

2018

Annual Report to the Legislature on Gaming Technology



Presented by:

Louisiana Gaming Control Board



State of Louisiana
Gaming Control Board

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Mr. President, Mr. Speaker and
Members of the Louisiana Legislature

Enclosed you will find the 4th annual report of the Louisiana Gaming Control Board regarding technology in the gaming industry and its impact to Louisiana. This report is submitted in accordance with LRS 27:15(H) (Act 130 of the 2014 Regular Legislative Session).

Advances in gaming technology in many ways mirror the technological changes we experience in every aspect of our daily lives. The report provides insight into evolving technology regarding current forms of legalized gaming in Louisiana, internet gaming (iGaming) trends around the country, iGaming revenue trends, Daily Fantasy Sports, as well as legal and regulatory considerations for Louisiana.

The technology advances that Louisiana has experienced over the years have largely been positive. Adoption of new technology must be measured to minimize risk to the industry as well as the public. We must also ensure that regulatory agencies have the necessary technical specialization to effectively regulate licensees.

The Gaming Control Board is committed to the thorough regulation and control of gaming activities under its jurisdiction in a manner which instills public confidence and ensures that regulated activities are free from criminal and corruptive elements. Additionally, the Board strives to foster a regulatory environment that provides optimum economic opportunity for both gaming operators and the citizens who are employed and / or benefit by this industry.

Respectfully submitted by:

The Louisiana Gaming Control Board

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Introduction

As Louisiana enters its 26th year of legalized and regulated gaming, technology plays an ever increasing role. The impact of technology not only affects the gaming industry as a whole, but technology also impacts the agencies responsible for gaming regulation in their efforts to ensure the integrity of games and the industry.

As directed by the Louisiana Legislature in Act 130 of the 2014 Legislative Session, this report provides information regarding technological advances in the gaming industry, updates on legalized internet / online gaming and unregulated gambling, as well as updates on relevant legal issues. The report does not offer recommendations on changes to public gaming policy in Louisiana. Rather its purpose is narrowly designed to document the current state of gaming technology, identify trends, and detail the experiences of technologically-based gambling in other gaming jurisdictions.

The evolution of the gaming device and its ability and methods to deliver the gaming experience to patrons has greatly changed over the past 20 years. From mechanical slots to server based gaming to mobile gaming to internet gaming; the gaming industry and regulators must be vigilant in their efforts to stay ahead of the curve. It requires specialization and understanding of technology as well as a financial investment which usually is the greater hurdle.

Just as we have seen the evolution of gaming hardware and software, game content has evolved and continues to push new boundaries. The latest discussion in the gaming industry regarding games and revenue revolves around the industries efforts to attract the next generation (21 – 30 year olds “millennials”) of slot player. Traditional slot machine games have less appeal to the younger gambler and that is beginning to have an impact on gaming revenue. Gaming manufacturers are investing heavily in skill based games as they believe these games will attract the younger players. What games are they interested in and how younger gamblers interact at casinos will continue to be major discussion points.

With a re-interpretation of the federal Interstate Wire Act of 1961 issued by the U.S. Justice Department in 2011, three states have legalized some form of internet / online gaming. There have been recent attempts (2015) to pass legislation labeled as the Restoration of America’s Wire Act, which would restore the “true meaning” of the 1961 Wire Act to cover all forms of online betting. These attempts were unsuccessful and have dissipated over the last year. This report provides insight into the technology and regulatory issues experienced by each state. An analysis of the revenue generated by each state is also included since it should be a relevant component of future policy decisions in Louisiana. One justification for the legalization of internet / online gaming

was to curb the prevalence of illegal and unregulated online gaming by offering the same product that is regulated and offers greater protections to the interested gambler.

Finally, it's important to have an understanding of current legal issues and potential regulatory considerations in determining future gaming policy and law in Louisiana.

Evolution of Gaming Technology and its Impact on Louisiana

Video Poker

Over the last few years, Video Gaming Devices (VGDs) have evolved from bulky monitors with low resolution graphics on soldered chips (EPROMS) to dual LCD screens with high-end graphic cards and solid state flash drives delivering animated content. In some jurisdictions, the communication methods used to monitor and regulate play have advanced from a once-a-day download of meters and exceptions via dial-up modems to a near real-time response utilizing broadband solutions. Because of the newer VGDs and faster communication methods to and from the central system, Server Supported Game Systems (SSGS) have become more feasible to implement. This opens the door to more robust reporting features and an even greater integrity of the game. The industry hope is that new and engaging content will lead to increased participation and reinvigorating play from gaming enthusiast and patrons. Our independent testing lab, Gaming Laboratories International (GLI), issues testing standards that provide guidelines for the potential benefits and issues involved in implementing new technology. Two such benefits being utilized in other distributed Video Poker markets are Ticket In Ticket Out (TITO) and player tracking. TITO facilitates player movement from one VGD to another by issuing tickets that patrons may redeem by inserting in other VGDs located within the establishment. This increases security at the machine level and reduces the occurrence of theft. Player tracking helps to develop customer loyalty and could provide more consistent and stable revenue for the establishments.

In order to be ready to implement these advanced features, changes to the video gaming device communication protocol were necessary. The Slot Accounting System (SAS) protocol is now 100% functional on all VGD's in Louisiana. This protocol is widely considered the global standard for device communication. Updating the protocol in recent years continues to spur development from new VGD manufacturers for the Louisiana market which in turn gives players new choices in game content and play. The Louisiana State Police Gaming Division ("Division") is also looking ahead to the next standard protocol, G2S (Game To System). G2S is an open standard protocol that will help to eliminate inefficiencies caused by incompatible systems and lead to more efficient and effective gaming operations. Although G2S is an evolving protocol, it is currently being implemented in other limited jurisdictions such as Oregon and territories in Canada.

The Division is in the process of upgrading the current Central System which controls all of the video poker machines in the state. In addition to revenue tracking, the upgraded system will allow the Division and the Industry to take advantage of some of the new technologies inherent with newer systems. Some of the possibilities are TITO, player tracking, and enhanced business analytics that will allow the industry to manage machines and games more efficiently based on data collected by the new system. These new technologies have the potential to increase efficiencies and revenues that will benefit both the state and the industry. Our current contract for the Central System runs through December 2018.

Casino Gaming

Electronic Table Game Systems (ETGS) come in multiple configurations. Some versions are totally automated and others may utilize a dealer. The Division approved electronic table games simulating Roulette, Craps and Black Jack for live play in Louisiana. The systems which do not utilize dealers are configured with a main computer connected to individual player stations which control credit acceptance, game initiation and play, winning distributions, and all accounting and event information. Patrons sit at the player stations to wager and view individual game information for each round. The latest installations of dealer controlled systems are a “stadium style” setup and offer patrons the ability to wager on multiple live table games from a single player terminal. These systems utilize cameras to film the dealer and it is streamed over a closed network to the player terminals. Games are session oriented and patrons have a defined time to wager on each session of the live game. Information regarding individual game history can be accessed at the player station and also from the central server that collects the information. One benefit to the casino is an increase in the “hands per minute” due to the automation of the functions and also the ability for more patrons to wager on each game due to having more positions available.

The automated ETGS have software which controls randomness and security of game play that the Division certifies and seals in a manner similar to traditional slot machines. The player terminal software used with stadium configurations is also certified and tested to ensure it is operated in compliance with testing laboratory standards. There is also authentication between the player stations and the main computer so only approved stations can connect and interface with the main server. Accounting and security event records can be accessed and reviewed for game play and payout history.

Multi-level Slot Machine Progressives continue to evolve and increase in terms of the percentage installed across the gaming floor. The progressive jackpot is awarded based upon a certain combination of symbols and the award can vary depending on the amount wagered. Game manufacturers have incorporated more multi-level progressive tiers on slot machines with some games offering over 20 different award levels. There are also “mystery bonus” games which look like a progressive and award a jackpot based

upon a random trigger of the amount inserted versus a winning hand. For example, the award will increment between \$250 and \$450 and is based upon the 350th coin wagered since the last time the award was won. The games are all linked to a central progressive controller located in the IT room or in secure locations on the gaming floor. These controllers contain software that the Division certifies as part of the installation process. Regular non-progressive payouts are handled at the game but the progressive award is accounted for and sent to the winning game by the controller. Offering more progressive awards may result in increased slot play and the majority of casino revenue is a result of slot machine play. In some cases, additional locks and camera coverage may be required. Routine inspections are completed to ensure the devices remain in compliance with the rules and internal controls.

Multi-State Wide Area Progressive Slot Machines are currently linked in Louisiana, Nevada, New Jersey, and South Dakota, to create larger top-level progressive jackpots. Iowa is approved but currently no games are connected. Wheel of Fortune Deluxe slot machines installed at DiamondJacks Casino in Bossier City are connected to the multi-state wide area progressive link with a jackpot that starts at \$300,000. The Division certifies and tests these machines like every other slot machine in the state.

The wide area progressive operator uses the same monitoring requirements to manage multi-state games as they do for in-state games. Monitoring of these games requires 24-hour operations at a central monitoring location open to inspection by the Division. Additionally, the operator submits all required reports to the Division. The reports allow the Division to verify the share payments casinos deduct from their gaming revenues.

Slots and Social Gaming represent continuing efforts by the gaming industry and manufacturers to appeal to a younger demographic. Social games have the characteristics of involving multiple players with each player being aware of the others activity and are based on a social platform such as Facebook. Games can be integrated within the application and played by users with login or username credentials for the given application. They are also available for download directly from a library such as Google Play or App Store. One version is IGT's DoubleDown Casino which offers free slot play, video poker, blackjack, and roulette in a virtual environment where no real money is wagered or lost. When an account is created, it is normally funded with virtual money. Once the initial funds are depleted, you can use real money to purchase additional virtual chips or credits. Friends can be notified that you have joined using social media and invited to play in a tournament type setting. The apparent lure is based on natural competitive drive and chance of winning or reaching a higher level than your friend or opponent. Other games attract play based upon creating and maintaining a virtual item and notifying friends and players of your status on a regular basis to encourage competition. Some social games may offer players prizes, lives, or increased opportunity to advance based upon spending small amounts of real money.

When that small amount is multiplied by millions of users, huge amounts of profits can be made by developers. Casino operators are researching how social gaming and the casino environment can be integrated. At some point, it may be possible to play games on smartphones using virtual money outside the casino and, upon entering a legal casino, switch to playing with real money. The casino could potentially set up a local network and only grant network access to persons who have been properly identified. These concepts are being examined in an effort to attract younger patrons. Casino operators can additionally start connecting with social gamers in their area and offer incentives for online guests to come in and play on the casino floor.

From a regulatory perspective, all games are in some way controlled by a software program so traditional methods of verification will remain in place for games on the floor. The mobile capabilities of social gaming pose a challenge but the controls would likely be in the authentication process for users of tablets and smartphones. Using technology to verify who is playing and determining their location will be mandatory to ensure the integrity. Regulators and testing laboratories will have to be involved in the design phase to ensure the games are compliant with laws.

Skill Based Gaming continues to be developed as another strategy to modernize casinos and attract millennials. A game with skill contains one or more elements in its design that can be leveraged by a player to impact the payback percentage.

