifications of Internet gaming in the United States, and particularly in the State of New Jersey, I will first give an overview on a number of issues we currently believe define the Internet gambling industry in the United States. First, I'm just going to briefly touch upon the current legal environment, which will be discussed in much more detail later this afternoon.

Currently, the U.S. Department of Justice holds that Internet gaming is illegal. However, the two bills that are currently making their way to the U.S. justice system are, in fact, not specifically prohibition bills. The Kyl Bill, which passed the Senate in November 1999, is very similar to the Goodlatte Bill in the U.S. House of Representatives, which passed the full House Committee (*sic*) on Technology and Terrorism in April of 2000.

Both these bills allow the states to regulate E-gaming. However, both bills also make it illegal to operate in an Internet gaming operation

consisting of casino-style games such as blackjack and roulette, while making it legal to operate an on-line pari-mutuel operation such as horse racing, jai alai, and dog racing, as well as state lotteries and sports betting. Native Americans would also have opportunities to operate Internet gaming facilities, but only on a closed-loop circuit system.

Another legal issue, which more recently surfaced, was credit card betting -- has become a very large issue. The U.S. House of Representatives has recently proposed a new law that would ban the use of debit and credit cards for E-gaming transactions. This was introduced by James Leach, an Iowa Republican, and on May 10, and it's called the Internet Gambling Funding Prohibition Act. The bill now resides in the House Committee for Banking Financial Services, as well as in the full House Judiciary Committee. In contrast to the Kyl bill, the Internet Gambling Funding Act intends to curb E-gaming through its primary funding source, and therefore, targets the gamblers themselves, in our view.

And additionally, much like anything that is the Internet today, E-gaming is still in its infancy. One of the main issues is the global nature of the Web, which has very few security measures that prevent access to global Internet Web sites. For instance, players in the U.S. can access on-line casinos based in Antigua or even in the United Kingdom from their own home and/or office as they please. Many sites, as a result, house their servers in Caribbean nations, such as Antigua, in order to avoid conflicts with U.S. lawmakers. However, this strategy has not always been foolproof.

For instance, Jay Cohen, owner/operator of the Internet sports wagering site World Sports Exchange, based in Antigua, was convicted in

February 2000 of conspiracy to violate the Federal Wire Act. According to the U.S. Department of Justice, Mr. Cohen was convicted of violating the Federal Wire Act because World Sports Exchange accepted bets from U.S. citizens, although his Web site was officially located in Antigua.

As a result, in our view, one of the most prominent controversies within the Internet gaming industry surrounds the integrity and the reliability of the operators -- and Tony sort of hinted upon that briefly. We believe this is due to the low barriers of entry in the Internet gaming marketplace and the resources that are readily available to virtually anybody in an unregulated environment.

In contrast to New Jersey's well-regulated, legitimate gaming industry, Internet gaming has very few regulations governing its existence. For example, in Antigua, Internet gaming licenses are issued for a simple fee that is payable to local authorities. As a result of such lax regulations, many random number generators are homemade, translating into gaming odds that are often times questionable, and there are very few legal restrictions that guarantee that winning bettors will be properly awarded. It is our view, however, that appropriate legislation would have the ability to create a legitimate Internet gaming environment that could be successful at harboring positive results from a regulated industry.

Tony also addressed the size of the market, and I'll give you some of our estimates here. We believe that the current size of the Internet gaming market is approximately 825 Internet gaming Web sites throughout the world, which is approximately a 25 percent increase in the last five months since we first did our research on this subject. Furthermore, Christiansen Capital

Advisors estimates that the Internet gambling industry will be a \$6 billion industry by 2003, up from a previous \$1.2 billion in 1999. This compares to the \$75 billion-plus in revenues generated by other forms of gaming in North America alone.

These figures are what lead us to believe that the industry is thriving in the loopholes. In other words, Internet gaming is becoming a large global industry even though, No. 1, the current legal status is undetermined due to the inherent nature of the packet-switched Internet infrastructure and, No. 2, the U.S. Government has clearly taken a negative approach towards Internet gaming.

One of the reliable data points on Internet gaming we have comes from Australia. In Australia, one of the only regulated Internet gaming jurisdictions, the Australian government has recently been in discussions to issue a 12-month moratorium on new Internet gaming licenses. However, local states continue to issue licenses as they recognize significant licensing fees and tax benefits.

Statistically, however, it is estimated that only 0.6 percent of the Australian adult population actually wager on-line. Most gamblers go to the land-based casinos. These statistics from Australia show that land-based casinos are still the flagship of the industry. And at a time when lavish casino resorts are being built and gaming is thriving throughout the world, betting all over the Internet is a minute part of the total pie. However, we expect that land-based casinos will continue to dominate the gaming industry worldwide.

So what does this mean for Internet gaming for New Jersey? Some of the benefits we believe New Jersey could realize from legalizing and

regulating Internet gambling are, No. 1, additional gross tax revenues; No. 2, job creation; and No. 3, what we would call first-mover advantage for New Jersey. However, we would caution that each of these benefits has drawbacks that we believe could potentially discount some of the benefits derived from legalizing the industry.

One, gross tax revenues: In the short term, any E-gaming related tax revenues within New Jersey would be relatively insignificant in comparison to the land-based casino revenues. In our opinion, the State of New Jersey would have to build a sliding scale into its tax structure in order for Internet gambling revenues to generate a meaningful tax benefit. To put things in perspective, total Internet gaming expenditures again are expected to reach \$2 billion in 2000. That's worldwide revenues. That number represents only one-half of New Jersey's 4.2 billion in casino revenues for 1999 alone.

It is our belief, therefore, that incremental tax revenues generated by the legalization of Internet gaming in New Jersey would be insignificant on the whole, especially if gaming were only offered to the citizens of New Jersey. However, since Internet gaming does have the ancillary tax benefits, such as economic redevelopment and additional ratables in a community, we believe that it could be taxed at a significantly higher level. Additionally, without the large fixed cost structures that land-based casinos have, Internet casinos operate on much higher gross operating margins, which means more money to the bottom line.

Second would be job growth. Another reason gaming was originally legalized in New Jersey was to revitalize Atlantic City and stimulate economic development in the region. New Jersey's land-based casinos

currently employ approximately 48,000 people. That does not consider the thousands of other people employed by businesses that serve the casino industry throughout New Jersey, which the New Jersey Casino Control Commission estimates to be approximately \$1.5 billion for New Jersey's economy. While some jobs would be created in the process of forming an Internet gaming platform, we believe that the number would be relatively insignificant compared to those created by land-based casinos. Some of those jobs would be high tech in nature, as well as customer service, on-line casino hosts, and sales and marketing people.

In our view, the costs to control and regulate the Internet gambling industry would outweigh the tax benefits and job creation in the short term. However, a well-regulated, legitimate platform for Internet gambling in New Jersey would give the state a first-mover advantage in the industry and provide a seal of approval for operators that customers could recognize and trust. Knowing the State of New Jersey provides fair odds in the game and recourse for their patrons would, in our view, draw additional patrons to the Internet gaming venue and more legitimacy to the business.

Lastly, another issue that I would like to address concerning the current state of affairs in New Jersey is the belief that established gaming companies would enter the Internet gaming market if it were legalized in New Jersey. However, it is our belief that these companies would not currently enter the New Jersey market until all legal and regulatory issues are solved.

First, the potential additional revenues generated by land-based casino operators in the Internet gaming arena would not have a significant impact upon potential earnings. However, we do envision a scenario where

New Jersey's current operators use the Internet as a medium to build strong brand recognition and develop a better relationship with their customers. To that end, we believe that an Internet gambling platform could eventually help the casinos drive additional business to the land-based operations, thus generating additional revenues for the State of New Jersey. We believe that if New Jersey were to initially implement a play-for-fun platform, it could evolve into an Internet gaming platform as the legal and regulatory structures are put into place. In the meantime, the play-for-fun platform could serve a dual purpose. Existing casinos would be able to secure customers and expand their marketing reach, while testing software platforms allowing for control and audit functions to be implemented.

Second, the current regulatory environment in the U.S. is highly controversial. The U.S. has involved religious groups, legislators, and the National Gambling Impact Study Commission in its quest for solving the Internet gaming mystery. It is our stance that, and has been our belief since we took interest in Internet gaming, that established, publicly traded companies will only become involved with Internet gaming if the legal status becomes clearly defined in all jurisdictions where that company currently operates. However, as there is currently a great degree of uncertainty regarding the legal status in the U.S., these companies will stay out of the market in fear of potentially losing their gaming licenses in other jurisdictions that they participate. And this is probably most crucial to Nevada operators, as that's one gaming jurisdiction that has not taken a proactive or reactive stance for Internet gaming.

In conclusion, my remarks toward Internet gaming may not appear to be immediately positive. However, I would stress that Bear Stearns has taken an interest in Internet gaming because we do see upside benefits in the gaming marketplace. When legal clarity is finally achieved, and if that legal clarity is a positive force, we believe that a massive consolidation will follow in which the current, highly fragmented Internet gaming industry, which again consists of those 825 Web sites, would become acquired by the already well-established, well-branded gaming operators, providing further legitimacy and strengthening of the Internet gaming business. As the gaming environment evolves, there could be significant upside to a fully regulated Internet platform, in our view.

I'd like to thank you, and if I have to leave -- I'm not here for the question-and-answer session this afternoon-- If there's any questions I can briefly answer now, if you'd like to defer those, I can--

ASSEMBLYMAN AZZOLINA: Is Eric here, too?

MR. FALCONE: Eric is here as well.

ASSEMBLYMAN AZZOLINA: Is he going to speak now?

MR. FALCONE: No. That's our presentation.

ASSEMBLYMAN AZZOLINA: Okay.

They have to leave. So, in this case, we'll have questions and answers. Just a few questions.

ASSEMBLYMAN LeFEVRE: Through you, Mr. Chairman, just a question about the constitutional issues. As you know, in New Jersey, casino gaming is permitted in Atlantic City only. Would there have to be a question brought to the voters of New Jersey as to whether or not that right to extend

beyond the borders of Atlantic City will allow connecting the Internet-- I'm asking this as a question, really. I'm not sure--

ASSEMBLYMAN AZZOLINA: That's all right.

MR. FALCONE: Well, I think that in the current format of Internet gaming on a Federal level, that as allowing for states to make their own decisions, I think part of the issue is controlling cross-border wagering, which again can be considered a violation of the Federal Wire Act because you're still using some form of a telephone line. So I think it's a state-to-state decision. And if it was legalized in New Jersey, I think it would have to be only wagering from New Jersey citizens only, in the way we understand the law as it is right now.

ASSEMBLYMAN LeFEVRE: And that would require a vote by--

MR. FALCONE: I believe so.

ASSEMBLYMAN LeFEVRE: --voters of New Jersey--

MR. FALCONE: Yes.

ASSEMBLYMAN LeFEVRE: --to amend the constitution?

ASSEMBLYMAN AZZOLINA: Any other questions on the economics part? (no response) No. Okay.

Thank you very much

MR. FALCONE: Thank you.

ASSEMBLYMAN AZZOLINA: Next is a demonstration of Internet gambling, technology's capacity to regulate.

Fernando DiCarlo. That's you? I figured that, playing around with that screen there.

**FERNANDO DICARLO:** Mr. Chairman and members of the Committee, thank you very much for inviting me down today. I get to do the fun stuff, so I'm just going to get to it.

There's two parts to my presentation. One part is the demonstration of a virtual casino. Of course, this is not live. It's just a demonstration of it. And the second part of it is the technology and the capacity to regulate as we are today. I'm going to run through, and I've got some of the presentation here sitting on the screen-- I'll just show you some of the games that one can play on-line and how they look and how they play.

What happens with all the games that you have is, you have, always, a security warning for all the games that come up, and you have to grant a session. This is another part of security. This is either done by-- In this case, it's-- They have now been bought up by their sister company. So you have to grant a session, and I'll go through a lot more security stuff later on, but what it's doing now is it's actually building the game. So it's sitting on the server somewhere else, which means it's not on your host computer. In this case, it is on my host computer, but I'm simulating the exact effect of the game being played on a server. I'll just move it into position here. As you can see, there's -- okay-- I apologize for the darkness here, but it's just a laptop.

The game here-- As you see, it's a full game of blackjack, and I can bet from one up to a maximum bet. Let me see if I can get my volume to work here. Just a second. (computer demonstration) So, as you can see, you get the full multimedia experience when you have speakers at home or if you've got headphones on. It will play a full game of blackjack. I'll just play, very

quickly, just a couple of games. As you see, the dealer always seems to win. (laughter) It seems like every time I play this game, the dealer always wins.

I'll just show you one of the poker games. I mean, I'm just only going to show you seven or eight games here. We've got literally 50 or so in the inventory. And in demonstration, it will kind of give you an idea. Here's a poker game. We'll just do a max bet. We'll draw. Most of the games have a bonus thing set up behind the game. I guess I win here. And when you do get a win, you actually get to advance to a second advantage. You see, there's a green light there flashing in the corner. I have an option. I can pick -- it's so dark, but these are safes. If you look at my monitor, it's actually pretty good. You get to crack open one of the safes, and you get -- in this case, I busted, but you get to multiply your bet. So it has a lot of second events attached to it, so the entertainment value actually gets up quite high from the player's perspective.

These are other forms of poker, so I won't bother going into that. I'll just show you a couple of slot games. Again, each time you open up a session, you have to grant it to pass the security. Okay.

This is one of those multiline, multicredit games. What happens here is you can bet up to 16 credits, and you can ask for a spin. Again, all these games have second events, so I'll just show you a couple of the issues happening here. Here we have several ways of winning. There's 16 actual winning lines. So you're winning on all the horizontal lines, on the vertical lines, the Xs, and then there's V. There's five symbols in each one.

So I'll just show you there's also a second event attached to this. What you try to do with most of the bonus-type games is you try to keep the

player interested enough to get to the bonus round. And most players, once they start playing, they probably won't quit once they're into the bonus round or trying to get to the bonus round. So I'm going to the bonus round here, since I got 200 credits. And what happens is, I get to select a car. These are three racing cars here. Since the game is Formula One, we select one of the cars and car race. So I placed first. Excuse the darkness. So there's lot of different events that go on at the same time.

Another quick game I'll show you is a game we have called Roses to Riches. In the gaming part of it-- I'm just showing you very quickly the game, and as I play some of these games, I'll explain some of the security issues. You, of course, have to register on-line when you're playing, and you have to give all your pertinent information, and of course, your credit card. I'll talk, in my second part, of how long that is used to verify that is actually the player and that there's an age issue and security issues. But again, I just want to show you some of the features of what you can do virtually on the Internet, not that far different from what you can do on land-based gaming on a video-type game, except with the Internet, you can move things very quickly. You can bounce around from game to game. I'll just close this one, and I'll show you another one here. Again, you have to grant sessions each time.

This is something we call Frantic Fruit. It's a classic-style slot game. Each time you win, of course, something will show your winnings. And if you look at the top -- very dark here -- we have this little guy who swings the hammer that takes you to a little bonus game. But at the top, it shows you your balance, which is your top right-hand corner here, your total bets for each round, your win amounts and your bet, the value of each bet. We set this

thing up so you can make a bet value at a penny, up to a dollar, up to \$10, whatever the regulations are. And normally, we have a progressive jackpot in here.

Another big thing you can do very well and very easily on the Internet, and successfully, is set up progressive jackpots, because a lot of people are playing at the same time, so your jackpots can get up very quickly. That's just to show you that.

I'll show you one or two quick Keno games. This one is called Power Bomb Keno. Keno games are actually very popular. They're similar to a bingo-type game or a lottery-type game. You can either quick pick or the computer will pick for you or you can pick your own. You hit start and a cannon shoots out cannonballs, and they burn up. You can see that I didn't win again, but it's a kind of a fun game to play.

I'll show you one of the other ones that we have, which is called Multiplier Keno. This kind of combines a keno game with a slot game. The ball runs around, picks your -- the house selections, and every time you get a winning combination, it will run off and spin these extra wheels here. There they go now. (indicating game) And you can actually win a multiplier of your bet. So I just won four numbers. I only multiplied my bet times one, but you can win times six.

I'll just keep going through some of the games just to show you the type of things you can play. Here's a roulette game that we have set up. And all the games that you can do on the Internet, again-- You can almost create the exact experience if you have it in a casino, excluding, of course, the people

and the ambience of the building itself. But other than that, you can actually do everything you could do in a typical casino game.

Here, I'm making some wagers, just on the table. I can hit the spin. The wheel starts spinning, and in this corner of the monitor, and as it lands, it will then show you a closeup. So this, I guess, is number 14, so the wheel actually matches, so that number comes up, and we win. The display shows up on this side and it will count up the last 20 or 25 wins. So exactly what you get on a typical roulette table, you can play here, and you have denominations at the bottom from one to one hundred. And at the top, you can pick what your denomination is. So in this case, I say, one bet equals a dollar. You can make one bet equal a penny.

Here, I want to show you a baccarat game. Again, these are just to show you that there are several games you can put on. You can literally play every single game in video format. As a matter of fact, our newer version now is going to have multiplayer games, so it's also going to be a lot of fun, where people can actually chat and play on-line at the same time. So here you, of course, pick bank or player, make your bet, hit the deal button, and it will play the two cards. Okay, that's a quick baccarat game.

And the last game we can look at is craps. The time delay on this, when you actually install the first time, takes a little bit longer than every time after that takes; exactly what you just saw there, which is about three or four seconds. So we can make a full bet like you would in regular craps. The dice would roll out, so you can get all your front bets put in. You can do buy bets. You can do all kinds of different things here -- come bets, field bets -- that's typical there.

Okay, so that's kind of a quick run-through of just the games and the types of games. Again, we have so many games, I could sit here for a day just showing you games and all the different features of each one, but I know that's not the objective this morning. So that was just kind of a quick run-through of the games. I'm going to shut this down and go into my second part of the presentation, which is, I think, more informative.

The second part here is regulation and is it possible. And I think as we go through this, I think a lot of things will come to light. I think you might agree with me at the end, that all of this is possible and possible today. So let's just go through them and say, first, can Internet gambling be stopped? That's the first question, I think, we have to ask ourselves. Two is, are there methods to control it? And No. 3 is, will they work? And those are the three things that I'm going to address in this presentation coming up here.

The first question is, can Congress stop Net wagers? The question here, is it possible to block sites that offer Internet gambling? The second one, and it points off this, is can governments compel ISPs, typically AOL, EarthLink, WorldNet, to be the police? The next point is, can ISPs distinguish between potentially legal-- And some of the states are making pari-mutuel games and lotteries, and I know that they put those aside, between the legal and illegal providers.

Third point in here is, can they tell if the transaction is from an Internet casino? This is a very good point that started to develop recently is-- The credit card company, since you've had some conflict or some -- actually some lawsuits with some of the players of some states in the U.S. Some of the operators have actually gotten quite smart about this and created what they

call master merchant accounts. And what these are, are accounts that are set up by merchants that are just basically E-commerce, and you can actually set up an account with them and clear all your E-commerce transactions.

The question is, is that if you block all the E-commerce sites, then of course, all your CSPs -- and there's several very big players in the CSP business, AT&T and the likes -- will basically be out of business because they can't tell, and neither can the regulator tell in this case -- whether this money that they're transacting is a store purchase type of transaction or whether it's a gaming transaction. So a master merchant account basically masks what that transaction is for and where it's from.

The last point on this is, can American authorities prosecute site owners that are located offshore, and is that practical? So just to go through the current situation, there are currently more than 700 sites in operation. Most operate or are located in one of the fifty countries that have approved Internet gambling. And sites, even if blocked, can quickly change their address and resume operations.

