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# ***Committee Meeting***

of

## ASSEMBLY TOURISM AND GAMING COMMITTEE

*“Testimony on the subject of computer-based wagering”*

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**LOCATION:** Committee Room 15  
State House Annex  
Trenton, New Jersey

**DATE:** March 18, 2002  
2:00 p.m.

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

Assemblyman Gary L. Guear Sr., Chairman  
Assemblyman Jeff Van Drew, Vice-Chairman  
Assemblyman Jack Connors  
Assemblywoman Linda Stender  
Assemblyman Nicholas Asselta  
Assemblyman Paul R. D’Amato



### **ALSO PRESENT:**

Karlis Povisils  
*Office of Legislative Services  
Committee Aide*

John McCarvill  
*Assembly Majority  
Committee Aide*

Jerry Traino  
*Assembly Minority  
Committee Aide*

*Meeting Recorded and Transcribed by*  
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**ASSEMBLYMAN GARY L. GUEAR SR. (Chairman):** Good afternoon, ladies and gentlemen. Welcome to the Assembly Tourism and Gaming Committee.

We have a number of people who would like to testify today. We're going to be talking about Internet gaming. I would ask if you could possibly keep your comments to about 10 to 15 minutes so that we can leave in a reasonable hour at the end of the day. I would also remind everyone that we are live on the Internet. Anything that you say will be transmitted through a live feed on the Internet. It will also be on the computer, at a later date, on the Web page, on the State Web page, or if you want a hard copy, you can request a hard copy. And we can provide you with a hard copy through OLS.

If we can call the roll call at this time?

MR. POVISILS (Committee Aide): Calling the roll.

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Here.

MR. POVISILS: Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Here.

MR. POVISILS: Assemblyman Connors.

ASSEMBLYMAN CONNERS: Here.

MR. POVISILS: Assemblywoman Stender is next door. She'll be joining us shortly.

Vice-Chairman Van Drew.

ASSEMBLYMAN VAN DREW: Here.

MR. POVISILS: And Chairman Gear.

ASSEMBLYMAN GUEAR: Here.

I'd like to call Assemblyman Anthony Impreveduto first. And for everyone in attendance today, if there are any questions from Assembly members, they'll come through the Chair.

Assemblyman Impreveduto, good to have you here.

**A S S E M B L Y M A N   A N T H O N Y   I M P R E V E D U T O :**

Thank you, Mr. Chairman, and it's certainly great to be here.

As you know, this issue of Internet gaming is an extremely important issue, an issue that we in New Jersey cannot be like the proverbial ostrich and stick our heads in the sand and say it doesn't exist. Internet gaming currently exists. There are approximately anywhere from 1400 to 1800 Internet gaming sites currently. All you need to do is turn on your computer, go onto the Internet, and I'm sure one will pop up in a short period of time. All you do need to do is click on that site and within a few minutes and giving some information, you could probably be gambling.

Well, then why do we need to do this bill if we can already do it? Well, the problem is all of those Internet gaming sites that you currently can go on -- all 1400, 1600, 1800 of them are offshore. Not a single one is operating, that we know of, in the United States or any United States territories. However, they do exist, and people are gambling. Anyone can gamble. If you are an 11-year-old kid, and you are on your computer on the Internet and a site pops up, you can click on. And if you know your parent's credit card number, you can go gamble.

There is no one watching the store. There are no protections. However, anyone who currently gambles on the Internet is nuts. You don't know the safety of the game. You don't know the legitimacy of the game. If

you go on the Internet right now and decided to gamble, there's no one that can tell you, if you're playing crap, that every tenth roll of the dice is going to be a seven. There's no one that can tell you if all the tens are in the blackjack deck. There's no one that can tell you that every fifth roll will be double zero on the roulette wheel. You don't know if the games are safe or honest.

More importantly, you certainly don't know if you win, you're ever going to get paid. Because again, these are all offshore. So you might win \$50,000-- And we have a case, right here in New Jersey, of a man who did win \$50,000 on an Internet gaming site. Unfortunately, he never got paid, and he sued, and he won. But what did he win? He won the fact that he won the lawsuit, and that should that person, whoever it is who owns that Internet site, ever come into New Jersey or the United States, we'll get him and we'll get you your money. But that's not going to happen.

How many kids are hurt? How many people, who cannot control their own gambling problems, are losing, hand over fist, dollars every day. These are major problems, ladies and gentlemen. The other major problem is people in New Jersey are gambling on the Internet and New Jersey is not getting a penny out of it. However, if you go to Atlantic City and you play on the tables, we'll get some taxes out of that.

So all of these offshore sites have people gambling where (a) we're not getting any money from them, (b) we don't know if they're legitimate or safe, and (c) who owns them? Who owns these sites that are offshore? Has organized crime found a way to do their business legally? I don't know. I'm sure there's an organized crime site somewhere. The Hell's Angels -- I've heard of Hell's Angels sites. Are there just plain guys like you and I who decided to

be entrepreneurs and go into business? I'm sure some of that exists, too. But we don't know who they are. They could be Columbian drug dealers for all we know, who own these Internet sites, and we're just helping them to make more money to put more drugs on the street.

Well, all of these answers go unknown, but we do know this. We do know this. We do know that there are 1400, 1600, 1800 sites. We do know that they make billions, and that's with a *B*, billions of dollars a year from this gambling. So what do we want to do about it? Well, my bill says that it's there. My bill says that we can't stop it, so let's license it. Let's regulate it. Let's protect kids from playing it. Let's help those who cannot help themselves: the compulsive gambler. Let's help those people by making sure some of the profits that we make from that go towards 1-800-GAMBLER and other gambling programs, to help those people who can't help themselves. Let's make sure the game is fair and legitimate -- by putting this server on the floor of the casino, have the gaming enforcement people ready access to it that can take that computer out at any time and check the software to make sure that it's legitimate. If they find that it's not legitimate, the penalty would be not loss of the Internet gaming license, but loss of your land-based license also. So you make it strict enough that no one will fool with it. So that any person that plays knows that the game is fair and knows if they win, they're going to get paid.

How do we help kids? Well, the first thing we need to do is protect the kids from getting to the sites and getting on them. Well, how do you do that? Well, currently, if the kid wants to play, he just goes on and if he's got a credit card number, and he is. What we propose to do is have

science and technology come up with ways to prevent kids from doing that. It already exists. There are things called the thumbprint mouse where no one can play unless you are the thumbprint that's registered to that mouse. There's a bio -- I'm trying to think of the actual words now -- biometrics keyboard, where if I'm the player and I go on, I type my name and my password in 15 times. Now, I can tell you what my name is and I can tell you what my password is, but if you come on and try to type it in, it won't let you, because it measures the speed and the pressure with which I type. This is all last year. This was technology that was out last year. I'm sure this year there's 10 other things that are even better than that to protect kids or unauthorized users from getting to these sites, which we currently have nothing of. Right now, anybody can play, keep that in mind.

How do we help the person who can't help themselves, besides putting money in there to help those organizations like 1-800-GAMBLER? Well, what you do is everyone anticipates how much they're going to play for that particular month. I want to play \$300 a month. Once you hit that \$300 limit, you're stuck. You can't play any longer. If you call up and you say, "I want to change that to \$1000," that's fine. You can do that, but three months from now. There's a three-month cooling off period so that you couldn't bet your house and lose it.

You can see the history of every player. Every turn of the card, every roll of the dice is seen forever. We have a history of it. We currently don't have that right now with floor gaming. Every time you roll the dice in the Internet and every time you flip a card, a history is made of that, and that's kept in memory. So, if there's any problem with someone saying, "Hey, I

played this, and I didn't get paid, or I should have gotten a blackjack, or I think all the tens are out, I counted the cards," or whatever the situation is, the State would have the ability to go back and look at every turn of the card and every roll of the dice to make sure that it was a legitimate play.

Lastly, dollars for New Jersey. As we all know, we're in a bit of a crunch right now, financially. Where do the dollars for New Jersey come from? Well, the casinos pay a lot of money to New Jersey. A lot of that money goes towards the general budget. A lot of that money goes to the PAAD cards and to help senior citizens buy their prescriptions and other senior programs. We'll be able to make those programs even better by taxing it, which is, again, money that's currently out there untaxed.

You're going to hear, and I suspect you've already heard-- By the way, this legislation is already the law in Nevada. They've done it a little bit differently. Our bill talks to-- We've put certain safeguards in. In Nevada, Assemblywoman Merle Berman put the bill together that eventually became the law in Nevada and said, "The gaming folks will come up with the regulations on that." We chose not to do that. We wanted to have more regulations in our bill. But they already have passed this bill, and the governor of Nevada had signed it a year ago. So this is something that is going to happen, eventually, in the state of Nevada.

We also hear that the casinos in New Jersey don't want this. The Casino Association is against it. I find that strange in that those very same casinos are for it in Nevada. Why is it okay in Nevada and not okay in New Jersey? Maybe the reason for that is we don't need two Internet gaming sites. If I'm Harrah's or Bally or somebody else, maybe one is enough, and I'll pay

all the taxes to Nevada and the heck with New Jersey. So Nevada might get that, and New Jersey doesn't get it. Maybe they'll save some tax money. I'm not sure exactly how that works. But I suspect that that's the reason for it.

In fact, all of the hotels, as far as I know, already have for-fun sites in New Jersey. You can go on and game right now in Harrah's, New Jersey. And it's fun. You can't bet any money, and you can't lose any money. You can just play for fun. The site is up, it's running, along with many of the other sites. In fact, I'll go one step further and tell you that there are probably some casino owners in New Jersey that, if they're not going to get it in New Jersey, and they don't have a place in Nevada, may go some place else.

Where are the some places else? Well, Curacao, Antigua, Belize in South America, Costa Rica -- these already have sites. They'll tell you they're regulated. They probably pay \$100,000 a year or the one-shot deal to get a so-called license to do Internet gaming. They're on the Internet, and nobody is watching them. Nobody is watching their software. Nobody knows if, again, if it's honest or fair.

So why not do it in New Jersey? Why not protect the very same people who are currently using it and put those bad people out of business. If organized crime is currently the owner of a site, and it's being run out of Belize, we're going to give the players an opportunity to say, "Play at Bally in New Jersey, or play at Joe's Casino in Belize." Where do you think they're going to go? They're going to go to the place that they know is legitimate, and it's safe. We will, de facto, put out of business many of these sites that are offshore that could be run by Colombian drug dealers or could be run by organized crime or could be run by some very legitimate people. But we don't

know which are owned by the legitimate people and which are owned by the bad guys. But what we do know is if we regulate it in New Jersey and permit it to play, we could close up a lot of those places, since most of their business is right here in the United States of America.

There's been talk in Congress about a prohibition. We should ban this. Well, I don't know how you do that. We had experience once before with prohibition. There's not too many people on this Committee-- In fact, there's isn't anyone that probably remembers that, but I suspect that there are some people in the audience that might -- at least, their parents may. Prohibition didn't work with alcohol in the twenties. Prohibition is not going to work with the Internet in the 2000s. This is not the time and the place for prohibition. It's been tried, and it doesn't work.

So what do you do? If we can't stop it, we need to regulate it. And by regulating it, we can protect the kids. We can protect the people that need help who can't protect themselves, and we can tax it and make some money for the State of New Jersey and for the very programs that those taxes will sponsor.

So, ladies and gentlemen, I leave it to you. The bill is not up for a vote today, but I would hope at some point it does. And remember that we can't say it doesn't exist, because it does. All you need to do is turn on your computer and go onto the Internet, and I guarantee you, within five to ten minutes, you'll have a site pop up that you can go to gamble at. So, let's not again be like that proverbial ostrich that sticks its head in the sand and said, "It doesn't exist." It does, and our kids are playing on it. So, let's try to protect them.

I leave you there. Thank you.

ASSEMBLYMAN GUEAR: Thank you, Assemblyman.

Would you stand by for one second, please?

ASSEMBLYMAN IMPREVEDUTO: Sure.

ASSEMBLYMAN GUEAR: Do we have any questions from Committee members?

ASSEMBLYMAN CONNERS: Mr. Chairman.

ASSEMBLYMAN GUEAR: Yes.

ASSEMBLYMAN CONNERS: Assemblyman, thanks for being here today. Just a question about your bill. Does it differentiate between virtual gaming and live gaming, or does it cover both areas?

ASSEMBLYMAN IMPREVEDUTO: Our bill -- there is no live gaming in our bill. Our bill is strictly gaming on the casino on the Internet where you'll see the graphics. It's virtual gaming. I know there is someone out there with a live gaming program. In fact, he did come to my office a year ago. I believe I spoke with the gentleman. It's another way to go, I guess. I don't think it's the best way to go, but I think it's out there.

I urge you all to go on to one of these sites. I mean, I did. Not to gamble-- You can go onto these sites, at least the ones I went on -- USA Casino, I think it was -- where you can play for fun, or you can play for real. You go on it, and you certainly click the button that says, "Play for fun." The graphics are absolutely unbelievable. I mean it. The thing that bothers me the most, when I think about the New Jersey Casino Association being against this and not wanting to do it in New Jersey, but, yes, they want to do it in another jurisdiction, is that people who are going to gamble on the Internet and people

who go down to Atlantic City-- I mean, if you're going to go to Atlantic City for the weekend, gaming on your computer is not the same thing. You're going down to Atlantic City for the restaurants, for the hotel, for the vacation, for the ambiance, for the noise, the glitz. You don't get that in the kitchen of your house. So, when somebody tells me that they'll stop coming to our casino, I don't see that.