The new machines will offer a variety of games that young people like to play including: first-person shooters, racing and puzzle games, and even some redesigned vintage video games. The payout models will be similar to traditional slot machines but will include “variable payouts” which allow skilled players a better chance to win. The location and staging of the skill games is thought to be just as important to attract a younger demographic. Casino operators are looking at setting up “entertainment zones” like adult arcades as one strategy for locating the devices on the gaming floor. Some are concerned that if placed improperly, the skill games may not be attractive to traditional slot players.

Skill based games debuted in Atlantic City in late 2016 and recently made their debut in Las Vegas. In order to approve these new machines, those jurisdictions modified regulations to accommodate for the “variable payouts”. The Louisiana Gaming Control Board’s administrative rules require some revisions to allow the use of these games at casinos in Louisiana. For example, the rules require a random selection process to determine the game outcome at the initiation of each game. From a laboratory testing standpoint, the evaluation of the games and the corresponding certification reports will be valuable because the information may be needed in situations such as disputed game outcomes. To the extent possible, agents will need to have a clear understanding of the theoretical functionality and the effects of skill on the payback percentage.

Sports' Betting in America is thriving despite being illegal in every state except Nevada. In 1992, Congress passed the Professional and Amateur Sports Protection Act (PASPA), effectively outlawing sports betting in most of the U.S. Four states were grandfathered into the law: Nevada, Delaware, Montana, and Oregon. Nevada is the only state that allows traditional betting on college and professional sports.

The American Gaming Association (AGA) is building a broad coalition in support of a legal sports betting market. Supporters include the U.S. Conference of Mayors, the National Conference of State Legislatures, various professional sports commissioners, and others. The AGA estimates that Americans placed nearly \$155 billion in illegal sports bets in 2016. This includes an estimated \$90 billion on college and NFL football games. The AGA's support of this change is based on the propositions that 1)the ban on sports betting is not working; 2)there is a massive illegal market that operates outside of regulation with no oversight or means of protecting the integrity of the games; and 3) there are currently no safeguards or protections for consumers.

In 2014, New Jersey passed a law in which it partially repealed its own sports betting ban. The sports leagues (NFL, NBA, NHL, MLB, and NCAA) and the Department of Justice challenged the law in federal court and prevented it from going into effect. New Jersey appealed and lost their appeal in 2016. They applied for writs to the U.S. Supreme Court and it could be considered in 2017. This case may be the springboard for the legalization of sports betting if New Jersey prevails. The PGA Tour recently joined MLB and the NBA in supporting sports betting regulation provided there is an agreement on the content of the legislation. One point of argument has been the "integrity fee" which is being proposed by the leagues. The fee would be payable to the leagues by the sports betting operators based upon a percentage of the amount wagered. If the fee becomes a requirement, casino operators will have to accurately project initial and recurring expenses to ensure that revenue from sports betting is enough to justify it being implemented.

The United States Supreme Court decided the case of *Murphy v. NCAA* on May 14, 2018. In the decision the court declared PASPA's ban on sports betting unconstitutional. As a result, state legislatures are now allowed to set up a framework for the implementation of sports betting. Several states have already passed legislation doing just that, most notably Mississippi and Delaware. While the details of the framework are left up to the individual states, much of the new legislation requires the betting to take place on the licensed operator's property. For example, in order to place sports bet at a Mississippi casino, the bettor would need to be in the designated gaming space of that casino. This is different from sports betting in Las Vegas, which allows bettors to create an account with a licensed operator and then place bets remotely using a phone or computer. The Louisiana Legislature attempted to pass legislation calling for a statewide referendum on the issue of sports gambling, but that measure did not make it out of committee. Many of the national athletic associations, professional and

collegiate, do not support the legalization of sports gambling. Their biggest fears are for the integrity of the games, which they feel may be compromised by pervasive legalized sports betting. Proponents of the Supreme Court decision contend that sports betting is already taking place illegally, and they believe this decision allows for the proper scrutiny and regulation at the state level necessary to maintain the integrity of professional and collegiate athletics.

Internet Gaming / Gambling

Legalized Internet Gaming (iGaming)

Internet Gaming is legal in approximately 85 countries worldwide. There are approximately 3000 online gambling sites that are owned by 665 companies. Approximately \$30 Billion per year is bet online worldwide.

U.S. Federal law limits online gambling. The Unlawful Internet Gambling Enforcement Act of 2006 (or UIGEA) "prohibits gambling businesses from knowingly accepting payments in connection with the participation of another person in a bet or wager that involves the use of the Internet and that is unlawful under any federal or state law."

The Interstate Wire Act of 1961, often called the Federal Wire Act, is a United States federal law prohibiting the operation of certain types of betting businesses in the United States.

In September 2011, the US Department of Justice released to the public a formal legal opinion on the scope of the Act concluding, "interstate transmissions of wire communications that do not relate to a 'sporting event or contest' fall outside the reach of the Wire Act".

The U.S. Fifth Circuit Court of Appeals ruled that the Wire Act prohibition on the transmission of wagers applies only to sports betting and not to other types of online gambling. (*Mastercard International Inc. Internet Gambling Litigation*)

The Supreme Court has not ruled on the meaning of the Federal Wire Act as it pertains to online gambling.

Delaware

Delaware became the first state to allow a broad spectrum of internet gambling (iGaming) by passing the Delaware Gaming Competitiveness Act of 2012. Online slot machine play and casino games such as blackjack and poker are accessible through each Delaware casino's website and controlled centrally by the state Lottery Office. Delaware lottery tickets also will be offered for sale on a state-run website.

The state launched online gambling in November 2013 through an association with three casinos and the internet service technology provider. There are three horse racetrack casinos that are licensed for internet gaming: Dover Downs, Delaware Park, and Herrington. 888 Company is the technology provider for the casinos and the state internet gaming websites and they are partnered with Scientific Games (SGI). Delaware State Lottery receives all net gaming revenues and distributes the revenue to casinos, 888 Company, and SGI on a monthly basis. All iGaming initially was PC based but has

technology that links a required cell phone with the location of the PC. Delaware launched mobile gaming on IOS devices in May 6, 2015.

Delaware has had no known issues with geo fencing (using technology to ensure players are located within the borders of Delaware) or age verification as it relates to iGaming. 888 Company blocks accounts of potential customers to prevent play if these types of issues arise and this will be reviewed by Delaware State Lottery. In the experience of Delaware regulators, it is more difficult to commit a crime online than in a brick and mortar casino. Their iGaming regulations require bank account information, one cell phone per account, copy of utility bills, deposit limits, etc., which are more restrictive than traditional casinos. Delaware has had no known criminal cases resulting from iGaming.

Delaware launched a shared liquidity platform with Nevada in March of 2015 to allow online players to share the platform between the states. Delaware and Nevada players can play on shared sites which provide more table and tournament options for the players. Both states agreed that each state would only tax the winnings of players from their state.

Nevada

On December 22, 2011, the Nevada Gaming Control Board (NGCB) approved online gaming regulations for the state. These regulations allowed for the licensing of online poker operators only. These regulations made Nevada the first state to legalize online poker. Licensees offer online poker to anyone over the age of 21, physically located within the State of Nevada.

In February 2013, Nevada enacted legislation (Assembly Bill 114) which allows for interstate online gaming. This law also authorizes Nevada to enter into interstate agreements with other states to offer internet poker to their residents.

Currently Caesars and Southpoint are the only two casinos that host an internet poker site allowing pay for play. Stations Casino was the first casino licensed for internet poker, but they ceased operations. Caesars uses WSOP to operate their poker website and Southpoint Casino uses Real Gaming to operate their poker website.

Nevada's Enforcement Division focuses on compliance investigations, criminal investigations, and complaints. Initially, when Nevada began internet poker, they received several complaints consisting of patron disputes. One example of a patron complaint is that all players have to log in to the website which requires an internet connection. The rules/internal controls for the casinos include that any wager made by a player is automatically forfeited to the pot if the player loses internet connectivity for any reason. This rule is in place to avoid a patron making a wager and deciding to change their mind by terminating their internet connectivity and requesting a refund of their wager. The NGCB received multiple complaints by patrons that their connection

to the site was lost for unknown reasons and they subsequently lost their money from the hand they were playing. Nevada's internet poker structure is set up so the house gets a 10% rake of every pot and the state receives 6.5% of that rake. Therefore, regulators do not feel that the casinos have a motive to kick people off the site in the middle of a hand since the pot is already established and the casinos take will not change. In fact, when players are kicked out of a hand, this could have a negative effect on the size of the pot since there are less players betting.

The NGCB receives complaints from potential customers that can't access the site. Those complaints are referred back to the casino and usually involve customers that are too close to the state border. The casino uses geo-fence software that eliminates potential customers that are within 5 miles of the state border in rural areas. The NGCB has not had any known issues of underage gambling. One complaint a casino received was from a parent that claimed gambling losses due to his underage son using his identity. The complainant wanted his losses refunded by the casino. The casino advised the complainant that the next step would be to forward his complaint to the NGCB at which time he rescinded the complaint. Regulators believe that the complainant was using his child as an excuse for his gambling losses. If the NGCB had received the complaint, they could have cited the father for not protecting his passwords and sensitive information from his underage son.

Other regulatory complaints involve patrons complaining about their account being frozen and not available to play. All of those complaints related to the casino blocking the account due to suspicious activity such as chip dumping or suspicious use of funds by putting money up and quickly taking it down. All internet operators have safeguards built into their software to detect suspicious activity. Both casino operators chose to use tight restrictions in their software to protect the integrity of the game.

The NGCB documented approximately 200 criminal incidents since they began internet poker. Most of these incidents involve one group of criminals tied to the same criminal case. This criminal group engaged in credit card fraud and identity theft. The NGCB made a case against these individuals and has not had many problems since that case. There was a case in which a complainant disputed credit card charges on his account, claiming identity theft. This complainant was later charged and found guilty of filing a false claim to cover up gambling debts.

Nevada only authorizes U.S. currency in their casinos and on the internet. Nevada does have an interstate agreement with Delaware to share customers across state lines, which started a go-live field trial on March 24, 2015 and was finally approved on August 06, 2015.

New Jersey

In February 2013, New Jersey became the third state to allow its residents to bet on games and sporting events online. New Jersey went live with internet gaming November 25, 2013. The new law set a 10-year trial period for online betting, and raised the taxes on the Atlantic City casinos' online winnings from 10% to 15%.

New Jersey's gaming structure is made up of a Casino Control Commission, the Attorney General's Division of Gaming Enforcement (DGE), which includes audit, tech, and investigations; and the New Jersey State Police (criminal investigations in the casino or in the footprint of hotel and casino).

New Jersey publishes an annual report on their website that gives a complete synopsis of the previous year of internet gaming. The annual report for 2016 has not been published yet; therefore, the 2015 annual report is still the most current report. Internet gaming operations in New Jersey have continued to evolve throughout the year. There are now five (5) internet permit holders: Borgata, Caesars, Golden Nugget, Resorts, and Tropicana. DGE decided to permit multiple platforms for each permit holder with a limitation of five "skins" or brands per permit. Some of these brands include WSOP.com, 888.com, PokerStars, etc. As of June 2018, a total of 16 authorized sites offered internet gaming in New Jersey.

DGE had to ensure that sufficient guidelines were applied for the "Know Your Customer" (KYC) process. This process ensures that patron identities are known and that the players are old enough to gamble in New Jersey. To date, this system has been working very well with no evidence that underage individuals have been able to establish accounts. The Division also regularly monitors issues handled by customer service at the platform providers. Furthermore, as of May 1, 2014, the DGE required all employees of platform providers performing customer service and fraud detection related functions and with access to confidential player information be located in New Jersey.