Talk real briefly about the American public: First, do they approve of Internet gambling? Is prohibition a violation of the First Amendment? Will a ban help or hinder compulsive gamblers? Will Americans play on non-U.S. sites, and do Americans appreciate the presence of government babysitting?

Just where the business is now, Internet gaming business, purely, it's a digital service, so it's paid for with digital money like credit cards, available on any Internet-enabled appliance, meaning a PC, a TV, a cell phone. The point on the right-hand side, on this side here (indicating), is that a lot of people don't know that Internet gaming right now drives the technology in

E-commerce. I just want to just touch on this briefly. The amount of technology that is required in your E-commerce and back end to run an Internet gaming site is more complex than running a bank. What a lot of people don't understand is that although there are a lot of nonregulated operators that are semishady, operating out of the Caribbean, when you do get a professional operator that can be regulated, the system they are running could run Fort Knox. It is the ultimate test for E-commerce, the gaming operation. I'll touch on it later on.

Of course, there's no common standard of rules and regulations, limited controls, no current protection of privacy, and no proven means to restrict underage players. Regulation controls what is available today. Current technology can be used to assist in the regulation and control of Internet gambling. Now, I want to just state that this is not state-of-the-art stuff. It's all available today. It doesn't have to be recreated or still created. Of course, payment methods -- there's credit cards. They are still the least secure of all types. I know Tony touched on this earlier, of this transaction processing. Smart cards, of course, have the chips stored. So all they use is personal information -- is included in there, including their card number, shipping, and billing information, in a certificate of authenticity. This could be a payment of choice in the future as people get more and more comfortable. I know smart cards are very big in Europe. They haven't really hit North America that big yet -- still a very small percentage.

Just continuing on in the regulations and the controls: Digital cash, of course -- another payment method. This account must be set up by the bank in advance and players authorize the bank to forward payment to

Internet retailers. Highly secure, but limited market penetration again. And the DDA, direct demand account, a single master account can be managed by an approved sponsor. This would be suitable for a government-sponsored game unit or lotteries.

Just a little footnote at the bottom there: Digital signatures now are now approved. This happened about three or four weeks ago in Nevada. This allows verification of the source on an Internet transaction by using a coded identity so that the state office can validate the name. This is actually a very big plus now, that Nevada's jumped forward and said digital signatures will be accepted. In Europe, I think France, Italy, I believe Germany, have been using digital signatures for quite a while now.

Ways to control underage gambling: Two of them can be effective. Of course, one, regulators can mandate that all license holders must register with one of the Web filtering software providers. And you've got the Netnannies, CYBERSitter, WebChaperone, so parents can lock out unwanted registered sites. Second thing is strong warnings that include criminal offense to play if you're underage. The third one -- sharing other government statistics. This is very strong -- driver's license, social security numbers. Players must supply second form of ID when they register. Another one -- low wagering limits, \$50 a day until E-mail or snail mail confirmation with second PIN numbers received. So they would have to confirm their home address, so that would have to be received at their home.

And the fifth one is snail mail and E-mail confirmation on any large win or loss. That could be set at \$100, sent to the home address. So if for whatever reason somehow your child goes through all the other security

methods that are put through, every month you're going to get an update on your account, and you're going to know what's going on. I mean, this click the mouse, bet the house situation I don't think is really realistic.

Ways to control compulsive gambling: Of course, set up no credit accounts. I know some of the casinos, of course, offer credit accounts. In this case, I would recommend not to do that. Maximum daily and weekly loss limits could be easily set up. Maximum single bet limits, of course. E-mail of quarterly reports of accounts status. That, of course, could be changed to monthly. Compulsive behavior profile could be monitored, which is again something that you could never do in a casino. On-line nonintrusive survey with optional link to 1-800 help line. And of course, the last one being self-exclusion. Players can voluntarily restrict themselves to have access to the game. This information could be passed to all other gaming sites.

So you can see there's a lot of ways to handle the compulsive gambling type issue. Some of the security features here, computer systems, of course. The servers must be approved that cannot be changed unless reapproved. The E-commerce software/hardware must be approved. An electronic identifier digital certificate should be provided by an operator. Passwords should be changed, sorry, should be at least eight alphanumeric characters long. Passwords could be changed every two months. You could actually ask someone to change their password, so if somebody for whatever reason did get through it all, every two months they would change their password.

Players are only given three chances to type in a PIN number and a password correctly, and after this the account can be terminated and an

E-mail notice sent out. So if someone is trying to crack your code or knows part of it, but doesn't know it all, after three chances you can shut them down. Replay of last game, of course, functions -- this should be included in the case of discrepancies. And of course, operators could supply a card swipe to regulate players to confirm user's identity.

I just want to expand a little on that. Typically, if you get a player that is -- even a \$50 player -- not a very large player, knowing the Atlantic City-type numbers, the operator could easily provide a card swipe, which is what you typically get at a store, and that would help authenticate who the player is. So now you have to have the player there, the card number, the PIN, all the access codes, and you have to physically swipe the card through the card reader, so the person can't turn around a month later and say, "Oh, that wasn't me playing," or "Oh, I didn't authorize that." Well, wait a minute, you were at your computer swiping your card, with your PIN number and your password. How could it not have been you? So I think that the swiped card -- and I know that this could easily be done through sponsorship of some of the big PC operators where you can actually provide a swipe card.

The benefit of the swipe card, also, is they could do all E-commerce transactions through that swipe card. You could be your own merchant at your own house. So if you're buying something and you're afraid of using your credit card for E-commerce transactions, you now have your own terminal sitting right at your machine and you want to buy a pair of pants on-line, you can swipe the card right there, and now you know that nobody has got your information other than you swiping it through. So another big plus on the security features is allowing or giving the players a swipe card. And of

course, you could credit them \$5 a month on their account for having the swipe card there, if they're going to pay for it in advance. That also gets rid of the people who are really not players and people are just looking to break into the system.

Operational prerequisites -- of course, I'm sure your Committee knows better, but I'm just going to make some recommendations. Cash reserve of licensee, percentage of gross revenue could be left in some kind of an account, so if they do run away as an operator, you have reserve there. All major shareholders must satisfy land-based requirements, of course. All sites must be fully certified and bear the state seal of approval, and all games must be certified and bear the seal.

This is a very good point that I brought up a few weeks ago at one of the presentations I did. State control -- a big thing for the gaming regulators is that you can actually own, or the regulators can, the random number generator. This is a technology that is available today, has been available, or at least for a year, and as the diagram shows you, the client, who is on the left-hand side here, on their home computer, plays a game with the server, which is back here. The problem is that the server is, right now, in the Caribbean. You don't know who that person is. Well, what's interesting is that random number generator, which is really the math of your game, could be owned by the state.

As you see down the center here, the random number generator is actually sitting here and there's a handshake, and of course a little picture of one, but there's an electronic handshake done between the client and the server. Imagine regulating-- You could actually regulate every single wager at

any given time, every split second of the day. You can see what every single wager is like with this kind of a system. So something tells me you can regulate -- I mean, if this is available today and it's not a very difficult system to set up. So when you have this type of control, you can overcontrol if you really wanted to. So from the regulation side, I think that you can see that that is all available, and you could do a lot more regulating than you could in land based, because you can see every single game in real time.

State control: I'll just continue with fairness, of course, minimum payout on games, and fullgame approval. Security is, of course, having a system that is intrusion protected with encryptions, PKIs, and firewalls. You have to have, of course -- maintain accounting records so everything can be checked later. Real-time recording, which we did mention briefly, as regulators can spot check on top of actually having physical control of the whole thing. And State setup monitoring division where they would set up a separate division that would just monitor all of the on-line type of operations.

So Kansas State regulates underage gambling according to what I have here, yes. Compulsive gambling, yes. Control of game fairness, yes. Control of security, yes. Control of operators, yes.

Where to from here? I believe that until regulators feel that they have the tools to properly regulate Internet casinos -- I believe that land-based casinos should create a place to fund casinos. I know that the gentleman from Bear Stearns had mentioned the same thing. The possibilities of loyalty programs and marketing opportunities for a land-based casino to set up on the Internet, even as a play-for-fun, is outstanding. I mean, the potential to generate revenue from that from even nongambling activities is really

incredible. I'm actually surprised that a lot of U.S. licensed land-based casinos have not ventured into that -- of setting up play-for-free gaming sites.

Of course, the land-based casinos need to become E-commerce enabled, and of course, gaming sites drives some of the most traffic on the Internet. And if you look at some of the information that is available now from some of the hits in the eyeballs that some of these gaming sites get, they actually get more traffic than all the other sites on the Internet.

Benefits and features: Of course, you can offer centralized reservation systems. These are things that the casinos and resorts can offer. They have centralized reservation systems they can do on-line. There are E-stores. They can set up a portal for on-line shopping malls, and I know that some of the bigger casinos have shopping malls attached to them or within their complex. Think of the possibility of the casino actually enabling every one of their retailers in their malls to become E-commerce enabled through the portal site of the casino.

Integrated loyalty and comp programs with land casino, virtual property tour, 3-D virtual realities, and things like that, prebook of shows and entertainment -- I mean, the benefits can go on and on -- a few more offers, contests and sweepstakes, free to enter. You can set up auctions, vacation packages, and sell-offs, maybe even some Dutch auctions, membership discounts and privileges, flight, hotel, and car rental packages, golf bookings, branded credit cards. Again, I can spend the day just going through the benefits and features.

I know that we're reserving questions for the end, so I'll leave this part out. I've got a little question section here. And that's it.

So thank you very much.

ASSEMBLYMAN AZZOLINA: Thank you for coming from Canada.

MR. DiCARLO: Oh, my pleasure.

ASSEMBLYMAN AZZOLINA: Next will be current trends and regulation of Internet gambling. Sue Schneider, President at River City Group, and Chair, Interactive Gaming Council, from Missouri, right?

**SUE SCHNEIDER:** Right.

ASSEMBLYMAN AZZOLINA: Thank you.

MS. SCHNEIDER: Members of the Committee, my name is Sue Schneider. What I'd like to do is to give you a little bit of a world tour so that you can get the bigger picture of what is going on internationally with this, because this is a situation where the U.S., both on the technology side as well as on the policy side, is running a bit behind the rest of the world here.

Just to reiterate again, my background is in publishing. I have a company in the St. Louis area that does syndicated research. We have trade publications on the matter, do conferences on the subject, and I also chair the Interactive Gaming Council, which is a trade association of about 80 companies internationally that are involved with interactive gaming.

What I'd like to do is to start, if I could, a little bit -- just some of the history. The first sites that you see that offered Internet gaming began in 1995. And most, as people have noted here, are entrepreneurs, not necessarily out of the gaming business, but that have gotten involved in emerging jurisdictions. Primarily, the largest concentrations so far of licensing jurisdictions are in the Caribbean, but that's changing pretty quickly.

There isn't a lot of information that's out there, and it is something that can be a real challenge to gather. I will say that. We show, in a report that we finished last October, and we're working for our second annual report, called "Wagering on the Internet," to be issued this fall, that there are at least 250 operating companies or governments. I would note that in Europe and in Australia/Asia that there are a number of governments that offer either lotteries and/or sports race book products on-line. There are today probably at least 850 sites. We're finishing that research now. The number is actually probably closer to 1000, but 850 that we can document at this point in time. And again, there are at least 52 governments around the world that sanction Internet gaming in some way, shape, or form. The regulation of it varies very broadly. We'll get into that as we look at some of the specific areas.

One of the things in the debate of prohibition versus regulation is looking at some of the issues related to market demand. It is here. It is growing. It is something that, right now, if people take international play from all around the world, they will say that anywhere from 50 percent to 90 percent of their clientele is based in the U.S. So the market is actually here at this point. Now that will change as the Internet penetration grows in other parts of the world. You'll see that balance out some, but right now, it's here

My own opinion is that prohibition is not going to be an effective method of stopping players. I will give you just a real quick anecdote. There was a company by the name of Centrebet that was a sports book in Australia that took bets from all around. They were purchased by a company called Jupiters, which is partially owned by Park Place Entertainment. When they

bought them, they said that they were closing down all their U.S. accounts. And sort of the joke, when I was down in Australia last year, was that they closed 400 U.S. accounts on a Friday, and that on Monday about 300 Canadian accounts all of a sudden emerged on-line. So you have a pretty tenacious player group out there that's pretty resourceful and will find ways to play.

The blocking effectiveness, which is really again trying to use the Internet service providers as the police in here and to block, I don't really think is going to be very effective. Again, as somebody mentioned, what about those types of gaming that may be legalized in certain areas of the U.S.? So it's really questionable the method of -- from a technical standpoint, I don't think the blocking is really going to work. And if you do find that you are offering a strong regulatory environment, it really does bring the legitimate players into play. And as you'll find that some of these other jurisdictions are doing that, they are able to then provide control and are also able to get some tax benefits.

One of the things that I want to mention really quickly is that you have to make the distinction between regulating the Internet, which I don't think really can be done. It was designed to be decentralized. It was designed to not have that sort of regulation. But you can regulate the gaming products just as you do the land based. The technology really, in some ways, is better in Internet. As Fernando mentioned, you're tracking every play of the hand, so you really have some really good opportunities to track what's going on and to have some control over that.

From the standpoints of minors and problem gambling, whether it's loss limits, self-exclusion, there are a variety of things that again-- I've got

three riverboats within a mile of my office in St. Louis, and I can do a lot of damage there and no one will know. But you know, there are some distinct advantages, which I think will get better as time evolves, into looking at some of the technological answers to providing some control.

Money laundering is a concern of many governments and many regulators, and I think that that is-- From my discussions with operators, it's not so much a concern from the standpoint of players, because people are typically making smaller deposits. And if you're trying to launder millions of dollars and do it in \$100 increments when you make a deposit, that could be relatively time consuming. But I think the concern is on the part of operators that might pop up that are using that for money laundering.

Game fairness is obviously another big consideration. As I mentioned, I think that the big distinction is making sure that you are regulating the gaming product. And then from there, the consumers will go where they feel the most comfortable and the most protected.

I'll go through this relatively quickly, because Fernando covered some of this in terms of the -- game testing and auditing are certainly a component that you would need to look at. Background checks is very critical, looking at the solvency of the companies to be able to pay the winners and to be a solid company, looking at responsible gaming provisions. Again, I know the interactive gaming industry has been working closely with people in that field to look at what are some good guidelines for that and want to take that and embrace that early on. No extension of credit is another important one. That's how you can address such issues as problem gaming. I know that's not necessarily the case in land-based gaming, where there is credit extended, and

is something that needs to be looked at very carefully. Privacy concerns, which on the Internet, are very, very critical from a player standpoint. And I can't see the bottom, so we'll have to figure out what that one is. (referring to display)

Let me tell you a little bit about what's going on globally. Each continent has really evolved really very differently. Australia has really been seen as the model. In '96, I believe, they developed a national regulatory model and said that even though we leave this up to the individual states to determine to pass legislation, to pass regulations, that they wanted some overarching mechanism. They've looked at even how do you deal with taxation. Their model said that we collect the taxes in the home jurisdiction of the operator, and that if there was reciprocity or reciprocal recognition, mutual recognition of the licensing, that they would even remit some back to the home jurisdiction of the player. So they've even looked at how to set that up.

Europe has developed country by country. They have some long history there. They have kept cross-boarder sales to a minimum. They have a case law as well as just some understanding. So they've developed a little bit differently. South Africa is actually exploring not a state legislative method, but a federal regulation of Internet gaming. And again, the Caribbean basin is still where there's many-- There's probably about 12 or 13 countries in both Central America and a number of the Caribbean nations. You'd have to look at their regulations case by case to see exactly where that's going. Some of them are really starting to begin to beef up their regulations, which is to their credit.

North America, and I would say, is still watching and waiting. There is nothing going on from the standpoint of Internet gaming, save in one spot there is an Indian reserve outside of Montreal that has just become a licensing jurisdiction there. Their models are based on the Queensland model. It's Mohawk Reserve. Other than that and other than some racing that's going on on-line within the U.S., that's really about the extent of it.

This I will buzz through, because I'm sure you'll learn more than you'll ever want to know about it this afternoon, but the Wire Act is really the operative piece of legislation federally. There is prohibition legislation that's pending in Congress, as well as a second bill that was introduced about two or three weeks ago that goes after financial transactions. And the states, it's been sort of a mixed bag, but there are some states that have developed prohibition language. There are some that are exploring regulatory models.

There's really not a lot of case law. I think Marc Falcone had brought up Jay Cohen's case. That was really the first Federal enforcement action on Internet gambling, and he was convicted in, I believe, March. That is on appeal. To give you, again, a recap of Australia, they did, in '97, adopt a model. I would say their acceptance of that model was a little uneven, and where they seemed to have cracked apart a bit is on the taxation. They tried to have a commonly held tax rate, and what has happened is that it's gotten very competitive there. For example, Queensland has 50 percent of net win as a tax rate, which is pretty high, I've got to say. And then you have others, like the Northern Territories, that have 8 percent. Norfolk Island, which is a territory also, has 4 percent. So now you're seeing sort of some competition

between the jurisdictions. They're trying to figure out how to be the most attractive to operators.

I think also Internet gaming has gotten in the crossfire of an antigaming backlash that's down there. If any of you have been to New South Wales, you'll know that there's a lot of gambling and land-based gambling there. It's really prevalent. So there's a reaction to that, and Internet gaming has somewhat gotten caught up in that whole debate. Now you have a prime minister who has decided that he would like to put the brakes on that as part of his antigaming platform and has begun to talk about, No. 1, a moratorium on new licenses there. And also, he's even begun discussion of prohibition.

What has happened is that there are, for example, U.S. operators, I would say, that may have wanted to go to Australia to get licensed there because things aren't moving forward here in the U.S., and that uncertainty down there has made them a little bit less attractive of a option for them.

As I mentioned, Europe is evolving a little bit differently. In many countries, they limit their wagers to residents of their own country. They do have a famous law by the name of -- Schindler case, which is a -- mainly for lottery sales, but it does prohibit their cross-border sales. They are having discussions and beginning to have discussions through the European Union in E-commerce issues in general and what they can do to break down some of those barriers, but they haven't really addressed the gaming yet.

What has happened in the meantime is that you have a number of large land-based operators like Ladbroke, William Hill, Victor Chandler. Those are all very old, well-respected, land-based, primarily sports books, and they have done an end run, essentially, around the British government and

have moved their Internet gaming operations to their own version of offshore, which might be one of the Channel Islands or Gibraltar. And because of that exodus, it has led the -- one of the impetus of the Great Britain gaming board to review that whole policy related to that, and they're exploring that now and developing a report on, partially, their policy related to Internet gaming.

Again, the basic-- Most of the early sites have been based in the Caribbean. Many First World regulators feel like there is little or no regulation there. Some jurisdictions, as I mentioned, are beginning to upgrade their regulations to be more solid. Now, part of that is being driven, I think, by OECD and their money laundering concerns and things like that. There are some changes that you're finding in some of those Caribbean jurisdictions.

One of the things that I think is really critical, as we look forward, is looking at the idea of intergovernmental cooperation. That really needs to be there. Ideally, there would be some common standards and some reciprocal, mutual recognition of licensing. And this is an area, as opposed to where you have more in land-based gaming, where it really has been pretty much kind of topped down from the government to the industry. I think this is one industry, and I shared with your staff some information, a policy paper written by a New Zealand regulator who said that this is really an unusual situation. This is a situation where the industry is now and will probably for a couple of years be a couple of years ahead of the government in their capacity to develop the policy. So I would hope that there would be a cooperative approach. And again, it's to try to look at it globally as much as possible and develop some mechanisms for allowing that global interaction to take place.