I think Australia, which had this, didn't see that either. I think a study was done there, and they didn't find that to be at all the situation. You also may hear talk that Australia stopped it. Well, it wasn't just stopping gambling on the Internet, it was a lot of gaming that was stopped in Australia. Since Australia, you could virtually game anywhere you wanted to. I mean, you close the bathroom door, and there was probably a slot machine. So there gambling wasn't as regulated as here.

Isle of Man has just permitted Internet gaming to happen there. I understand the U.S. Virgin Islands are looking at it. In fact, it may have already started -- done it and gone ahead and said, "We approve of Internet gaming." It's here. It's not going to go away. It's only going to grow and get bigger. If we sit here and talk about it, it grows bigger and more of our kids play and more of those folks, who can't help themselves, lose more money, and New Jersey doesn't get any of it and neither does the United States of America. So let's get it done. Let's do it the right way. Let's protect those who need to be protected. And quite honestly, let's make some money with it also. So there's no down side to the bill.

I just don't understand when people who don't read the legislation, who come out the very next day, after you put it in and say, "Nope. It's a dead

issue. It's not going to happen." Well, try reading it first. Try understanding what we're trying to do. And once you understand it, I don't think you can argue with it.

Did that answer your question, Jack? (laughter)

ASSEMBLYMAN CONNERS: Yes.

ASSEMBLYMAN GUEAR: We have one more question.

ASSEMBLYMAN IMPREVEDUTO: Sure.

Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Chairman.

Through you, I know exactly what you're talking about, Assemblyman. People just don't read the legislation. Let me first ask you-- I want to be clear on what you support and what you don't support. Now, you support simulation?

ASSEMBLYMAN IMPREVEDUTO: I'm supporting virtual gaming.

ASSEMBLYMAN ASSELTA: Virtual -- similar to what is being created, let's say, in the Caribbean, but we want to harness that for ourselves and derive the tax dollars.

ASSEMBLYMAN IMPREVEDUTO: Right, but the only people that would be permitted to get a license to do that would be those casinos that currently are licensed to do land-based gaming in New Jersey.

ASSEMBLYMAN ASSELTA: Okay.

ASSEMBLYMAN IMPREVEDUTO: The four-way check has been done. All the background has been done. We know they're legitimate business people.

ASSEMBLYMAN ASSELTA: So, would you also be supportive of live remote from a gaming facility in Atlantic City?

ASSEMBLYMAN IMPREVEDUTO: Not as a sole-- I'm not saying that would be the sole way to do it. No. I would be -- in addition to this, yes. In other words, give people as many opportunities as you want to give them.

ASSEMBLYMAN ASSELTA: Okay. Okay.

ASSEMBLYMAN IMPREVEDUTO: You can do it live. You can do it virtual. You can do it any way you want to do it, but not one over the other.

ASSEMBLYMAN ASSELTA: So it sounds like our legislation and your legislation are trying to accomplish similar goals but could be two complimentary pieces put together to create this new marketplace of gaming, so that we can take advantage of tax dollars that are being currently lost.

ASSEMBLYMAN IMPREVEDUTO: Right. Nicholas, you're absolutely right. However, the only caveat there is, it's not new. It's there. It's been there for a number of years now. My legislation does not permit sports betting. It only permits table gaming, the games of chance that are currently existing on the floors of the casino -- no horse racing, no sports betting, strictly table gaming.

ASSEMBLYMAN ASSELTA: So, as you know, this Committee has also had a demonstration of live remote and some of the quality assurances for underage gamblers not to be able to access the equipment, and that would be a concern of yours, obviously, correct?

ASSEMBLYMAN IMPREVEDUTO: Primarily. Look, no one has done more gaming legislation and antigaming legislation for kids than I have. Kids by the thousands are taken off the casino floor. The casinos are doing a great job with that. But kids are gaming, and we need to do everything within our power that we can to tighten it up and stop it. Kids don't need to gamble. It's that simple.

ASSEMBLYMAN ASSELTA: Well, I would, and through the Chairman, I would request, respectfully, Assemblyman, you take a look at our piece of legislation also, so that maybe, at some point in time, if we move forward on this initiative statewide, through the legislative process, that we could somehow merge these two pieces of legislation to reflect a total commitment to capturing the marketplace on the east coast or around the world.

ASSEMBLYMAN IMPREVEDUTO: Certainly, Assemblyman, we would be very interested in looking at that, yes.

ASSEMBLYMAN ASSELTA: Okay. Thank you.

ASSEMBLYMAN GUEAR: Any other questions from Committee members? (no response)

Assemblyman, thank you very much.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

If you want, I'll stick around a little bit, in case anybody has any questions they want to ask.

ASSEMBLYMAN GUEAR: Okay, fine.

Next I'd like to call Mr. Frank Catania, who is the President of Catania Consulting.

Frank, are you alone, or do you have anybody with you?

**FRANK CATANIA:** I'm by myself.

ASSEMBLYMAN GUEAR: Okay. Welcome.

MR. CATANIA: Thank you, Mr. Chairman. It's a pleasure being back -- a former Assemblyman a few years ago. It's nice being back in the chambers.

ASSEMBLYMAN GUEAR: Good to have you.

MR. CATANIA: I'd like to thank you for the opportunity to testify today with regard to the Internet gaming industry and the prospective of effective State regulation. Just to give a little bit of my background again, I did serve in the General Assembly for a number of years and then was appointed as Director of the Division of Gaming Enforcement and now have a firm, Catania Consulting, which has an emphasis on Internet gaming and also of counsel to the firm of Sterns and Weinroth.

I have to begin by saying Internet gaming already exists. As Assemblyman Impreveduto said today, and I'll probably repeat some of those statistics, most recent statistics, basically, have been that there are probably anywhere from 1400 to 1650 gaming Web sites currently operating. That's a significant increase from just a year ago. You'll further hear testimony today from Marc Falcone of Bear Stearns, who can provide input into the figures and projections with regard to Internet gaming.

There is no question that billions of dollars are reportedly being bet over the Internet with little, if any, oversight or guarantee that operators of these sites are fair and honest or that protections are in place to keep children and compulsive gamblers away. These revenue projections imply that

a percentage of these moneys are from our citizens and leave the United States with no subsequent benefit whatsoever, directly or indirectly.

My support for Internet gambling regulations is concentrated on the exact issues raised by the opponents of Internet gaming. The solution lies in a strictly regulated alternative aiming at ensuring the presence of harm minimization measures, not the least of which relate to the protection of children and compulsive gamblers. The key issues of such an approach are protection of minors, appropriate problem/compulsive gambling measures, protection of revenue, and ensuring the integrity of products and probity of those involved.

In the gaming industry, it's well-known that in New Jersey and Nevada -- share leadership positions in the gaming industry. And that the business of casino regulation, albeit with a competitive undertone on occasion, the Legislature and the gaming regulators deserve credit for this distinction.

Over the last two years, the New Jersey and Nevada Legislatures both introduced and debated legislation that would legalize, license, regulate, and tax the Internet gaming industry. While the New Jersey legislation, introduced by Assemblyman Impreveduto, never gathered much momentum last year, the Nevada legislation was signed into law last June 14, 2001.

Assemblyman Impreveduto's research showed that New Jersey residents were already playing casino games on-line and that there exists an element of Internet gaming operators, also know as fly-by-night operators, and have no desire to play fair with these players. I applaud Assemblyman Impreveduto, Cohen, Azzolina, and Assemblyman Asselta for their foresight

to draft legislation to legalize and regulate an industry that historically had flourished in an environment with little, if any, regulatory oversight.

The legislation introduced in New Jersey to regulate Internet gaming will do far more to minimize the social ills, including underage and problem gambling than will any attempt at prohibition, let alone no action at all. I submit to this Committee that the question is not whether or not you will have on-line gaming, for in my opinion, you most certainly will, unless you ban the Internet itself. The question is whether you will have well-regulated, aboveboard, on-line gaming or unregulated, underground, on-line gaming.

Adding to the complexity and reflecting the desire of existing, reputable companies to diversify into this new technology, a quick media search will show that at least three large Las Vegas gaming companies -- Harrah's Entertainment, MGM Mirage and Park Place Entertainment -- already offer play-for-fun casino-style games to registered voters -- visitors to their respective Web sites. I had voters on my mind there.

ASSEMBLYMAN VAN DREW: You're still back at the Assembly.  
(laughter)

MR. CATANIA: That's it. That's it. I keep on coming back.

Some licensed casino companies will move forward with Internet gaming plans in other jurisdictions while excluding players from the United States, for at least now. The latest example is Station Casinos, a Nevada licensee, partnering with Sun International, a former licensee in New Jersey and a former owner of Resorts in Atlantic City, in an Internet gaming venture licensed out of the Isle of Man. They do not take any bets from the United States, nor any other jurisdiction where it's specifically prohibited.

Gaming companies realize that they will have to expand to the Internet and will be looking to acquire or align with legitimate Internet companies. Progress and profits will be the motivating factor. The Nevada legislature recognized that Internet gaming legislation would position Nevada in its casino industry to benefit from Internet gaming when the practice of taking wagers over the Internet becomes accepted within the United States.

As a brief update on the Internet gaming on the federal level, the Department of Justice has contended, despite strong opposition, that Internet gaming is a violation of the Wire Act and, as such, is already an illegal activity. However, in February 2001, a Federal Court in Louisiana, in a class action suit against credit card companies brought by gamers who lost moneys while wagering at Internet casinos, rejected the plaintiffs' claims for various reasons. Included in the determination was a finding that "Internet gaming on a game of chance is not prohibited under 48 U.S.C. Section 1084," or, the Wire Act. The difficulties arise because legislation and control has historically been left to the states, but the very nature of the Internet is global and ignores jurisdictional boundaries.

You will hear more about the legal circumstances surrounding Internet gaming from Nicholas Casiello, a partner in the firm of Sterns and Weinroth, later on. While the Internet poses many challenges to governments and law enforcement agencies, creating a regulatory framework for Internet gaming is a far better solution to this difficult public policy issue.

Just like regulation of traditional casinos, there cannot be any shortcuts with regard to suitability, especially in the infancy of Internet gaming. Any regulatory structure would have to be particularly sensitive of all

the allegations and rumors of impropriety over the Internet. The suspicion and mistrust of Internet gambling that exists must be countered by strict regulations -- only those with impeccable suitability and financial viability to be licensed, the same requirements as established for traditional casino licensing. There should be no difference in the licensing process between a traditional gaming license and an Internet gaming license.

The same level of scrutiny needs to apply to the evaluation of systems and games and to the general good business practices and internal controls addressing the operational and administrative processes. There is something that is common with all well-regulated, traditional forms of lawful gaming, and that is something that New Jersey has held a leadership position in throughout its 25-year history with well-regulated casino gambling.

Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: Thank you, Mr. Catania.

Any questions from Committee members?

ASSEMBLYMAN D'AMATO: Yes, Sir.

ASSEMBLYMAN GUEAR: Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you.

In your study of this, what type of projection have you heard about as to the annual amount of gambling through the Internet?

MR. CATANIA: Well, the difficult part about this is that it comes from-- A lot of the sites are offshore where they're not really well-regulated. You do have some well-regulated sites. For example, the Isle of Man, you have Alderney, you have the Mohawk Indians that are just outside of Montreal, which I drew the regulations for. The other sites, basically, there are no

reporting. There's no auditing by any regulator, so it's difficult to say. But Marc Falcone from Bear Stearns will be testifying on that today. I know when I first started talking about this, we were talking about less than 1000, probably somewhere in the neighborhood of 750 sites. And today, we're talking probably about 1650 sites. And of those 1650 sites, you're probably still only talking about maybe 400 companies that are involved. What they do is they have multiple sites, not just one particular site.

ASSEMBLYMAN D'AMATO: The reason I asked you the question is that I'm reading figures of \$3 billion to \$5 billion generated, and I realize it's not an exact science. But have you heard that range?

MR. CATANIA: Yes. I've heard the range in that area. I've heard some projections, basically, that in 2005, you would have approximately 6 billion, I think it was. I think that has now been projected downward to, I think, either 4 or 5 billion. But it is still all billions, and there's a lot of money out there that's being wagered. It's being wagered every single day from everywhere in this country, even though it's--

The court, in re MasterCard, the Louisiana case, basically did not say that casino gaming on the Internet was illegal. They said sports betting was, but casino gaming itself was not considered when the Wire Act was passed in 1961. So that is on appeal. But again, the industry-- Because I think it's the Fifth Circuit that doesn't have to be followed in other circuits in the country.

ASSEMBLYMAN VAN DREW: Mr. Chairman, one more question?

ASSEMBLYMAN GUEAR: Yes, sure.

ASSEMBLYMAN VAN DREW: It's my understanding that certain credit card companies will no longer permit the credit card holder to participate in certain games because they have a problem with collectability. Have you read anything as to how MasterCard, American Express, Visa -- how their view on Internet gaming should be regulated? Should there be a promulgation of regulations in different states?