Ensuring that all play on authorized websites occurs only within the borders of New Jersey is a critical component of New Jersey's online gaming operations. Geo-location technology enables operators to determine where someone is playing within the state and to block those trying to gain access from outside New Jersey's borders. DGE worked with the geolocation vendors and casinos to enhance the technology to make it more accurate and reliable and to reduce false negatives. Additionally, the geolocation vendors provided more detailed information to the casinos whenever a patron fails geolocation; this information is used by the casinos to help customers resolve geolocation problems. DGE is constantly in discussion with the industry for improvements, and there have been great strides in enhancing geolocation protocols. Currently, geolocation has approximately a 98% success rate. In addition, 0% of the

geolocation fails are able to play. If an account holder fails a geolocation parameter, they do not get to play or if they fail a re-check, they are cut off from play.

DGE has been in discussions with the New Jersey Department of Banking and Insurance and the U.S. Office of the Comptroller of the Currency (OCC) to address the difficulties related to payment processing. In April of 2015, new credit card codes were introduced to help clarify legal online gaming transactions. Most recent statistics since the codes have gone into effect indicate that about 70% of Visa and 60% of Mastercard transactions are approved. It should also be noted that the rate of chargebacks for Internet gaming is actually less than it is for retail transactions. In addition to increased credit card transaction acceptance rates, payment processing companies such as Neteller are approved to do business with New Jersey Internet casinos and provide convenient and secure methods to fund Internet gaming accounts. As the banking industry becomes more familiar with legalized Internet gaming and patrons become more educated about the various options for funding their accounts, further improvements are expected in this area.

DGE has developed monitoring tools that allow them to evaluate activity across all the platforms and quickly determine anomalies that need to be investigated. This type of comprehensive monitoring across platforms is unique to New Jersey. According to the DGE, they have a financial team that is currently auditing internet gaming to 100%.

In addition, New Jersey has become the first state to require casinos to have an information security officer (ISO) licensed as a key employee. The rules require ISOs to design formal cybersecurity plans for casinos and then review their effectiveness on an ongoing basis. The ISO also serves as the primary point of contact for regulators in the event of a breach, and will be required to immediately report any incidents to the DGE and the casino's audit committee. Among other things, Atlantic City casinos are already required to have a head of Internet Technology (IT) to oversee security issues, as well as any technology deployed in Internet gaming. Requiring separate licensing for ISOs shifts that position from daily operational duties to one of policy setting.

The regulations were put into place following a cyber-attack in July 2015 that required four New Jersey licensed online casinos to be taken offline for approximately 30 minutes. New Jersey websites are operated by casinos' online partners but they are still ultimately the casinos' responsibility as sites are operated under their gaming licenses.

All Internet gaming platform providers are required by regulation to implement various responsible gaming features. Similar to brick-and-mortar casinos, patrons are able to exclude themselves from Internet gaming. Technology is used to verify exclusion status during registration and prior to each log in. Required notifications as to 1-800-GAMBLER are presented during registration, log in and log out, as well as from the player protection page. Mandated features remind patrons of how much time they have played during one session which prevents losing track of time and serves as a "reality"

check. Patrons are limited to one account per website gaming brand and have the ability to establish several types of responsible gaming limits or suspend play at any time. Patrons are prohibited from relaxing limits until after the existing limit expires.

Software systems must contain logic to identify and report potential problem gamblers to the licensee. Casino permit holders are required to maintain a record of all actions taken regarding patrons identified by the system. A mandatory player protection feature is required once a patron's cumulative deposits exceed \$2,500. Once triggered, the patron is required to acknowledge that he or she has the ability to set the responsible gaming limits discussed above and that 1-800-GAMBLER is available for help. Once met, this notification is enforced annually thereafter. The system provides an on-demand activity statement for a minimum of 180 days of patron gaming activity, and Internet gaming platforms must maintain all records of patron activity for at least ten years.

In 2015, DGE improved the process for a gambler to exclude himself/herself from gambling by implementing an online gaming self-exclusion process that could be completed from the DGE website instead of in person or on an online gaming website.

New Jersey has not entered into the interstate compact agreement with Nevada and Delaware. According to the New Jersey Division of Gaming Enforcement Director David Rebeck, many obstacles are still in place that will prevent New Jersey from joining the agreement. He recently indicated a possibility of entering into an agreement with Pennsylvania if they are able to legalize online gaming.

Gaming Laboratories International (GLI)

GLI is involved with all three domestic jurisdictions that implemented internet gaming. Each regulatory environment has its differences, but there is some overlap between the jurisdictions. All internet games still use similar Random Number Generator (RNG) implementations to those used within casino games; therefore, the internet games have many similarities to those within a casino except they can be accessed through the internet and the games are located on a server.

GLI has extensively tested geo-fencing services and is very comfortable with the technology which is being more refined and accurate with time. There have not been reports of play that has occurred outside of the jurisdictions and thus the accuracy is considered to be very high. Each jurisdiction, through their regulations, can set up parameters that ensure everyone participating in internet gaming is located within the proper jurisdiction. The geo-fencing software can use up to 4 different points of data to determine where a player is located. The 4 points of data are: cellular, available SSID networks (Wi-Fi), IP access point, and GPS. The data provided by these points is limited to the hardware supported by the device used to connect to the internet.

However, with the support of mobile technology implemented by most markets, each of the 4 points is typically available.

GLI believes a person is much more anonymous in a brick and mortar casino than within an internet gaming environment. Typically at a casino there are internal controls, such as a security detail, as means to prevent underage patrons from accessing the casino. With internet gaming, players must complete a registration that requires personal information such as name, date of birth, driver's license number, social security number, copy of passport, copy of utility bills, and secret questions/answers. The credentials are validated with government and enterprise databases and thus there is little opportunity for error. In addition to the upfront verifications, the internet gaming software is capable of tracking a player and analyzing their play in real time and therefore the technology is capable of flagging critical changes in the player's behavior. Additionally, there can be additional control over withdrawal account settings, thus in the event that an account is being utilized by a player that is different than the registered patron, there would be no way to extract the funds without cooperation from the registered patron. GLI acknowledges that these systems are not foolproof, although there is a more rigorous set of controls when compared to those within most brick and mortar casinos.

GLI tests internet gaming software to ensure it is aligned with the regulations which are designed to protect customers against fraud and collusion. The technology is capable of incorporating anti-collusion software in their platform. Today's technology is capable of generating warnings or alerts that the provider reviews to determine if players are attempting fraud or collusion. The integrity of the game is the most essential element to the viability of internet gaming. The operator's internal controls detail their methods to review players' actions and the handling of warning alerts or complaints from customers. A structured set of internal controls, audit programs, certifications, and change management procedures are essential to ensure that this software is being utilized in a way which meets the regulatory objectives. Regulators audit these procedures to ensure operators are following their internal controls. Regulators do not typically review every transaction and game event, but they also should not rely solely on the operator to take appropriate action. Regulators must find a balance that is comfortable to protect the integrity of the internet gaming operation.

An audit review process is essential to ensure that the regulator understands the critical processes associated with the internet gaming software. GLI works closely with the regulators and the service providers to serve as an independent technical resource to help facilitate a clear understanding of how the software in place works. Additionally, security audits are essential to ensure that the network environment does not have vulnerabilities that can compromise the integrity of the operation.

Staffing for regulators is relative to the risk each state is willing to accept. Regulators can get by with 1 or 2 people to review the processes and software, but that would not be enough personnel to conduct a thorough review.

Internet gaming requires that the regulators must be comfortable with the network security provided in today's world and the regulator must be able to understand what they are looking at from the software standpoint. Internet gaming does provide regulators with centralized access to information.

Other States

Pennsylvania became the fourth jurisdiction to offer internet gaming when a gambling bill was signed into law in October 2017. The systems are not live at this time and are in the initial phases of the planning and roll-out for internet gaming.

In addition to those states, Nevada and New Jersey have introduced legislation that would alter their online gambling laws and New York has introduced legislation that would commission a study on the gambling habits of its residents, including online gambling.

In January 2017 in New Hampshire, HB562 was introduced which would decriminalize online gambling. New Hampshire's gambling laws define "illegal" gambling and provides a list of exceptions. HB562 would have added online gambling to the list of exemptions but the bill did not pass in late October 2017 and again was ruled "Inexpedient to Legislate" in January 2018.

Federal Government

In 2015, Rep. Jason Chaffetz (R-Utah) reintroduced his Restoration of America's Wire Act (RAWA). Rep. Chaffetz's bill purports to restore the true meaning of the 1961 Wire Act by extending that law to cover all forms of online betting. *The Coalition to Stop Internet Gambling* reports that three State Attorney Generals, Adam Laxalt (Nevada), Chris Koster (Missouri), and Alan Wilson (South Carolina), support RAWA. The last action on this bill was a Subcommittee Hearing on 3/25/2015. There was speculation that the legislation would resurface however that has not been the case.

Louisiana

Internet Gaming / Gambling is currently illegal in Louisiana. The Legislature considered and rejected legislation during the 2018 session to legalize this form of gambling.

Revenue Analysis of Legalized Internet Gaming States

In the following pages, we present revenue and tax information for interactive gaming in New Jersey, Delaware, and Nevada. We present the information in four sections: the three states combined, New Jersey's information, Delaware's information, and Nevada's information. You will quickly see the disparity in revenue generated in New Jersey. Since they began interactive gaming in November 2013, New Jersey casinos generated over \$722 million dollars of revenue compared to \$9.4 million in Delaware. Las Vegas generated \$15.8 million in the first 20 months (April 2013 – November 2014), but once the number of providers dropped to two, they stopped reporting interactive gaming revenues as a separate reporting category. They now incorporate interactive gaming with other sources of gaming revenue.

New Jersey and Delaware interactive gaming includes poker, table games, and online slot games (Delaware refers to everything as lottery) while Nevada only allows poker. As of December 2017, New Jersey collected over \$108 million compared to about \$1 million in Nevada (during the 20-month reporting period) and over \$4.6 million in Delaware. New Jersey's effective tax rate is about 15% and Nevada's is 6.75%. Delaware operates differently in that they have a set split with the casino operators. 40.5% goes to the operator, 10% goes to race purses, 6% is to keep the states computer tracking systems updated, and the remaining 43.5% goes to the state. We used the 6% and 43.5% rates to calculate the taxes at 49.5%.

As you review the charts for each state, you will see the percentage increases and decreases from month-to-month for interactive gaming and casino gaming. You will see that the peaks and valleys are different, but the increases and decreases match both forms of gaming. This may suggest that interactive gaming did not necessarily increase the pool of gamblers, but made it easier for the same gamblers to gamble without actually visiting the casino. We did not conduct a study, but we are trying to interpret the similarity of the revenue ebbs and flows.