There are a variety of different jurisdictions and how they regulate, and it would be nice as a goal, I think, to harmonize some of those. You're also seeing that there are more and more land-based operators that are coming into this, so I would agree with Mr. Falcone, who says that he sees consolidation down the road. I mean, I think even though this has started the way it has, with a lot of entrepreneurs that are off in the Caribbean, you will see as the regulatory mechanisms get put in place -- you will see the land-based folks get into it, and there will be consolidation, just as there is in the land-based gaming industry.

Payment solutions, which I call the lifeblood, is under attack. It's under attack with lawsuits. There are players that have lost \$70,000 on on-line gaming and then refuse to pay saying, "It's a gambling debt, it's not enforceable." And they've been successful, not actually going to court, but in settling. And both the operators and the punters or the bettors are really very much international in scope.

As Tony mentioned, when we talk interactive, it's not just Internet on your PC. It is going to be very mobile in the future, and it's already happening in that regard in Australia and in the UK. I think you'll see larger media players that are getting in and offering this as one of an array of entertainment products that they'll have available, and that gaming will be just part of a whole range of things that the player can do when they get on-line.

I think there's going to be new options developed. I've talked with a number of companies who are setting up, essentially, stock exchanges, but you can do it for sports betting, you can do futures. There's one that I looked at their software and not only can you bet in the middle of the game on a

play-by-play basis, but you can bet on how the other people are going to bet. I mean, it gets really convoluted as you go down the road, but there are new options that I think will emerge.

I guess the main thing I want to mention in this is just that whole convergence that you keep hearing about is something that is coming. We're going to have a whole array of different devices to play on. On-line gaming, in my opinion, is here. It's as the Sebastian Sinclair's projections are. He's saying it's a \$2.2 billion industry now and will grow from there. The need for regulation is evident, and I would hope it would come sooner than later, because I think that will minimize future problems. I will say that, as somebody mentioned, the entry barriers to this are relatively low. There are people getting into this business for a very small amount of money, and they shouldn't be, quite frankly. And there may be some failures in the future that could be really bad. So I think the more that there is an opportunity to get some good, solid regulatory mechanisms and some solid jurisdictions, what happens is you're not going to stop those other people from operating out there, but the players will gravitate to where they feel the most comfortable sending their dollars off to.

And again, looking-- This is something just like a copyright, intellectual property. There are all kinds of issues that the Internet has created, some real legal problems, because it is something that's on the international scope. And then what we're looking at is just basically to talk to those people who really have had an opportunity to look on it on a global basis, seeing where this is going, and to foster some cooperation, and hopefully, a call to action among people to talk with their peers about that.

And that's it. So thank you.

ASSEMBLYMAN AZZOLINA: Thank you very much.

We'll ask questions-- You're all done for now?

MS. SCHNEIDER: Yes.

ASSEMBLYMAN AZZOLINA: We'll have questions later in the day, and thank you very much for your comments.

We're going to break for lunch now and be back at about 12:15.

### **(LUNCH RECESS)**

#### **AFTER LUNCH RECESS:**

ASSEMBLYMAN AZZOLINA: Okay. Anthony Cabot and Nick Casiello, from Sterns and Weinroth, I guess. Okay, you're on.

**N I C H O L A S C A S I E L L O J R., E S Q.:** Mr. Chairman, Committee members, thank you. My name is Nick Casiello, and I'm an attorney with the law firm of Sterns and Weinroth. We have offices in Atlantic City and Trenton, New Jersey.

ASSEMBLYMAN AZZOLINA: Is the mike on? (referring to PA microphone)

MR. CASIELLO: Yes. My firm and myself have been involved in the casino industry for over 20 years. I've written and lectured extensively in the area. I've also worked with Tony Cabot a lot, and we have divided up our presentation this afternoon. We will be going back and forth. Before I turn it over to Tony, I did want to emphasize that I am not here to advocate any

position, and anything I say or my own views are not the views of any of my clients or the casino industry in general.

MR. CABOT: Thank you, Nick.

Mr. Chairman, members of the Committee--

ASSEMBLYMAN AZZOLINA: Put your mike on. (referring to PA microphone)

MR. CABOT: What I would like to do is kind of start out with an overview of the international situation, somewhat what Sue did, but from more of a legal bend.

As you are aware, there's about two dozen jurisdictions throughout the world that are actively licensing Internet operators so they can take bets from all over the world. About 200 operators are operating between 800 and 1000 sites. Most of them are located in the Caribbean. And if you look at the Caribbean, the situation there is very simple. They have no concern with traditional gaming regulation, as we know it here in New Jersey or Nevada or anyplace else. There are no operating requirements, no internal controls, no testing of equipment or software, no enforcement mechanisms, no audit procedures, no technical standards. Instead, for a sum of money, what you get down in the Caribbean is a license to operate with virtual anonymity, with impunity, and with tax-free profits.

Antigua is the first country in the Caribbean that's even considering adopting rudimentary technical standards to govern the Internet industry. What happened, though, is when the Caribbean went forward, a number of the operators, obviously, went there, sort of taking bets from all over the world. Let's specifically target the United States. And the reason for

that is very simple: The demographics of the Internet heavily favor U.S. citizens. U.S. citizens are on the Net in a big way and are relatively wealthy, and they like to engage in gaming activities.

If you look at the Caribbean operators, a lot of them are Americans. A lot of them have hidden their involvement in the Caribbean through proxy directorships on corporations that exist in the Caribbean. And in fact, I'm convinced that a lot of these operators are actually operating from the United States. In doing some research on this, using some tools that are available, we are able to trace the servers of a number of these sites to places like Gahanna, Ohio, and Woburn, Massachusetts. So I think, in fact, a number of these people who have licenses in the Caribbean are actually operating out of the United States.

This created a bad situation, I think, in the United States because it-- We're the first country that had to be faced with the issue of Internet gambling because we saw what is basically an export of U.S. dollars to the Caribbean, to a place which, unfortunately, had no regulation, a place where there's a lot of very questionable persons operating the casinos. It raised here the first time that a government had to sit down and say, "What do we do about Internet gambling?" What do we do from a state government perspective, what do we do from a Federal perspective? And I'm not talking about, necessarily, just Utah and Hawaii, which have banned all forms of gambling, but I look at this state and I look at Nevada, which has collectively spent about 100 years coming up with effective regulatory systems.

All of a sudden, we're faced with the situation where everybody can gamble from their house over their television, over their cell phone, over

their PC, with an unregulated entity out of the Caribbean, in fact, somebody who would probably be on the list of excluded persons in Nevada or New Jersey. So we have a difficult situation that we have to face in terms of how we set government policy.

But things are even more complicated than that. Since probably the dawn of modern history, man has existed under a government that has relied upon the government having a physical control over a geographic area and its inhabitants. I'll quote German social theorist Max Weber, who said, "The state is a human community that successfully claims the monopoly of the legitimate use of physical force within a given territory." But modern technology has created a problem, that you can no longer go along those historic concepts of monopoly of power, the ability of the government to control geographic areas. We see that time and time again.

We saw the mail system, the national mail system spurred the creation of mail fraud and the first national lottery. The movement of money, for example, was made a lot easier from illegal transactions with the advent of electronic bank transfers. But the Internet is much different. It's much more than we've ever seen before. It's a human community that exists without traditional notions of territory. A challenge for the governments, maybe an impossible challenge, is how to extend their monopolies to a borderless territory or to try to control the Internet within their own borders.

Now this isn't a difficult proposition for a lot of countries. If you look at Singapore, India, Vietnam, and Saudi Arabia, they just control the pipe. They just control everything that comes in and out of their country through the Internet. That type of Draconian approach is just not acceptable

in the United States or countries like Australia or most western governments. Plus, if you tried to do something like that, I think it would probably run afoul of a number of constitutional provisions, the Commerce Clause, the First Amendment.

So what is the U.S. going to do? What can the states do? What are their options? I think the most daunting and, perhaps, again impossible is try to maintain those traditional government controls over state citizens while relinquishing control over the infrastructure of the Internet. But government tries, and they're trying. I mean, the first reaction of the government prosecutors to the Internet gambling was try to revert to traditional methods of governing, specifically, to prosecute Internet operators. Most of these prosecutions, I think, were based on a very simple proposition that was stated by Missouri Attorney General Jay Nixon at an Internet conference of the National Association of Attorneys General that was held in Stanford earlier this year. And here's what he said. He said, "Goofballs are on the Net. We should concentrate on them first, because they're easier to catch."

We've seen a lot of highly publicized, successful state and Federal court actions. Jay Nixon himself was able to obtain a criminal conviction under Missouri law against the president of a Pennsylvania company for accepting casino wagers from Missouri residents through an Antiguan company. He also successfully stopped a Native American tribe from taking Internet lottery wagers from Missouri residents. There the court held that the Native American tribe lost their sovereign immunity once they accepted wagers from persons outside the reservation by using the Internet. And in fact, that tribe closed its Internet operations.

Likewise, we saw a civil action brought by the New York Attorney General that resulted in a ruling that taking Internet casino wagers from New York residents violated New York law, despite whether or not the operator was operating lawfully in the Caribbean.

We also heard earlier about the Jay Cohen conviction, which was under the 1961 Federal Wire Act, where Federal prosecutors brought criminal action against about two dozen persons involved in on-line sports wagering that accepted wagers from the Caribbean.

With that, giving you an idea of some successful prosecutions, I'll pass the mike back over to Mr. Casiello to describe the current Federal laws and pending Federal legislation.

MR. CASIELLO: There is one thing that is certain about Federal law regarding this area, and that is, it is not clear and it's in a state of flux. Before I attempt to explain the current state and the potential state of Federal law, I'd like to explain the purpose of Federal law in this area.

Traditionally, the legalization and the regulation of gaming has been considered a state issue, and it still is. That approach was stated by the 1976 Gambling Impact Study Commission conducted under the auspices of the Federal government, and it was reiterated in the National Gambling Impact Study Commission report that was issued in June of 1999. The later report does contain one notable exception to the concept of state rule, and that is with respect to Internet gaming. That report suggested that Internet gaming should be controlled and regulated or actually prohibited by the Federal government.

The goal of current Federal regulation of gaming is to assist the states enforcing their laws and policies. This is accomplished in two ways: One, by making gaming that is not authorized by a state, illegal. There are numerous statutes that fall into that category, and I'll go through them in a minute. The other way that goal is accomplished is by Federal laws intended to prevent one state from imposing their policies on another state. And again, I'll go through the principal Federal law that falls into that category, which is the most relevant to the issue under discussion today.

Statutes that fall into the first category include the Travel Act, which makes it an offense to travel interstate or internationally or to use the mail or any other facility in interstate or foreign commerce to carry on any gambling activity in violation of state or Federal law. The Interstate Transportation of Wagering Paraphernalia Act prohibits the interstate and international transportation of physical items, such as records, tickets, slips, or tokens used in gaming, unless the material is legal under state law. The Organized Crime Control Act makes it a Federal crime to engage in an "illegal gambling business," which is defined as one which violates state gambling laws. There is also the Gambling Devices Act, which makes it illegal to transport a gaming device into a state, unless the state has enacted a law making such shipment or possession legal, which, as a matter of fact, New Jersey has done in connection with the Casino Control Act.

Again, let me emphasize, all those statutes simply make it illegal to violate a state's gaming laws. An example of a Federal law intended to prevent one state from imposing its policy on another state is the Wire Wager Act, which is also referred to as the Wire Communication Act. This is the

most important Federal statute on point. It was originally enacted in 1961, and its language is very important, so I will quote part of it. It provides that anyone engaged in the business of betting or wagering who “uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers” is guilty of a criminal offense.

Clearly, this statute applies to the Internet, as the Internet uses wire communication facilities. Clearly, the statute also applies to prohibit sports betting. What is not clear is if the statute applies to other forms of gaming, such as casino gaming. In his testimony to the Subcommittee on Crime of the House Judiciary Committee studying Internet gaming, Deputy Assistant United States Attorney General Kevin DiGregory stated that, “The Department also recognizes that the advent of Internet gambling may have diminished the overall effectiveness of the Wire Communications Act, in part, because that statute may only relate to sports betting and not to the type of real-time interactive gambling, e.g., poker, that the Internet now makes possible for the first time.” He said that originally in June of 1998. He has repeated those comments as recently as earlier this year.

The Wire Act does contain an exception which permits the transmission of information assisting in the placing of bets or wagers on a sporting event or contest from a state or foreign country where such betting is legal into a state or foreign country in which such betting is legal. But that

exception only applies to the transmission of information and does not authorize any wagering.

One of the crucial questions is, does current Federal law prohibit Internet gaming? First of all, it's important to keep in mind that all the Federal laws discussed thus far only apply to interstate or foreign commerce. They do not prohibit any intrastate, that is, activity occurring within a state. So the use of the Internet by someone in, let's say, New Jersey to place a bet on the Internet, where the server is located in New Jersey, may not violate Federal law. It gets very complicated. Because even though I may be residing in New Jersey, accessing the Internet in New Jersey, and the server I am accessing is in New Jersey, the connection may actually go outside of New Jersey, up to perhaps even Canada, before it comes back to the server in New Jersey. But normally, arguably at least, intrastate gambling is not prohibited by the Wire Wager Act.

However, the Internet clearly does prohibit the use of the Internet for sports betting in foreign and international commerce. And as I said, Federal law is not clear with respect to whether it currently prohibits Internet casino gaming. The Justice Department, despite Assistant Attorney General DiGregory's comments, does take the position that the Wire Act prohibits Internet casino gaming. However, there are no cases directly on point, and the issue is debatable.

You've heard reference to the Cohen case several times today, a conviction obtained earlier this year. He has not yet been sentenced, but that conviction pertained to sports betting, not traditional casino-type of betting.

I'd like to turn to, first of all, a piece of pending Federal legislation called the Internet Gambling Prohibition Act of 1999. It's commonly known as the Kyl Bill after its principal sponsor in the Senate, and I should note that one of its principal sponsors in the House of Representatives is Congressman Frank LoBiondo of New Jersey. The purpose of this bill is to clarify Federal law regarding Internet gaming and to specifically prohibit all forms of it. It passed the Senate by unanimous consent on November 19, 1999, and was approved by a House Judiciary Committee on April 6, 2000. It makes it unlawful for any person, including a government entity, engaged in a gambling business to use the Internet to place, receive, or make a bet or to send, receive, or invite information assisting in the placing of a bet. The definition of bet or wager includes not only sporting events or contests, but any risking of something of value on the outcome of a contest or game of chance. So it clearly applies to Internet gaming.

The Kyl Bill contains some interesting provisions regarding enforcement, and I think you've heard some reference to some of them today. It specifically authorizes not only the United States Attorney General to seek to enjoin violations, but it also authorizes the state Attorney Generals, and in certain circumstances, professional and amateur sports organizations, to seek to enjoin violations of its provisions. It also seeks to enforce its prohibitions by regulating Internet service providers. It does so by providing that an ISP shall disable access to any server that provides access to an illegal gaming site upon request of a Federal or state law enforcement agency. If the ISP does not disable access voluntarily, the statute authorizes injunctive relief against the ISP.

The Kyl Bill does contain several exceptions. The exceptions pertain to lotteries, horse and dog racing, and Indian gaming. These are very controversial exceptions, because some people argue, and I think they're probably right, that these exceptions are actually broadening or weakening current prohibitions on certain gaming activities and allowing these groups to use the Internet for gaming when they cannot do so now.

For lotteries, bets that are made wholly intrastate, that is within a state, are not prohibited. Multistate lotteries are also permitted if authorized by the states involved. The person placing the bet does so at a facility opened to the general public, and the bet is placed on an interactive computer service that uses a private network. The law defines private network as one in which dedicated phone lines are used or which has a means of preventing unauthorized access.

For horse and dog racing, the exception applies if the bet is made in a state in which it is legal and received in a state in which it is legal, and if the bet is placed on a closed-loop subscriber-based service. That is a service or system, operated in accordance with the laws of a state, exclusively for betting and that has an effective customer verification and age verification system and appropriate security standards to prevent unauthorized access by anyone who has not subscribed or is a minor. And I think you've heard today one of the concerns about Internet gaming is access by minors or unauthorized persons, and here we have the Kyl Bill taking a stab at regulating or controlling that very issue.

For Native American gaming, the exemption permits the use of the Internet for both bingo and casino games if the activity is conducted in

accordance with the Indian Gaming Regulatory Act, which requires a compact between the tribe and the state for casino gaming. The bets are placed and received on Indian land, and the game is conducted on a closed-loop subscriber-based system or private network.

The Kyl Bill does not contain an exception for casino gaming, except for the one pertaining to Native American tribes. Also, unlike the Wire Wager Act and all of the other Federal legislation I've discussed, the prohibition in the Kyl Bill is not limited to interstate or foreign commerce. Whether that is constitutional is debatable. In any event, by its terms, the Kyl Bill would prohibit the use of the Internet to conduct casino gaming.

There's one more piece of Federal legislation, then I'll turn the mike back over to Tony. Earlier this month, Congressman Leach introduced a bill called the Internet Gambling Funding Prohibition Act, a very simple bill. It would make it a crime to accept any credit card, debit card, check, or electronic fund transfer in connection with Internet gaming. The purpose, of course, obviously, is to go to the source of funds and prohibit the activity that way.

MR. CABOT: Thank you, Nick.

I'll also note that some of the states have been pretty active in legislating prohibitions against Internet gambling. There have been four states to date that have specific acts that prohibit Internet gambling. They are Michigan, Louisiana, Illinois, and South Dakota. But I think that leads into the point of my next presentation, and that is, if you look at legislation involving Internet gambling, it's only half the battle. In order to actually

prohibit Internet gambling, you not only have to have legislation in place, you need to be able to enforce it.

One of the things that I think is most telling about the Cohen case is Cohen was convicted. Cohen had a partner, though. That partner is still running that sports book down in Antigua that is still taking bets today.

Now, if I go back to Attorney General Jay Nixon's quote, there's only a certain amount of goofballs out there. At the end of the day, most operators will be safe. Illegal operators will be safe in their Caribbean hideouts, happy to spend the rest of their lives basking in the warm sun in the Caribbean. Illegal gambling is not an extraditable offense under any treaties that the United States has with any country. So therefore, unless you do a Manuel Noriega-type of raid on one of these Caribbean countries, operators are sitting there with complete immunity from U.S. prosecution.

And whether or not there are future successful prosecutions, and there may be, you will find that it will do little to affect the number of sites out there. In fact, since the Cohen prosecution, the number of sites have at least doubled and probably tripled. So what do you do? If you can't get the operators because the operators are sitting out in their offshore locations, traditionally the other group you go after is the players. After all, the players are within the traditional boundaries of the United States, but neither current Federal law nor the Kyl Bill will make it illegal for a person to place a bet over the Internet. It's illegal under some state laws, but there haven't been any prosecutions. So ultimately, we end up in a situation where the player is not breaking any laws. The operators who are operating illegally, taking bets from

the United States, are basically operating outside the jurisdiction of the United States and are immune from prosecution.

We're going to have a situation, I think, that, perhaps, if it wouldn't have garnered so much public attention, if in fact, all we were dealing with was the Caribbean operators-- Because the Caribbean operators-- As I had mentioned earlier today, I would not feel comfortable placing a wager with a sports book or an Internet casino operating out of the Caribbean, simply because I know they have no regulations down there. They have improper or no licensing, no technical standards. I can't even tell if the games are rigged.

That was not the evolutionary path that Internet gambling took. Something dramatically changed that, and that was when, as Sue mentioned earlier, in 1996 the Australian state and territorial gaming and racing ministers set forth the national policies in Australia for the draft regulatory control model for uniform, interactive home gambling. When that was adopted by the Australian Legislature, we ended up with a situation where a country whose regulatory process is without question -- the regulatory process that matched Nevada's or New Jersey's. All of a sudden, two of the largest obstacles, I think, to mainstream Internet gambling have gone away. That is legality -- it's clearly legal in Australia -- and trust. I would feel comfortable gambling with an Australian casino. In fact, when I go to Australia, I do.