MR. CATANIA: Well, first of all, American Express takes no gaming bets whatsoever. The other -- MasterCard and Visa -- the question arises inside the United States. If it's a bank and if you know the way MasterCard and Visa are set up, they're broken into different parts of the world. It's just that the part here that covers the United States is very concerned about it because of the grayness of the area of Internet gambling. So, here, what they have done -- it's happening now that they are not accepting the credit card payments.

However, what happens is they now have other means of paying. So there are things called FirePay, Pay Bill. These are companies where you take your credit card, you put your money into what they call e-cash. And if I want to go to eBay® and bet or, excuse me, to bid on an item, I can just use my FirePay account to bid, or I can just take that money and go and play on a site. What happens if you're on a gaming site, you use your credit card-- You only can be credited back up to the amount you've originally bet. So, if you bet \$500, they would just put the \$500 back in your account, the rest is by check. But some of the alternate methods, similar to the FirePay, you put your money in, and it also goes right back into that other account.

So, even though they're looking at ways of-- For example, Representative Leach has a bill that would prohibit any type of Internet gambling through credit cards and other bank instruments. Right now, there are processes that are happening that would avoid this also.

ASSEMBLYMAN D'AMATO: Thank you.

ASSEMBLYMAN VAN DREW: Mr. Chairman.

ASSEMBLYMAN GUEAR: Go ahead.

ASSEMBLYMAN VAN DREW: Through the Chairman, just a couple of questions. You were talking about underage children gambling. And certainly, if we legalize this in New Jersey, perhaps there would be some way to control that, but they would still have the option, obviously, of gambling on the current sites that are unregulated now. Is that correct?

MR. CATANIA: Yes. Those sites that they would probably be able to go to -- where the major problem is, there's no disclosure that there's an age limit. Throughout the world, the age limit is 18. In New Jersey, it happens to be 21. So there is some questions there that have to be worked out. But with regard to underage gamblers, there are different procedures that are worked through the registration process, that there's only a limited amount they could bet until hard copies come into the gaming company of the person's identity. Not only as to his age, but also where he is located. For example, you're not going to take a bet from the state of Michigan where prohibition of Internet gaming is there. So you will not take a bet from Michigan. If it's in Nevada, you could know that somebody is there, and you could take a bet from Nevada.

ASSEMBLYMAN VAN DREW: Similar to, for example, pornography -- you really can't control the Internet. So, regardless of whether we pass this or not, we're really not going to be able to deal all that well with the problem of children who are underage and gambling.

MR. CATANIA: What happens is, the way I would foresee this to happen is, once you have the well-regulated sites, you're going to have your players going to those sites, because they know that the odds are going to be fair and honest. They are going to know that the people that are there have the financial ability to pay. If you bet \$10 and win, you're going to get paid. The same as if you're going to be in one of the casinos in Atlantic City. It's, basically, if you're going to some of these other sites, it's similar to going to some of these illegal VLTs that you have in some of the cities throughout the state, where you go in and the payout rate is 40 percent, and you don't know if you're going to get paid.

I know that the Federal Government is looking at -- this is not with regard to prohibition, but with regard to underage gamblers. They want to see, even the sites that are offshore, to put up some prohibitory language with regard to underage gamblers, that they don't accept it and to try to take some action. If they were to go to the software providers and ask that this be placed in it, you're going to see that, unless the company is using their own software, that most software providers will have this included in their software packages also.

ASSEMBLYMAN VAN DREW: Understood, but it still will be a problem regardless. It's part of the Internet, I guess we can't help it.

The second question, sports betting, is that allowable on some of these unregulated sites?

MR. CATANIA: That's happening. That's actually allowed in some regulated sites. I mean, that's coming out of the UK, where it's legal. I mean, *SportingBet.com*, if you wanted to go on and bet on anything-- And what they'll do is they will have-- It's regulated in the UK. I believe it's coming from one of the-- It was coming from one of the British Isles. It's probably back in the UK now. That's happening. I mean, you can do that.

ASSEMBLYMAN VAN DREW: So those who would want to gamble on (indiscernible) in the State of New Jersey would still have the option, but they obviously would not utilize one of our sites if we were to do this.

MR. CATANIA: That's right. And there's nothing specifically that we could do. I think, just as an aside, I think we missed the train, several years ago, when we had the option of doing sports betting in New Jersey, that we didn't do it.

ASSEMBLYMAN VAN DREW: Through the Chairman, one more question?

ASSEMBLYMAN GUEAR: Sure.

ASSEMBLYMAN VAN DREW: Is anybody -- reputable is the wrong word -- are any of the casinos doing this currently?

MR. CATANIA: Yes.

ASSEMBLYMAN VAN DREW: I know, because in Nevada, I know there are people who are interested, but they, obviously, can't do it yet.

MR. CATANIA: Sun International is doing this right now, and they are-- Station Casinos is just -- they've just announced the partnership. Sun International started out with Ambassador Casino in Mohawk territory of Kahnawake and moved to the Isle of Man, and they have a system that, basically-- Nothing can be foolproof. But what it does, it puts the onus on the individual, if he's underaged, and he really has to work and get some things.

There's a sign-in registration form. All the information has to be put in, age, plus there has to be a number for a form of identification. For example, if it's a passport number, that has to be included. That then goes to the gaming site. The gaming site then sends a pin number or a password in a generic envelope to the player. So, if my son got my card, it's going to be coming to me. It's not going to have on any casino name on the envelope, but it will just be a generic-type envelope, giving me a pin number. Two weeks after, or whatever time period, that same registration page comes up. You now have to fill it in exactly the same. If there's anything out of the ordinary, you're blocked off. And now, you also have to put in that pin number. And in the meantime, you had to send in the hard copy.

ASSEMBLYMAN VAN DREW: Through the Chair, a last question.

These new revenues, the 3 to 5 billion which is coming out, where is that coming from? People that normally don't have access to casinos, or is there an increase in gambling because of the access to this now, or do we not even know, or do you not know at this point?

MR. CATANIA: I don't think you really know where it's coming from, but there have been some studies on it. And basically, it's not the same type of player. It's not the same player that is in -- going to a casino such as Atlantic City or Nevada or Mississippi, where they hear the noise and they want the glitz and all. These are more secluded-type players.

ASSEMBLYMAN VAN DREW: Not even the same as the day-tripper that comes on the bus and sits at the machine?

MR. CATANIA: No, not at all. That's what we've heard, and I'm sure Marc Falcone can probably give you more information on that also.

ASSEMBLYMAN VAN DREW: Thank you.

Thank you, Chairman.

ASSEMBLYMAN GUEAR: One final question. Accepting the fact that Internet gaming is here, realizing that we would need to license and regulate Internet gaming and also understanding that we would need to protect people, compulsive gamblers, and children, my final question would be: How do you see this affecting the labor market, the job market compared to the way it is now with gaming in Atlantic City, as opposed as to what may happen in the future? Do you see it as a benefit for the average working person?

MR. CATANIA: What it's going to do, as Assemblyman Impreveduto put it well, that this is going to protect anybody who is playing on-line in New Jersey. It's going to be a benefit because any income that comes to it goes to the coffers and is additional income that's not there. It's also something that we have to look at. People say it could hurt the casino industry in New Jersey. That's not the case. I mean, any company that would come in here and say that this is going to hurt them because it's going to take

away players, I would argue that case because I think it could actually be a benefit. It's a marketing tool.

I mean, if I'm in Atlantic City and I'm going home and I wanted to go onto Caesars -- and I can go onto Caesars whatever I want to play there -- it's going to be able to bring me back. If I'm there playing for a couple of hours, they can give me a free bus ticket. But it's a marketing thing that could actually bring more employment to Atlantic City and actually bring more business. And the other good thing about it is that you have to have a casino here in New Jersey. It's not that you can come in and just be an Internet casino, which has no employees. Comparatively speaking, it has no employees. The casino can operate an Internet gaming site with probably just hardly any. Most sites are probably operating with maybe 30, 40 employees.

ASSEMBLYMAN GUEAR: Okay. Thank you very much.

MR. CATANIA: Thank you.

ASSEMBLYMAN GUEAR: Mr. James Hurley, Chairman, Casino Control Commission.

Good afternoon, Mr. Hurley.

**JAMES R. HURLEY:** Good afternoon.

ASSEMBLYMAN GUEAR: Mr. Fedorko.

**MICHAEL A. FEDORKO:** Good afternoon.

MR. HURLEY: You didn't even give me a chance to introduce my Vice-Chair. (laughter)

First of all, I want to say to Assemblyman Impreveduto, I'm probably -- I did a survey back there -- I'm probably the oldest person in this room, and I don't remember prohibition, so--

ASSEMBLYMAN IMPREVEDUTO: But your parents would have. (laughter)

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

As I'm sure you all realize -- you've heard it now from two speakers, and I'll say it again: gambling over the Internet is here to stay, regardless of what you do or anybody else does. A number of places allows it. You've heard it -- Australia and the Isle of Man, just to mention a couple -- and they have developed systems to attempt to regulate it. But it really is going to be up to you, and I don't envy your task, by the way, and the people of this State to decide whether legalizing Internet gambling here is good public policy for New Jersey. So what I would like to do today is give you the benefit of our analysis of the issue and some suggestions on what you have to keep in mind as you consider it.

Before I start, I know you have received a letter, I believe you have, from the Casino Association. Before you act on any legislation, I urge you to find out exactly how the Casino Association feels about this. And I say that not because we're in the business of promoting casino gambling, but we do know very well what the public policy is here in New Jersey and why casino gambling was established here for very specific purposes. These are the people, who own these casinos, who have invested \$7 billion in Atlantic City and employed 45,000 people. So you have to take into consideration how they feel about this issue.

I know that the American Gaming Association has expressed reservations about Internet gambling for a number of reasons. One is that people have not asked casinos to come into their living rooms, but that is exactly what will happen with on-line wagering and is happening now. New Jersey's casino industry, as I said before, has invested billions, and they have a lot at stake. It's one of the largest industries in the state.

You asked a very pertinent question, Mr. Chairman, when you asked how the laboring people, how the 45,000 people feel about this, in addition to those who own the casinos themselves. Some of you were here two years ago when I testified about Internet gambling, and I suggested that you, as public policy makers, have to ask yourselves three questions: Is Internet gambling legal, or can it be legal? Can Internet gambling be regulated? And do the positive impacts of legalizing Internet gambling outweigh the negative impacts?

With your permission, Sir, I'd like to go over those with you again today. Is Internet gambling legal? Well, if it were, you wouldn't have bills before you to make it legal. So the answer clearly is no. Can it be made legal? Certainly. That's what you do, but I think you need to do more than just pass a bill. The State Constitution is a problem in this matter and says, "No gambling of any kind shall be authorized by the Legislature, unless the specific kind, restrictions and control thereof have been heretofore submitted to and authorized by a majority of the votes cast by the legally qualified voters of the state." In our view, that means you need to amend the State's Constitution to legalize Internet gambling.

Can Internet gambling be regulated? I'm certain that it can. Maybe not today, maybe not in the same way we regulate the brick and mortar casinos in Atlantic City, but I'm certain, at some point, we will be able to regulate on-line gaming. Owners and operators already can be investigated and licensed the same way we do it with the casinos in Atlantic City. And at some point, the technology will reach the point where we can conclude that the games are fair and that the financial transactions are secure.

You know, and you've heard it here today, that Nevada passed legislation that permits on-line gambling after the regulators there determined that it can be properly controlled. But you also know by now that, so far, our counterparts in Nevada have not concluded that controls are sufficient to permit wagering over the Internet. About a year has passed, and they've been authorized to do this, but they haven't done it. But it's only a matter of time before they and we, I believe, are comfortable with the levels of control.

I noted earlier that the American Gaming Association has reservations about wagering on-line. It said last year that, "Appropriate regulatory and law enforcement oversight does not presently exist with regard to Internet gambling to properly protect the integrity of the games, the security, and legality of financial transactions" -- a huge item there -- "and against the potentially harmful effects of underage and pathological gambling." But at the same time, members of that organization are moving forward in foreign jurisdictions to become involved in Internet gambling. Just last week, MGM Mirage announced it had chosen partners to help develop a planned on-line gambling site that will be based on the Isle of Man; a site they hope to open within a year.

Would the positive impacts of Internet gambling outweigh the negative impacts? That's a tough call, because we don't know what the positive benefits of on-line gambling are going to be. If our casinos were permitted to operate on-line gaming, they certainly would make it easier for the people of New Jersey to wager, but I don't know if it would result in a significant increase in casino revenues or if the number of visitors to Atlantic City would decline as people turn to their computers to gamble.

When voters of New Jersey approved casinos, back in 1976, they were promised it would rebuild Atlantic City, create jobs, generate taxes, and so on. If you look at Atlantic City today, you see that casino companies have invested billions there. They employ, as I said, more than 45,000 people, a payroll in excess of \$1 billion, and their economic impact ripples throughout the State's economy. Last year, for example, casinos and their subcontractors spent \$1.7 billion buying goods and services here in New Jersey. Businesses that are located in every single county in the state. More than 2700 businesses, employing tens of thousands or hundreds of thousands of workers, and they all did business with casinos.