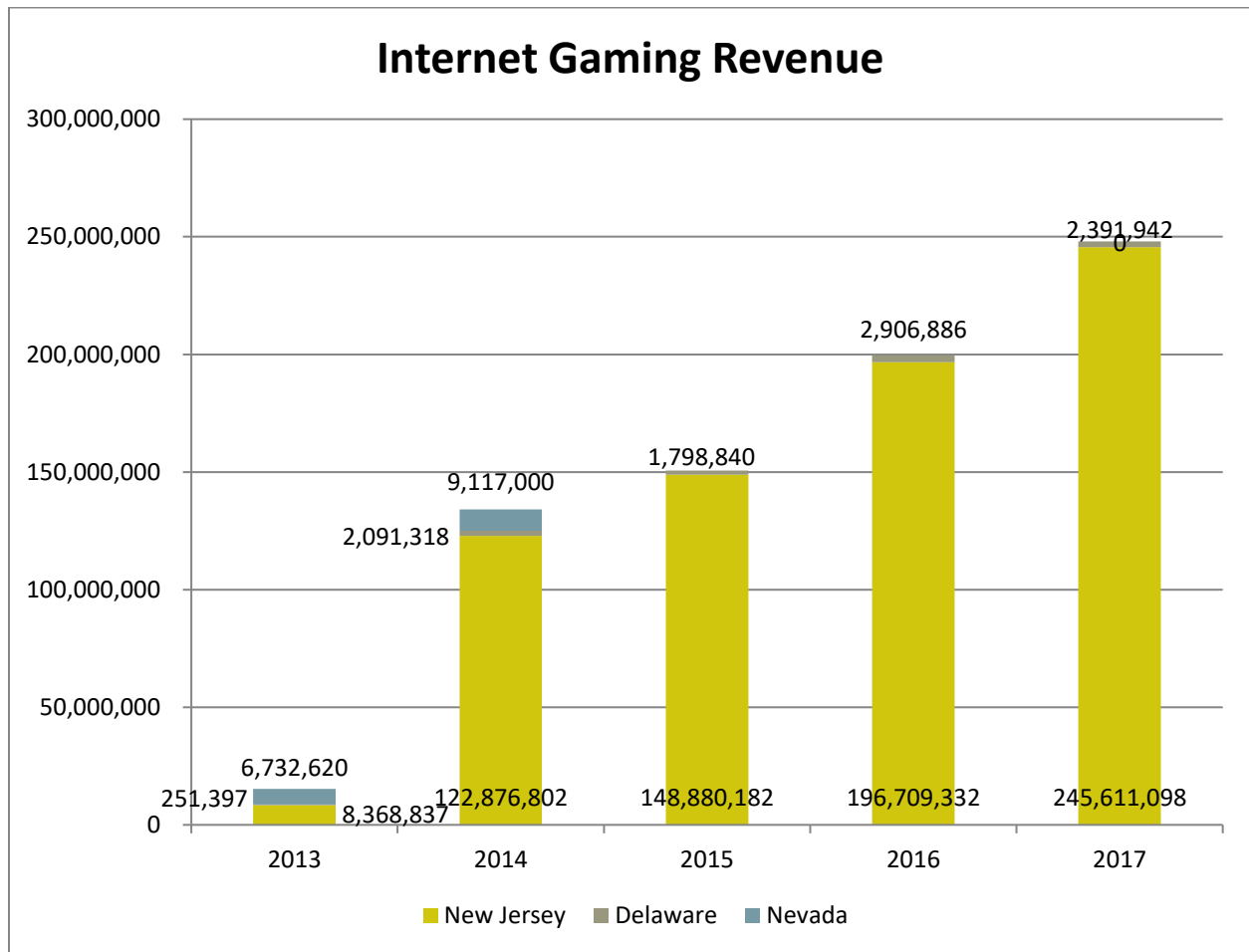
It is unclear why the online gaming venues are not as popular as first expected, but Morgan Stanley's initial 2011 U.S. estimation of \$14 billion annually does not seem likely.

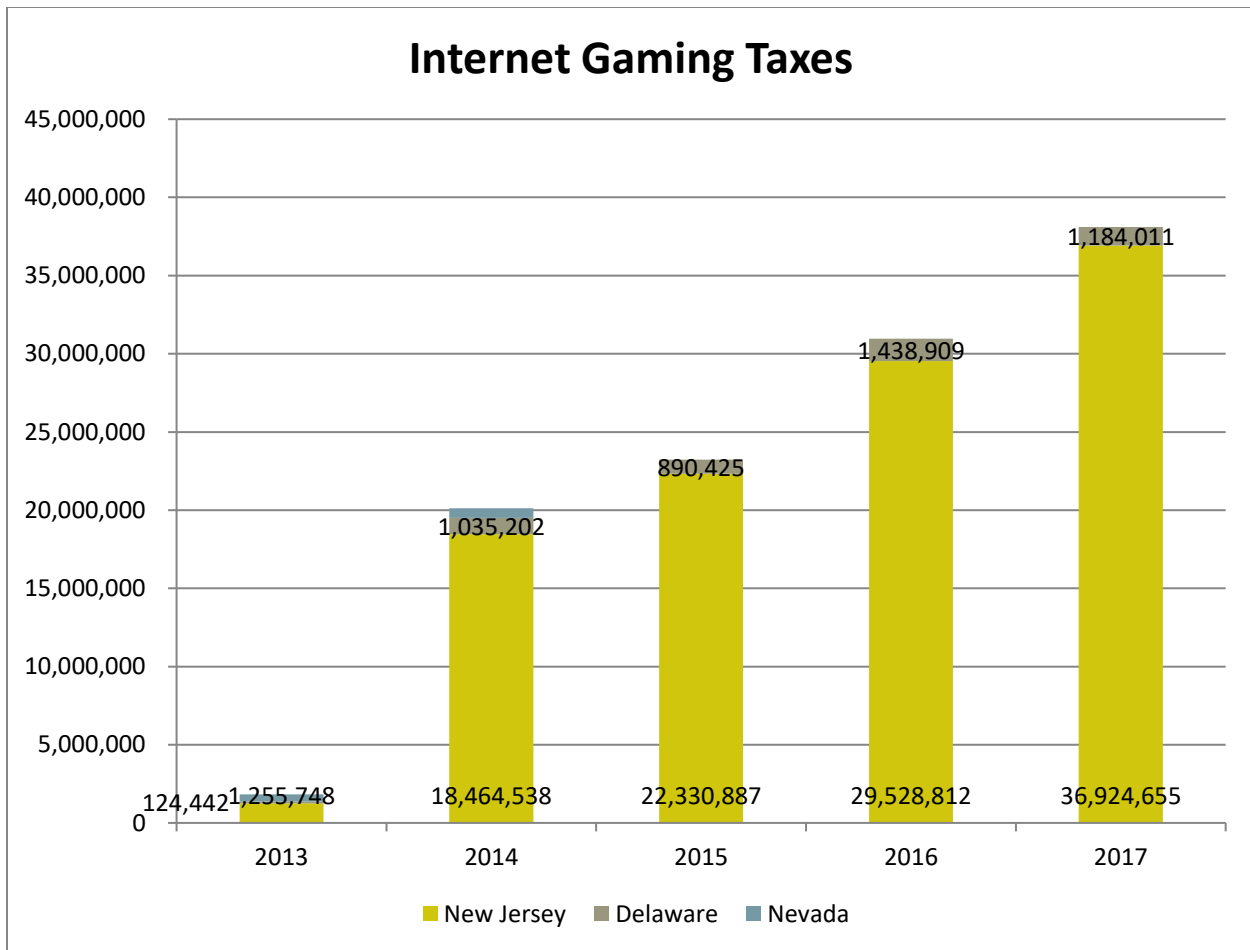
Louisiana

Louisiana's population of 4.6 million may provide a larger base for internet gaming, but the accessibility of many forms of gaming may depress gains if internet gaming is limited to in-state only. While more time may prove that revenue gains will increase, the limited amount of information to this point does not provide guarantees that Louisiana will see significant benefits through internet gaming.

***Combined Internet Gaming Revenues and Taxes
Nevada, New Jersey, and Delaware***

	Nevada		New Jersey		Delaware	
	Revenue	Taxes	Revenue	Taxes	Revenue	Taxes
2013	6,732,620	454,452	8,368,837	1,255,748	251,397	124,442
2014	9,117,000	615,398	122,876,802	18,464,538	2,091,318	1,035,202
2015	0	0	148,880,182	22,330,887	1,798,840	890,425
2016	0	0	196,709,332	29,528,812	2,906,886	1,438,909
2017	0	0	245,611,098	36,924,655	2,391,942	1,184,011
	15,849,620	1,069,849	722,446,251	108,504,640	9,440,383	4,672,989





Nevada

Nevada stopped reporting internet gaming revenue “separately” in November 2014 when one of the three companies operating internet gaming ceased operations. Nevada only provides line item revenue information for games offered by three or more operators. Based on this fact, we only updated revenue information for the overall casino revenue. These figures include internet gaming as a portion of the total.

Nevada began internet gaming in April 2013 and by October 2013 reached its peak revenue month of \$1.2 million. Revenue fluctuated between October 2013 and July 2014, but fell into a similar month-to-month range. However, beginning in August, the revenues began a decline that led to one of the three providers shutting down in November. As noted above, Nevada only reports revenue categories provided by three or more operators, so beginning in December 2014, Nevada no longer provides line item reporting for internet gaming. Page 22 shows the performance of the brick and mortar casinos in Nevada during fiscal years (July-June) 95/96 – 17/18 (through December 2017). For the short time we have interactive gaming revenues, those revenues made up approximately 0.1% of casino revenues generated in Nevada.

In Nevada, the theory exists that the limited type of internet gaming (poker), the population of only 2.79 million, and the availability of casinos to the large population areas and visitors who travel to Nevada to visit the casinos work to prevent higher interactive gaming revenues. Since we do not have actual revenue figures for the past several years, the possibility exists that Nevada's results improved over the reported years. However, based on the overall results of gaming revenues over the last couple of fiscal years, it appears internet gaming provided minimal impact on Nevada's gaming revenues.