So we have a situation where all of a sudden, two of those five obstacles I talked about are gone. The Internet industry can begin to realize the potential revenues that we see that are almost inevitable, the 2 billion this year, the 6 billion in 2003.

Why did Australia go this route? I think it's twofold. The first, if you accept the proposition that Internet gambling is inevitable, a logical conclusion is to permit it and regulate it rather than prohibit it. On the Internet, this allows the government to provide a safe, regulated environment for players that's fair, that's honest, and assures their players will be paid if they win. The second most obvious reason is tax revenues. Operators are simply willing to pay for the privilege of being regulated. It's simple economics. If you properly regulate something and it brings credibility and credibility brings more business, then it pays for itself. That regulation is worth the cost.

By being the first country to regulate Internet gambling, Australia had the opportunity of charging higher regulatory fees. The national model suggested 50 percent taxes. Ultimately, however, the states and the territories did not follow the national model. It started competing on prices. Today, some Australian jurisdictions charge as little as 4 percent.

From the perspectives of those who want to prohibit Internet gambling, the Australian legislation poses greater problems. As it allays players' fears, it encourages more Internet gambling.

Again, I'll let Nick describe what methods and regulations are involved in Australia compared to what we're accustomed to here in the United States.

MR. CASIELLO: Before I do that, I do want to take a moment to talk about-- I'm sorry. Before I talk about Australian law, I want to take a moment to talk about New Jersey for a second.

As Assemblyman LeFevre noted, in order for gaming to be legally authorized in New Jersey, it has to be authorized by our constitution. New Jersey, of course, by referendum, did authorize casino gaming, and that referendum and the amendment to the constitution specifically authorized “gambling houses or casinos” and left up to the Legislature the right to determine what specific types of games should be permitted. So the question is, is another referendum necessary to permit Internet gaming, or is Internet gaming just a type of game that can be authorized by the Legislature without another constitutional amendment? I’m not going to try and answer that question today, but it’s certainly an issue that needs to be considered.

As Tony noted, several foreign countries have legalized Internet gaming. The extent of regulation varies enormously. Some countries simply sell licenses. Others have legitimate regulatory systems similar to those in New Jersey and Nevada. One such country is Australia, where several states have legalized Internet gaming. I’m going to compare how the Northern Territory of Australia has regulated Internet gaming to how New Jersey regulates casino gaming under our Casino Control Act.

In a nutshell, the regulatory schemes are very similar. Both states have enacted statutes that create regulatory authorities, and they authorized the regulatory authority to promulgate regulations to implement the legislation. The cornerstone of any good regulatory system is the licensing of the owners, officers, directors, and key employees involved in the operation of a casino. While the words may be different, both New Jersey and the Northern Territory require that such persons be investigated and found to possess good character, honesty and integrity, financial stability, and business ability.

The regulatory authority in both jurisdictions has the ability to impose conditions on the issuance of a license, and licenses are not transferable. Licenses may be suspended or revoked, if the holder is no longer suitable or has violated the gaming law or committed other offenses.

The same rules apply, in both jurisdictions, to service providers. Both jurisdictions also provide that agreements between service providers can be terminated by the regulatory authority under certain circumstances.

The types of games permitted to be played must be authorized by the regulatory authority, and the location of the casino must be approved. All equipment used in gaming must be tested and approved by the regulatory authority. The casino must have an approved internal control system to ensure effective control over the conduct of gaming. Records have to be maintained. Accounts have to be audited. Inspectors are employed by the regulatory authorities to monitor operations. Certain employees may not gamble, and minors may not gamble.

Of course, the nature of Internet gaming creates certain issues which must be addressed and results in certain differences between the systems. One of the frequently expressed concerns about Internet gaming is the anonymity of the player and the potential for money laundering. The Northern Territory statute provides that players can only wager from an approved account. In order to open an approved account, a player must register with the casino. Registration requires proof of identity, age, and residence, and that information must be verified by the operator prior to the person participating in gaming. Of course, no live U.S. casino requires registration to gamble.

Another concern frequently expressed about Internet gaming is the ease of access, which can allow a person to play at anytime from the comfort of their home. This ability gives rise to problem or compulsive gambling concerns. These concerns are addressed in the Northern Territory statute by a provision which allows a player to place a limit on the amount wagered, by game, time period, or otherwise, and that limit cannot be changed except on written application after the lapse of seven days. Furthermore, a player or anyone with a close personal interest in the player may place a player on a list of persons prohibited from gambling.

Another way both money laundering and problem gambling concerns can be addressed, and this was mentioned earlier today as well, is the mandatory imposition of betting or loss limits, such as those that exist in several states that have riverboat gambling, where no one can bet or lose more than a certain amount a day.

Another principal concern with Internet gaming is underage gaming, how to prevent minors from opening accounts or accessing their parents' accounts. In addition to requiring proof of age to open an account, the Northern Territory law provides that a casino must make available software to be used by a player that will enable the player to restrict or prevent access to the site from the player's computer by a minor. There are several commercially available software programs in use today that are designed to filter use of the Internet by children. They were also mentioned earlier today. Two of them are Netnanny and Cyber Patrol.

Certainly, in certain ways, Internet gaming is more difficult to regulate than live gaming. However, in certain ways it is easier to regulate than

live gaming. With Internet gaming, every bet and every payoff is recorded. That is not true with live casino gaming. The recordation of such data makes it much easier to prevent and detect cheating. Physical theft of assets and human error are less likely. The more common forms of cheating in live casinos, such as manipulating cards or a slot machine, are not possible with Internet gaming. On the other hand, other forms of cheating based on the technology will certainly be found.

MR. CASIELLO: I think one of the natural questions you have to ask from the legislative position is, if we prohibit Internet gambling, can we successfully enforce it? I think the Florida Attorney General said it best when he said, "Resolutions of these matters, and matters being illegal gambling on the Internet, must be addressed at a national, if not international, level." But the Internet for the first time in, perhaps, the last 50 years, is something bigger than the United States.

Governments throughout the world may want to deal with issues of international enforcement of things like bank fraud, consumer fraud, child pornography, copyright infringement, and the like. Yet, the likelihood that we'd ever have an international treaty that can or will address the Internet gambling is questionable, because government attitudes throughout the world, as we've already seen, vary so greatly on the subject.

For example, any attempt by the United States, which recognizes \$54 billion a year in legal gambling revenues, to tell a small Caribbean island that they should not legalize Internet gambling and receive a few million dollars in revenue will likely fall on deaf ears. This is not even accounting for

what I consider to be those very, very significant divergences between countries on the first level, such as Australia and the United States.

We're seeing in the legislation that Nick talked about -- different approaches. And approaches are basically to try and figure out how you disrupt the commercial transaction between the player and the casino because the player is immune or is not guilty of any crimes. The operator is basically immune from prosecution. The Leach legislation in the Congress is probably the most interesting, because it tries to regulate the financial transaction providers, in this case the credit card companies. Will this have an effect if it went into effect? I think it would have a major effect on the short term on Internet gambling.

And as I mentioned earlier today in my presentation, the future of Internet gambling isn't credit cards. It's E-cash. And it's anonymous E-cash, which by the year 2005 or 2006 will be the dominant method of placing wagers over the Internet. What else can they do other than try to handle the financial transaction providers?

The second avenue is to regulate the Internet service providers. This is the crux of the Kyl Bill, that basically, law enforcement can request and ultimately enjoin ISPs from providing services through their Internet service provider to these Internet gaming sites. The great problem you have with that is that you have to have a very dedicated force of government employees who are identifying all the Internet sites, and then you have to necessarily make requests on each of the Internet service providers. And while there are probably 10 major Internet service providers in the United States, like AOL, EarthLink, and things like that, there are literally thousands and thousands of

ISPs. So you end up in a cat and mouse game where you tell AOL to stop service to a particular site. That site is going to move to a different site. Then you have to find that and tell AOL to do it again. But not just AOL, AOL and the thousands of other ISPs.

The third avenue is to regulate advertising on the Internet and other media. I think it's easier if you look at it from a print media standpoint because print media has to actually enter into the physical boundaries of the United States to be distributed. And in fact, Florida Attorney General Bob Butterworth sent out notices to a number of magazines that were carrying Internet gaming advertisements, telling them if they continue to do so into the state of Florida, that he would prosecute them for aiding and abetting illegal gambling transactions. And that might have some effect, because it's the actual physical presence of the United States. When most of the advertising for the Internet gambling occurs on the Internet, it occurs in banner advertising. It occurs in links and other types and methods to get people to come to the site. Those sites are probably outside the United States and also outside the jurisdiction of prosecutors to prosecute.

I think the fourth avenue would be to try to regulate the search engines, the Yahoos of the world. This has not been suggested by any legislation or tried by any prosecutors. And again, because most of those search engines are in the United States, it may have some impact until the Internet operators figure out other ways to direct people to their sites.

So, at the end of the day, I think the policy choices left to the U.S. government are not so clear as whether to allow or disallow land-based casinos. Internet is a place where government can't entirely prohibit gambling activities

in their own backyards, their family rooms, and their bedrooms. I suggest the most dangerous thing government can do in the United States is to prohibit Internet gambling, to take little or no efforts to enforce the prohibition. In this instance, the industry, like the illegal sports betting industry in the United States, will flourish. But the industry by definition will be controlled by criminals. When gaming is illegal but tolerated, it comes with the loss of accountability. As freely as persons can offer slot machines to the Internet masses with impunity, so can the Internet criminal cheat the naive and the other side of the information superhighway again with impunity.

Thank you.

MR. CASIELLO: In closing, I'd just like to note that, if this Committee determines that it desires to pursue the legalization and regulation of Internet gaming, there are at least three major legal issues which need to be addressed: One, Federal law would have to be clarified and probably amended to specifically permit the activity; two, the question of whether an amendment to the New Jersey Constitution is necessary or desirable to permit the activity; and three, an effective regulatory system would have to be developed.

Thank you.

ASSEMBLYMAN AZZOLINA: Thank you very much. We'll hear from you a little later again.

Now I'd like to introduce J. P. Suarez, New Jersey Division of Gaming Enforcement, and Jim Hurley, Chairman, New Jersey Casino Control Commission. Jim and I served in the Legislature many years ago.

Jim, welcome.

**JAMES R. HURLEY:** Thank you, Assemblyman.

**JOHN PETER SUAREZ:** Thank you, Mr. Chair.

Mr. Chair, members of the Committee, as a representative of the Attorney General of New Jersey and the Director of the Division of Gaming Enforcement, one of the two State agencies charged with regulation of the casino industry, I'd like to thank you for the opportunity to appear before you today to address the important issue of Internet gambling in New Jersey and perhaps to be one of the killjoys.

ASSEMBLYMAN AZZOLINA: Kill what?

MR. SUAREZ: One of the killjoys, because I will perhaps offer a contrary view. Before I outline the potential problems with Internet gambling, and there are many, I must briefly address the current legal status of Internet gambling in New Jersey. And I recognize that you just heard from Anthony Cabot and Nick Casiello, and I'm sure that their legal opinions are well researched, but I need to clarify.

The New Jersey Constitution prohibits the Legislature from authorizing gambling unless the specific kind, restrictions, and control thereof have been approved by public referendum. And for that premise, I cite the New Jersey Constitution, Article 4, Section 7, Paragraph 2. The question put by Assemblyman LeFevre is exactly correct. There must be a constitutional referendum in order for Internet gambling to be permitted in New Jersey.

The constitutional prohibition is reenforced by our criminal code, which prohibits the promoting of unauthorized gambling, and that could be found at New Jersey Code Section 2C:37-2, and by our civil laws which also ban any form of unauthorized gambling, and that can be found at New Jersey Code Section 2A:40-1. As an unauthorized form of gambling, Internet

gambling is clearly prohibited under existing New Jersey law. On the Federal level, much reference has been made to the Wire Act. And indeed, the Wire Act prohibits the use of the Internet and other mediums of communication to transmit bets or wagers on any sporting event.

Another statute, commonly referred to as the Sports Protection Act, which can be found at 28USC, Section 3702, makes it unlawful for a governmental entity to authorize or license any type of gambling on sporting events. In 1992, I believe it was, New Jersey had an opportunity to exempt itself from the reach of this statute and chose not to do so as a matter of its public policy. Since the vast bulk of current Internet gambling reportedly involves sports betting, and I have heard, in my conversations with representatives from the Internet gambling industry, that as much as 75 percent of their revenue comes from wagering on sports books, any attempt by New Jersey to authorize such betting would constitute a violation of Federal law.

Whether the gambling on casino-style games or other types of casino-style games is prohibited is perhaps not as clear. With this, I must agree with Mr. Casiello. The Kyl Bill, however, has passed the United States Senate, and a similar bill has reported favorably by a committee in the House of Representatives, and those bills would prohibit and criminalize almost all types of Internet gambling. Such legislation, which had been recommended by the National Association of Attorneys General, including the Attorney General of New Jersey, has been endorsed both by the National Gambling Impact Study Commission and the Public Sector Gaming Study Commission. If such legislation is passed by Congress and enacted into law, any attempts by New

Jersey or any other jurisdictions to authorize such gambling activity would also be rendered a nullity.

Under these circumstances, it is my belief that consideration of the feasibility of authorizing and regulating Internet gambling in New Jersey seems, in a word, premature. If we are assessing whether any attempt to prohibit or minimize Internet gambling will necessarily be futile, as has been advocated by others earlier today, the very nature of that premise has yet to be demonstrated. Simply stated, there are many things that New Jersey can do and more things the Federal government might do to restrict or prohibit Internet gambling. In fact, as Mr. Cabot just alluded to, a bill has already been introduced in the United States House of Representatives which would ban the use of most financial instruments for the purpose of Internet gambling.

One of your speakers earlier today said that credit cards are the lifeblood of the Internet gaming industry. With that premise, I most assuredly agree. Insofar as the potential problems with Internet gambling are concerned, they do arise primarily as a result of the way the gambling experience at an Internet casino differs from a gambling experience at a real brick and mortar casino, such as those we have in Atlantic City.

For example, consider the issue of compulsive or problem gambling, which has been referenced earlier. In Atlantic City, the physical presence of a person who may not be gambling responsibly provides some opportunity for identification and intervention at the point of contact with casino personnel. Existing regulations give problem gamblers a means of precluding themselves from receiving credit from casinos, and in the very near future, we hope to propose regulations which would allow problem gamblers

to voluntarily exclude themselves from casinos with a simple and quick procedure.

On the Internet, a problem gambler can gamble unseen and undetected, day or night, at over 850 different casino sites without ever leaving his or her house. This, in our view, greatly increases the possibility of wagering beyond his or her means. In fact, the Council on Compulsive Gambling of New Jersey has already had calls to its 800-GAMBLER help line from compulsive gamblers who have been involved and hurt in Internet gambling.

In Atlantic City, significant resources are also devoted to detecting minors who may be present on the casino floor and at preventing them from gambling. On the Internet, preventing minors from gambling will be a much more difficult, if not impossible, task to achieve. Even well-intentioned mechanisms, such as nanny check, or the ones that were referred to today, may not be effective against computer-savvy minors, particularly those with access to their parents' or their own credit cards.

In addition to those concerns, we must address the integrity of the games themselves. In Atlantic City, casino regulators check and monitor all casino games to make sure they are honest and offer patrons a fair chance of winning. For example, New Jersey statute requires that any slot machine on a casino floor to have been tested and approved in our lab, to have an 83 percent payout during its cycle, and to offer customers the possibility of winning on every play, and to have a display that accurately reflects what is going on inside the machine. Once approved, a game is secured with tape to prevent anyone from tampering with the internal controls. All gaming transactions are monitored, surveilled, and recorded so that a very accurate

audit trail can be maintained and reviewed in the event any question arises regarding the gaming experience.

By contrast, because of its completely computerized nature, Internet gambling presents many obstacles to an equally effective regulatory mechanism. I respectfully suggest to this Committee that before any legalization of Internet gambling is undertaken, consideration be given to the following issues which are of utmost importance to the integrity of the casino gaming experience. How will regulators be able to assure themselves that a prototype gaming that is offered on the Internet, and its gambling computer program, is fair to bettors and complies with all the regulatory requirements? If we are able to assure ourselves that a prototype meets our standards, how will we be able to assure that the bettors themselves are actually operating the same prototype game that was approved? How will regulators be able to assure themselves that the prototype, or the game that's being played, is safe from tampering or hackers? Will regulators know whether such tampering has occurred? If it has, how will we deal with it?

Can a fair, effective, and convenient dispute resolution procedure be made available to bettors? How will regulators be able to "recreate" or audit gambling transactions that have already taken place? How can we assure ourselves that computerized records furnished by the operator have not been altered? How will the Internet gambling operation address the issue of problem gambling and underage gambling? How will the Internet gambling operation effectively screen out bettors from jurisdictions that prohibit Internet gambling?

Will the Internet gambling operation protect the confidentiality of better financial information from internal or external misuse? Will the Internet gambling operation avoid being used as a vehicle for money laundering and other financial crimes? How can we assure ourselves that we are receiving the amount of tax revenues that would be due to us? And finally, and perhaps most importantly, will effective sanctions be available to ensure compliance with any regulatory requirements of law that are opposed, and what will be able to be done to punish any deviations from the regulatory model?

Some jurisdictions which currently license Internet gambling are apparently prepared to settle for no answers to the questions that I have put and are prepared to acquiesce with substantially less-effective regulation. What some of these jurisdictions do is essentially license an operator for a fee and then simply rely on the operator's license status to ensure compliance. In New Jersey, that approach is being deemed insufficient for the purposes of casino regulation, which for 23 years has served as a model for emerging gaming jurisdictions around the world. Our games are universally acknowledged to be fair. No winning wager in New Jersey has ever gone unpaid, and the highest standards of integrity have been maintained in all aspects of casino operations. We should accept nothing less with regard to Internet gambling.

Any scandal on the Internet involving gambling has the potential to undermine confidence in all forms of legalized gambling in New Jersey, particularly casino gambling, which confidence we have worked so hard and long to achieve. Even if our casinos agreed to submit to some regulatory model

given the flexibility and reach of the Net, a nonregulated operator could easily set up a site and attract customers. And if an unregulated casino defrauds its customers, the burden will be borne by the reputable companies. The reputation of legitimate companies will be damaged, and public confidence in gaming will begin its inexorable decline.

In addition to the significant concerns about protecting unwitting consumers and preventing criminal activity, a simple look at the ways our fixed land-based casinos have an impact on the host community, region, and state, shows that the benefits they bring far outweigh the benefits, if any, offered by Internet gambling.

Atlantic City casinos have invested billions of dollars in their facilities in New Jersey. They have created over tens of thousands of jobs, stimulated economic and physical development around the state, and paid millions of dollars in taxes, which go into a fund to support senior citizens and the disabled. Penalties collected from casinos provide funding for programs to assist problem gamblers. Of course, the legalization and regulation of Internet gambling in New Jersey might indeed generate some tax revenues. However, whether legalized Internet gambling would cannibalize other legal forms of gambling in New Jersey, and whether tax revenues alone constitute an effective substitute for all the ancillary economic benefits provided by our existing forms of legalized gambling, are issues which I submit must be addressed.

I submit that this Committee should also consider whether legalization of Internet gambling would serve as a disincentive for any outside interest that might be weighing an investment in the existing casino industry in Atlantic City.