There's a lot more coming. Right now, casino companies in Atlantic City are building approximately 3700 new hotel rooms, investing more than \$1.5 billion. That's going to create thousands of new jobs and tremendous economic opportunities for vendors and suppliers across the state.

What would the people get for approving wagering across the Internet? Certainly, if it resulted in increase gaming revenues, it would generate tax revenue. But would Internet casinos build new hotel rooms?

Would they buy hundreds of millions of dollars of goods and services from New Jersey companies? I seriously doubt it.

Will it exacerbate underage and pathological gambling problems? Perhaps. Other witnesses here today will tell you about systems that they claim will do exactly that. They will tell you they have virtually foolproof ways to keep anyone under 21 from wagering. They will tell you that with tracking systems or loss limits, they can limit the harm that pathological gamblers can inflict on themselves. Perhaps they can. I hope they can. But as long as we keep reading stories about young people who are incredibly computer savvy, who have hacked their way into the most secure sites, then I personally won't have reservations about how effective and foolproof these systems are.

Let me briefly mention two other matters that you should keep in mind as you weigh this issue. One is that there is federal legislation that would ban Internet gambling. Last week, a House Judiciary subcommittee on crime approved a bill that would amend the Wire Act of 1961 to bar on-line wagering. There are some members of Congress who are staunchly opposed to gambling, and while their efforts to block Internet gambling in the past have undoubtedly failed, they are constantly looking to build new coalitions to get a bill passed. The other matter is that a growing number of credit card companies -- and no matter how anybody slices it, this is a matter of fact -- a growing number of credit card companies and banks are refusing to process transactions with gambling sites. That could make it a lot more difficult to conduct gambling on the Internet. You have to have the resources to play this game.

I brought with me today, and I have in your packet a copy of a study done by Professor Nelson Rose, Whittier School of Law in California. I commend it to your attention, because you're going to have to collect and weigh all of these matters. In fact, I would urge you, through your committee aide, to communicate with Professor Rose. Certainly, you ought to get some communication from him if your budget does allow you to bring him here to get him to testify. You ought to communicate with him and correspond with him.

I also have a copy of a study in here done by CNN: CNN.com. It's called, "Internet Gambling Stakes are High." I commend that to your attention, and another study that is in your packet from George Ladd and Nancy Petry, University of Connecticut Health Center. There's a ton of material being generated about Internet gambling.

In conclusion, let me say that we are not advocating for or opposing the legalization of on-line gambling. It is up to the people, and you are the representatives of the people to decide whether to change the public policy of the state. But when they do it, they have to recognize what they're doing. They are, in fact, changing the reason for the passage of casino gambling back in 1976 if they do this. If they want it, we will do everything in our power to implement a system of licensing and control to protect the public interest, to ensure that the game are fair, and that the State gets its appropriate amount of tax revenue.

I conclude my official remarks. I'd be happy to answer any questions. And I'm sure Vice-Chair Fedorko would be, too.

ASSEMBLYMAN GUEAR: Mr. Hurley, if it is to be the will of the people, that's one reason why we're here today having this hearing, so we can have anyone who has anything to say about Internet gambling testify and give us views from both sides or their personal opinion.

MR. HURLEY: I commend you for that, too, Mr. Chairman.

ASSEMBLYMAN GUEAR: But we need to learn a lot about it before we do take any action, as there's a lot of information out there.

MR. HURLEY: Yes.

ASSEMBLYMAN GUEAR: It would behoove us to read our packet so that we'll know what we're doing and when we're going about in the future considering legislation.

MR. HURLEY: And there's a lot more material beyond this -- what I brought you today. There's a lot of material.

ASSEMBLYMAN GUEAR: Any questions of Mr. Hurley?  
Yes, Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Nice to see you again, Sir.

MR. HURLEY: I thank you.

ASSEMBLYMAN D'AMATO: You brought that handsome guy with you again.

MR. FEDORKO: I'm his driver. (laughter)

ASSEMBLYMAN D'AMATO: Is it the Casino Control Commission's formal position that the technology is not sophisticated enough in order to ensure the appropriate control over Internet gaming and the integrity of the gaming?

MR. HURLEY: That would be our position today, but the Acting Director of the Division of Gaming Enforcement is here. He's going to testify, Tom Auriemma, and they are the people that have the technological know-how. But we know in what we read and what we hear, we would conclude that today. Yes, Sir.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: Any other questions?

ASSEMBLYMAN VAN DREW: It may be even more appropriate to ask him when he does testify. But again, the question that we keep talking about of being able to keep children on or off the Internet -- and I understand obviously the goal is to keep them off -- but the nature of the Internet, isn't that a moot point? There's always going to be a certain number of sites, whether we do this or not, that are not going to be sites that are controlled, and they're going to be able to get on them.

MR. HURLEY: In my judgment, yes. I picked up on that point that you raised earlier, and I think it's an excellent one.

ASSEMBLYMAN VAN DREW: Thank you.

It's good to see you.

MR. HURLEY: Good to see you, too. Thanks.

ASSEMBLYMAN GUEAR: No other questions? (no response)

Mr. Fedorko, any comments?

MR. FEDORKO: I would just add, Mr. Chairman, my concerns about this are integrity of the game and also the security of it. Also, keeping organized crime out of it, because that was something that-- In fact, I was

there the day that the governor signed the bill, Governor Byrne. He specifically mentioned keeping organized crime out of gambling.

Just to give you a situation, and I've been thinking about this on the way down here. In Atlantic City, there's a place called the Ocean Club, which is a condo complex. There's a storefront at the bottom. In one of those stores is a place called the Atlantic City Cyber Cafe, which I've walked by numerous times. How do you regulate people who are going to go in there and gamble? Do we license the cafe owner? How do you regulate -- how do you control the people? That's, I think -- there's a thousand things that we haven't thought of in this. I commend you for doing what you're doing. I think you have a tiger by the tail, but I think you're on the right track.

ASSEMBLYMAN GUEAR: Okay. Thank you both very much for being here today and testifying.

MR. HURLEY: Thank you.

MR. FEDORKO: Thank you.

ASSEMBLYMAN GUEAR: Thomas Auriemma, Acting Director, Division of Gaming Enforcement.

Tom, good to see you again.

**THOMAS N. AURIEMMA:** Good seeing you.

Mr. Chairman, members of the Committee, as a representative of the Attorney General of New Jersey and the Acting Director of the Division of Gaming Enforcement, the State agency responsible for the regulation of the casino industry in New Jersey, I thank you for the opportunity to appear before you today to address the important issue of Internet gambling in New Jersey.

It is a cliché to say that we are at a crossroads with regard to Internet gambling in New Jersey. But in this case, I think the cliché is very accurate. Let me first summarize our past positions on this issue, so you will have a clearer picture of what our options are for the future.

In our view, Internet gambling has been and remains illegal in New Jersey under our Constitution, our criminal law, and our civil statutes. However, despite this clear illegality, Internet gambling for real money on casino-style games and sporting events is widely available to any person in New Jersey with a computer and Internet access.

The Internet gambling business is no longer an insignificant cottage industry. Recent estimates place the number of gambling Web sites at about 1300, with annual revenues in the area of \$5 billion. Virtually, all such sites are operated from locations outside the United States.

Since the inception of the Internet gambling industry in the early 1990s, the Attorney General and the Division of Gaming Enforcement have been closely monitoring developments. Our concerns about Internet gambling, which have been expressed publicly on many occasions, fall into three basic categories.

First, the availability of Internet gambling in New Jersey nullifies our public policy, which is to only legalize and allow certain forms of gambling subject to strict State regulation and control. In this regard, it is as if outsiders have come in and opened unauthorized illegal casinos within our borders.

Second, Internet gambling raises many consumer and public protection concerns. These include: The integrity and financial resources of the operators; the fairness of the games; underage gambling; problem gambling;

money laundering; and the misuse of the patrons' financial information. Both the Division and other agencies of State government have already received complaints from patrons about Internet gambling Web sites.

Finally, Internet gambling unfairly competes with our legal and well-regulated casinos and other forms of gambling. Internet gambling operations pay no taxes in New Jersey and create no jobs or other economic benefits here. What they do is siphon off our residents' money and transfer it offshore, leaving us to address any social problems created in their wake.

As a result of our concerns about Internet gambling and the threat posed by its availability to New Jersey citizens, the Attorney General and the Division of Gaming Enforcement have taken several actions. Recognizing the difficulty of enforcing a prohibition on Internet gambling at the State level, New Jersey joined with the Attorney Generals of numerous other states in urging the enactment of federal legislation to ban Internet gambling. Following an extensive inquiry in June 1999, the National Gambling Impact Study Commission also recommended enactment of a federal ban on Internet gambling. Despite these calls, however, no federal prohibitory legislation has been forthcoming.

Believing it was our obligation to enforce the Constitution and the laws of New Jersey, even without the assistance of the Federal Government, the Attorney General and the Division of Gaming Enforcement, last year, filed civil lawsuits against 10 offshore Internet gambling operations, which had targeted and accepted business from New Jersey residents. Some of the Web sites had even accepted wagers from underage patrons. We are continuing to pursue those actions, although we have encountered the expected difficulties and

delays in the the serving process and obtaining jurisdiction over the foreign defendants, many of which are located in Caribbean nations.

Utilizing a provision in the Federal Wire Act, the Division also sought and obtained the termination of telephone service to several sports wagering operations, which were the subject of the Division's judicial complaint. However, this procedure proved to be of limited effectiveness due to the large number of toll-free service providers, the complex ways in which such service is provided, and the easy transferability of specific toll-free telephone numbers.

Although, as indicated, the Attorney General and Division of Gaming Enforcement have in the past supported and attempted to enforce a prohibition against Internet gambling, we have always recognized that changing times may dictate fresh approaches. Indeed, while recommending that the prohibition on Internet gambling be maintained for the present, the Joint Report on Computer Crime by the Attorney General and the State Commission of Investigation, issued in June 2000, explicitly recommended that, "In the event a federal prohibition of Internet gambling is not enacted, and State attempts at prohibition prove to be ineffective or contrary to New Jersey's interests, the regulation of Internet gambling should expeditiously be reconsidered."

As I will point out hereafter, there have been certain factual and legal developments that may support reconsideration.

First, no federal prohibition on Internet gambling has been enacted. A prohibition bill introduced in the United States Senate, commonly referred to as the Kyl Bill, twice failed to achieve passage and has not been

reintroduced. A prohibition bill is pending in the United States House of Representatives and, as of last Tuesday, was referred to the House Judiciary Committee for a vote that has not yet been scheduled. Interestingly, the bill was recently amended to clarify that states would be permitted to regulate gambling on the Internet, provided they could somehow verify the age of the bettor and prevent out-of-state residents from taking part in the games. Nevertheless, the bill is opposed by the American Gaming Association and others, and it's fate remains uncertain.

Another pending House bill, which has been referred to a House Judiciary subcommittee, would ban the use of credit cards and other financial instruments to pay for illegal Internet gambling transactions. But even if that bill is enacted, the question of what constitutes an illegal Internet gambling transaction would still be left to the determination of existing federal and state law.

Second, although the Division continues to vigorously pursue its cases against various Internet gambling operations, it is obvious that with over 1000 functioning Web sites, State-initiated actions against sites on an individual basis will have little impact on the availability of Internet gambling as a whole. The other option suggested in the Joint Report, the adoption of legislation that would discourage credit card and other financial service companies from providing the means to engage in illegal Internet gambling in New Jersey, is still possible but has not yet been attempted.

Third, the technology associated with Internet gambling has advanced and continues to evolve rapidly, raising the possibility of more effective regulation and control than were previously deemed feasible. The

state of Nevada has gone so far as to authorize the licensing and operation of virtual casinos, subject to effective regulatory oversight. And with the full knowledge and approval of the Division, some companies affiliated with New Jersey casino licensees have become involved in Internet gambling in foreign jurisdictions, subject to stringent controls, including a requirement that no business be accepted from patrons identified as residing in the United States or any other location in which such gambling is prohibited.

Finally, state budgetary constraints, as well as increased competition for our casinos from neighboring jurisdictions, including New York, may affect the economic realities. We cannot be certain that if Internet gambling were legalized in New Jersey, it would produce significant additional casino or tax revenues. What we can be sure of is that none of the money currently flowing from New Jersey residents to offshore Internet gambling operations is benefiting our State in any manner.

With this background in mind, let me identify what we consider to be the key policy determinations which we appropriately leave to the determination of the Legislature and the governor. First and foremost is whether, as a threshold matter, Internet gambling on casino games, in any form, should be added to the existing varieties of legalized gambling in New Jersey.

In this regard, we note that legislation already enacted in New Jersey provides for Internet account wagering on horse races, with safeguards to address the problems of underage and problem gambling. In light of this, the legalization and regulation of another form of Internet gambling may no longer represent a radical departure from existing policy.

It is also for others to determine whether the legalization of Internet gambling would detract or enhance existing casino business and whether Internet gambling would be profitable in any event. And, finally, the impact of the legalization of Internet gambling upon the other forms of legalized gambling in New Jersey must also be assessed. Of course, the Attorney General and Division of Gaming Enforcement stand ready to assist in this process by providing any required information concerning legal or technological issues.

