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**DALE YOUNGS**

CHAIRMAN JAMES: Mr. Youngs.

MR. YOUNGS: Thank you. Madam Chairperson, members of the Commission, I'm pleased to appear before you on behalf of Missouri Attorney General Jay Nixon to discuss the various issues that face us all as the Internet and the Internet gaming industry continue to expand.

You've requested that we speak to the issues of whether Internet gaming should be and can be regulated or whether it should be prohibited. From Missouri's perspective your questions have two very simple, very direct answers.

Number one, unlike the certain limited forms of gaming allowed in Missouri, Internet gambling cannot be effectively regulated to insure the protection of Missouri consumers; and number two, Internet gambling is unlawful in Missouri and should continue to remain unlawful and Congress should pass the Internet Gambling Prohibition Act to make it clear that it is also unlawful under federal law.

Each state's gambling laws and policies are carefully crafted to meet its own public policy concerns. In Missouri, as in most other states in which some form of gaming has been legalized, gambling is presumed to be illegal, unless it falls within one of the few limited forms explicitly authorized by Missouri's Constitution and statues enacted under the authority of those constitutional provisions. Thus, Missouri has chosen to take a relatively conservative approach to allowing gambling within its borders, only within the last few years authorizing casino gambling on excursion riverboats.

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1           This cautious approach is founded upon, among other  
2 things, our state's recognition that gaming is an every-expanding  
3 industry that can have staggering social consequences. As the  
4 members of this Commission are no doubt aware, gambling revenues  
5 in the United States in the last few years have as much as  
6 tripled those of major corporations.

7           In 1996, soon after riverboat gambling was authorized  
8 in the state of Missouri, Missouri's bankruptcy courts saw a  
9 record increase in the number of bankruptcy filed and legal  
10 experts cite the recent accessibility of riverboat gaming in the  
11 state as an important cause. Credit and other counseling  
12 services in Missouri have also reported seeing an increase in the  
13 number of Missourians seeking help for problem gambling.

14           Given the impact that gambling can have on our  
15 society and in an attempt to protect consumers and insure that  
16 gambling offered in Missouri is as fair as possible, Missouri  
17 maintains a reputation among states that permit some limited  
18 types of gaming as one of the country's most stringent  
19 regulators.

20           For example, any company seeking a license to offer  
21 casino gaming within the state on an excursion riverboat must  
22 first submit a thick application as well as boxes of financial  
23 and other information and must submit to a rigorous examination  
24 of its finances, officers, directors, shareholders and employees.  
25 Even if the company's application is approved, its operation is  
26 constantly scrutinized. Its slot machines are regularly and  
27 randomly tested and the day-to-day operations of the facility are  
28 monitored onsite by Missouri Highway State patrol officers. Loss  
29 limits and minimum payouts are strictly enforced.

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1           This type of regulation in Missouri furthers the  
2 public policies that underlie Missouri's gambling laws, and helps  
3 protect Missouri consumers.  Conversely it's the inability of  
4 states like Missouri to similarly regulate those who offer casino  
5 and other types of gambling over the Internet that puts those  
6 same public policies and consumers at risk.

7           As this Commission continues its examination of the  
8 social and economic impact of gambling in the United States, it  
9 will no doubt hear testimony that the Internet may further harm  
10 those who cannot control their gambling addiction by giving them  
11 an even easier way to feed it.  However, even putting aside these  
12 important social issues, it is still clear that gambling over the  
13 Internet is not a good bet for the estimated one million Missouri  
14 consumers and their children who have access to the Internet  
15 every day.  This is because there is no effective way for states  
16 like Missouri to regulate the activity of those who offer  
17 Missourians the opportunity to gamble over the Internet.

18           Who owns these websites?  Do the owners have ties to  
19 organized crime?  Is this a money laundering scheme?  Is the  
20 company a fly-by-night operation which will simply take  
21 consumers' deposits and then disappear?  How do consumers know  
22 the game offered are being run fairly?  What does fairly even  
23 mean?  Consumers do not know the answers to these questions.