Let me conclude where I began, by expressing my view that legalization and regulating Internet gambling and discussion regarding that is premature at this point in time. Existing Federal law will not allow New Jersey to authorize Internet sports betting. And Internet casino games may well become prohibited by pending Federal legislation. For the time being, I believe that prohibition is our best, if not our only, realistic option. Let me state, however, that if prohibition proves to be ineffective and sufficient regulation appears to be technically possible, I would be the first to urge that the regulation option be reconsidered. Until then, legalization and regulation of Internet gambling in New Jersey is an idea whose time has not yet come.

Thank you very much.

MR. HURLEY: Mr. Chairman, members of the Committee, I want to thank you for the opportunity to testify here today on the issue of Internet gambling.

The issue of Internet gambling, obviously, by virtue of your very presence here today and your calling of this meeting, is a complex one. But as I see it, this Committee has to ask several questions. Is Internet gambling legal, and can it be made legal? Can Internet gambling be regulated? And do the positive impacts of legalizing Internet gambling outweigh the negative impacts?

I don't want to dwell on the legal issues here. You've had a variety of other speakers, including the panel immediately before this one, that have discussed the legal issues. My colleague, Director Suarez, has talked about the legal status of Internet gaming, and I will say here that I agree with the legal interpretations that are set forth by the Attorney General's Office.

Can Internet gambling be regulated? That depends on your definition of the word regulate. Right now, gambling over the Internet is illegal. It is effectively unregulated, and as a result, inherently unreliable. If you set up an account and gamble on-line, you have no assurance that the game is fair and that if you win, you will be paid. If you play blackjack or poker on-line, how do you know if there are 52 cards in the deck or that you have an equal chance of drawing any card?

I testified last year before the United States Senate Subcommittee on Technology, Terrorism, and Government Information in support of what is commonly referred to as the Kyl Bill. In my testimony, I detailed how New Jersey regulates casino gaming. And I indicated that Internet gambling simply cannot be regulated like the bricks and mortar casinos can be.

We license every casino employee, all the executives, owners, and directors. All of those people are subject to exhaustive background investigations into not just any criminal history, but into their business history and their financial history. We also do the same thing for every company that does business with casinos, whether they are selling casino slot machines or saltines. Can we do that for an Internet gaming site? We probably can, but comparatively, that would be the easy part of regulating an on-line casino.

Under the Casino Control Act, we are present in casinos around the clock to certify revenues and accept patron complaints. We have inspectors who are in the count rooms. We have systems in place that prevent casino operators from getting their hands on winnings unless our inspector is there to ensure that all of the revenue is properly counted and accounted for. When a casino collects the bucket of coins from under a slot machine, our

inspector is there. When the cash is counted in the soft room, our inspector is there.

With a real slot machine, you can tell from meters and computer systems how much money supposedly went into and out of each machine. But we also have a way to independently verify that, by looking at the actual coins that are taken out from under the machines. That gives us a check and balance, an audit trail, so that we know how much the house won and how much the casino owes in taxes. If you gamble on the Internet, there is no hard coin to count, no dollar bills, just electronic impulses. And they are impulses that come through one source. If that one source is disrupted or interrupted or if it somehow is compromised, there is no independent way to verify what happened.

Can you get software that checks and rechecks data, that repeatedly performs diagnostic checks, that automatically repairs any glitches and notifies you of any problems? You probably can. Can you develop a system that is 100 percent foolproof? Can you find one that can guarantee that it will always capture every transaction? You probably can't. You have to decide how great a margin of error you are willing to accept and how much potential tax revenue you are willing to forego.

Certainly, if New Jersey were to legalize on-line gambling and perhaps permit existing casinos to operate a virtual casino, all of the computer equipment needed -- the server, all of the programs, and any other hardware and software -- should be located in New Jersey. That way it could be monitored and inspected to ensure compliance with whatever regulatory system can be put in place. Committee members may recall that we were

concerned at the Casino Control Commission about simulcasting legislation that would have permitted tracks to use hub facilities that were not in New Jersey for that very same reason.

Would the positive impacts of Internet gambling outweigh the negative impacts? As many of you know, I spent more than two decades here and in the Senate. Like you, I spent a lot of time trying to establish and to shape public policy. I was here in 1976 and 1977 when we debated the pros and cons of legalizing casino gambling. And out of those debates came a policy that we would accept casino gambling in New Jersey as a unique tool of urban redevelopment.

The people of the state were promised that casino gambling would create jobs, balance taxes, boost the economy, and reduce street crime. We have copies of the campaign brochures, by the way, from 1976 that spell out those promises. The casinos in Atlantic City, in varying degrees, have done what was promised. They have created at least 47,000 direct jobs, with a payroll of over \$1 billion a year. They have balanced taxes in that they have invested more than \$6 billion in Atlantic City, and they now pay about 80 percent of the real estate taxes there. They boost the economy because casinos spent about \$1.5 billion last year buying goods and services from companies right here in New Jersey. They also have boosted the economy by subsidizing the cost of prescription drugs and through other programs that you have enacted that improve the quality of life for seniors and people with disabilities in every single county of this state. Finally, when you adjust crime statistics to take visitors into consideration, the crime rate in Atlantic City is lower than it was prior to the introduction of casinos.

Supporters of casino gambling in 1976 formed what was called the Committee to Rebuild Atlantic City. Take a look around Atlantic City today, and you will see that it has been dramatically rebuilt by casino gambling. Entire neighborhoods have been rebuilt. Thousands of new homes have been constructed, along with a host of new attractions that are making Atlantic City a more attractive place to live, to work, and to visit. And the benefits haven't been confined to Atlantic City. Casinos have helped to build houses, day care centers, entertainment facilities, and certainly sports centers around the state. Casinos provided part of the financing for the baseball stadium right here in Trenton.

Those benefits, the potential good that can come from casinos, were seen as outweighing the real or the perceived negative impacts that some people saw in casino gaming.

When it comes to setting a public policy on Internet gambling, you have to make a similar assessment, in my view, of the pros and cons. If you measure it against the goals set for Atlantic City casinos, Internet gambling comes up short. It takes just a handful of people to run an Internet gambling site, so it's not going to create a lot of jobs. An Internet casino doesn't have a hotel, restaurants. It doesn't buy carpeting, wall coverings, french fries, or foie gras, so it won't have a rollover effect in the state's economy. It's hard to say that it would have any impact on street crime. Finally, it can be used to raise tax money.

Can that offset the potential negative impacts? If you examine those potential negatives, I think they would be hard to offset. Look, for a moment, at the issue of underage gambling. A staff member was telling me last

week about getting a credit card offer for his 16-year-old son. What is there to prevent that 16-year-old from setting up an account on-line and gambling? Virtually nothing. There are sign-in screens where players have to hold up their right hands and swear that they are old enough to play. You know how big an obstacle that would be for a 16-year-old. Some sites may require you to send a photocopy of your driver's license when you set up an account in order to prove how old you are. We all know that teenagers never try to get counterfeit licenses or other documents to show they are older than they really are. (laughter)

In a casino, there is a constant stream of employees who are supposed to look at players and make a judgement whether they are old enough to play. An underage gambler can get into an Atlantic City casino, but every employee is supposed to be watching to detect underage players. An underage gambler can get into an on-line casino, but once he or she is there, no one can look at his or her face and assess whether the player is of age. An underage gambler can sit at home, behind a closed door where parents can't see, and then gamble away for hours and possibly get hooked.

Then there's pathological gambling. I don't know if gambling on the Internet exacerbates the problem of pathological gambling, but I know that the government of Australia believes it does. The Federal government there wants the states to accept a moratorium on new Internet gambling sites. States there, looking perhaps more at the revenue they can get from it, are balking. I know that some of the sites limit the length of time a person can play, but not all of them do. And there is nothing to prevent someone from switching to another site when the time is up on one. Most of Atlantic City's casinos

have programs that help identify problem gamblers. They can watch for changes in a player's patterns and in his or her personality for hints that the player is in trouble. How can an Internet casino judge a player's demeanor or determine if there's a gambling problem?

In conclusion, let me say that I know we will not be able to eliminate Internet gambling. But that isn't justification alone to legalize it. When you take all of the factors into consideration, it would appear that the negatives of Internet gambling currently outweigh any potential benefits. You can have some level of regulation or control over these virtual casinos, but you cannot get the same benefits that New Jersey gets from real ones.

Thank you.

ASSEMBLYMAN AZZOLINA: Thank you very much.

We have one more speaker, then we'll have the questions from the Committee, here, to the panel.

We have compulsive gambling issues by Ed Looney, New Jersey Council on Compulsive Gambling.

**EDWARD J. LOONEY:** I have, Mr. Chairman, some giveaways I'm just passing out.

ASSEMBLYMAN AZZOLINA: Go ahead. Candy or what?  
(laughter)

MR. LOONEY: A lot of statistics. You've heard a lot of statistics. I'd like to just give you some information about people that were going to be affected by, possibly, this kind of gaming.

Before I do that, I was going to tell you that the Council is a private, nonprofit organization that started in 1982 at the behest of the Health

Department, because there were problems in our state due to gambling and there was actually nobody doing anything about it. We do get some funds from the State. We get some funds from corporate America, but basically, we do an outreach -- prevention, education, and referral services. We have the 1-800-GAMBLER help line, which is a respected line. All the gaming entities use that. We also have a Web site that is probably a premier Web site for compulsive gambling information anywhere. We get between 40,000 and 50,000 hits a month from people looking for information about compulsive gambling.

We talked about public policy. I just want to give you briefly a little history about the tremendous amount of gambling that's going on in our state right now. We had no gambling at the turn of the century, but in 1939, the first form of legal gambling anywhere in our state was pari-mutuel gambling. We now have four racetracks, and last year people lost \$1.1 billion betting on horse racing events in our state. In 1953, we legislated bingo, which is a charitable, little, docile kind of gambling. Today we have 20,000 bingos licensed in the State of New Jersey. Nine percent of our calls last year came from bingo players. In 1970, we legislated a lottery with a 50 cent ticket, which was twice a week, and it was going to be a docile kind of gambling. Today we can walk into agents' stores and there's actually 44 different kinds of games, from scratch-offs to Pick 3s, Pick 4s, Pick 6s, all these different kind of games in one day, every day.

Casino gambling started in 1978 with one casino. Last year in our State of New Jersey, \$44 billion was bet by people having some good times and trying to win some money. After they divvied up and paid all the winners,

there was like \$4.2 billion that was divvied up between 12 casinos. If we add up all the legal forms of gambling in New Jersey last year, it comes over \$7 billion. If we looked at all of America last year, all of America, it was \$58 billion was lost by all of America in legal forms of gambling. In our little state here in New Jersey, \$7 billion was lost. So if you look at the percentage, it's way over 10 percent of the whole United States.

On site visits to about 35 to 50 high schools that we go a year and about 20 colleges-- I can tell you, gambling is pervasive at every high school. It is epidemic in colleges. Kids gamble on racetracks. They gamble on lottery tickets. They even gamble in the casinos, and I know Mr. Suarez is doing a tremendous job trying to stop the tremendous amount of kids that even get on the casino floor. Last year, 39,000 kids got on the floor and had to be ejected. They arrested about 330 of them for doing some kind of activity.

That's not what they like to do, though. Kids like sports betting. That's the No. 1 form of problematic gambling in high schools. At the college level, I did say it's epidemic. Bookmakers are alive and well. I can tell you one -- I can throw a rock and hit one of the campuses that I spoke with -- 32 kids in a dorm, 10 different bookmakers -- illegal bookmakers available in that one dormitory -- epidemic proportions. Sports betting is the No. 1.

Researchers state that adolescents have a higher addiction rate than even the adult population. And that's not only in New Jersey, it's in about seven different states that have done studies. It's higher.

The addicted gambler, the compulsive problem gambler goes through three stages. They win at the beginning, then they lose, and then they have what they call the desperation stage. In the desperation stage, they do

two things that again impact society. They do illegal activity. Ninety percent, not eighty percent, ninety percent will do something illegal. White-collar crime is rampant in our state. Corporations are being ripped off by compulsive gamblers who are in that desperation stage, and they need money to gamble.

The other thing is that there's high suicide ideation. Compulsive gamblers commit suicide way higher than any other kind of addicted folks. We're putting on a conference in September tying in pathological gambling with suicide. It's the first one that's ever been done to tie the two together, because we know that's a tremendous amount. Seventy-eight percent of recovering compulsive gamblers said, yes, they thought of suicide. Forty-nine percent said they planned it. Thirteen percent who answered the survey said they attempted suicide. So we know the suicide rate is tremendous.

There are no curriculums, by the way, in any schools for our 1 million children. One million kids go to school in this state. We have the biggest gambling state of all the country, the whole country, and there's no curriculums in our state. That is a joke.

Let me talk about Internet gambling. We get calls. We started to track the Internet calls. We don't get a lot of calls yet, believe it or not, because there's no credit involved. When you involve credit with compulsive gambling, you exacerbate the problem. You bring people to their knees very quickly, and then people call us right away. But if the people have to put money up front, it doesn't happen. Six-tenths of 1 percent called us in 1997. That represented 40 calls of Internet gamblers who are in trouble due to their Internet gambling. Last year it jumped up to 1 percent. We have about 80 people to 90 people call us with problems with Internet gambling.

I can tell you that the first call that we got, and it was unbelievable. It was a college student. I think he was about 20 years old. Mother called us and said that, "Oh, my God, my son has maxed out my husband's credit cards, three credit cards." She said, "I don't know what to do. Can I get help for my son?" That was the first question. "It is illegal?" That was the second question. And, "Can I get my money back?" That was the third question. That was a first call.

I personally drove Bob, 36-year-old fellow, who is also an alcoholic, but he got involved in Internet gambling, to an inpatient rehab in state of New Jersey. He had tried suicide. He was desperately-- He was depressed, and we got him into New Hope, and he was able to deal with his addiction. He lost all his money. He lost his wife. He was a baseball bettor on the Internet, 36-year-old.

Computer gambling-- I just want to brush over this, Mr. Chairman, but we have a new kind of gambling. It's called stock market day traders. They're starting to call our help line. Day trading, which is legal -- we're doing an on-going survey on our Internet site, and we're finding out that 14 percent of the people that do legal Internet day trading, also, 14 percent of them are Internet gamblers. So that's interesting. If you have expertise in computers, the next step is to jump right into that. I won't give you the story about the mother who lost \$100,000 in six months trying to augment some extra money for a college education. That's nothing to do with this particular session, but sometimes when we talk about the Internet and we talk about the stock market gambling, we can talk about that. Or the 27-year-old kid that

lost \$40,000 and was ready for suicide and happened to see our ad, and he called us.

The impact of gambling is profound. I just want to briefly talk about that. Divorce courts are loaded with people who have gambling problems where the wife looks for support, looks for relief, and gets divorces. We also have bankruptcy. Bankruptcy is another issue that we're talking about. Oh, bankruptcy doesn't -- compulsive gamblers don't do. An independent study, two years ago, in your packet there's an overview, which indicates that, in 1997, they stated that gambling is the biggest driving force of bankruptcy. Independent study, done by banks, nothing to do with anybody, nobody had an ax to grind. Happened to have that in Atlantic City -- that year had 71 percent higher bankruptcies. Interesting, if you have a casino environment, people around that gamble more there. Will they get affected? We're finding that that possibly is true. And we're looking all over the country. We don't know if it's not in stone, but that's some of the facts that we have.

Cost of corporations and companies that employ compulsive gamblers, employee theft, white-collar crime, talked about attorneys and trust accounts, I can go on and on -- all the types of involvement in that desperate stages that happen.

Talk about the prisons real quickly -- State of New Jersey, we have 30,000 people in the State of New Jersey. We did a survey. We asked a question, "Did you ever do anything illegal in order to get money to gamble?" Just a blank little survey -- 25 percent to 30 percent of them said, two different prisons, "Yes, I did." Are they compulsive gamblers? I don't know. They're

not going to get any help in prison. They're going to come out and they're going to do more criminal activity, because they're going to stay with gambling. So we have to do some more work there.

The cost -- and I'll just end it up with this -- good public policy should include sufficient money for prevention, education and treatment, and responsible gaming policies for those offering Internet gambling. None of these are in place, not even the people who are doing it now. We've offered many suggestions in your packet. They are some suggestions about what Internet companies could start to do to help the compulsive gambler. In all honestly, I would like to just say it would be unconscionable to legalize Internet gambling until these were put in place.

Thank you, Mr. Chairman.

ASSEMBLYMAN AZZOLINA: Thank you.

Is the panel all here? Some more, I think, have to come up. Will the rest of the panel please come on up?

Okay, let's start from right to left.

Assemblyman, do you have any questions?

Mr. LeFevre? (no response)

No.

Do you have any questions?

ASSEMBLYMAN GREGG: Sure.

ASSEMBLYMAN AZZOLINA: Go head. Be nice. Be nice.

(laughter)

ASSEMBLYMAN GREGG: I got all sorts of questions.

Welcome, and thank you for your information today.

Thank you, Mr. Chairman. And through the Chairman, I do have a couple of questions, and the first ones may not necessarily have a targeted person, so feel free if you can answer first.

The first question is, is there any state in the country that has either made Internet gambling of this nature illegal or legal?

MR. SUAREZ: Second part first?

ASSEMBLYMAN GREGG: Your choice. Your choice, through the Chair.

MR. SUAREZ: No state has made it legal. And I believe it's four states have specific legislation that would specifically make illegal, wagering on the Internet.

ASSEMBLYMAN GREGG: I think the premise of my questioning and some of my thoughts, and I've heard both sides of your points of view and I think they've all been articulate and interesting, but it does appear that we as a state really have only one important question to ask, which is, what's the best thing for the citizens in the State of New Jersey? From there, then we have to do what we need to do as legislators to make that so. And if that is from the Federal side and from the State side, that's the first place I think we need to go. I'm somewhat interested in some of the comments of what we can do and what we can't do and what's happening.

If I could ask, what today -- and I think this goes to Mr. Suarez as well -- what is the crime of gambling on the Internet in the State of New Jersey today?

MR. SUAREZ: There are--

ASSEMBLYMAN GREGG: As a gambler first?

MR. SUAREZ: As a gambler, okay. There are a couple of things you can run afoul of. One of the things that you could run afoul of under New Jersey law would be essentially illegal gambling or going to a gambling resort. Under Title 2C, there is a defense to placing -- to being a mere gambler for a prosecution for illegal gambling. So in other words, if I were gambling through my bookie and I were just a mere gambler and I wasn't facilitating, I wasn't collecting wagers, it's illegal conduct, but I have a defense to a prosecution. That's the state for the gambler, the John Q. Public who's out there that engages in illegal conduct. Their winnings are not collectible. They're, indeed, forfeitable, but they have a defense to a prosecution under New Jersey law if they are merely gambling and not doing anything to facilitate the gambling experience.

ASSEMBLYMAN GREGG: So, from a gambler through a bookie, there is no crime. There will be no prosecution. There will be nothing on their record, but they stand to lose what they've wagered?

MR. SUAREZ: For the gambler, that's correct.

ASSEMBLYMAN GREGG: I'm going to stay with the gambler all through the questioning for a second.

MR. SUAREZ: Yes.

ASSEMBLYMAN GREGG: Now, I'm sitting at my home and I'm on my computer and I dial up Australia and I gamble with an Australian Internet gaming facility. Today, what crime would I be guilty of in the State of New Jersey, as a gambler?

MR. SUAREZ: You would have violated the Wire Act, which is a Federal law -- 1961, I think it is. You will have violated-- Well, you would

have violated the Wire Act. You would have violated 28 USC 3704, which makes sports wagering illegal. So again you would be subject, in that context, to civil or criminal penalties. If you did that, you would have violated New Jersey's Constitution, and you would be subject to civil proceedings against you if they were to be initiated to the extent that you had--

ASSEMBLYMAN GREGG: I know I see someone about to jump on that, Mr.--

MR. CABOT: Cabot.