Once again, on behalf of the Attorney General and the Division of Gaming Enforcement, I thank you for the opportunity to express our views on this important issue.

ASSEMBLYMAN GUEAR: I thank you for your testimony.

Any questions from Committee members?

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Of the \$5 billion-- First of all, thanks for being here today.

MR. AURIEMMA: Thank you.

ASSEMBLYMAN D'AMATO: Of the \$5 billion in projected gaming on the Internet, is it a safe bet that -- what -- 500 million comes from New Jersey? What percentage would you say?

MR. AURIEMMA: It is hard to say exactly what percentage comes from New Jersey. That 5 billion number, that is a rough estimate and that is a worldwide estimate, not just from the United States. But it is fair to say that it is a sizeable number that comes from New Jersey.

ASSEMBLYMAN D'AMATO: The issue for this Committee is the fact that we're losing that 8 percent that we could be taxing on that.

MR. AURIEMMA: Yes. Well, the 8 percent tax, that's the tax that this Legislature has imposed upon our land-based casinos. And if we had Internet gambling, any tax, whatever the figure would be, would be up to the Legislature.

ASSEMBLYMAN D'AMATO: So we can all leave here with a clear understanding, is the Attorney General and is the DGE saying that in order for Internet gambling to exist in New Jersey, there has to be a referendum for the people in New Jersey to decide?

MR. AURIEMMA: Yes. It is our policy -- I'm sorry -- it is our view, the Attorney General's view, that in order to legalize Internet gambling within New Jersey, a constitutional amendment is necessary.

ASSEMBLYMAN D'AMATO: Again, thanks for being here, Sir. Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: Thank you.

Any other questions?

ASSEMBLYMAN CONNERS: Mr. Chairman.

ASSEMBLYMAN GUEAR: Assemblyman Connors.

ASSEMBLYMAN CONNERS: Mr. Auriemma, it's good to see you again.

MR. AURIEMMA: Good seeing you.

ASSEMBLYMAN CONNERS: Actually, Assemblyman D'Amato asked my first question. I was wondering what the percentage was of money coming out of the State of New Jersey. I'm fascinated listening to what I've

heard so far about, I guess, banks, primarily, or Visa and American Express and MasterCard being reluctant to get involved in this. If this is all being done by credit card, there are companies out there doing \$5 billion in business through credit card transactions--

MR. AURIEMMA: That's correct.

ASSEMBLYMAN CONNERS: --which is amazing. In light of what I'm hearing, is there some reluctance? But in spite of that, they're doing it. Also, the, I guess, the honesty of these offshore sites or these people that are doing this -- a question about their integrity and the accuracy and how do you know that there's 52 cards in the deck and questions like that?

MR. AURIEMMA: No one really knows who they are.

ASSEMBLYMAN CONNERS: In spite of that, people are, across the world, I guess, are continuing to go on and spend. I don't know that they know as much as we do. They're not hearing things like this. And there's an incredible marketing effort going on, I guess, on the Internet. I had mentioned it was -- Chairman Hurley was here, I guess, a year or so ago. I remember I had a constituent come in with *Casino Player Magazine*, which was published-- It indicated it was coming out of Atlantic City, and it included the software. I looked at it. It was very, very high quality software where you could get on and go offshore to an offshore site, and that was, interestingly enough, coming out of Atlantic City. I don't know that you could answer the question, but in light of all this that's going on -- the reluctance by credit card companies, the dishonesty, the question about the odds -- what in the world is making people do this, in spite of this?

MR. AURIEMMA: I'm not sure that I can answer that. I think that's more a question for psychologists and sociologists and others, not for me. The only thing I can say is, I know it is ongoing. There are people in New Jersey right now who are gambling on the Internet. There are people in this country who are gambling on the Internet, even though it is clearly illegal in the United States. It is legal in other parts of the world, and many companies are performing a legal operation elsewhere in the world. But as one could imagine, the United States market is certainly a desirable market for those companies that want to be involved in Internet gambling.

ASSEMBLYMAN CONNERS: Mr. Chairman, just one more question?

ASSEMBLYMAN GUEAR: Sure.

ASSEMBLYMAN CONNERS: I know that you have indicated here that you have filed against 10 of these organizations--

MR. AURIEMMA: Correct.

ASSEMBLYMAN CONNERS: --and I understand the difficulty. Someone indicated earlier that someone had won \$50,000 but couldn't collect and probably never will collect.

MR. AURIEMMA: Right.

ASSEMBLYMAN CONNERS: Is that just the tip of the iceberg? Is there a lot of that? Are you aware of a lot of that?

MR. AURIEMMA: Yes. There are cases around the country. Most of the law that has been developing in Internet gambling has been developed in the private sector, where there have been lawsuits either by individuals against Internet companies or credit card companies or by credit

card companies who have sued individuals trying to collect lawsuits. There's been settlements and so forth, and that's how the law has been developing. There have been people who have claimed that they have won money and have not been paid. By the same token, there have been individuals who've said, "Look, I've lost hundreds of thousands of dollars, and I don't owe it to you, credit card company, because it's an illegal transaction." That's a famous case out of California.

To my knowledge, there's only been one criminal prosecution. It's a famous case brought by the Federal Government in the state of New York involving an individual named Jay Cohen. He was convicted in Federal District Court. He appealed to the Second Circuit Court of Appeals in New York and lost, and he has recently filed a petition for certiorari in the U.S. Supreme Court. But if he loses -- that's based on federal law -- he will serve prison time. He's been sentenced to 21 months in prison, plus, I think, a \$5000 fine.

ASSEMBLYMAN CONNERS: Thank you.

Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: Do you handle many investigations? It's my thinking that the average person realizes that Internet gaming is illegal. Say, this gentleman, who lost \$50,000, now he comes to the State and wants you to do an investigation. How much money, time, and resources are we spending? I mean, if the same individual came to you and said, "His bookie didn't pay off," you're not going to investigate that. Why are we pursuing some matters that we may never ever be able to bring to fruition?

MR. AURIEMMA: Obviously, the resources that there is in the Gaming Enforcement are not unlimited. Our primary mission is to regulate the casinos in Atlantic City and the slot machines that we have down there, the games, etc. Internet gambling is just one small but important aspect of what we do. We are very familiar with the technology of Internet gambling. We have seen some really fantastic technology. We have seen some horrible technology. Just based on the investigations that we have done, there are companies that do abide by the law of the United States and of New Jersey, and there are other companies that just don't seem to care. And, obviously, those that don't seem to care, we have filed lawsuits against.

ASSEMBLYMAN GUEAR: Do you see the casino industry needing to evolve into Internet gaming in the future, at some time in the future?

MR. AURIEMMA: Again, that's a question that's not really for me to say. I'm a regulator. I'm an attorney for the Attorney General's Office. I will enforce the laws as promulgated by the Legislature. It is really something that's left to others, but I will do whatever the Legislature deems is appropriate in New Jersey. If Internet gambling is one of those areas that New Jersey wants, then we will find a way to regulate it.

ASSEMBLYMAN GUEAR: Thank you.

Any other questions?

Yes, Assemblyman Asselta

ASSEMBLYMAN ASSELTA: Mr. Chairman, through you.

ASSEMBLYMAN GUEAR: Yes.

ASSEMBLYMAN ASSELTA: First of all, thank you, Director. Good to see you again and always a pleasure to be in your presence. You're very knowledgeable on the issue and, I think, on the issue of enforcement. I think that's why you're here today. You kind of ran me around a racetrack a little bit. You know what I'm talking about. In the beginning, prohibition--

MR. AURIEMMA: Right.

ASSEMBLYMAN ASSELTA: You ran me around the backstretch and gave me how you were banning with other states trying to prohibit. Then we came around the homestretch, and now we're reconsidering. Correct?

MR. AURIEMMA: Okay.

ASSEMBLYMAN ASSELTA: Reconsideration. And I think what I want to be very clear on today, both from you, enforcement, and from the Casino Commission's end, is if, in fact, this legislative body decides to move forward with this, will you be able to once again enforce the regulations that will be in place and put in place through the Legislature through the Commission?

MR. AURIEMMA: Yes, I think--

ASSEMBLYMAN ASSELTA: That's the primary question, I think, that you need to answer before you get out of that chair.

MR. AURIEMMA: Right. I think the answer to that is yes. I felt it was important to give you a historical perspective of where we stood in New Jersey with the law and as the law stands today. If Internet gambling is not ultimately legalized in New Jersey, we still have existing criminal and civil statutes. We have our Constitution, and it is our obligation, my obligation, the Attorney General's obligation, to enforce the laws. We will clearly continue to

do that. If, however, there is a movement towards legalization of some form of Internet gambling, that's really, again, up for the people of New Jersey and the Legislature to determine. We will enforce those regulations as well.

Clearly, it would seem to me that if legalization does occur, it would be centered around our existing casino licensees. I mean, we have 12 casino hotels in Atlantic City, and they've made a substantial investment in Atlantic City and in New Jersey. They pay a significant amount of taxes, and it would seem to me that the Legislature would give due consideration to their interest in any legislation that were enacting with respect to Internet gambling.

ASSEMBLYMAN ASSELTA: So the answer is, quite frankly, it's a challenge, but you could do it.

MR. AURIEMMA: It's a challenge, but we can do it. But the policy decision is yours to make and the peoples' to make, and we will enforce it.

ASSEMBLYMAN ASSELTA: Thank you.

ASSEMBLYMAN GUEAR: Director, thank you.

Any more questions? (no response)

Thank you very much for stopping by.

MR. AURIEMMA: Thank you.

ASSEMBLYMAN GUEAR: We appreciate your time.

MR. AURIEMMA: Thank you very much.

ASSEMBLYMAN GUEAR: Nicholas Casiello.

Good afternoon, Mr. Casiello.

**NICHOLAS CASIELLO, ESQ.:** Thank you, Mr. Chairman, members of the Committee. I appreciate the opportunity to be here today.

I have been asked to testify about the status of the law, both -- or actually at the foreign level, federal level, and the state level. Before I do that, I do want to make it clear that I'm not here to advocate any position. The opinions I express are my own and do not necessarily reflect the views of any of my clients.

Starting at the foreign level, basically, the laws in foreign countries fall into one of two different categories. One is the true regulated systems, similar to what we have here in New Jersey. Those are few and far between. Very few countries have legitimate licensing systems similar to what we have here. Many of the approximately 1500 sites are authorized by countries located in the Caribbean. In many of those countries, licensing is nothing more than paying a fee. One country that does have a legitimate licensing system is Australia, where several states have legalized Internet gaming.

When I testified before the predecessor to this Committee in May of 2000, I compared how the Northern Territory of Australia has regulated Internet gaming to how New Jersey regulates casino gaming under our Casino Control Act, and I thought it would be appropriate to do that again. In some, the regulatory schemes are very similar in principle. Both New Jersey and the Northern Territory have enacted statutes that create regulatory authorities, and they authorize 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 gaming. While the words may defer, 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 authorities in both jurisdictions have 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 to service providers. In addition, agreements between providers and operators may be terminated by the regulatory authority.

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

Many of the same features exist here in New Jersey under the legislation pending before this Committee. I think the point is that other regulatory jurisdictions have felt that they could appropriately regulate Internet gaming. Another jurisdiction that you've heard referred to today, which has adopted a legitimate regulatory system similar to New Jersey's, is the Isle of Man. The Isle of Man is an independent country, at least so far as its domestic affairs are concerned. It is located in the British Isles and depends upon the United Kingdom for foreign affairs. Last year, it adopted the On-line Gambling Regulatory Act.

Again, it's very similar to what we have here in New Jersey, but I did want to mention it because it is one of the most recent statutes in this area,

but, more importantly, because one of the largest United States-based casino companies, MGM Mirage, was awarded a license there late last year. MGM Mirage expects to go on-line in the third quarter of this year, although it has made it perfectly clear that it will not proceed to operate unless it is able to -- via software and other means -- ensure that only persons of age and not in prohibitive locations are allowed to gamble.

On the federal level, there's one thing that is perfectly clear, and that is the law is unclear and in a state of flux. Traditionally, the legalization and regulation of gaming has been considered a state issue, and it still is for the most part. That approach was most recently advocated in the report of the National Gambling Impact Study Commission issued in June of 1999. That report did recommend that the one exception to state rule regarding gaming should be Internet gaming.

The primary goal of federal regulation of gaming is to assist states in enforcing their laws and policies. This is accomplished in two ways. One is by making gaming, that is not authorized by a state, illegal. There are several federal laws that fall into that category. I'm not going to go into them because there's probably about 20 laws that are involved here. The second way this goal is accomplished is by federal laws intended to prevent one state from imposing its policies on other states.

The primary federal law at issue here is the Wire Act, which you've heard referred to here before. The Wire Act was originally enacted in 1961. Its language is subject to interpretation. Clearly, it prohibits the use of wire communication facilities to transmit information on the betting of sporting events. What is not clear is whether or not it prohibits the use of wire

communication facilities to place bets on casino gaming or other forms of gaming. The prior administration, the federal administration, took the position that it did but admitted that that position was not perfectly clear. There has only been one case in point, Frank Catania referred to that in re MasterCard gambling litigation, and in that case, the court held that the Wire Act did not apply to casino betting over the Internet. But that is only one case, one jurisdiction, one federal court. The case is on appeal, so the issue still is not clear.