24           Further, in most cases, the promises of the operators  
25 cannot be verified and their obligations cannot be enforced.  
26 These gambling websites have no minimum payout requirements  
27 imposed on them, no loss limits to protect consumers from losing  
28 too much, and no means by which they can insure that minors and  
29 problem gamblers will not gamble through their websites.  They

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1 also have no means by which they can guarantee consumers that  
2 they will be able to pay their winnings or that they will even  
3 have the money to pay the consumers who want to close out their  
4 accounts.

5 In fact, the vast majority of the websites Attorney  
6 General Nixon has investigated, and in one case has obtained a  
7 judgment against, purport to maintain their operations in  
8 customer accounts off shore where they believe they will be safe  
9 from state and federal laws. These accounts are not federally  
10 insured and consumers' funds are not held in escrow but are often  
11 used instead to finance the company's day to day operations.

12 In one case in which our office has taken action, the  
13 company reported to the SEC an amount that represented customers'  
14 account deposits. The company also told the SEC this is amount  
15 actually exceeded the amount the company had in available cash by  
16 more than \$1 million. In other words, if these consumers wanted  
17 the company to close out their account and refund their deposit,  
18 according to its own filing, the company would be \$1 million  
19 short of being able to do so.

20 In addition, the actual conduct and integrity of the  
21 games these operators run cannot be effectively regulated. The  
22 randomness of the plays on gambling websites is achieved by the  
23 use of computer algorithms, over which often only the company has  
24 exclusive control and which can be changed or manipulated with  
25 the click of a mouse. Further, there is no effectively  
26 technological way for anyone to verify the physical location of  
27 the players and website operators in order to insure that  
28 participants and businesses are operating lawfully within the  
29 jurisdictions in which they are physically located.

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1           In short, there is no effective way for Missouri to  
2 insure through regulation that its balance of public policy and  
3 consumer protection concerns are being met by the operators of  
4 these sites. In fact, the overwhelming evidence from our  
5 investigation is to the contrary. Attorney General Nixon  
6 therefore supports the continued prohibition of Internet  
7 gambling, both under Missouri law and under federal law as  
8 proposed by Senate bill 474, the Internet Gambling Prohibition  
9 Act.

10           That legislation clearly creates a blanket federal  
11 prohibition against gambling over the Internet or with the use of  
12 an interactive computer service. It also provides for specific  
13 civil and criminal enforcement of its provisions by federal  
14 authorities, and at the same time it allows states to enact or  
15 enforce tougher laws and by providing the states with the ability  
16 to seek pendent civil remedies under its provisions, gives them  
17 an additional enforcement tool. It also addresses any concern  
18 that website operators may find themselves subject to potentially  
19 different laws of the various 50 states.

20           It is true that the prohibition of gambling activity  
21 conducted through advanced technological means presents special  
22 challenges for law enforcement, as does the fact that much of  
23 this activity is directed at states from outside the country.  
24 However, these are challenges which state and federal law  
25 enforcement agencies have been meeting for many years. Recent  
26 civil and criminal actions by states such as Missouri, Minnesota,  
27 Wisconsin, as well as the Justice Department prove that despite  
28 these challenges, operators of websites offering gambling in  
29 violation of state and federal law can be stopped.

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1           As we have seen in the rapid growth of the Internet  
2 over the past few years, the expansive and relatively free-  
3 wheeling nature of the Internet and the breadth of information  
4 and services available on it can be of great benefit to our  
5 society. But when it comes to gambling the same qualities  
6 threaten to erode, if not eliminate all together the ability of  
7 states to protect their citizens and this should not be allowed  
8 to happen.

9           Thank you for giving me the opportunity to speak to  
10 you today, and I'll be happy to answer any questions that you may  
11 have.

12           CHAIRMAN JAMES: Thank you, Mr. Youngs.

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