ASSEMBLYMAN GREGG: Yes, Anthony, but before you do, I did not mean sports gambling. So if it was not sports gambling, would that preclude the Federal issue?

MR. SUAREZ: It may take out the second Federal issue regarding the Sports Prohibition Act, in my view. Dare I say, my view happens to be consistent with the 2nd Circuit right now. That would still be a casino-style game which still violates the Wire Act. While there is admittedly some ambiguity as to whether or not a casino-style game violates the Wire Act, no court has yet found that the Wire Act does not apply to casino-style wagering.

ASSEMBLYMAN GREGG: Mr. Cabot, would you care to, through the Chair, comment?

MR. CABOT: Yes. With all due respect to the Director, under the Federal Wire Act, 18 USC 1085 (*sic*), it says, "whoever being engaged in the business of betting and wagering who uses a wire communication to transmit a bet in interstate or foreign commerce is guilty of a crime." You have to be in the business of betting or wagering. It does not prohibit, and it does not penalize the player. And in fact, the Kyl Bill, the original Kyl Bill, would

have taken that language out and would have penalized the player if it would have been passed, but even Kyl removed that from the bill at the urging of the Justice Department because they didn't want to go after the \$5 player.

The second thing is the Amateur and Professional Sports Protection Act. All that really says is that, "no state shall authorize any scheme whereby you can place a wager on an amateur or professional sporting event." It does not penalize the player either.

ASSEMBLYMAN GREGG: So, in essence, and the point of my questioning, is that there really and truly is no penalty for a gambler to gamble on the Internet, and the likelihood of their prosecution is virtually not going to happen. Would that be appropriate?

MR. SUAREZ: I think that they are not going to get prosecuted, but yet the penalty could be-- Again, it's an illegal event. And so again, you could have civil proceedings, and again, either -- we could track proceeds or winnings. You wouldn't be able to try to collect that debt if somebody was not paying, because it's an illegality, but as for criminal prosecution, the gambler will not get prosecuted.

MR. LOONEY: Excuse me, could I just say one thing? One of the states that did-- They said something about confiscating that piece of equipment that were used in that illegal activity. So that's something else that is behind the scene. Much like the gambler you talked about before -- I know a little bit about the sports bettor and the bookies, because I deal with them a lot. I can tell you that the gambler that gambles with a bookmaker most times gets prosecuted because they tie in this conspiracy to be involved in their illegal

activity. And if they don't pony up and tell everything they know, they'd be charged. It's amazing what they do. So I just wanted to shed that to that.

ASSEMBLYMAN GREGG: No. And I thank you for that. I can also assume that we have no jurisdiction over the country of Australia, so what they do or what the Caribbean countries do is out of our control, and I assume that that is correct. So, in essence, what we have here-- And one of the larger looming problems is our citizens, specifically in New Jersey and in the rest of the country, can interact today on a vehicle and gamble, and there really is nothing we can do. One side is saying that the answer to that is to open the floodgates, and the other side is saying that we're not ready to. Quite frankly, I'm not sure I want to jump on either side at this point, but I am comfortable that I do believe that there probably is some way to regulate better our own citizens. I'm not so sure that our citizens can't go to other countries and behave the way those other countries allow them to. If they wish to go to other countries and deal with things that are illegal in other countries, there's nothing we can do. However, when they're in America or in New Jersey, we can hold them to the laws of America in New Jersey. And I would hope that we're going to start looking at financial ways of, perhaps, controlling it.

I have another technical question, and I'm intrigued by it. I believe it was Mr. Cabot, also, that brought up the concept of E-cash. I must plead, as my ignorance of the Internet, even though I am a Net person now and I'm capable of getting on it, I've never heard that term. From what I've been told today, it concerns me as much as Internet gambling. If what you're describing is a pile of money that has no one attached to it on either end that the government doesn't know about, I really want to get into this business.

(laughter) Now, perhaps I'm misunderstanding that, but if that's what it is, I'm kind of sorry the Treasury isn't here today (laughter) because I would think that they're going to be very interested in knowing that there are these little blocks of money that just get deposited someplace that can anonymously be transacted like a safe deposit box. So, if anyone would like to comment and educate myself or anybody else on the Committee on that, I would be appreciative.

Feel free to jump out. Since the Chairman isn't here, I defer the--

ASSEMBLYMAN ASSELTA: Can anyone answer that question, through the Chair?

MR. CABOT: Yes.

Assemblyman, you're exactly right.

ASSEMBLYMAN GREGG: That's scary. (laughter)

MR. CABOT: The issue of E-cash has been something that has been very debated by the Federal Crimes Enforcement Network. In fact, they held a number of exercises to try to figure out how you get your arms around E-cash transactions. One of the scenarios that they used in one of their exercises was the fact that there's a great potential in five to ten years from now that when you go to buy illegal drugs, you will use a smart card. You will transfer E-cash to an electronic purse that the drug dealer has, and they will give you the drugs. And from that purse, the drug dealer can then electronically transfer his money to an offshore account. Very, very possible scenarios, particularly with E-cash, which they call peer to peer, which is the anonymous type of E-cash. It's that I have to go from my account to your account without having to be verified or checked by any third-party

intermediary. Very big concern on behalf of the Federal government and something they're looking at very carefully.

ASSEMBLYMAN GREGG: Through the Chair, does this exist today?

MR. CABOT: Yes.

ASSEMBLYMAN GREGG: I mean, there are entities that do this.

MR. CABOT: Yes. Most of the existing E-cash systems are not peer to peer. What they are is third-party intermediaries. So that if I was going to transfer money to you, it would have to be deducted from my account by my bank, and then credited to your account. Okay. In those type of third-party cases, the bank is actually monitoring the transactions. But there are friendly systems out there that are operational that you can do peer to peer, that don't have to go through a third-party intermediary, that I am transferring what is literally E-cash off of my computer on to your computer.

ASSEMBLYMAN GREGG: That is fairly troubling. I am going to defer my questioning to whoever else would like to ask questions, and perhaps come back for a second round.

ASSEMBLYMAN ASSELTA: Thank you, Assemblyman.

Assemblyman LeFevre.

ASSEMBLYMAN LeFEVRE: For the benefit of those who are freezing in the audience, this room is used as a meat locker. (laughter) It's not used for legislative sessions like this. We're trying to get the heat turned on or the air conditioning turned down a little bit.

As a lawmaker, and I should mention, some lawmakers like to look at polling to drive their decisions. I'm not saying that's my indication, but how

does this poll, how does Internet gambling poll-- I know *The Star-Ledger* always likes to run these polls on different issues -- day-to-day issues.

Does anybody have any idea? I'm sure I'm going to get two answers.

MS. SCHNEIDER: I haven't seen a whole lot-- I mean, what is out there tends to be-- For example, MSNBC.com ran stories on Internet gaming. They're running another series probably in June, and they've done polling. But then it's people that are just on-line that are responding, and I would think, in many cases, those folks may be a little bit more oriented toward being in favor of this. There really hasn't been a lot out there yet, and that's something that I think would be very helpful to have, actually, with the general public.

ASSEMBLYMAN LeFEVRE: I was just curious.

ASSEMBLYMAN ASSELTA: Okay.

Thank you, Mr. Chairman, and I'd like to thank each and every one of you for giving your tremendous insight here on this issue.

I want to focus in on, first, security kind of questions, and then the most important issue to me is the economics of the whole thing.

Mr. DiCarlo, your earlier presentation, you had up there security features. How much of that is voluntary and how much is that mandatory?

MR. DiCARLO: Well, I think, since there's no regulation right now, all of it is voluntary. And that's really where I think a state or a country has to step in and say these are the steps we want. I know that, unfortunately, Tony Fontaine is not here. He was the expert that spoke in Nevada, but there's a lot of security measures out there that can be implemented with the

current technology today. And it's a matter of a state saying you must have this just like the land-based casinos have with their machines and the testing that has to go through the labs and those kinds of things.

ASSEMBLYMAN ASSELTA: I'm moving my question to Director Suarez. Is that regulatory procedure applicable to Internet gaming?

MR. SUAREZ: In terms of reviewing?

ASSEMBLYMAN ASSELTA: Yes.

MR. SUAREZ: It's not right now because we consider it to be illegal conduct. We've never been called upon to review the security features of an Internet gaming provider, so I'm not familiar with the security protocols that are in place. But I can tell you, whatever security protocols are in place and regulatory framework that is in place, absent the provider be physically located here. There's technology out there that permits me to remotely access the provider so I can run an audit. I can do real-time monitoring of it, but all that presupposes that (a) I'm going to have the ability to do that and (b) that the person and the operator is going to agree to be subject to the regulatory oversight.

One of the things that I think is important when we talk about the security features, to be sure, an entity that wants to subject itself to a regulatory model would come to us with an open book and say, "We will submit to any regulatory model that's out there." What I believe will happen, and we're seeing it already, is that there will be a race to the bottom. When I impose a regulatory model that basically says to an operator, "Give me the keys to your computer, and I will control it once it's approved, because nobody can go in there and tinker," those that are going to try to do it legitimately, those

that may have licenses to risk in the United States, will do so, but many operators won't. And when those operators don't, there's nothing that's going to prevent a consumer from New Jersey to log on to that site. And there's going to be a race to the bottom to make sure that -- by some operators to attract consumers without the regulatory costs and burdens associated with complying with the regulatory model.

In Antigua recently, the minister of their gaming division proposed regulations that would do just that. She proposed regulations that would essentially put a device -- software, I believe it was -- on the computer games that would allow her regulators to monitor what's going on in the Antiguan casinos. Well, the collective howl from Antiguan operators could be heard across the Caribbean. They're fleeing Antigua and going to a more charitable location that won't require that kind of regulatory oversight. And those very same operators are marketing for American consumers and New Jersey residents. They are attracting that market share, and they are not willing to subject themselves to regulatory oversight.

ASSEMBLYMAN ASSELTA: Thank you.

MR. DiCARLO: If I could just add just one more thing on that. I think what's important to note here is that if the plan is to eventually regulate Internet gaming, I would only see it regulated for land-based casinos. This will be an extension of their property. So I don't see where there would be any issue of security. Of course, their servers would sit in their own casinos, so this would actually be an extension to their current product. It would be an augment to business, an add-on of their own business which allows them to grow. So I think some of the issues I heard today were really-- Maybe I

missed something or, I think, maybe they missed something, but the objective is to have the operator here in New Jersey and scrutinized under the New Jersey law. That would-- I'd definitely cover off all the security issues.

ASSEMBLYMAN GREGG: Real fast on a follow-up on that, Mr. DiCarlo.

But we can only regulate us, so if we determine to do it here, that has absolutely no effect on Australia, has absolutely no effect on the Caribbean. So as Director Suarez said that if we are the pinnacle of honesty, which I think New Jersey is in its casinos, quite frankly, and I commend them. It is certainly the model of earth when it comes to how to run casinos honestly. I'm not too sure Director Suarez was-- I think he was saying the same thing that I perceive, is that, as New Jersey does this and we have a model system, it will become expensive. It will allow the return to be less. And if the return is less, it doesn't stop the Caribbean people from, on the Internet, advertising three times the return. And if I'm a gambler, I may sit there and go. That's worth it because I'm a gambler. Could you respond to that?

MR. DiCARLO: Sure. I think what is important to note, also, though, is that if you read all the reports that come back from Internet users in general, and especially gamblers, a trust factor is a No. 1 priority. And there's no way I am going to trust someone out of the Caribbean, as a player, more than I'm going to trust a legitimate casino, like Trump or like MGM or any one of the bigger players in the marketplace today.

I also know that the comp programs that land-based casinos can offer can never be matched by an Internet casino. I see that if the land-based casinos are permitted to extend their business onto the Internet, the current

700, 800, 900 or how many there are, runners around in the Caribbean will be out of business within a year. That's my call.

MR. CABOT: If I could add just one other thing on that. In the book selling industry, Amazon.com is the No. 1 book selling on the Internet, Barnes and Noble is No. 2. They are by far not the cheapest you can get on the Internet. But it's the establishment of the brand and the trust that keeps bringing people back to Amazon and Barnes and Noble. So I think when we start to talk about the traditional casinos in a marketplace that's highly fragmented, once they establish brand and trust, people will understand and will still go to those casinos despite the fact that they may be more than the Caribbean casinos. They pay less in the Caribbean casinos, we just don't have the brand or the trust involved with them.

ASSEMBLYMAN AZZOLINA: Sue.

MS. SCHNEIDER: Yes. If I could just respond to that for a little bit, because our company also does market research with players and on-line focus groups and just to echo that to a certain extent. Just as Mr. Suarez talked about a race to the bottom, I think there is also a race to the top. Because as far as the players are concerned, the ones that are these early adopters out there that have been going for a couple of years, there will be a handful of those that will make it through the shakeout and make it through a consolidation. Because if I'd been playing with a particular casino for two or three years and they paid back all the time, I've already built my trust with them. But when it comes to the international brands, there are people already in the U.K., there are operators in Australia, who are solid land-based casinos. Crown Casino, which is owned by Kerry Packer, is about to get on-line. They

are going to commit an enormous amount of money to marketing and getting those U.S. dollars.

But I think if you have brands that are here that are well-known internationally, that is where the players will go. So, in reality, you're right, those other folks will always be out there.

Somebody brought up earlier-- I don't know if it was J. P. or Chairman Hurley, about being able to check -- because somebody could throw up a mirror site that's Caesar's Atlantic City. That's true. They can do that. But what you do is you handle it in a way that you have a link that feeds back to a New Jersey-controlled site saying, "Yes, we did issue a license to these people. This is the real one." That's actually done by some other jurisdictions now, and it's a very effective means of cross-check. So you can't do a whole lot about being able to control those things that you don't have any jurisdiction over, but what we're talking about is being able to offer a really solid quality product that will attract the player.

MR. LOONEY: Assemblyman Gregg, there's also one other thing that happens, also, with Internet gambling. You're talking from a gambler's point of view. If you legalize Internet gambling, you're going to bring on a whole bunch of new people who wouldn't normally gamble with bookmakers. They're going to start to do Internet gambling because it's legal. They're going to find out they have to pay taxes. Okay. They're not going to get any credit. That's going to pump them right back into the organized-crime, illegal form of gambling again.

We have a tremendous amount of illegal gambling going on in our state. We have seven crime families that thrive. I can tell you just two people

in one different area that have over 100 little runners in two different counties just taking sports betting. It's so tremendously out of hand. You are also going to now introduce, long-term, more illegal gamblers and have more troubles with organized crime, because they're going to go there. Because I'm not going to pay taxes, I've got to get credit, that kind of thing. So those are other things long-range when you look at that. So when you look at the picture, you look at all these little things.

You're still going to have to deal somewhere with dollars from the State to track these illegal bookmakers or else some other way.

ASSEMBLYMAN GREGG: Just to get a follow-up on that, and I guess it would be Director Suarez, perhaps. That's a good point, taxes. If I'm New Jersey, you pay taxes. If I'm Caribbean, my sense is you don't pay taxes.

MR. SUAREZ: You pay -- and Tony, you probably know better -- but I think it's a \$75,000 license fee. And with that, thus are you in compliance with the regulatory oversight.

ASSEMBLYMAN GREGG: Well, I also mean the player. The player, obviously--

MR. SUAREZ: Yes.

ASSEMBLYMAN GREGG: The player in Atlantic City, when they win a lot of money, Atlantic City is required to notify people of your good fortune.

MR. SUAREZ: Anything over \$1200 requires a completion of a W-2G.

ASSEMBLYMAN GREGG: An experience I've never had.  
(laughter)

MR. SUAREZ: Yes. We track it. We monitor it. We have records of win and loss. Without question, Chairman Hurley could speak more about the collection of revenue, but it is very tightly monitored, and New Jersey gets their 8 percent from their gross revenue. The Casino Control Commission, as Jim said, is out there all the time making sure that the revenue is going where it needs to go.

ASSEMBLYMAN GREGG: And that would not occur if I were to bet-- In Australia, there would be an attachment, just a credit card if I used one, but that would be a grey area on whether or not anyone would catch that income. I would have to assume that.

MR. SUAREZ: Yes. It's funny. We've spoken about the Australian model of collecting taxes, and what happened in Australia, as one of the earlier speakers commented, is the original tax was set at 50 percent for one of the states. An outlying state said, "Pay 30 percent and come to me." We're now-- I heard somebody -- I didn't know this, actually -- I heard we're down to 4 percent. Now you either pay 4 percent at the cheapest possible -- in Palace Springs, which is in the middle of nowhere -- you either pay your 4 percent there, or you go someplace that's going to charge you your licensing fee and know the state doesn't collect the revenue in any sort of organized way. What I've heard some people propose is that everybody who agrees to authorize Internet gambling would be part of a pool. And then the world pool of Internet gambling sites-- Everybody would get a whack of 8 percent or so. I'm not so sure that that's where we're going to go.

ASSEMBLYMAN GREGG: I'm not so sure we want to discuss the World Trade Organizations either. (laughter)

Thank you, Mr. Chair.

ASSEMBLYMAN AZZOLINA: Thank you.

I have a couple of questions, and then I'll move on, okay.

It seems that combating illegal gambling on the Internet will be very difficult. Will it become more or less difficult to combat illegal Internet gambling if the State regulates State-based virtual casinos?

Anybody?

MR. SUAREZ: I don't mean to hog the time here.

ASSEMBLYMAN AZZOLINA: Well, just briefly. You have 800 now -- 850 casinos around the world -- mostly in the Caribbean. And 70 percent of the bettors are from the United States, and we're doing nothing to control that. Are we? I know we have Federal law, but they seem to be-- How are they getting the money?

MR. SUAREZ: I don't believe that there has been a concerted effort on the part of our Federal government to address the illegality of Internet gambling, notwithstanding what Mr. DiGregory has testified in front, that he believes that certain forms are clearly illegal, like sports betting. You are not seeing the Federal government's machinery in operation and going after the illegal gambling sites. The Kyl Bill is stalled in the House. I think the Leach Bill is stalled in the House. We hope that it's going to move, but it's just been recently introduced, but everything I'm hearing is that it's already stalled.

So the Federal government has not come forward with the resources that they have, which is why I believe this is an opportunity for state legislatures to propose laws that can be used by those states to address the

problem of Internet gambling, because I don't believe that there has been an effort. If this Legislature were to adopt a law, as Assemblyman Gregg made reference to, that addressed financial transactions and made a very simple thing that's been done in a number of other states -- a credit card debt that is incurred on Internet gambling -- uncollectible in the State of New Jersey, I believe you will see credit card companies no longer be willing to process those transactions. That is the lifeblood of the Internet gambling industry right now, and that is a shot to the heart. Does it bring the monster down? I don't know. Perhaps, five years we'll know the answer to that.

As of today, we don't have that law on the books, and so operators do exist in this grey area uncertain as to whether the State and the Federal government is going to elect to prosecute them, although I submit that the law is fairly clear.

May I also add one of the problems -- and Mr. Cabot, I think, rightly articulated it -- is we cannot reach out to the Antiguan operator and grab them and bring them back. Under the existing treaty, there has to be dual criminality. It is not criminal in Antigua or any other jurisdictions, so under criminal law, we cannot reach out to these operators and hail them into court here in New Jersey. That is a problem. That is a problem that is a very real problem in trying to use existing criminal laws to address the problem of Internet gambling, which is why I suggested there are other ways, such as Internet service suppliers, such as credit card companies, that can address this problem.

ASSEMBLYMAN AZZOLINA: Were you here, Mr. DiCarlo -- explained on the screen?

MR. DiCARLO: Yes, I was here all morning.