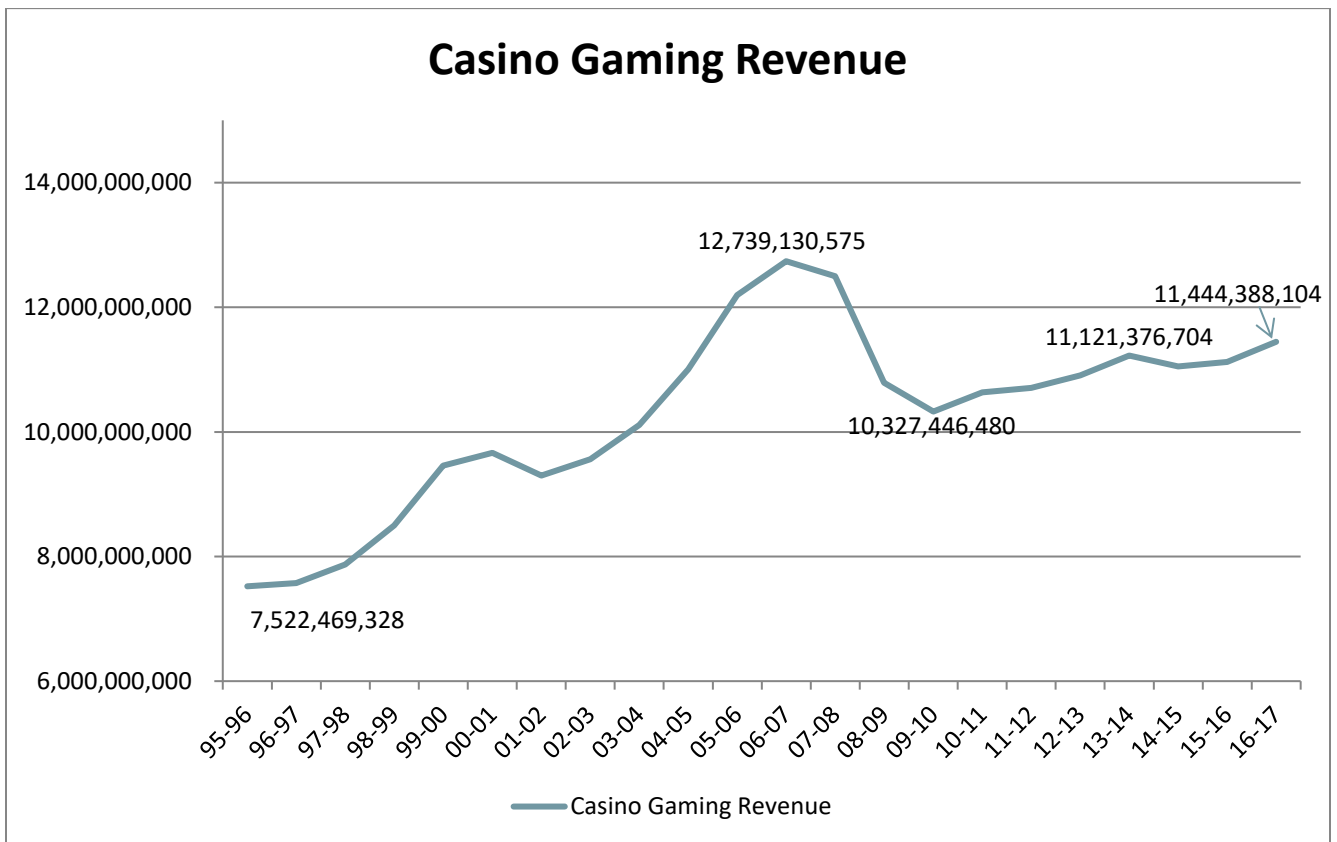
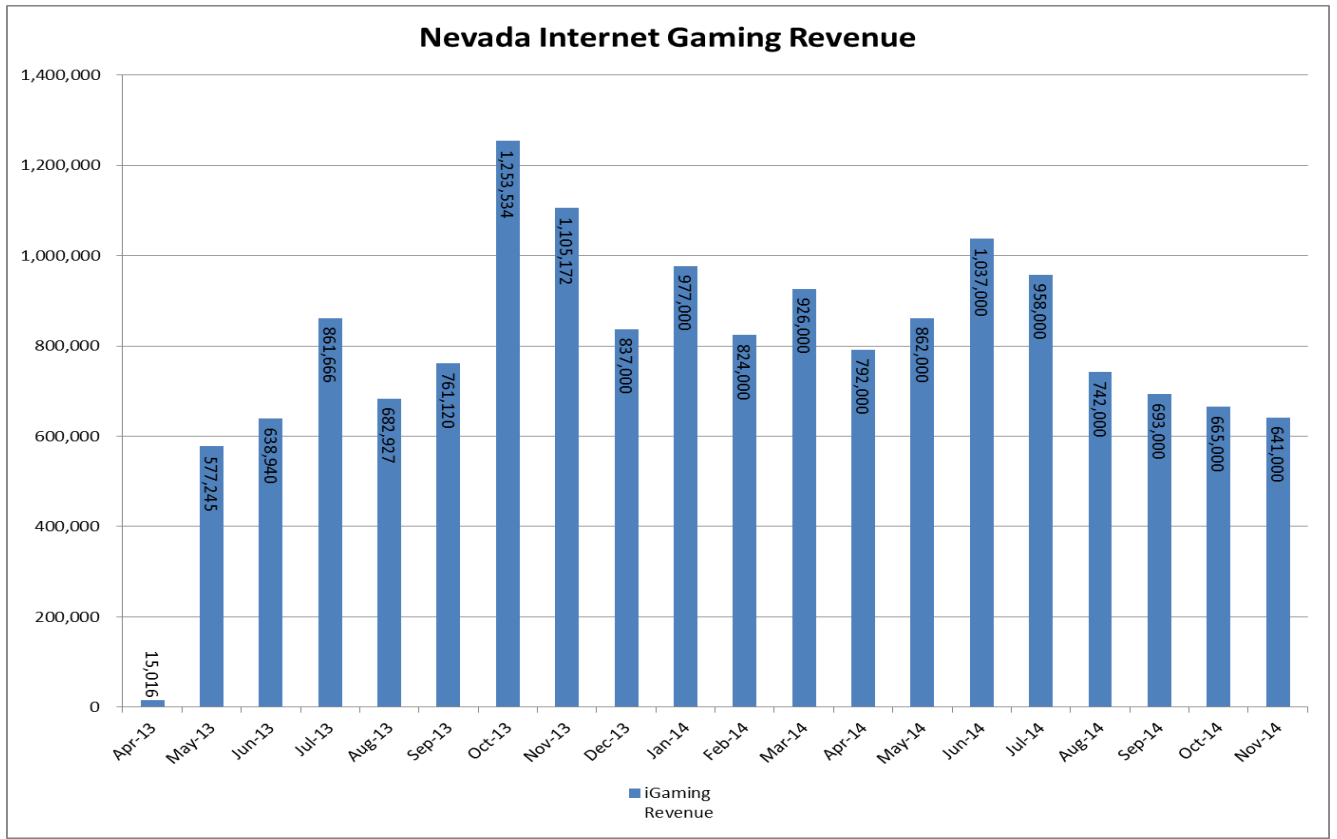
The following pages include the published internet gaming revenues and taxes, overall gaming revenues and taxes, an internet gaming revenue chart, and a chart showing the changes in casino gaming revenues in Nevada since fiscal year 95/96.

<i>Month</i>	<i>Internet Gaming</i>			<i>6.75%</i>
	<i>iGaming Revenue</i>	<i>Change from Previous Month</i>	<i>Change from Previous Year</i>	
Apr-13	15,016			1,013.58
May-13	577,245	3744.2%		38,964.04
Jun-13	638,940	10.7%		43,128.45
Jul-13	861,666	34.9%		58,162.46
Aug-13	682,927	-20.7%		46,097.57
Sep-13	761,120	11.4%		51,375.60
Oct-13	1,253,534	64.7%		84,613.55
Nov-13	1,105,172	-11.8%		74,599.11
Dec-13	837,000	-24.3%		56,497.50
Jan-14	977,000	16.7%		65,947.50
Feb-14	824,000	-15.7%		55,620.00
Mar-14	926,000	12.4%		62,505.00
Apr-14	792,000	-14.5%		53,460.00
May-14	862,000	8.8%	49.3%	58,185.00
Jun-14	1,037,000	20.3%	62.3%	69,997.50
Jul-14	958,000	-7.6%	11.2%	64,665.00
Aug-14	742,000	-22.5%	8.6%	50,085.00
Sep-14	693,000	-6.6%	-8.9%	46,777.50
Oct-14	665,000	-4.0%	-46.9%	44,887.50
Nov-14	641,000	-3.6%	-42.0%	43,267.50
Dec-14				
	<u>15,849,620</u>			<u>1,069,849</u>

April 2013-Nov 2013 are estimates based on the year-over-year increase in 2014
Nevada did not report internet gaming separately until February 2014
December 2013 and January 2013 are calculations based on 3 months covering
January - March and December - February.
Nevada only reports information when there are 3 or more operators. Ultimate
Poker withdrew in November, so there is no published revenue since
November 2014.

**Nevada Fiscal Year Casino Revenues
Through January 2018**

<i>Fiscal Year</i>	<i>Gaming Revenue</i>	<i>% Change YTD</i>	<i>Fees Collected</i>
95-96	7,522,469,328		444,662,747
96-97	7,572,498,205	0.67%	444,975,675
97-98	7,873,814,730	3.98%	459,190,064
98-99	8,498,306,119	7.93%	496,479,878
99-00	9,456,519,833	11.28%	560,236,664
00-01	9,665,090,990	2.21%	565,035,729
01-02	9,300,296,816	-3.77%	554,639,215
02-03	9,563,760,790	2.83%	559,466,417
03-04	10,109,953,867	5.71%	677,245,768
04-05	11,005,537,994	8.86%	709,933,048
05-06	12,193,784,441	10.80%	790,403,819
06-07	12,739,130,575	4.47%	820,448,136
07-08	12,500,947,911	-1.87%	771,324,301
08-09	10,786,629,677	-13.71%	655,155,974
09-10	10,327,446,480	-4.26%	630,788,144
10-11	10,634,698,757	2.98%	652,013,226
11-12	10,705,828,764	0.67%	653,544,639
12-13	10,905,399,242	1.86%	678,878,248
13-14	11,226,758,893	2.95%	681,085,071
14-15	11,048,775,285	-1.59%	694,048,872
15-16	11,121,376,704	0.66%	676,758,860
16-17	11,444,388,104	2.9%	689,111,360
17-18	6,840,506,313		389,714,923
	<u>233,043,919,313</u>		<u>14,255,140,778</u>



Delaware

Delaware introduced internet gaming in November 2013. Delaware's 2017 revenues decreased over 17% from 2016. This follows a 61.6% increase in 2016 over 2015. Based on the first four years of interactive gaming, it appears 2017 may be closer to the normal with the 2016 results likely an outlier. Delaware is a small state with a population of 925,749, which, like Nevada, may explain the limited internet gaming revenue. Delaware's internet revenues equate to approximately 0.5% of revenues generated by the three physical casinos.

The following pages include the published internet gaming revenues and taxes, overall gaming revenues and taxes, several internet gaming revenue charts, and a chart detailing the year-to-year percentage increases and decreases of internet and casino gaming revenues.