Keep in mind that the federal laws only apply to interstate or foreign commerce. They do not prohibit any intrastate gaming; that is, any gaming occurring entirely within a state. So the use of the Internet by someone in New Jersey to place a bet with a casino in New Jersey is not prohibited by federal law. As a result, the activity proposed in A-568, which is intrastate only, is not prohibited by the Wire Act. The intrastate wagering aspects proposed in A-1532 also would not be prohibited by the Wire Act.

There is pending federal legislation in the area as well. One bill is called the Combating Illegal Gambling Reform and Modernization Act. This was also referred to previously. The principle sponsor is Representative Goodlatte. The purpose of this bill is to clarify federal law regarding Internet gaming and to specifically prohibit all forms of it, including casino Internet gambling. It was approved by a House Judiciary subcommittee on Tuesday. It would amend the Wire Act to make it unlawful for any person engaged in a gambling business to use a communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placement of bets or wagers. It defines bets or wagers as risking something of

value on the outcome of a contest, sporting event, or game predominantly subject to chance. So it would clearly prohibit all forms of Internet gambling including casino gaming.

It would also prohibit the use of credit, credit cards, electronic fund transfers, and checks in such transactions. It would accept from its prohibition the use of communication facilities for the transmission of bets if the individual placing the bet, the gambling business, and any support service processing the bets is located in the same state, if the state has a secure and effective customer verification and age verification system to assure compliance with age and residency requirements. So, again, if enacted, this bill would not prohibit the intrastate activities proposed in A-568 and A-1532, but it would require states to have implemented reliable procedures to verify age and residency, and I believe both proposed bills do that. It would continue the prohibition against interstate wagering even if it is legal in the states involved.

Another bill has been introduced at the federal level by Congressman Leach. This bill would also make it a crime for anyone involved in the business of betting or wagering to accept any credit card, debit card, check or electronic fund transfer in connection with unlawful Internet gaming. It also would apply to all forms of gaming, but again, the gaming would have to be unlawful under federal or state law. So again, it would not prohibit the intrastate activities proposed in the legislation before this Committee.

At the state law level, at least five states have enacted laws specifically prohibiting Internet gaming. The laws of every state, generally, prohibit gaming with certain exceptions, so specific prohibitions of Internet gaming usually is not necessary. New Jersey has taken the position in several

pending lawsuits, as Acting Director Auriemma mentioned, that Internet gaming activities violates the New Jersey Constitution and civil and criminal statutes.

Nevada is the only state that has taken any steps to legalize Internet gaming. In June of last year, it enacted a law authorizing the Nevada Gaming Commission to adopt regulations governing the licensing and operation of interactive gaming, if the Gaming Commission finds that it can be operated in compliance with all laws, systems are secure and reliable, and provide reasonable assurances that players will be of lawful age and communicating only from jurisdictions where it is lawful to make such communications.

Like the legislation before you, the Nevada statute would only permit companies with licenses for live gaming to hold Internet gaming licenses. Nevada expects to receive a legal opinion later this month and then it will decide whether or not to proceed to permit Internet gaming. As Chairman Hurley mentioned, they have not adopted any regulations so far.

Also, as was mentioned previously, there is an issue under New Jersey law that is raised by the proposed legislation. The New Jersey Constitution prohibits gaming unless the specific kind, restrictions, and control thereof have been authorized by referendum. A referendum, of course, was approved in 1976 authorizing casino gaming. A-1532 does not contain a referendum provision but A-568 does contain such a provision, so there is a question as to whether or not a referendum is necessary or not to authorize Internet gaming. It's a complicated issue. I don't profess to know the answer

to it, but I believe we heard Acting Director Auriemma state the Attorney General's position on the issue today.

In some, neither existing nor proposed federal law would prohibit the intrastate activities proposed by the legislation before you. In addition, other jurisdictions have found that they can regulate Internet gaming activity sufficient to protect the State's interest.

I'd be pleased to answer any questions you may have.

ASSEMBLYMAN GUEAR: Thank you.

Any questions from Committee members?

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Nick, playing devil's advocate on this issue of referendum versus the passing of legislation, if our initial referendum that was, in fact, passed by the voters of this state -- that statute permits the DGE, the Casino Control Commission, to regulate a gaming house. Isn't that correct?

MR. CASIELLO: That is correct.

ASSEMBLYMAN D'AMATO: Well, then if the gaming house wants to offer another form of gaming, if they came up with a new machine, what would be the procedure that the house would have to follow?

MR. CASIELLO: Well, the Casino Control Commission or actually the starting point is here, this Legislature. This Legislature, by adopting the Casino Control Act, has specified that certain forms of games or types of game are legal. There is a list of specifically enumerated games -- blackjack, roulette, craps, slot machines. And furthermore, the Act says that the Commission can authorize additional gains if the Commission finds that

they are suitable. So, in one sense, the Casino Control Commission itself has the authority to legalize other games.

Your argument is one argument that can be made in support of an argument that the current referendum was sufficient to authorize Internet gaming. It is just-- This would simply be authorizing another type or form of game.

Another argument would be that the gaming is actually occurring in those casino houses and not at the site where the player is located.

ASSEMBLYMAN D'AMATO: Thank you.

Thank you, Mr. Chairman.

MR. CASIELLO: And I would also note -- I'm sorry -- that in -- over the last five or six years, the Attorney General has twice opined as to whether or not a referendum was necessary to permit video lottery terminals under the lottery amendment to the Casino Control Act. At one point in time, the Attorney General's position was a referendum was not necessary, and then later on, a different Attorney General took the position that a referendum was necessary.

ASSEMBLYMAN D'AMATO: Mr. Chairman, I have one final question.

ASSEMBLYMAN GUEAR: Go right ahead.

ASSEMBLYMAN D'AMATO: Thank you very much.

You just brought something up. Do you see a distinction between the live Internet gaming versus the virtual gaming on the Internet?

MR. CASIELLO: No, not in terms of the legality of either one or the referendum issue.

ASSEMBLYMAN D'AMATO: Thank you.

Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: Any other questions from Committee members? (no response)

Mr. Casiello, thank you very much.

MR. CASIELLO: Thank you.

ASSEMBLYMAN GUEAR: Have a good day.

Lloyd Levenson.

**LLOYD D. LEVENSON, ESQ.:** Here.

ASSEMBLYMAN GUEAR: Front and center.

Good afternoon. How are you?

MR. LEVENSON: Fine. I admire the bladders of all of you.  
(laughter) My God.

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you today. Just a second about my background to maybe those who are not familiar. I've been an attorney for approximately 30 years, almost 20 of them have been spent in the gaming world as an attorney representing casinos, representing suppliers to casinos, employees of casinos, and even foreign governments and foreign suppliers. I served a couple of years ago as the President of the International Association of Gaming Attorneys, which is an organization of 600-plus attorneys from around the world. I believe that I'm a bit of an expert as it relates to gaming law.

There has been mentioned here by a couple of the Assemblymen and women with regard to live gaming. I'm here to talk about that. I'm not here to knock virtual gaming. I'm here to describe to you another type of

Internet gaming, which is called live gaming, from a remote location. And basically, what it is -- and it was demonstrated, but obviously demonstrated to a committee that was made up mostly of persons other than the present members of the Committee. But live gaming from a remote location is relatively simple to understand. You are at your computer wherever you are within the State of New Jersey, and when you turn it on, you actually see in the casino an actual live game, which is set up to play across the Internet.

So, what you do is -- the same way you would do in virtual gaming to begin with -- you have a credit account that you would open at a casino, and you would then be able to play on your computer. But the difference being that you would be able to actually see a live dealer. And actually, you interact with that live dealer through the keys on your computer panel.

Vice-Chair Fedorko, in his comments, said his main concern was the integrity and the security of the game, and even there was some comment with regard to, "Well, if you're playing on the Internet, how do you know that there are 52 cards in a deck?" Well, in live gaming, what you have is you have the same protections, exactly the same protections as you have in the casino itself. In other words, what is happening is, the Casino Control Commission's surveillance of the casino, the Division of Gaming Enforcement, is actually able to watch a live dealer in real time perform the transactions that are necessary to enable the person on the computer to gamble.

So, if it's blackjack, what happens is -- and again, this was demonstrated before and I look forward to the opportunity in the future to demonstrate it to you again and bring the people in who have the technology and can demonstrate it. But basically, it's as simple as you get dealt your

cards. You make a bet first. You did get your cards dealt to you. You make a decision, whether to stay or take another card, and all of that is recorded on the computer and recorded at the casino, and the surveillance of the casino is able to watch, the Casino Control Commission is able to watch, the Division of Gaming Enforcement is able to watch the entire transaction. There is nothing that is happening out of sight. It's all happening right before the eyes of the eye in the sky and right before the Casino Control Commission and Division of Gaming Enforcement.

Concerns have been raised here and in other meetings before you and in articles, etc. With regard to will the Internet, and particularly live gaming from a remote location, will it increase or will it decrease visitation at the casinos? The marketing people, when you line them up, of the various casinos will say to you that their opinion is that this is a whole new opportunity. It's a whole new world that is opened to them.

You've heard mentioned before, and I'm not going to spend much time restating it, but the individuals who come to casinos are going to continue to come to casinos. I dare anyone to sort of give a rational explanation of how the people that either come by bus or by car or by plane are going to now stop coming to casinos because they have the opportunity to bet on the Internet. They have the opportunity to bet on the Internet now outside of New Jersey, and they still come to New Jersey.

What this does is with all the technological advancements in the marketing field, it gives the marketing people at the various casinos the opportunity to know some new people, to give them complementaries, to give them information about the casino. What happens is when you have the live

aspect with the live gaming, you have the ability for the players to get excited about seeing, not only the live dealer, but the background of an actual casino with the chandeliers and everything else that are pertinent to that. So it opens up a whole new world with regard to that.

The other aspect -- and this is something that live gaming from a remote location has an advantage over any other type of Internet gaming, and that is with regard to jobs. It is clear that when you have blackjack tables, for example, set up for Internet gamblers, and it's live gaming from a remote location, what do you need? You need a lot more dealers. You need a lot more floor people. You need more pit bosses. You need more and more people.

I believe that there will be some testimony after me from someone who has done an actual study with regard to all of what I am saying. I'm just giving you the broad-brush of it. But it's clear that, not only will it increase the population coming to Atlantic City and gambling, it will increase the labor pool. And not only increase the labor pool for those dealers that have to deal now over the Internet, but if we are right that the marketing opportunities are there and will bring new people in or bring people in more often, then the more people that come into the casinos, the more cocktail waitresses you need, the more restaurant waiters you need, the more -- all kinds of employees that exist in a casino. We need more people coming in. The more people come in, the more money you make because you get the 8 percent off what the casinos make. So, I believe the studies indicate, and I think that you will hear, that the people that will come to Atlantic City will increase and the jobs will likewise increase.

There is a comment with regard to -- I think it was by Chairman Hurley, I'm not quite sure who it was -- but it had to do with concern about people playing-- It wasn't his comment. It was, I think, a quote that he was reading from the American Gaming Association with regard to the concern about the Internet or gaming coming into peoples' living room. It seems to be the wisdom of the State of New Jersey, at least through the Attorney General's Office, that there needs to be a referendum. If the people vote, if the people come out of their living rooms and vote for Internet gaming, well, that answers that question. It's not any violation of the 1976 vote in favor of gaming solely limited to Atlantic City, because you're giving the opportunity back to the people to vote on this.

But as far as live gaming from a remote location is concerned, there are tremendous advantages to that. It can be controlled totally. You can keep minors and compulsive gamers off. The technology exists. It was shown at the last committee hearing, the technology. There's all kinds of various different technologies. You can keep, and I know this from the Attorney General's Office, who has seen this as part of their investigation, they know that there is technology out there -- maybe not being adequately used by some of the Caribbean sites now that got charged, obviously, but there is technology out there that -- and some of the Internet gaming sites around the world are using this technology -- that can identify exactly where that bet is coming from. So, if you identify that, and you have the technology to keep the minors and compulsive gamers off, and you always know who it is that is gaming before you, than -- I hate to say it's a no-brainer, but it seems to be, obviously, the way to go.

One of the reasons why you have to move rather quickly, even though deliberately, is that Nevada did not have to get a constitutional amendment to get going in the sense of getting their bill passed. Sure they haven't started Internet gaming yet, but it could be a week from now. It could be a month from now. It could be six months from now. We have a lot of leg work to make up because we have the need for a referendum. But in order to get to that referendum, we would need the bill passed. So I would commend you to continue this process quickly, as quickly as you can with -- certainly with proper deliberation. But whether it's by a committee, whether it's by a commission, whether it's by some other group assisting you, because I know you have all kinds of other work to do other than to consider Internet gaming. But to come up with a report or some kind of continuing advice to you in order to get you where you want to go, I think the problem that you may have and the problem that all of us may have in New Jersey is to wake up one morning and know that Nevada, after the Federal Government has finally maybe taken their position and laid off Internet gaming, but to wake up one morning and have Nevada making the money from Internet gaming and New Jersey sitting there behind.