ASSEMBLYMAN AZZOLINA: Okay. I was very impressed. I don't know if I'm for or against Internet gambling. However, we shouldn't close the door either way, because we should have an open mind. Because I remember when the lottery was very controversial here. I remember when the casinos were very controversial. And maybe there is a way, eventually, to regulate this. How? I don't know. I mean, right now we thought we'd get rid of the mob with gambling when we went to casinos and lottery. They're still thriving. Am I right?

MR. SUAREZ: Right.

ASSEMBLYMAN AZZOLINA: So it's out there.

Okay, next question.

ASSEMBLYMAN CONNERS: I'd like to thank everyone for coming. It's been a long day and, I guess, a cold day. (laughter)

ASSEMBLYMAN AZZOLINA: These State buildings, you can't regulate them. (laughter)

ASSEMBLYMAN CONNERS: I know.

The question I have-- Last week, I was speaking to a group of senior citizens, and I was telling them that I would be-- We were having a hearing on Internet gambling. One gentleman asked me if I'd ever heard of *Casino Player Magazine*. And I said, "No, I hadn't." He showed up at my office later in the day with software to -- so that you could do Internet gambling. And what's interesting is he had this card, I guess, you could mail back to subscribe to *Casino Player Magazine*, and their address is West Atlantic City, New Jersey.

In here, it mentions Antigua, and it mentions, in some countries it's illegal. You should decide which laws apply to you, and so forth. And it says, anyway, you can always play for fun, but it's a pretty slick piece, and it has the software in here. And the question I have, I guess, in terms of protecting anyone, I guess, because I think Mr. Hurley -- what he said is so true that-- How do you know that there's 52 cards in the deck when you get on the Internet and use this. Is there anything we can do, and I'm thinking even in terms of education, to educate people about what is happening. I think this is pretty serious business.

MR. LOONEY: I could tell you, Assemblyman Conners, that 16 percent of our polls come from people over 55 years old. They don't know how to use the computer yet. God forbid, when they start to use the computer, they get involved in this. They have plenty of time on their hands. They watch over their moneys and stuff. If they have access to this type of thing, that 16 percent possibly could go more. So I think it's something that -- our seniors are being affected by gambling, different kinds of gambling, not Internet. Internet is traditionally for young people. High school and college kids use it all the time, under 30 years old, male. We don't see females even involved in it yet, but I think as more people are educating people or advertising, it's legal, it's okay to do it, more people will come on board, and that 80-15-5 rule will apply. Eighty percent will have no problem with it, 15 percent will have some problems, and 5 percent of the people will be addicted. And that's just the way it is with any kind of gambling.

ASSEMBLYMAN CONNERS: Yes.

MR. HURLEY: I'd like to just comment that all of us here on the panel certainly have an obligation to help educate. Mr. Looney has, obviously, a different focus than we do. But certainly in the Casino Control Commission, one of the reasons for being here today and presentations that we make wherever we go is in the form of educating people as to how we do, in fact, regulate the casinos in Atlantic City now. It's a constant effort, because people are not simply going to hear it once and retain all of that information. I've learned a lot here today from people on this subject matter because we are certainly not privy to, nor the repository of all the kinds of information that these folks have -- some of whom have been and are actively involved in this Internet gaming business. I think all of us have an obligation, with response to your question, to educate people about what the potential problems and concerns are, so that whether they're senior citizens groups or whether they're college students, everybody should be able to process the same kind of information and make the same kinds of informed choices.

What you've told me today is news to me, and I certainly am appreciative of your bringing it here.

ASSEMBLYMAN CONNERS: Yes. It reminded me, when I first saw it, it just reminded me of America Online -- this saturation thing. My newspaper is being delivered with it.

ASSEMBLYWOMAN PREVITE: I got it on a Sunday.

MR. HURLEY: It won't stop coming. Yes.

ASSEMBLYMAN CONNERS: It won't, and maybe this is the next step. As you pointed out, all the wonderful things that have happened in Atlantic City in terms of economic development and jobs, and so on and so

forth, that this appears to me, this looks-- At first glance, and if you can read the fine print, it looks pretty legitimate. People would take this very seriously, might get on-line and might experiment. As I said, the fascinating thing is that if you want to subscribe to the magazine that sends you this, they have an address in Atlantic City.

ASSEMBLYMAN AZZOLINA: Sue.

MS. SCHNEIDER: I wonder if I could just respond quickly to one point. I know, again, with Chairman Hurley, as he talked about the controls that were in place now, one of the things I know when several of us spoke to the Nevada Gaming Commission, I probably was about to be ridden out on a rail. But I kind of harkened back to their history with Bugsy Segal and knowing what their history was with the Wild West and knowing that they didn't have those regulatory structures in place and that it is, indeed, an evolutionary process. You have to start somewhere. So I think that's a lesson, that we don't need to reinvent the wheel in terms of looking about -- how do you begin to put those controls in place and build on them to the point where they are going to be good, solid consumer protections out there? And I think that's something that just sort of bears note, because again I think New Jersey is seeing with this land-based regulations as really a real model, and hopefully, that that would carry over somewhat, and we could look at how to kind of go where no man has gone before with some of this kind of stuff.

ASSEMBLYMAN AZZOLINA: But would you say that if we ever have Internet gambling that it should be through the casinos?

MS. SCHNEIDER: I think that that's going to be a follow-up to the individuals. Personally, I think that five years down the road, and when

we first started monitoring the industry in '95, it's been my theory all along that the land-based operators are going to be the ones that are going to be in this in the long term.

ASSEMBLYMAN AZZOLINA: Right.

MS. SCHNEIDER: Because for them, it's just an extension of their marketing.

ASSEMBLYMAN AZZOLINA: And they are already being controlled.

MS. SCHNEIDER: Yes. And so, I think, ultimately that's how it's going to happen. And quite frankly, the longer it takes to get good, solid regulated environments, the more of a foothold some of the other early casinos are going to get, just again, as I mentioned, just because of their personal experience and their customer service.

ASSEMBLYMAN AZZOLINA: Are there any other states right now looking at Internet gambling?

MS. SCHNEIDER: Minnesota is one. They've had a resolution pass both their House and their Senate to explore a regulatory model. They're just beginning that process.

ASSEMBLYMAN CONNERS: Assuming this--

ASSEMBLYMAN LeFEVRE: No. Go ahead, Jack.

ASSEMBLYMAN CONNERS: Okay. Just assuming that the land-based casinos are the ones that we know so well, say this were to happen and they were to get into it, wouldn't this lend tremendous consumer confidence to people and give it tremendous credibility?

MS. SCHNEIDER: That really would be the net effect. So that's a decision they'd have to-- I mean, you have to factor that in with part of it, but again, ultimately, if it's not the land-based casino here or in New Jersey, it's going to be the land-based casino in Sydney, Australia, or London or Paris, ultimately, that are going to be in there. So it's sort of a question of pick your evil, I guess, in that regard.

ASSEMBLYMAN LeFEVRE: Mr. Chairman, just a follow-up to Assemblyman Connors. Again, we heard earlier that it is illegal to gamble on the Internet. Why is it that we then permit people to market products-- And I believe there's a billboard on Route 30, just outside Atlantic City, promoting Web sites. Why is it that we permit marketing to go on to do something that is illegal?

MR. SUAREZ: If I may, Mr.--

ASSEMBLYMAN AZZOLINA: Are they?

MR. SUAREZ: There is a billboard on the A.C. Expressway, heading westbound as you leave Atlantic City, that advertises for a casino operator. There's one that advertises on Route 29 North in Newark, New Jersey. There are a number of Internet operators that have taken advertisements in in-flight magazines on some of our aircraft carriers that fly out of Newark. We're looking at that. I don't mean to be glib. We're looking at that. I think that it can be stopped. We don't have limited resources in the Attorney General's Office, but I think that that kind of directive investigation and effort, be it civil or criminal in nature, can and should be undertaken. And I can tell you that it is being considered by the Attorney General.

ASSEMBLYMAN AZZOLINA: Okay. Do you have anything else?

ASSEMBLYMAN CONNERS: No, that's it.

ASSEMBLYWOMAN PREVITE: I have two or three questions. Mr. Looney, could you tell me what the estimated cost of compulsive gambling is to our State each year?

MR. LOONEY: We don't have good figures on that, I can tell you that. I can tell you that last year, though, we had for the first time persons that were earning \$38,000 a year, they had debt of \$41,000. It was the first time that they had debts that exceeded their income. That's the kind of callers that we get. But I think we have to add a lot of other costs that are kind of hidden. When a person is going into bankruptcy, it costs us about \$430 a person. You see, that has to be put in there if that person might be a compulsive gambler. The problem of embezzlement, that has to be put in there, too. There has been some figures offered, but again, they're not really good researched numbers. But it is very high, much higher than the other alcohol and drug addiction is, but we don't have the real good figures. They just don't have that good research.

ASSEMBLYWOMAN PREVITE: Do we know how many people go bankrupt in this state every year related to compulsive gambling?

MR. LOONEY: No, that's the problem. What they did is they tied that into where gaming operations were in a county. This research project did that, and I have the full copy if you'd like to see it. In essence, they went to every county in the country and where there was a gaming entity, whether it be a racetrack or a casino in that county, the bankruptcy rate was 17 percent

higher than the other counties in that state. If there was five or more, it jumped up to 35 percent.

Now, Atlantic County, that year 1997 -- happened to be 71 percent higher bankruptcy in that county in New Jersey, but you could go by county by county and see that. The problem is you just can't throw those figures in and say it all has to do with compulsive gambling, but there's probably a major factor that has to be pursued again.

ASSEMBLYWOMAN PREVITE: Thank you.

A couple of other questions, and any of you that are knowledgeable can certainly jump in with the answers. We heard today that there are four states, do I understand, that have laws now that prohibit Internet gambling? Is that my understanding of it?

MR. CABOT: That is correct.

ASSEMBLYWOMAN PREVITE: Could I ask, if anybody could tell what is their technique of regulating and enforcing their ban?

MR. CABOT: Yes. I don't think they have one. I think they've made it illegal, but I'm not sure any of those states have taken any prosecutorial efforts under their state's statutes yet.

ASSEMBLYWOMAN PREVITE: So there isn't anything that we could look at to say, well, this is being done, and Michigan has used this technique to regulate or to enforce or to prosecute. Does anyone else have an answer to that?

MS. SCHNEIDER: The things that I would point out is that most of those are still targeting operators, whether or not they would operate in that particular state, as opposed to the players. I think one or two may have added

players in, too. But to my knowledge, there hasn't been any enforcement action either against players or -- and operators don't exist there. So there just hasn't been any action beyond the legislation being passed.

MR. SUAREZ: Assemblywoman, if I may, they are sounding in traditional criminal law, in the context of criminal law, making it illegal conduct. We haven't seen, yet, the effectiveness of things as I alluded to and made reference to making credit card debt uncollectible. We have seen lawsuits. For example, a lawsuit in California where a gambler-- Essentially, a credit card company tried to collect a debt, a substantial debt, against this woman gambler, and she said it's uncollectible debt. It's an illegal debt. And the credit card company actually settled the lawsuit and agreed-- I don't want to say it agreed, because there was no -- actual acknowledgment of -- by any side, no concessions on any side. But the point being that the credit card company recognized that they may not have a winning hand, to use a very bad pun, and folded. In fact, we are seeing that credit card companies, when pressed, will avoid Internet gambling transactions, which is perhaps one way that states can address it.

ASSEMBLYWOMAN PREVITE: I need to get a picture in my head, since I am not a gambler, and that perhaps Assemblyman Gregg's reference to the E-money or E-cash is why I'm not understanding this. Can you help me to--

ASSEMBLYMAN GREGG: I don't understand that inference, Assemblywoman. (laughter) Does that mean I'm the resident gambler here? (laughter)

ASSEMBLYWOMAN PREVITE: No. No. You chimed in with a question that I've certainly had about this E-cash business. Help me to see-- If I wanted to gamble from my living room couch with a laptop on my lap, do I have to say my credit card number to these people on the other end? And do they have a credit card number to give to me so that when I win, they're going to-- (laughter) I need to see-- I cannot understand. I certainly would not, under any circumstance, give my credit card to anybody over the Internet for fear somebody is going to snatch it.

ASSEMBLYMAN AZZOLINA: I think Mr. DiCarlo earlier-- Did you say there was technology coming out of that?

ASSEMBLYMAN GREGG: I'm going to hire you as my controller. (laughter)

MR. DiCARLO: Yes. I just had a couple of comments. When you play any of the on-line casinos that I know of right now, you have to register more than just your credit card, your name, your address, everything that -- a lot of personal information. And you then have to, of course, open up an account, and you open an account like you would buy chips in a casino. So if you want to open an account for \$50--

ASSEMBLYWOMAN PREVITE: You see, I don't do chips in the casino, so you've got to be really basic with me. (laughter)

MR. DiCARLO: Okay. Well, what you have to do is you have to say, "I want to open an account with you and here's \$50, and you give them \$50 on your credit card." So you now have \$50 on your account.

ASSEMBLYWOMAN PREVITE: So, if I don't have a credit card, then I can't do this?

MR. DiCARLO: Well, at the moment you can't. I mean, some of the small ones will take other forms. You can send a check and they'll wait till the check clears and then you can get your money. I think 80 percent, 90 percent -- I don't know the exact facts, probably higher than that -- most of it is all done by credit card right now.

ASSEMBLYWOMAN PREVITE: Okay. Now, how about their giving me the money when I win?

MR. DiCARLO: So when you win, typically, the credit card companies would only allow them to credit you back the amount of money you purchased, and then they have to send you a check for the difference or whatever way you want to be paid, whether it's a wire transfer or whether it's a courier check or whatever the case may be.

ASSEMBLYWOMAN PREVITE: So really, who is going to hold these people accountable when they say, "I don't want to give Mary her money?"

MR. DiCARLO: Well, that's really where the problem is. I mean, if you're not regulated, they can pack up, leave, if they're in the Caribbean--

ASSEMBLYWOMAN PREVITE: Well, then I can tell you I really want to regulate. This sounds so squishy, like trying to snatch on to smoke.

MR. DiCARLO: That's true. A lot of these people have closed down and opened up the next day under a different name.

ASSEMBLYWOMAN PREVITE: Well, I guess that's my next question. This is so squishy, what is to prevent somebody that is operating one of these things out of their living room-- It could be out of their living room, right?

MR. DiCARLO: It could.

ASSEMBLYWOMAN PREVITE: And we put out some regulations, so they're going to go to Pennsylvania or they're going to go to Delaware. What would prevent somebody from just moving next door?

MR. SUAREZ: Absolutely nothing.

ASSEMBLYWOMAN PREVITE: So it doesn't sound to me as though a state regulating is the way this ought to be done?

MR. DiCARLO: I'm sorry. I didn't understand.

ASSEMBLYWOMAN PREVITE: How does a state regulate something that they can just -- this very day, this very hour, go across the state with their laptop on their lap and do it in Philadelphia?

MR. DiCARLO: Well, that means, though, that you could open a casino in your basement.

ASSEMBLYWOMAN PREVITE: Right.

MR. DiCARLO: Is that the same argument? I'm talking about a land-based casino. I could have slot machines in my basement tomorrow. I mean, it's a criminal offense to have slot machines in my basement and run a little casino. To run an Internet casino, you, of course, would need all the hardware, all the communications. You'd need some heavy-duty infrastructure to run this thing. It's not just plug and play, and you can't run it on a laptop. And of course, you would need a license to do it, and you would, of course, demand that anybody in New Jersey set up to have a license. Otherwise, they would be in big trouble.

ASSEMBLYWOMAN PREVITE: But it's not stopping me in New Jersey from doing business with somebody who's doing it in Philadelphia or Delaware or Arizona for that matter?

MR. DiCARLO: Your Federal law right now is doing that. It's removing the player aspect. I mean, I'm Canadian, so maybe I shouldn't head this part of it, but I don't think the players are being covered at all in the Kyl Bill, and I think the reason for that is all the press I read is it's not practical. If you go after a \$25 player, I mean--

I'm going to go back to the point of this charge of this lady saying that she didn't charge this money up or the money wasn't collectible in California. I think her debt was several thousand--

MR. SUAREZ: Several thousand dollars.

MS. SCHNEIDER: Seventy.

MR. DiCARLO: Seventy thousand. But most of this stuff that you see out there is going to be in the \$20 and \$30. I mean, what do you do with that kind of a charge?

MR. CABOT: If I could follow up on that. I agree with Director Suarez, that the best you're ever going to do on the Internet is provide two environments -- a safe environment and a nonsafe environment. A safe environment where a person can go to knowing that the gaming is properly regulated, the games are fair, the games are honest, you get paid if you win. There's always going to be that other universe out there. And it's going to be a universe where it's caveat emptor, where a person who goes to that environment will not necessarily know the games are fair and honest, will not know if they're going to get paid. That's the nature of the Internet. You can't

try to regulate everything that goes on the Internet, because it can't be done, because it's an international phenomenon. It's not a national phenomenon.

MR. SUAREZ: Assemblywoman--

Mr. Cabot, I agree, that's what would happen. And the concern that I am trying to articulate, perhaps poorly, is that the unregulated, the ones that are unwilling to stay in New Jersey and play by New Jersey rules, will use the lack of meaningful regulation as a means to compete with the market share and the consumers of New Jersey. And when a woman from Bergen County wagers on the Internet on what she thought was a regulated site, but proves to be an unregulated Antigua or Netherland site and she doesn't get her winning wager paid, the place that she's going to seek redress is your office or mine. And when she doesn't get satisfaction, she will lose confidence in this industry that we have worked so hard to protect and to make sure that every player has a fair chance when they gamble in New Jersey.

And dare I say, I do not believe a consumer is going to make a meaningful distinction between, "Well, the site said it was regulated, but it really didn't have New Jersey's seal of approval," as opposed to, "Had I gone to the correct site," they're going to know that they gambled in New Jersey and lost, and nobody's there to protect them. It is that consumer that I am very worried about. Because when that consumer loses confidence in the gaming industry, I do think it begins its inexorable decline, and the progress that we made these last 23 years starts to get undermined for a very squishy thing whose benefits are mercurial at best.

ASSEMBLYWOMAN PREVITE: Well, there are two pieces that concern me here. I'm certain you speak very eloquently to that point of the

importance of the regulation and how far we've come. The other side of that, however, is that when you put regulation on it, it has almost a seal of approval to it. And that's the moral issue that hasn't really been discussed too much except, perhaps, by Mr. Looney.

There's a piece of it out there-- There are people that believe that gambling is wrong. And when you start saying we have regulations now, it is sort of like saying, "Well, it's sort of wrong, but we can make it a little less wrong or we can squeeze some good out of it." It's like the old thing, when you find a lemon, squeeze it into lemonade. There are two sides to this, but I am very concerned about something unregulated, and I don't know that it's possible to regulate it in our State. But what I think I'm hearing panelists say is we can give it more legitimacy and people are more likely to go to regulated spots, because they know that somebody is really watching it. Is that a fair assessment of what I'm hearing from the panel?

MS. SCHNEIDER: Well, I think when Mr. Suarez went through his laundry list of things that need to go in there-- He talked about dispute resolution. He talked game testing. All those things. And those are all really, really critical components. And if you don't have a regulated environment and if you wait too long to create one, then you're just extending that. I mean, when do you start? What will it take-- At what point do you feel comfortable that there is a solid, regulatory environment in place that you feel confident in condoning a regulatory process?

MR. SUAREZ: May I?

ASSEMBLYMAN AZZOLINA: Go ahead.

MR. SUAREZ: Let's try prohibition first.

ASSEMBLYMAN AZZOLINA: Well, you know prohibition never works.

MR. SUAREZ: With all due respect--

ASSEMBLYMAN AZZOLINA: I was a kid when they had liquor prohibition, and everybody next door sold it. (laughter) And that's why we went to lottery. That's why we went to casino gambling, because prohibition didn't work. It still doesn't work.