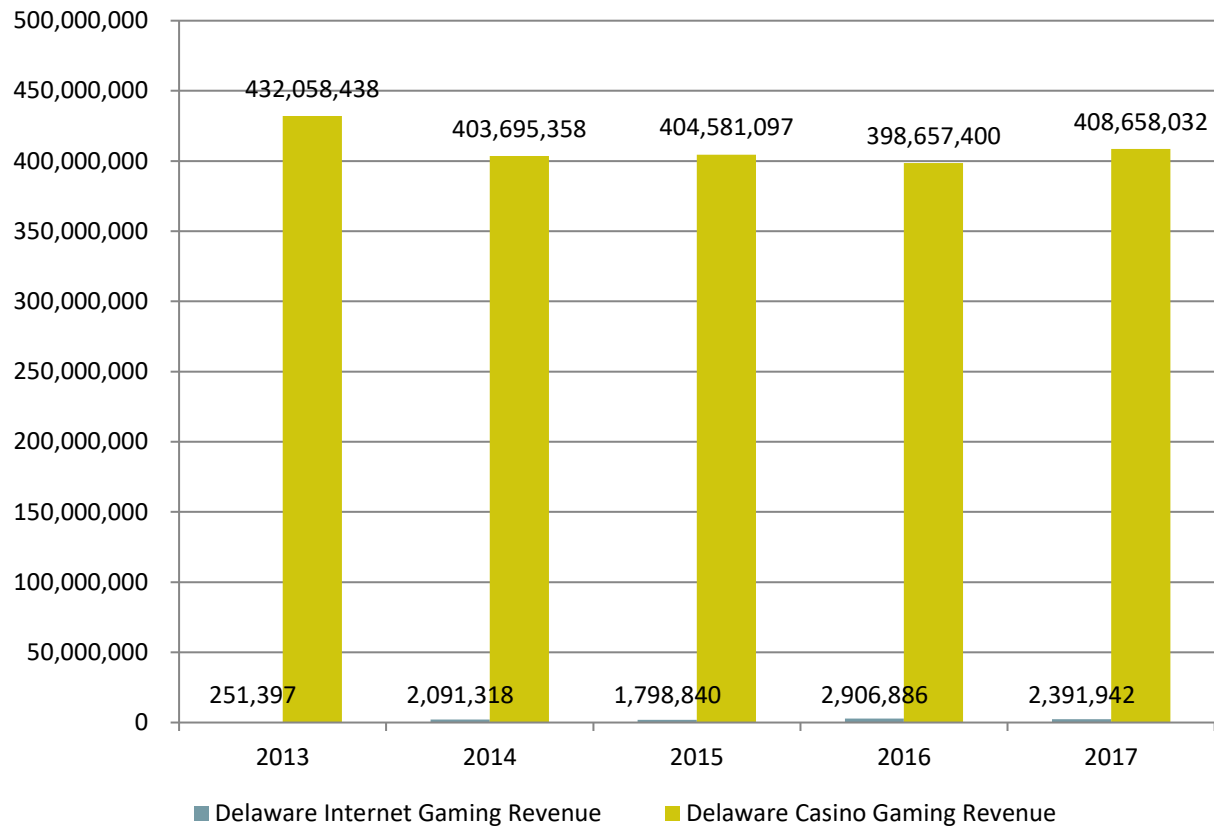
Delaware iGaming Revenues

	<i>Table Games</i>	<i>Video Lottery</i>	<i>Poker Rake & Fees</i>	<i>Total</i>	<i>Change Year-Year</i>	<i>49.5%</i>
2013	45,542	31,004	174,851	251,397		124,441
2014	999,311	496,428	595,457	2,091,195	731.8%	1,035,142
2015	527,267	879,173	392,401	1,798,841	-14.0%	890,426
2016	777,741	1,753,209	375,936	2,906,886	61.6%	1,438,909
2017	588,862	1,571,994	231,086	2,391,942	-17.7%	1,184,011
	2,938,723	4,731,808	1,769,730	9,440,261		4,672,929

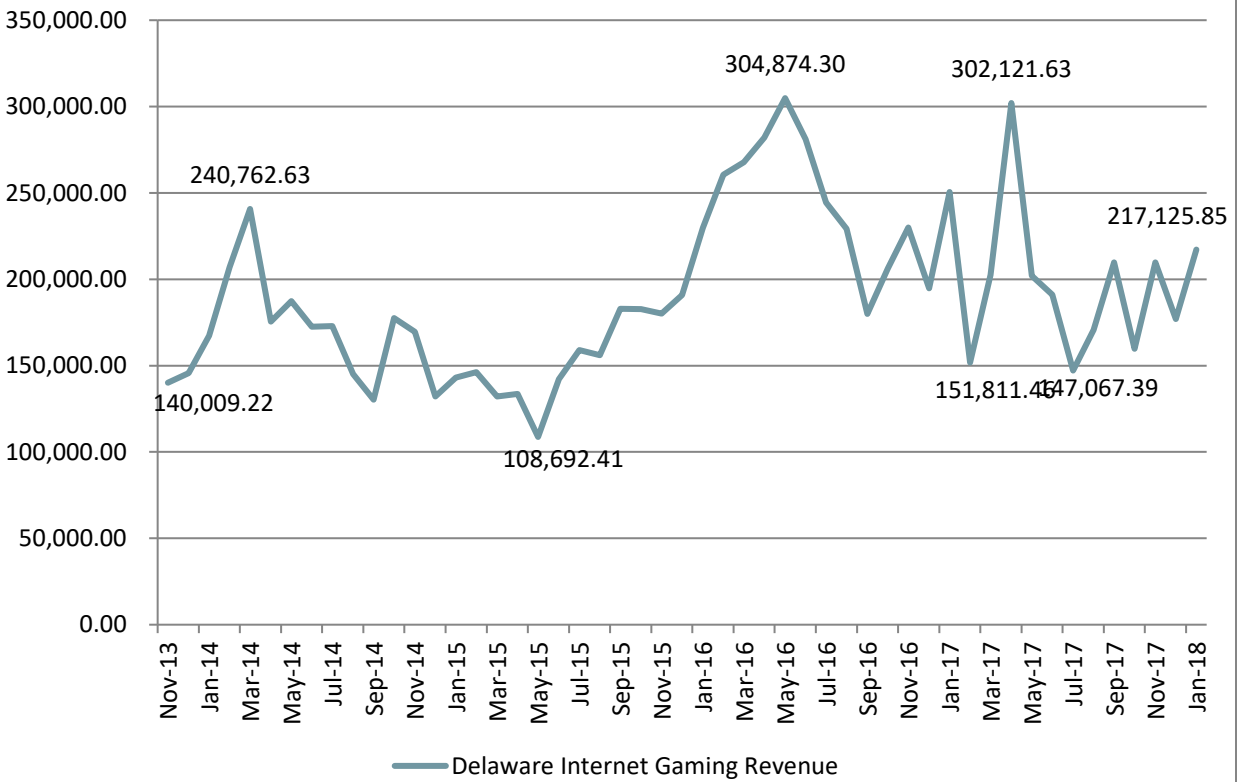
Delaware Casino Gaming Revenues

	<i>Table Games</i>	<i>Video Lottery</i>	<i>Total</i>	<i>Change Year-Year</i>	<i>*Gaming Fees/Taxes</i>
2013	58,062,138	373,996,300	432,058,438		178,891,469
2014	51,295,658	352,399,700	403,695,358	-6.6%	163,260,623
2015	52,806,597	351,774,500	404,581,097	0.2%	157,348,240
2016	52,651,000	346,006,400	398,657,400	-1.5%	154,648,194
	54,680,432	353,977,600	408,658,032	2.5%	158,726,747
	269,495,825	1,778,154,500	2,047,650,325		812,875,273