I think it was said earlier, and I agree with this totally, we had a perfect opportunity to set ourselves apart with sports betting. For whatever reason, we blew it. We blew the opportunity to be ahead of New York, because we could have had sports betting. We blew it to be ahead of Delaware. And if one of the candidates wins in Pennsylvania, it's obvious that they're going to have gaming in Pennsylvania. We could have set ourselves apart from

those three neighboring jurisdictions if we had legalized sports betting. We don't have it. The window of opportunity closed on us.

Let's not see the same thing happen with regard to the Internet. Let's not have some other state take the lead. New Jersey should take the lead. The same thing is going to happen if we don't take the lead. Once we got legalized gambling in 1976 -- remember Nevada had it for decades before that. New Jersey passed legalized gaming. It wasn't long after that Mississippi came on board and Illinois and Indiana and Missouri and Louisiana and all the rest of the states that have legalized gambling. They're all looking at it now, not just Nevada, other states are looking at it now. Let's not be left behind.

I welcome the opportunity at your next meeting to bring in the technology to demonstrate to you how fascinating it is -- this live gaming from a remote location -- and I'm here to answer any questions you might have.

ASSEMBLYMAN GUEAR: Any questions from the Committee members?

Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Just one, Mr. Chairman, and through you.

Mr. Levenson, we talked about constitutional amendment and referendum. And in your opinion, because the game originates out of the current facility that is already licensed, why do we need a referendum?

MR. LEVENSON: Well, I do not believe that you do need a referendum for live gaming from a remote location. I have submitted to the Committee, in the past, a brief, which argues that it is not necessary. The Attorney General has taking a position it is necessary. I don't know of

anything more to say than that. I have a position that I think is very arguable, but certainly it's up to the Attorney General of the State of New Jersey to make the final vote on that. But I believe that the live gaming from a remote location does not need a referendum.

ASSEMBLYMAN ASSELTA: It's very clear and logical, through the Chair, if the server or if the game takes place inside of a gaming hall in Atlantic City, it's just an extension of gaming outside of that one facility. So why do we need to do a referendum? You're not placing a new gaming facility outside of Atlantic City, which the original referendum in the legislation was created for.

MR. LEVENSON: I believe that-- And again, I have a brief in which we argued this, that because the actual gaming takes place in the casino that there is not a need for a referendum. I've taken that position. I believe I can supply copies of the brief to the members of the Committee, certainly, and I continue to have that position. But I also don't have the position of Attorney General.

ASSEMBLYMAN ASSELTA: For the Committee's edification, you have been a casino attorney for how many years, dealing on issues related to gaming in the State of New Jersey?

MR. LEVENSON: Close to 20.

ASSEMBLYMAN ASSELTA: Thank you.

ASSEMBLYMAN GUEAR: Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Lloyd, this is a new administration, a new Attorney General, any formal pronouncements yet from this Attorney General regarding whether we need a referendum or not?

MR. LEVENSON: As Acting Director Auriemma said when he was here, that that's the Attorney General's position that there needs to be a referendum. I don't know whether there's been a study of the live gaming versus the virtual gaming and whether there's been an analysis that they have done to see whether there's any difference in their opinion, depending upon it's virtual versus live. I don't know. I have not interacted with the Attorney General's Office or the Division of Gaming Enforcement on that particular issue. I will, but I have not. I mean, we're not there yet, but I guess it's never too soon to bring that issue up. Because, obviously, a referendum is going to take a considerable period of time.

ASSEMBLYMAN D'AMATO: With respect to the hearings that have been conducted in Nevada, has there been any distinction between live versus virtual Internet gaming in terms of the regulatory process?

MR. LEVENSON: No. "All" they've done in Nevada is passed a bill that legalizes Internet gaming within the four corners of Nevada. They are now studying live gaming from a remote location, virtual gaming, the protections that each afford or do not afford. They will come up with recommendations as to how they believe the best way to go is with regard to Internet gaming. So they haven't picked one or the other. They're not there yet. I would venture to say-- This is almost like the good news, bad news here. The good news is we are moving along towards the possibility of Internet gaming. The bad news is that once -- and they maybe listening to it as we

speaking out in Nevada -- that once we do what we're doing here is the potential that they will get motivated to move quickly in order to beat New Jersey to the punch. It's not the first time that that type of activity has occurred.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: The bottom line here, to be fully understanding of this, whether it's live or virtual, the physical operation has to be in a licensed casino.

MR. LEVENSON: That's absolutely correct.

ASSEMBLYMAN GUEAR: And with that, there's a possibility that we may need a referendum. Is that what you're saying or we may not? What is your opinion?

MR. LEVENSON: My argument is that with regard to live gaming from a remote location, because the actual gaming goes on the same as it goes on now. The only thing that does not occur is the person is remote. But the actual gaming -- that's why we need the demonstration -- the actual computer screen that's in front of the dealer and that the dealer controls by dealing the cards and communicating with the player, that is going on in Atlantic City. So the argument goes that, therefore, that is not something that requires a constitutional amendment. It's an argument. It needs to be studied, and a decision needs to be reached.

ASSEMBLYMAN GUEAR: Okay. Any other questions from the Committee members?

ASSEMBLYMAN VAN DREW: Through the Chair.

Lloyd, just a couple questions. First, I don't know that I'd be that afraid of the referendum other than the time scheduling. I understand that,

because it would be an interesting process to see what the people in the State of New Jersey believe and feel about all this. I think, usually, they do the right thing. As far as -- and let me say as somebody who lives in South Jersey and this is part of my district -- certainly the appeal to me of live remote is greater than the other because it does seem that there will be more people employed and still create more activity, obviously, in Atlantic City, which is what we want. We want to employ people in South Jersey and in New Jersey, and we want revenues to come back to the State.

I know you alluded to that, maybe I missed it a little bit. Why do we feel that this will still create even more business, more activity, more jobs, more people visiting the real casinos, not the virtual casinos. Because as you described it, I mean, it seems like it's almost -- especially the live remote is such a wonderful thing that there would be a good number of people who might attend. They're the people that sit there and just gamble away the whole time and really don't partake of too much else that goes on, except having an occasional meal there. Are those folks, in your mind, still going to visit Atlantic City? Are we still going to generate the type of traffic and the type of business that we want to? I know what your answer is, but I'd just like to hear that one more time, just for my edification, and what you based that upon, Lloyd?

MR. LEVENSON: When you have a live gaming operation, there are certain people who would feel, I believe, more comfortable in actually seeing the cards being dealt in front of their eyes and knowing that the surveillance of the casinos and the Division of Gaming Enforcement and Casino Control Commission could actually see what is going on. Now, that's

not to knock virtual gaming, because if it's legalized in Atlantic City, it, too, will be regulated by the regulators. The point being that there are, I believe, people out there who, as my mother, God rest her soul, through all her years, would never get a push-button phone. She would always still, until the day she died, want to dial the phone. That's the way-- The same with people who still haven't become familiar with MAC machines and always stand in line in the banks. It's the way you used to do it and whatever.

There are people, I believe, that have concerns about things that they can't see. They will, I believe, be more comfortable with the live gaming from a remote location. That's not to say there's no place for the virtual gaming. There's obviously people who are comfortable with the virtual gaming because they are gambling in huge numbers all over these 1800 or so sites that you've heard about.

ASSEMBLYMAN VAN DREW: But what I'm asking you is why do you think that will even enhance more business in Atlantic City itself, more people visiting Atlantic City and South Jersey specifically because of this? In other words, your example of the rotary phone, but they are going away. I mean, you won't see -- and in time, they do go away. Obviously, I wouldn't want that to happen, nor do I think it would happen, as far as actually the people who visit Atlantic City. I understand the glitz and all that goes along with that, but do we have any studies? Do we have any proof? Do we have anything that indicates to us that in a sense we're not going to hurt our economy there.

I mean, remember, the purpose of all this was to raise revenue for the State of New Jersey and to enhance an area of the State of New Jersey,

which as far as infrastructure, was failing badly. It has begun -- it's more than begun. It's done a great deal of that. We want to ensure, as we go through this process, that that is still the end result and we even enhance that process.

MR. LEVENSON: Well, here's one answer, and then I'll give you my answer. One answer is, I believe your next speaker is much more adept at answering these questions, because I believe he has done a very significant and thorough study right in the areas that you're talking about -- jobs and people coming to Atlantic City. But let me just give you my view on that. And that is that, as you may read about -- well, at least, I read about it because I read all the trade press with regard to casino gaming. We are still in Atlantic City just barely touching the surface of the customer base to come to Atlantic City.

Although we have statistics of 35 million people or so a year that come to Atlantic City, that is approximately 6 people coming six times or so to Atlantic City a year -- 6 million people. So, that's from all over the United States. They're not 35 million new people. So the amount of people that live within a few hour drive of Atlantic City greatly exceeds that. So how do we get those people. How do we market to those people? You don't just send out a letter to whom it may concern to the occupant of a whole city up in Saddle River or any other place way up in North Jersey where it's a couple of hours to get to Atlantic City and maybe they just haven't made the opportunity to go. Well, what happens is that now they know that they can get on the Internet and play live with the dealer.

What does the casino get? The casino gets all this demographic information from these people. They get it from their credit card. They get it from their betting habits. And now what the casino does -- any good

marketing professional at a casino -- what he does naturally is he sees that somebody is betting \$100, \$200 on that, and they start communicating with that person. They're not in our customer base. Well, we want to make that person in our customer base. Come on down, get a free buffet. Come on down, go see the show.

The husband says to the wife or the wife says to the husband, depending upon who is gambling, "Hey, look at this. We're getting an opportunity to go to Atlantic City. Let's go." So they come to Atlantic City and they not only gamble -- and that's why we're talking about jobs -- they not only gamble, so that you people make more revenue on the 8 percent, but they come and they go to the shows, they go to the restaurants, they go to all the other -- the retail shops, which mean that, though, employment is going to increase because the more people that walk into the casino the more jobs are out there. So it's a marketing opportunity for the casinos to log into players that have either never come to Atlantic City or haven't come often enough or are not on the casino's radar screen to give comps out. It's a marketing bonanza for the casinos.

It's like -- what's it called -- not mail order, direct mail campaigns. Direct mail campaigns are only successful if you are directing your mail at the people who are likely to buy your goods. So, a casino is not going to send out 10 million entrees to various people to say come to the casino, because who knows who is going to get those and whether those people have any inclination to come. But open up the Internet in a live gaming from a remote location to these people and you will open up more and more opportunities, more and

more marketing opportunities to directly talk to those people who have the inclination to gamble.

ASSEMBLYMAN VAN DREW: Thank you.

ASSEMBLYMAN GUEAR: Seeing no further questions, Mr. Levenson, thank you.

MR. LEVENSON: Thank you.

ASSEMBLYMAN GUEAR: Michael Pollock.

Is Marc Falcone still in the room? Marc, you're in the batter's box, buddy. You're up next.

Good afternoon. How are you.

**M I C H A E L P O L L O C K:** Good afternoon. Thank you, Mr. Chairman, members of the Committee.

By way of background, my name is Mike Pollock. I publish *Gaming Industry Observer*, which tracks trends in the gaming industry. Prior to that, I was spokesman for the Casino Control Commission and prior to that I was editorial page editor for *The Press* of Atlantic City. I wrote a book that detailed the impact of casinos on Atlantic City and New Jersey.

Here's the task that both the casino industry and public policy makers must grapple with. A technology has emerged that appears to be a significant challenge to the status quo. Is this new technology a friend or foe? To answer that question, it might help to look backward for a peek into the future. The past is filled with vivid examples of new technologies that were first viewed as threats and later became opportunities. In the late 1920s and early 1930s, professional baseball, then in its heyday as the national past time,

was faced with the new technology of radio, which was viewed as a threat to the game's primary source of revenue -- ticket sales.

Three New York teams banned all electronic accounts of games, even Western Union telegrams for five years, fearful that people would not venture out when they could hear a game in the comfort of their living rooms. What those team owners failed to understand, however, was that radio was hardly a threat, but was rather an effective means of creating legions of new fans, and it also became a new source of revenue.

The same phenomenon occurred in the 1950s and later in the 1980s when Hollywood studios faced the threat of television and later of VCRs. Why would people go to theaters when they could stay home and be entertained? The same concerns and, ultimately, the same answer emerged. The new technologies were opportunities.

I've studied the potential impact of one new technology, live remote wagering on the casino industry in Atlantic City. My conclusion is simple, history will repeat itself. If the casinos in Atlantic City, for example, were ultimately allowed to provide the feeds through which adults could play table games on the Internet, a few things would occur. The participating casinos would find a new means of reaching new customers and would develop promotions to encourage those customers to visit, on site, for stays of varying duration, and the phenomenon could stem the relative decline in table game play, which has been in decline as a percentage of overall gaming revenue for the past two decades.

This would create jobs for dealers and supervisors in Atlantic City and would ultimately create ancillary jobs throughout the industry as casinos

use the new technology to develop new customers. By my preliminary estimate, intrastate live remote wagering in Atlantic City -- and I will make the study available when it's complete in about a week or two -- could create between 300 and 1200 new jobs in Atlantic City. If the potential customer based was, theoretically, expanded to New York, New Jersey, and Pennsylvania, the net increase in employment would range between 1500 and 6200 new jobs, depending on how many adults in the target areas embrace the new technology. Of course, live remote wagering would create more jobs on the gaming floor than would virtual gaming, since by definition live remote wagering requires hiring live dealers and supervisors to staff games.