MR. SUAREZ: Respectfully, Mr. Chair--

ASSEMBLYMAN AZZOLINA: I'm just being the devil's advocate.

MR. SUAREZ: No, I appreciate that. We have nationwide prohibition on drugs. We've had a war on drugs.

ASSEMBLYMAN AZZOLINA: Yes. And we go after the little guys.

MR. SUAREZ: And nobody is advocating, at least that I'm aware of in this chamber, repeal on the war on drugs, and yet, we know on a daily basis on the streets of Trenton if you wanted to, you could go purchase marijuana, cocaine, heroin, LSD, Ecstasy today.

ASSEMBLYMAN AZZOLINA: Any city. Any suburb.

MR. SUAREZ: Any city. Any suburb. Any place in New Jersey.

ASSEMBLYMAN AZZOLINA: Right.

MR. SUAREZ: Yet, we try. Yet, we try because the public policy is so important and the protection of our citizens is such that we are willing to take that effort and to try to protect them to make sure that they are not held

up at gunpoint, at knifepoint, do not succumb to the ravages of drugs or illegal gambling.

ASSEMBLYMAN AZZOLINA: I think we're off the point, sir.

MR. SUAREZ: We try and we try and we try. I submit that we should try.

ASSEMBLYMAN AZZOLINA: Sir, I think we're off the point. Drugs are really harmful to everybody, a lot of people. I don't gamble. I go to Atlantic City with \$50 and lose it, if I have to go to Atlantic City. So I don't gamble, so I don't care. But the thing is, what Sue said, I think, is very interesting, and we have to take it into consideration. If you got all this illegal Internet coming into the country, 850, whatever, and I think-- I'm in the supermarket business, so people come to shop to a brand, either my brand of supermarket or the others that are out there. I think Sue is right when she says, if you have legalized Internet gambling, they'll learn to go to a brand they trust.

Am I right, Sue, is that what you said?

MS. SCHNEIDER: Yes.

ASSEMBLYMAN AZZOLINA: So we shouldn't really close our mind. I want to be open-minded here today, and we should be open-minded, all of us. I'm not sure if we should have it or not have it, but we have to see which is the better way to do it.

Yes.

ASSEMBLYMAN GREGG: I want to follow up the Assemblywoman's point that may have gone very quickly to pass.

Obviously, Mr. DiCarlo, you referenced, as the Assemblywoman was questioning, what stops anyone from having a laptop and ultimately creating their own casino. And followed with that, which is a logical answer, which is well, what stops anybody from having a casino in their basement. And then you told me you were from Canada, so I understood. You're not from Jersey, so you don't understand that in New Jersey we have illegal gambling in this state. There are one-armed bandits all over this state.

MR. DiCARLO: We have them in Ontario, too.

ASSEMBLYMAN GREGG: And I know that that is not a shock to the Attorney General's Office.

ASSEMBLYMAN AZZOLINA: You know what a one-armed bandit is, right? (laughter)

ASSEMBLYMAN GREGG: We have it. It occurs in areas in the state. I think that point shouldn't be forgotten. Because as a licensed operator of selling alcohol in the State of New Jersey, we have places that sell alcohol and don't have licenses. And we don't catch them. Now, the difference, and there shouldn't be one, we should obviously care deeply to shut down all of these illegal operations, but we can't because it's a big state. Now, imagine in a state that's fairly condensed that we can't find every piece of illegal gambling today, with very stringent laws. We can't find every nonlicensed liquor establishment, which is probably appalling to people, and most people don't know that, but it does exist.

Now, we suddenly open this up to the Internet, which is totally uncontrollable, huge. Are we going to do the same thing that we've done in these industries, that as a licensed individual -- and Joe has licensed facilities,

as well -- that we know as licensed people, the only people that we ever chase are the people who have the licenses. The only people held accountable for selling alcohol are licensed people. The only people accountable for gambling are casino people. We don't necessarily chase the other people because they're too hard to find. We don't chase down people for labor laws that don't have payrolls because there's no record to check them.

So my concern is, if you've totally taken the paper trail away -- and I can just follow this with Assemblyman -- gentleman's point of view -- what makes us think that we could ever enforce this? Even by controlling in our State what we do in a small world in a number of casinos, why do we think we could have any control over what's happening in every other state and in every other country?

MR. DiCARLO: Well, all I can tell you right now is that within two days I could have one person tell you what every single Internet casino is live on-line and where their servers are. There's software out there right now. It's not complicated. I can even give you the URL, and I've actually done a demo of this in Las Vegas. And you could go to every casino URL that exists today, and I can tell you where their servers are. It's totally different than having slot machines, illegal slot machines, there's no on-line system. There's no communication. With the Internet, you have to talk to an ISP, otherwise you don't get to the clients. And so to get to your clients, you have to be hooked into this big network. And the big network means I can find you. It's a matter of looking at what kind of policing I want to use. And right now with the technology available today, I will find you. And within -- I'm not exaggerating -- two days, one person, I can find everybody on-line.

ASSEMBLYMAN GREGG: And how fast can I change?

MR. DiCARLO: You can change very quickly, but that's a lot of equipment, and it's a lot of ISPs. Eventually, you run out of ISPs. I mentioned this briefly in my presentation--

ASSEMBLYMAN GREGG: More importantly, and I don't want to interrupt you, Mr. DiCarlo but--

MR. DiCARLO: That's okay.

ASSEMBLYMAN GREGG: --even if I know where you are and I can't get to you, what is the purpose?

MR. DiCARLO: What I'm thinking is, if you're trying to stop people within your borders, where you do have control, you can do that. Going back to telling--

ASSEMBLYMAN GREGG: Wait. Wait. Wait. Are you talking about those gambling or those running it?

MR. DiCARLO: No, running. Operators.

ASSEMBLYMAN AZZOLINA: Running. Do we have any in New Jersey now that you know?

MR. DiCARLO: I don't know. Again, I'd have to go back--

ASSEMBLYMAN GREGG: You've got two days. (laughter)

MR. DiCARLO: I need my two days. (laughter)

You could find out. Tony just did a quick search and found three or four servers sitting in the U.S. I can guarantee there's probably several hundred sitting in the U.S.

ASSEMBLYMAN AZZOLINA: The demonstration you gave, was that real or that just a--

MR. DiCARLO: No, it's real.

ASSEMBLYMAN AZZOLINA: No. Were you getting it from somewhere else today?

MR. DiCARLO: Oh, no. That was on my laptop.

ASSEMBLYMAN AZZOLINA: Oh.

MR. DiCARLO: I wasn't causing trouble.

ASSEMBLYWOMAN PREVITE: Mr. Chairman, I have another question.

ASSEMBLYMAN AZZOLINA: Okay. Go ahead.

ASSEMBLYWOMAN PREVITE: Could somebody give me a status, please, of the two Federal bills and why they're stalled. We usually get a sense when stuff is going through legislative process as to what's stalling it. We've heard about two bills, the Kyl Bill and is it Leads?

MR. DiCARLO: Leach.

ASSEMBLYMAN AZZOLINA: Leach.

ASSEMBLYWOMAN PREVITE: Leach. Could somebody tell me what's the status of these two bills, and does it look like they're going to go through? And if they aren't, what are the impediments to these going ahead?

MR. SUAREZ: I could tell you, if anybody here on this panel knows the answer to that question, then we're probably in the wrong place. (laughter) We'd be at 1600 Pennsylvania Avenue or something. Nobody, I've heard anyway, including Congressman LoBiondo, knows the answer to that question, as to why it stalled.

ASSEMBLYMAN AZZOLINA: Sue.

MS. SCHNEIDER: Just in terms of status, the Kyl Bill, which is the furthest along, as somebody mentioned earlier, has passed the Senate. It has passed the House Judiciary Committee. It has now been referred for a sequential jurisdiction to the Commerce Committee, because Commerce Committee has the sole residue over Internet issues. So it will go there. I don't know what their plan is, if they're going to have hearings or whatever.

I think part of the controversy is the fact that, while it's called the Internet Gambling Prohibition Act, it has these other exemptions in there for fantasy sports, lotteries, racing, jai alai. And so there are others who have said, well, it's actually the Internet Gambling Expansion Act. I think part of that has been some of the controversy that's stalled it out some.

ASSEMBLYWOMAN PREVITE: So, if those bills were passed, is there anything New Jersey could do above and beyond what those bills would mandate?

MR. CABOT: In the United States, there's concurrent jurisdiction over gambling. If the Federal government prohibited it, I mean, obviously, the State couldn't allow it. But if the Federal government does not prohibit it, the State then could either prohibit it or regulate it or do nothing.

MR. SUAREZ: The State could mimic what the Kyl Bill did and make any Internet service provider that knowingly transmits a gambling signal subject to civil or criminal penalties, depending on how the Legislature would choose to craft such a bill. They could, as I've now made reference to a couple of times, craft legislation that would make credit card debt incurred as a result of Internet gambling uncollectible in the State of New Jersey and make any action to collect that unrecognizable in New Jersey courts. That is something

that could be done, and it would, I believe, dampen the enthusiasm of credit card companies to process those transactions.

ASSEMBLYMAN AZZOLINA: I have--

ASSEMBLYMAN ASSELTA: I guess I want to--

Do you have another one?

ASSEMBLYMAN GREGG: I just want to know-- One quick one.

Can that be done?

ASSEMBLYMAN AZZOLINA: Yes.

ASSEMBLYMAN GREGG: We can override Federal banking law that way?

MR. CABOT: There's some interesting questions under the Commerce Clause in the United States Constitution whether or not states can try to regulate things that should be regulated by the Federal government, vis-a-vis financial transaction providers and ISPs. I think some of the other things that the Director is saying clearly can be done. I mean, you could make it illegal for a New Jersey citizen to gamble. You could certainly make it an uncollectible debt, which it probably is in most jurisdictions anyways.

ASSEMBLYMAN AZZOLINA: Go ahead, Nick.

ASSEMBLYMAN ASSELTA: Okay, let me finish up and thank each and every one of you again. I want to finish up with, as I call, a people issue here.

Chairman Hurley, in your comments, and they were maybe the best of the afternoon here, you mentioned the promise, the promise in 1977 in the campaign to allow gaming in the State of New Jersey. And the promise attached to that promise was-- The biggest promise of all was the creation of

opportunity and jobs. You mentioned 49,000 jobs created by the casino industry up to this point, I believe. I guess my question is, if in fact this scenario plays out in some way, shape, or form, a regulatory process is established, how does the industry react and how does the employment base of the industry -- how is it affected and how does it react to Internet gaming?

MR. HURLEY: I don't think I have an answer to that. I don't see any operators of casinos testifying here today. Perhaps they could provide you with more information. I can only assume, based on what we know in concrete terms about the jobs that have been created and the \$6 billion infrastructure that has been built in these casinos that we regulate. I can only assume that an argument could be made that it could negatively impact employment in Atlantic City. Therefore, it can negatively impact the revenue in the Casino Revenue Fund that goes to finance senior programs and disabled programs. I can't prove that to you today. I don't know. I don't have a crystal ball.

I think it's possible that you could get some additional tax revenue, but at what cost? Boy, that is a--

ASSEMBLYMAN ASSELTA: That's the big question.

MR. HURLEY: You have a tough decision. I wanted to go on about the Federal legislation. I said, in my opinion, some of the problems-- I talked to Senator Kyl about this. Some of the problems that he's been presented with and people see and there's Federal legislation is how -- the same things you're dealing with here -- do you enforce such an act. Can you, and is it possible? Are there enough policemen in the world? All that type of thing. I don't have the answers to those. That's really the hard, bottom line of the question.

I don't know the answer, Assemblyman Asselta. But I could only suppose, in my opinion, that it could negatively impact because we know the concrete answers that we have now. And if more casinos come on-line, we have more rooms, we have more jobs, we have more construction, we have more taxes, we have more programs.

ASSEMBLYMAN ASSELTA: Thank you.

MR. LOONEY: Assemblyman, could I just answer that real quickly.

ASSEMBLYMAN ASSELTA: Sure.

MR. LOONEY: The name of the game all here is sports betting. Sports betting is legal only in one state. One hundred forty-nine sports books in Nevada did \$2.5 billion worth of business. That's the only place in America you can bet sports legally. Right now, Internet gambling would be like 70 percent of the businesses as sports betting. Once you're marketing your product, if you legalize Internet gambling, you then are going to move to the other packages, the lotteries, the casino games. If you could just picture a good marketer, won't they go after casino operations? Obviously, they will. So I don't think, short term, you going to see any impact on casino gambling if you legalize this kind of thing. Long term, you're absolutely going to see that. Because you're going to see people don't have to get into their cars and go down to Atlantic City if they could play from their homes.

Right now, it's nickels and dimes, it's not being promoted. But good marketers will promote a package. Right now, it's only sports betting, and I think we shouldn't look only at sports betting. We got to look at the whole picture.

ASSEMBLYMAN ASSELTA: Thank you.

ASSEMBLYMAN AZZOLINA: Did I hear somebody say lottery -- you're going to be able to buy lottery on the Internet?

MR. LOONEY: Yes. Surely.

ASSEMBLYMAN AZZOLINA: That's going to hurt a lot of small businesses around also. Is that true? Are we looking at lottery in New Jersey now?

MS. SCHNEIDER: The Senate legislation does exempt lotteries, allowing them to potentially do this. The House bill took that exemption for lotteries back out federally, so that's the status at this point with the lotteries. It's a mixed bag at this point.

ASSEMBLYMAN AZZOLINA: Okay. I want to mention that we did invite New Jersey Casino Association to participate, but we did not hear from them.

So, unless there are any other questions, I do have one more witness. The Reverend Davidson wants to talk, when we get done, to oppose the Internet gambling.

But today, I think we've had a good debate about outright prohibition or regulation. I think we've been well-informed today. There will be a transcript on this, and the Internet is a global issue. It's here to stay, and we've got to figure out whether to be involved in it.

We, the Legislature, are a separate branch of government, and we sometimes act as a catalyst to see if we need new legislation or we should develop new legislation. But just the legislation alone, even if we wanted Internet gambling, can't do it. So my theory is that we got to all work

together: the Legislature, the Executive Branch, the regulators, the Casino Commission, and the casinos, and whoever else, the Attorney General's Office, which you represent. I think they have their own report coming out shortly, I think next week probably. If we are going to have it, we should do it right. If we're not going to have it, then I don't know what will happen.

Sue, you wanted to say something.

MS. SCHNEIDER: I just wanted to thank you all for your staying power and your attention. I wouldn't have expected that, at this time in the afternoon, we would still see you all there, so I think that's much appreciated.

ASSEMBLYMAN AZZOLINA: Oh, we still had another hour planned, but we finished early.

So I want to thank all of you for coming from out of state.

ASSEMBLYMAN LeFEVRE: Mr. Chairman, one last comment.

ASSEMBLYMAN AZZOLINA: Yes.

ASSEMBLYMAN LeFEVRE: We just determined that if we take an amendment to the State Constitution to change the temperature in this room-- (laughter)

ASSEMBLYMAN AZZOLINA: Well, the trouble with government buildings-- They're either on air-condition or on heat, and you just can't flip a switch.

Now, Reverend Davidson, I think you have some comments to make.

MR. SUAREZ: Thank you very much.

ASSEMBLYMAN AZZOLINA: And if there's anyone else after Reverend Davidson speaks-- If there's anyone else in the public that wants to speak, please let us know.

Thank you very much.

By the way, if anyone wants to submit additional information for the record, they may do so in writing, and it will be in the transcript.

Yes, Reverend.

Okay, you represent the New Jersey Council of Churches, I guess.

**REVEREND BRUCE H. DAVIDSON:** That's correct. And the Lutheran Office of Governmental Ministry.

ASSEMBLYMAN AZZOLINA: Okay, thank you very much.

REVEREND DAVIDSON: I appreciate that. Thank you for your time, and also I want to thank the Committee for your staying power and for your interest in this issue.

It's clear to me, at least, that you're trying to be fair and informed before you make a decision. That's encouraging. It probably is not a surprise to you--

Am I not on? (referring to PA microphone) It just went red. It's supposed to be red. Oh. Okay.

Again, thank you for your attention to this and for the serious way in which you are proceeding in considering this issue. It probably is not a surprise to any of you that the New Jersey Council of Churches is opposed to expanding gambling by authorizing, legalizing Internet gambling. We're particularly concerned about the fact that this would allow people to gamble on credit in an anonymous way from their home, and perhaps, in the process,

incur incredible debt that could create great problems for themselves and for their families.

In the New Jersey Council of Churches, there are a variety of religious traditions represented. Most of them are Protestant church bodies. Many of those church bodies oppose gambling for moral reasons, out of their understanding of scripture and tradition and theology. Many of our congregations, also, are opposed because of the human cost of gambling. We have been opposed, I think, to just about every initiative in the history of the Council of Churches that's been presented, both on moral grounds strongly felt by some of our member churches, but also because of the human cost. And that's the concern that we raise again this time.

We are deeply concerned, I think -- all of our church bodies -- deeply concerned that this expansion of gambling will allow people who might never go to a casino or a racetrack to have access to gambling from their home, and the possibility of doing this on credit. We're very concerned about the kind of debt that can be incurred by people that have this kind of access to gambling, and we're also concerned that this will seriously increase the number of people who will become problem or compulsive gamblers as a result.

Attached to the printed testimony that I gave you, you will find a resolution that was passed by the Assembly of the New Jersey Synod of the Evangelical Lutheran Church of America. That resolution was passed at our annual assembly just early in May. What I wanted to tell you is that it passed easily, by an overwhelming majority. And when you gather a group of Lutheran believers together, that's not an easy feat. (laughter) It's been said

that when there are three Lutherans in the room, there are five opinions (laughter), and that's probably true.

What I want to say is that when this resolution was presented by me and when I explained what was being proposed, perhaps, was that Internet gambling would be permitted, legalized in the State, and that this would allow people to gamble from their home anytime of the day or night and on credit, there was an audible reaction to that. In my understanding, from what I heard from people after that resolution was presented, was that people began to realize what this could mean. Not that some kind of biblical prohibition would be transgressed, but people in the Assembly understood the impact that this might have on people and their congregations. Many of us who are serving or have served as parish clergy know situations in pastoral care and pastoral counseling where people are dealing with problem and compulsive gambling. The kinds of things that Mr. Looney illustrated in his comments are very real to us, because we've seen it over and over again. We've seen how hidden a problem it can be. We've seen that it impacts families. We've seen that it results in crime, in divorce, in broken families, and in suicide. And I think our reaction to the proposal was a reaction for what we foresee if gambling is made so easy and so accessible.

Earlier in testimony today, someone suggested that we have a choice. The choice is whether or not we make Internet gambling a safe experience or an unsafe one. And that is, indeed, a case in point. But I would also suggest that another choice that we face is whether or not we make gambling easy for people or difficult. Internet gambling, even regulated, will invite more people to participate in gambling activities. That will also involve

more people who have gambling problems to participate. That will lead to some very devastating effects on many people living in our state. And I hope that in all of the consideration that you give in this day's testimony and in the days ahead that you think seriously again about the human cost of this and about those lives that will be touched very negatively if this proposal is adopted.

Thank you for your time and attention.

ASSEMBLYMAN AZZOLINA: Thank you, Reverend.

REVEREND DAVIDSON: Questions? (no response)

ASSEMBLYMAN AZZOLINA: I want to thank the gentleman at the *Asbury Park Press*. Because if he hadn't started writing those stories, we would not have probably been here today, because we wouldn't have thought of it. Thanks a lot.

Okay. That's it. All right. We are now adjourned.

Thank you very much.

**(HEARING CONCLUDED)**