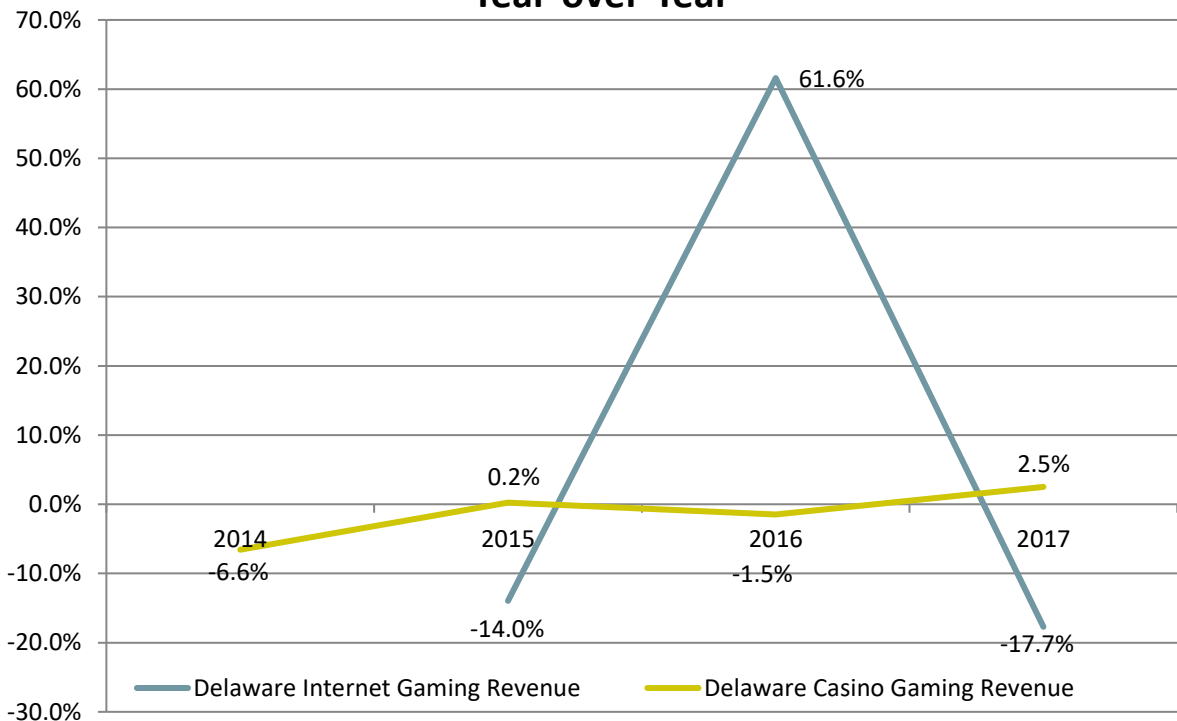
Delaware Internet Gaming Revenue



Delaware Internet Gaming Revenue



Delaware Gaming Revenues Year-over-Year



New Jersey

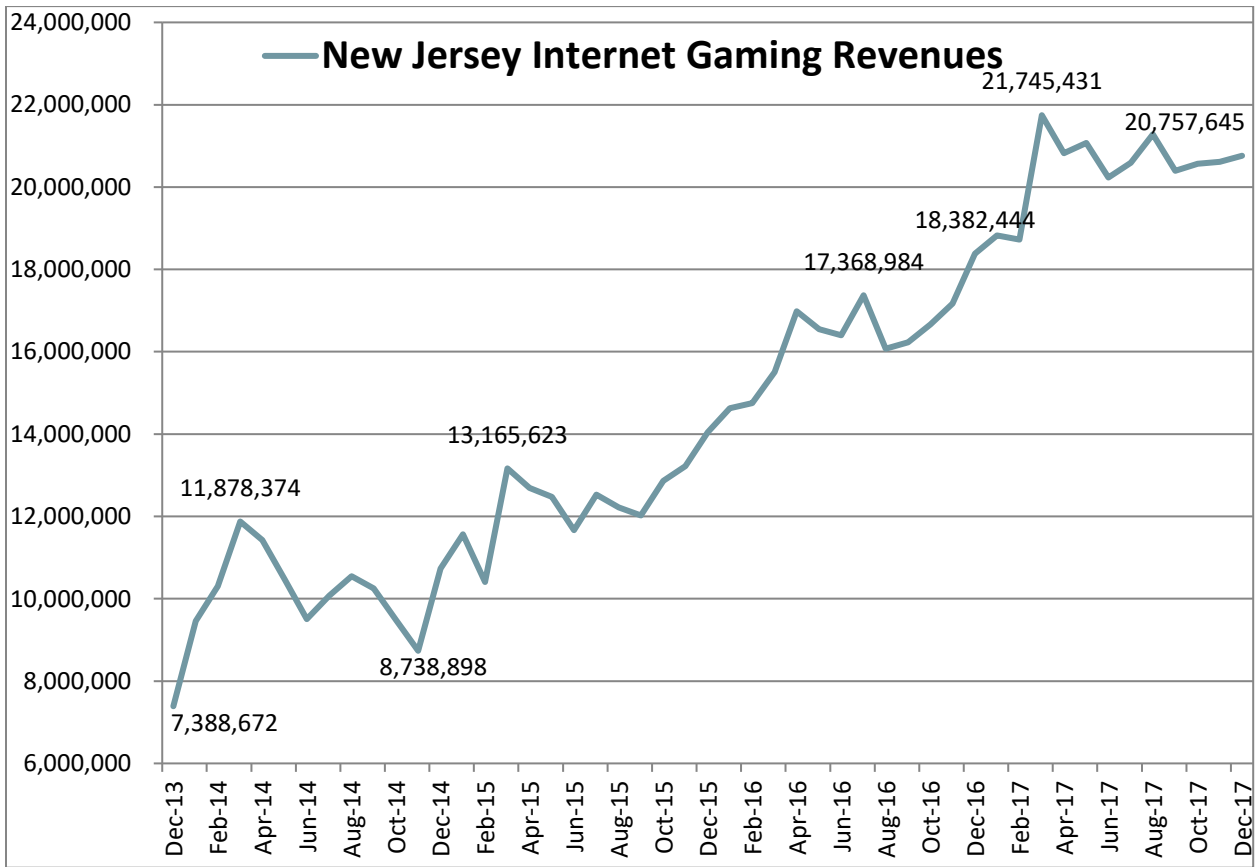
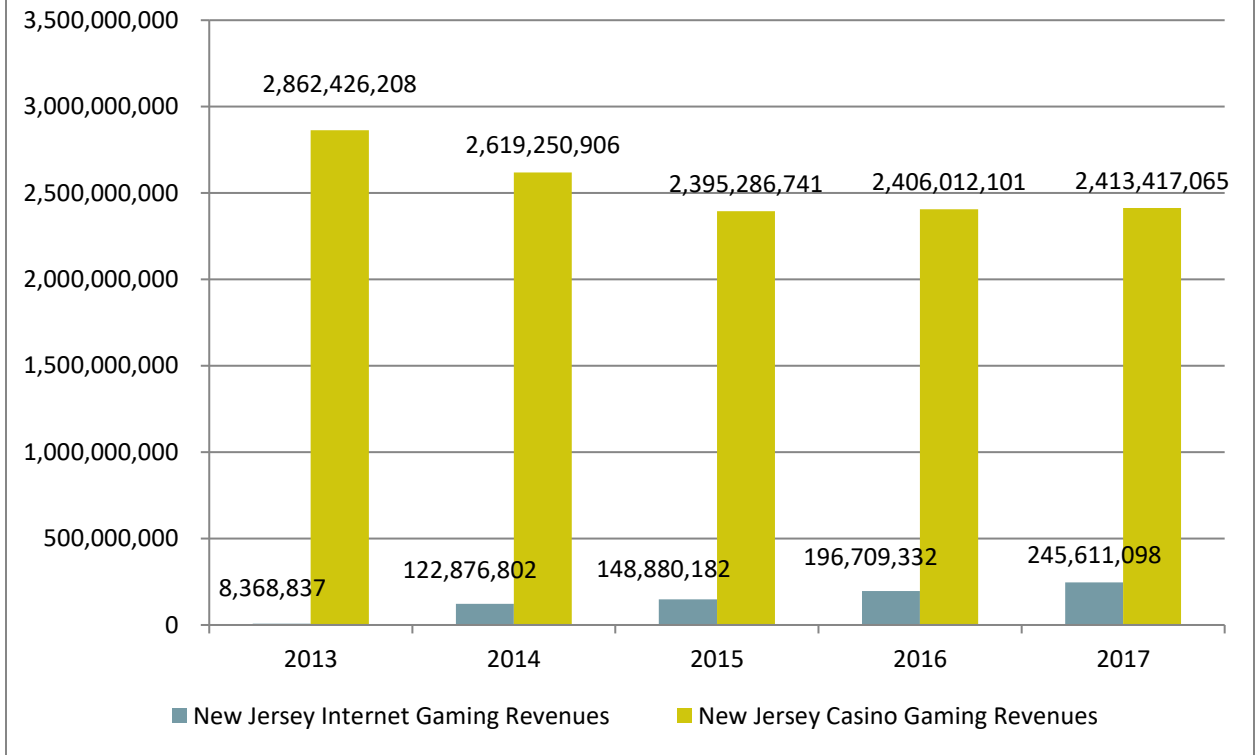
New Jersey began internet gaming in November 2013. The state's internet gaming includes poker, table games, and slots. New Jersey has the largest population (8.9 million) of the three states, which may explain their higher internet gaming revenues. New Jersey's casinos are also located in one area, Atlantic City, which may increase the appeal of online gambling rather than travelling to a physical casino. For the third year in a row, New Jersey casino interactive revenues increased over 20% from the previous year (24.9% over 2016). New Jersey's brick and mortar casinos realized a second consecutive increase over the previous year. In 2017, casino revenue increased about 0.3% over 2016. New Jersey's interactive revenue of over \$245M was the first time it cleared the \$200M level. New Jersey's interactive gaming revenues grew from about 4.6% of the physical casino revenues after 2014 to 10.1% of the 2017 physical casino revenues.

The following pages include the published internet gaming revenues and taxes, overall gaming revenues and taxes, an internet gaming revenue chart, and a chart detailing the year-to-year percentage increases and decreases of internet and casino gaming revenues.

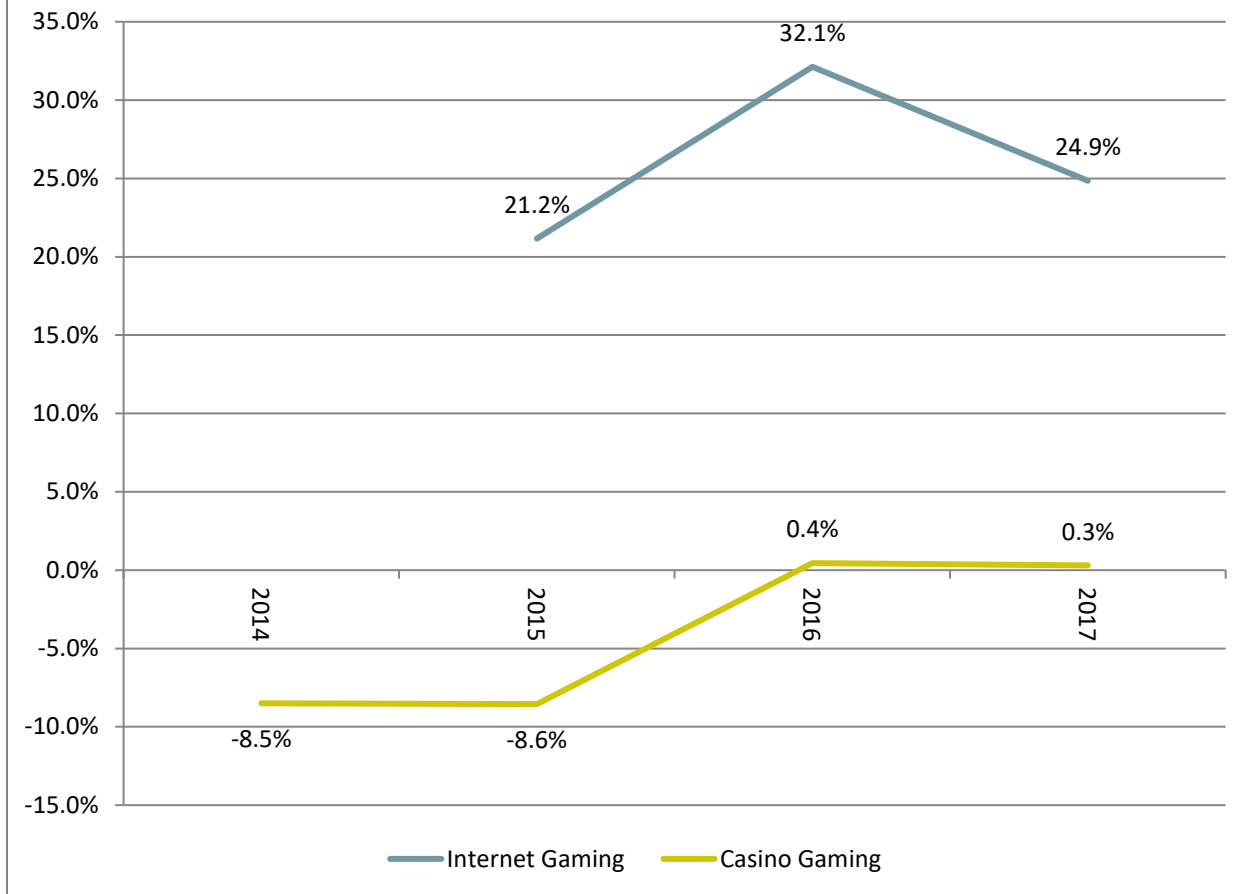
New Jersey Internet Gaming Revenues			
	<i>Internet Gaming</i>	<i>% Change Year-Year</i>	<i>Taxes</i>
2013	8,368,837		1,255,748
2014	122,876,802	1368.3%	18,464,538
2015	148,880,182	21.2%	22,330,887
2016	196,709,332	32.1%	29,528,812
2017	245,605,981	24.9%	36,924,655
	<u>476,835,153</u>		<u>71,579,985</u>

New Jersey Gaming Revenues					
	<i>Casino Gaming</i>	<i>% Change Year-Year</i>	<i>Internet Gaming</i>	<i>Total Gaming</i>	<i>Taxes paid on Taxable Net Revenue</i>
2013	2,862,426,208		8,368,837	2,870,795,045	204,001,088
2014	2,619,250,906	-8.5%	122,876,802	2,742,127,708	205,373,396
2015	2,395,286,741	-8.6%	147,102,871	2,542,389,612	194,784,539
2016	2,406,012,101	0.4%	196,709,332	2,602,721,433	205,245,651
2017	2,413,417,065	0.4%	245,605,981	2,659,023,046	213,359,884
	<u>10,282,975,956</u>		<u>475,057,842</u>	<u>10,758,033,798</u>	<u>809,404,674</u>

New Jersey Gaming Revenues



New Jersey - Gaming Revenue Change Year-over-Year



Unregulated Internet Gambling

As in previous years, traditional internet gambling has remained a viable outlet for those who wish to wager on games of chance or sports betting. Residents of Louisiana are prohibited from gambling on websites offering these types of games. However, there are websites that do allow this activity and with a simple internet search, an individual can find providers willing to accommodate them. American Sports Betting Coalition (“ASBC”) estimates that each year, Americans place nearly \$150 billion in illegal sports bets. According to the ASBC, Americans bet more than \$15 billion on the Super Bowl and March Madness. In the 2017 football season, an estimated \$58 billion in illegal bets were placed on NFL and college games. The American Gaming Association (AGA) reports that there are nearly 3,000 Internet gambling sites that offer wagering on sports, casino games, poker, bingo, lottery and other games. In 2018, Statista.com predicted the size of the online gambling market to be \$51.96 billion growing to \$59.79 billion by 2020.

In addition to the traditional forms of online gaming, fantasy sports betting has become a major attraction for internet wagering.

Finally, jurisdictions including Louisiana have deemed internet sweepstakes illegal. As a result, internet sweepstake cafes have become nonexistent.

Fantasy Sports Betting

“Fantasy Sports” is the name for a category of games that derives its outcomes based on real life sporting events where fantasy players select a roster of players for a fantasy team. The performance of a fantasy roster is determined by the amount of points awarded based on the athletes performance over a pre-established time period. Fantasy sports betting is a form of wagering in which a player creates an account with the vendor. That account pays for the fees for the player’s activity as well as makes up the wagers for the games played. At the end of the time period, the fantasy player’s roster that accumulates the most points wins. In addition to winning the money available in the betting pool, some providers offer additional prizes.