The primary purpose of the New Jersey Casino Control Act is the redevelopment of Atlantic City. My conclusions are that live remote wagering will not undermine that goal and could ultimately further it by encouraging more visitation and more capital investment in Atlantic City.

Thank you for this opportunity.

ASSEMBLYMAN GUEAR: Thank you.

Any questions from Committee members?

ASSEMBLYMAN VAN DREW: Just, and not to repeat it again, tell me why you come to that last conclusion?

MR. POLLOCK: Well, because I think that ultimately what live remote wagering is going to be, or could be theoretically, or Internet gaming of any form for that matter this would apply too, would be primarily a marketing tool -- a way to find out who their customers are and a way to reach them. And at the same time -- this again is true for all forms of Internet

gaming -- it does not replace the social aspect of gaming, which is very real and is a very important driving force in getting people to a gaming destination.

ASSEMBLYMAN VAN DREW: Through the Chair?

ASSEMBLYMAN GUEAR: Sure, go ahead.

ASSEMBLYMAN VAN DREW: As part of this process, would there actually be some advertising, could there be some appeals made to actually come to Atlantic City to come to the area, some of the activities that occur there, advertisements for the shows, the restaurants, and so forth, as somebody logs on to do this?

MR. POLLOCK: It would be my recommendation that not only could there be, but there should be. That, in my view, would be an essential part of what would make it work for Atlantic City.

ASSEMBLYMAN VAN DREW: Through the Chair, almost, in your view, maybe something that in some way we should require or at least suggest. I mean, they should want to do it any how, I would hope.

MR. POLLOCK: Yes. My history as a regulator -- I was there during the period of deregulation where--

ASSEMBLYMAN VAN DREW: I understand.

MR. POLLOCK: --the State got into the business of requiring certain things because a lot of things would be done on their own. What I think, ultimately, this sort of opportunity they would see and take full advantage of.

ASSEMBLYMAN VAN DREW: Thank you.

ASSEMBLYMAN GUEAR: Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Mr. Chairman, first, let me thank Mr. Pollock for coming forward and really giving maybe the best testimony of the whole day -- the analogy driven by radio and TV in the marketplace. I think this issue is all about creating a whole new marketplace and a way for casinos to get into whole new market they haven't been able to crack. Quite frankly, I used this analogy before, hypothetically, if in the last five years I've walked into a particular casino and dropped \$1000 and walked out, no one would know who I was. They might have had me on the camera, but they wouldn't have a way to remarket me into coming to a show, staying overnight, and utilizing more of their services.

In this way, for them to log on, the marketing process begins, and it will be intense. The casino industry will benefit dramatically from it, and it will create, as you mentioned, those jobs, in particular, live remote jobs on the casino floor.

I thank you for your testimony today.

MR. POLLOCK: Thank you.

ASSEMBLYMAN GUEAR: Any other questions? (no response)

Thank you, Sir. We appreciate your stopping by.

MR. POLLOCK: Thank you.

ASSEMBLYMAN GUEAR: Marc Falcone.

Good afternoon.

**M A R C F A L C O N E, ESQ:** Mr. Chairman, members of the Committee--

ASSEMBLYMAN GUEAR: Thanks for being so patient.

MR. FALCONE: My pleasure. I wish I could have participated in a lot of your questions. So I decided what I want to do -- I'm sort of going to scrap my formal comments and just try to answer some of the specific questions that have been directed toward you, because I think that will be a more productive use of your time.

The first thing, just to give a quick background on me, I've been an analyst and covering the gaming and leisure industry of Bear Stearns in New York City. We cover over 100 publicly traded companies -- have done three extremely extensive reports on Internet gaming over the last five years. Our philosophy and methodology for spending so much time in such a small part of the gaming industry today was to really address the financial impact on the \$50 billion-plus of infrastructure that's been spent in the United States on land-based gaming. So, I think, we have come up, and I think we have an expertise now to understand how we answer some of the questions directed, why cannibalization toward your existing assets here in Atlantic City and the opportunities that exist.

To talk about the size of the market. We estimate that 2000 to this current year will be about -- approximately \$3.5 billion. We expect that to go to \$5 billion in 2003. The problem is to get to a fully accurate number is very difficult because of some of the -- Mr. Catania's response -- is this is not a regulated industry. It is largely offshore operators. It's difficult to aggregate a consensus number from a worldwide figure. However, in the last 12 to 18 months, we've gotten access to a lot of public filings -- money which you guys don't have access to quite yet because there's been a significant interest. A lot of these companies desire to go public and raise additional capital and grow

their business. So we have gotten some good insight, some good grassroots research into giving an accurate assessment of what the global size of the market is.

The numbers probably have been impacted a little bit by the credit card issues and their reluctance to process Internet gaming wagering, but I still think this is a tremendously large industry that is only in its infancy and has yet to be really exploited to its most opportunities. We estimate that there's about 4.5 million people gambling on-line worldwide today. That's up only about 500,000 from last year. We estimate 50 percent of that 4.5 million people are U.S. citizens. The reason we have not seen a larger growth in the last year from 4 million to 4.5 million is a couple of reasons.

Number one is customer acquisition costs have increased tremendously through the growth of Internet gaming Web sites. You've heard the 1400, 1600 number Web sites. That's up from about 650 about 18 months ago. So we have seen a tremendous amount of explosion. But the reason we haven't seen the growth -- a commensurate growth in the number of people gambling on-line is because there's a lack of marketing strategies by these Internet operators.

Many of them are located offshore are undercapitalized, don't have the financial wherewithal or the knowledge to figure out who to target on-line. So we've seen a tremendous increase in customer acquisition costs. That's the first thing.

The second thing is the lack of legal clarity in unregulated gaming environments has really probably intimidated several people from moving on-line because they really don't know what the end result are, they don't

know the integrity of the games. They don't know the operators. They don't know if they're going to get paid back -- many of the issues that you've heard today. That's why we're not seeing a tremendous amount of growth.

The key thing that we think is going to happen, through regulation, through global regulation, not only potentially here in the United States, is a couple of things. Number one, we think brand names mean a lot on the Internet. And through most Internet studies, including ones of our own, we've seen that brand names draw the lion market share of the business that's on-line. So, if you get the MGM Mirage, the Park Place, the Caesars brand names on-line, our view is that these are going to put a lot of pressure on the existing 1600 sites. It's going to bring the 4.5 million people more to regulated marketplaces, more towards the brand names that are licensed in jurisdictions today.

The second thing is you're probably going to see a good amount of attrition in those existing 1600 Web sites through consolidation when the brand names come on board, as well as people wanting to buy the existing customer data base lists that these have. We've seen a good amount of success with the experiments that have gone on-line today. The first one I'm going to specifically just touch upon -- the success that the MGM Mirage Company has had with its Play For Fun site in its Las Vegas marketplace, through the wagerworks.com Web site.

The site started about two, three months ago. The growth and the number of subscribers on-line has increased tenfold since the day they went on-line. And what we've also seen is the average time these people are spending on-line to accumulate points has been in excess of over an hour and

20 minutes. So that's a significant amount of time these people are spending on-line. They're not getting -- what they're generating on there is points. And how they can do this is to redeem their points for free buffets, movie tickets, room upgrades, all those things to -- to answer many of your questions today -- to drive visitation back to the jurisdictions. Because these people can't redeem those points, unless they're going to go to that marketplace.

So, we've seen the MGM Mirage experience using their brand names, their popularity, their asset base to drive a significant amount of interest back to the actual Nevada marketplace. We think that opportunity does exist here in Atlantic City with all the brands here, the recognition. If you look on a comparable basis, when looking at gaming revenues, Atlantic City does almost equal the amount of gaming revenues in the \$4.3 billion range with 12 casinos, as Nevada does with 22 casinos on the strip. So there's a tremendous amount of opportunity that can be exploited here using the brand names opportunity.

The other point that I just wanted to touch upon really is the tax issue that many of you have been concerned about today. If there is a \$5 billion marketplace, we do not think that there is any reason why a regulated, well-established gaming market like Atlantic City, New Jersey can capture 5 percent to 10 percent market share of that \$5 billion market. If you use your existing tax rate today, that's \$25 million to \$50 million in potential tax revenues. But as I pointed out, that's not the only tax benefit that we see for Atlantic City. The other one would obviously be the opportunity to get the nongaming revenues.

I suggest -- I think I was very encouraged and I think -- commend you guys for putting such a great group of people here to speak, because it was probably some of the best testimony I've ever heard. I've testified in Nevada for that bill as well. But I think the opportunity to create both fiscal tax revenues through gaming dollars, but also your nongaming dollars is a huge opportunity.

And one thing that I think, and I encourage you to move quickly on, is Atlantic City is on the cusp of a huge change -- the \$2 billion in investment that's going to go there, the opportunities from a marketing standpoint that are going to exist when the Borgata opens and the other hotel towers and the tremendous amount of attention that's going to be paid to the Atlantic City market. It was a big opportunity to not only penetrate additional customers, but to exploit taking advantage of nongaming revenues.

I kind of want to be brief -- it's been a long day -- but if there are any questions I can answer specifically. I tried to address some of the issues that you heard directly and would be happy to take any questions from you.

ASSEMBLYMAN GUEAR: Any questions?

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Marc, for how long has Mirage been offering the point system, which can be redeemed when you fly out to Las Vegas?

MR. FALCONE: It's only been two or three months that they've actually gone live with the point system.

ASSEMBLYMAN D'AMATO: The parent corporation or holding company for Mirage is?

MR. FALCONE: Is the MGM Mirage. Now, they also license, as you heard today, in the Isle of Man. My expectation is they'll go live for money by the fourth quarter of this year.

ASSEMBLYMAN D'AMATO: In any of the public offering statements or filings with the Nevada regulatory body out there, are the casino corporations out there commenting upon Internet gaming?

MR. FALCONE: Oh, huge. MGM Mirage and Station Casinos are really the two Nevada-based corporations that are exploiting the international opportunity. Station, with its recent agreement with Sun International that you heard about, and MGM Mirage is sort of on its own. Park Place Entertainment, with a huge international -- with Caesars has yet to make a public announcement, but I think were confident. They have recognized the opportunity by their recent hirings of the former eToys executive to head up their Internet initiatives, and also with Peter George (phonetic spelling), who formerly ran the Hilton, a European group bringing on board there. They're going to look pretty closely at moving forward to Internet gaming.

International is where the biggest marketplace exists, because the United States has sort have fallen behind advancing in terms of trying to regulate this marketplace here. That's why these companies are moving to the international jurisdictions.

ASSEMBLYMAN D'AMATO: Mr. Chairman, do you think we could impose upon Marc to forward to you, and at your discretion to forward to us, any of these public offering statements or any other documents where

these casinos in Nevada are commenting about Internet gaming. I think it might be quite evidential.

ASSEMBLYMAN GUEAR: Marc, can we get this information, and I'll disseminate it to the Committee members?

MR. FALCONE: We could put together a large packet of information for you.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

ASSEMBLYMAN GUEAR: Thank you.

Any other questions?

Assemblyman Conners.

ASSEMBLYMAN CONNERS: Mr. Falcone, do you think going forward will the banks -- when I say banks, American Express, Visa, MasterCard -- will they be any more interested in a regulated industry than they are now? I can see when you lose and you don't get paid that's one thing, but if you're the lender and your customer loses and doesn't pay you back and this is unsecured credit, it's a serious problem. Will this mean that the casinos will be advancing a line of credit and the Visa, the MasterCards, will be the administrators of the documentation?

MR. FALCONE: That's a great question. That's one of the things that's being looked at right now. I think it's too close to tell, because the credit card issue just really has emerged, I would say, within the last two months. We're really starting to see the majority of credit cards be more vocal in their opinions about processing Internet transactions. There are several other transaction technologies that are also being exploiting, like PayPal, Sure Fire. These are companies that do Internet transaction processing without the use

of credit cards. I've met with several companies that are in the stages of developing technologies where you don't have to use credit cards. There's been discussions that more wire transfers will occur, although the current federal legislation is looking to prohibit that as well. It's unsure whether that direction will happen in terms of credit -- the casinos will actually give the credit.

ASSEMBLYMAN CONNERS: Mr. Chairman.

ASSEMBLYMAN GUEAR: Sure.

ASSEMBLYMAN CONNERS: I don't see how it could be handled otherwise. I mean, if everything goes fine, and they get their 22 percent, or they get their fee, or something like that, but if you lose and you lose the ability to pay them--

MR. FALCONE: If you gain the support of casinos, I think the credit cards would be more willing to work with you closely.

ASSEMBLYMAN CONNERS: Thank you. Thanks.

ASSEMBLYMAN GUEAR: Any further questions? (no response)

Mr. Falcone, thank you very much -- very enlightening.

MR. FALCONE: Thank you. I'll get you that information.

ASSEMBLYMAN GUEAR: Thank you.

That's our last speaker.

Do I hear a motion to adjourn?

ASSEMBLYMAN VAN DREW: Motion.

ASSEMBLYMAN GUEAR: Second.

ASSEMBLYMAN VAN DREW: Good job.

**(MEETING CONCLUDED)**