According to a Forbes report from November 2016, the total amount of money spent on American Football fantasy sports is estimated to increase from \$2.6 billion in 2016 to \$5.4 billion by 2021. With this amount of growth, we can expect fantasy sports betting to compete with the traditional forms of internet gambling.

As with traditional internet gambling, all major fantasy sports betting providers prohibit Louisiana residents from participating. According to a popular fantasy sports vendor, Fan Duel, it advises its customers that, *“the laws relating to fantasy sports varies by state however in the vast majority of them fantasy sports is considered a game of skill and therefore legal. In most states a game of skill is classed as game where skill is the predominant factor in determining the winner. The states where our lawyers believe*

the law is unclear or questionable about the legality of fantasy sports are Arizona, Iowa, Louisiana, Montana or Washington. Therefore we do not offer paid entry games to residents of those states.”

Fan Duel also claims that, *“In 2006 the federal government passed a law called the Unlawful Internet Gaming Enforcement Act which was designed to prevent gambling over the internet. The law included a carve out that clarified the legality of fantasy sports. Specifically, it exempted:*

"participation in any fantasy or simulation sports game or educational game or contest in which (if the game or contest involves a team or teams) no fantasy or simulation team is based on the current membership of an actual team that is a member of an amateur or professional sports organization and meets the following conditions:

- 1. All prizes and awards offered to winning participants are established and made known to the participants in advance of the game or contest and their value is not determined by the number of participants or the amount of the number of participants or the amount of any fees paid by the participants*
- 2. All winning outcomes reflect the relative knowledge and skill of the participants and are determined predominantly by accumulated statistical results of the performance of individuals (athletes in the case of sports events) in multiple real-world sporting or other events.*
- 3. No winning outcome is based: a. On the score, point spread, or any performance or performances of any single real world team or any combination of such teams; or b. Solely on any single performance of an individual athlete in any single real-world sporting or other event."*

The Fantasy Sports Trade Association reported an estimated 59.3 million players in the US and Canada in 2017 which represents a 41% increase from the number of players estimated in 2014.

With hundreds of millions in venture capital and huge growth in users and revenue, daily fantasy sports (“DFS”) companies like DraftKings, FanDuel and their competitors are challenging federal gambling laws and shedding light on the billions of dollars bet illegally by Americans each year. These DFS companies are pushing the conversation about how sports are watched and what constitutes gambling in the age of mobile technology.

Only a small subset of traditional players play daily fantasy, but Eilers Research CEO Todd Eilers estimates “that daily games will generate around \$2.6 billion in entry fees this year and grow 41% annually, reaching \$14.4 billion in 2020.” According to LegalSportsReport.com, DFS took in an estimated \$3 billion in entry fees resulting in \$250 million in revenue in 2015. Over 90% of this revenue was from DraftKings and FanDuel. Despite the massive amount of fees and revenue in DFS, the two major companies, DraftKings and FanDuel, had a tumultuous 2016. After spending hundreds of millions in advertising in what was a largely unregulated, multi-billion dollar industry, the value of both companies plummeted as several states questioned the legality of their games. In November 2016, DraftKings and FanDuel announced the two companies would merge in the second half of 2017 saying the merger was one of necessity due to lobbying and legal costs.

The DOJ and the FBI are considering whether DraftKings and daily fantasy rivals such as FanDuel constitute gambling operations, and whether, by accepting money, they are breaking rules set out by the Unlawful Internet Gambling Enforcement Act of 2006.

DFS is now legal in over 19 states and is an active topic for lawmakers, regulators, and law enforcement officials in over a dozen other states.

Fanduel and DraftKings have filed litigation challenging the opinions of the Attorneys General in several states.

The U. S. House Energy and Commerce Committee is currently reviewing federal gambling laws, including the 24 year-old prohibition on sports betting, and plans to introduce comprehensive legislation that also will address daily fantasy sports and other forms of gaming. Committee member Representative Frank Pallone stated that current federal gaming laws are “obsolete” and “in desperate need of updating,” including those that deal with sports betting.

Electronic Sweepstakes

In 2014, Louisiana Revised Statute 14:90.7 was signed into law and made gambling by electronic sweepstakes a crime. Since that time, existing electronic sweepstakes cafes closed and the Gaming Enforcement Division has not discovered or been made aware of any electronic sweepstakes cafes operating in Louisiana.

Most states with this type of activity have determined that electronic sweepstakes is an illegal form of gambling. In 2015, North Carolina and Kentucky deemed internet sweepstakes cafes to be illegal gambling.

The Louisiana Fantasy Sports Contest Act

On May 15, 2018, Governor John Bel Edwards signed House Bill 484 into law that will allow each Louisiana Parish to vote to allow fantasy sports contests. The law requires the Louisiana Gaming Control Board to adopt all rules necessary to implement, administer, and regulate fantasy sports contests as provided by proposed law.

Upon adoption of rules by the Louisiana Gaming Control Board and the enactment of laws to provide for the licensing, regulation, and taxation of revenue relative to fantasy sports contests, proposed law does all of the following:

(1) Authorizes fantasy sports contests in only those parishes in which a majority of qualified electors in the parish voting on the proposition voted for the proposition to permit fantasy sports contests in the parish.

(2) Provides an exception to the present law crimes of gambling (R.S. 14:90) and gambling by computer (R.S. 14:90.3) for fantasy sports contests.

Legal Considerations

Jurisdictional Issues

It must be determined whether the gaming location is considered to be where the wager is placed (i.e. where the player is physically located), where the wager is received, or both. Where the wager is received could be debated to be the physical location of the licensed establishment, the location of the server, or both. This is an important distinction, especially if a player is located in a parish where gambling has not been previously approved by a majority vote. If internet gambling was to become legalized in Louisiana, the laws and regulations regulating such gaming would need to expressly address this issue.

Licensing Issues

The four states that currently have legalized internet gaming, Delaware, Nevada, Pennsylvania, and New Jersey, limit Internet gaming licenses to those that also have licensed brick and mortar casinos. This model streamlines the licensing process. Other licensing issues that must be addressed include whether each brick and mortar licensee would be allowed to have an internet gaming license or whether the number would be limited and how many internet gaming websites would be allowed per license.

Federal Law

The Federal Wire Wager Act (“The Wire Act”) is most cited as the basis for criminalizing online gambling operations. The United States Department of Justice (“DOJ”) historically took the position that The Wire Act prohibited all forms of online wagering including online poker, casino games, and sports betting. In 2011, the DOJ issued a new

opinion stating that The Wire Act was limited to sports betting. The 2011 DOJ opinion opened the doors for legalized internet gaming within an individual state and may allow individual states to legalize and participate in Interstate Internet gaming.

The Restoration of America's Wire Act ("RAWA"), a bill that would amend The Wire Act to prohibit all forms of internet gambling, except for horse racing, was introduced in Congress and the Senate in 2014. The RAWA did not pass, but Rep. Jason Chaffetz (R-Utah) introduced an identical bill for the 2015 Congressional Session. It is unknown what this means for the future of legalized internet gaming.

The Unlawful Internet Gambling Enforcement Act ("UIGEA") was adopted by Congress in 2006 and requires banks and other financial institutions to implement procedures to detect and intercept credit card payments and other financial transactions related to "unlawful internet gambling." The UIGEA states that "unlawful internet gambling means to place, receive, or otherwise knowingly transmit a bet or wager by any means which involves the use, at least in part, of the internet where such bet or wager is unlawful under any applicable Federal or State law in the State or Tribal lands in which the bet or wager is initiated, received, or otherwise made." 31 U.S.C.A. §5362(10)(A). However, the UIGEA includes an exception in 31 U.S.C.A. §5362(10)(B) for when a bet or wager is expressly authorized by and placed in accordance with State law and is initiated and received within that State. In order to qualify, the State law or regulations must include "age and location verification requirements reasonably designed to block access to minors and persons located out of such State and appropriate data security standards to prevent unauthorized access by any person whose age and current location has not been verified in accordance with such State's law or regulations." The exception also requires the bet or wager to comply with provisions of the Interstate Horseracing Act, the Professional and Amateur Sports Protection Act, the Gambling Devices Transportation Act or the Indian Gaming Regulatory Act.

Louisiana Constitution

La. Const. art. XII, §6(C)(1) requires a referendum election on a proposition to allow "new forms" or existing forms of gaming, gambling, or wagering to be conducted in a parish in which it was not already being conducted. The proposition must be approved by a majority of those voting thereon.

There is debate on whether Internet gaming is a "new form" because, while the way in which the games are accessed is "new," the games themselves are not. If internet gaming is considered a "new form," no law authorizing such gaming would be effective unless a referendum election was held in the parish and the proposition was approved by a majority vote. Regardless of whether internet gaming is considered a "new form" of gaming, the Louisiana Constitution requires a referendum election in those parishes in which gaming is not already being conducted.

Louisiana Criminal Code

La. R.S. 14:90.3 defines and prohibits “gambling by computer,” and also sets a penalty for “whoever designs, develops, manages, supervises, maintains, provides, or produces any computer services, computer system, computer network, computer software, or any server providing a Home Page, Web Site, or any other product accessing the Internet, World Wide Web, or any part thereof offering to any client for the primary purpose of the conducting as a business of any game, contest, lottery, or contrivance whereby a person risks the loss of anything of value in order to realize a profit.” Therefore, in order to permit internet gaming in Louisiana, La. R.S. 14:90.3 would need to be amended or repealed.

The Louisiana Fantasy Sports Contest Act provides an exception to the present law crimes of gambling (R.S. 14:90) and gambling by computer (R.S. 14:90.3) for fantasy sports contests.

Regulatory Considerations

If the legislature decides to legalize internet gaming (iGaming) in Louisiana, there are a number of considerations that need to be addressed legislatively. First, the state will need to decide which types of internet games will be legal. The state will also need to consider whether the state chooses to operate the websites (Delaware model) allow licenses to operate those sites (Nevada and New Jersey models). If the state decides to offer licenses to operate iGaming sites, then the state must consider whether those licenses will be offered to brick and mortar licensed casinos only or allow any company to be licensed to operate an iGaming site. The state will also need to decide whether to put a cap on the number of iGaming licenses that will be issued.

This report has addressed some of the legislature's considerations such as geo-fencing, age verification, problem gamblers, identity issues, and fraud/collusion concerns as it relates to iGaming. The main regulatory consideration will be the level of comfort with network security in today's technological world. iGaming platforms are no different than other online technologies when it comes to network security, but when it comes to traditional issues at casinos, the research suggest that current iGaming methods are perhaps better at prevention, detection, and allowing regulators to act on these concerns more effectively than the existing manual process driven methods in our current brick and mortar casinos. A patron in a brick and mortar casino has a greater ability to be anonymous than in an iGaming environment.

Technology advances at a fast pace and challenges the regulators ability to adapt from both an industry perspective and a game integrity perspective. It is not uncommon for implementation of new technology in the gaming sector to be a slow process sometimes hindering potential benefits to the industry and consumer. The primary factor is the regulators need to "get it right" the first time and reduce risk to the public and industry. Another factor is that some technology advances are not supported in perhaps outdated gaming laws and will require legislative change that may not be politically feasible. Most established gaming jurisdictions recognize the need for gaming laws to provide a base framework with flexibility to adapt regulations to changing technology. The role of the regulator is to safeguard the integrity of authorized gaming operations by ensuring necessary standards are established and followed.

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