QUESTION/ANSWER SESSION II

COMMISSIONER Mc CArTHY: Mr. Bell, when you said the odds would be better, consumers would benefit, the odds would be better, what did you mean? What odds were you talking about? The odds of winning or just more choices in which to lose?

MR. BELL: Well, I suppose it would be both in some sense. If you think that the market tends to push services towards a more competitive consumer satisfying direction, then it stands to reason, consumers would be offered competition, better odds at winning on the Internet eventually. It would take a while for the market to sort out but people would advertise. Our slots are looser. They do that now. They would do it even more so.

COMMISSIONER Mc CArTHY: Knowing what the odds are in winning a state run lottery, whether it's 80 million to one with Powerball or whether it's a mere five million to one, what public interest is served in our trying to do things that will facilitate that kind of consumer choice?

MR. BELL: My understanding is many people who worry about gambling see it as frankly a rip off on people who haven't studied. It's sort of a tax on people who really don't understand probability theory and maybe that carries some weight. But the point is, if it's true, we might as well decrease that punishing tax. We might as well give consumers better odds. Recognizing they're going to gamble, let's at least give them one million to one odds, rather than six million to one.

COMMISSIONER Mc CArTHY: How do you calculate the odds? Are the odds from the gambling sites overseas promised as
something better to consumers? I've asked some information here of earlier witnesses today but I haven't seen any odds yet. We've had some testimony yesterday on parallels to SEC regulations, should there be disclosures about the odds, as far as at least informing consumers so that then they can make a choice of whether they want to bear the loss or not. But I haven't heard anything about odds as far as any of the games offered over the Internet. Is there some information you have?

MR. BELL: I think a good model to look at would be the proposed Australian regulations. My understanding is there, they will have a commission that will be investigating the odds offered by people providing gambling services over the Internet. And of course, another benefit of the Internet is consumers can communicate amongst each other and say, I tell you, this casino says they offer better odds than this other one but they don't and here are the facts. There's all kinds of intermediary services that would inform consumers about the real odds.

COMMISSIONER MC CARTHY: Not too convincing yet.

Maybe there will be more to come.

MR. BELL: Perhaps.

COMMISSIONER DOBSON: Mr. Terwilliger, this question is for you. I believe I heard Mr. Bell indicate that gambling enterprises that are based in other countries can't be regulated here and yet, at lunch you and I were talking about that and I believe you said that American law does apply to gambling enterprises that come into our country and are participated in by our citizens.

MR. TERWILLIGER: That's basically right. The reach of the federal Wire Fraud statute, as one example, can extend to
frauds that are run overseas where the victims are in the United States, to simplify it as much as possible. There is a lot of debate, as is reflected in Allison's excellent paper, about jurisdiction being created in particular courts, particularly of states, simply by virtue of the fact that activity on the Internet takes place in that state when the provider, such as the gambling enterprise may be outside that jurisdiction. But certainly if it was a fraud, federal prosecutors could address fraudulent Internet gambling today.

COMMISSIONER DOBSON: Mr. Bell, you indicated that you see no difficulty with -- or at least you implied you see no difficulty with gambling being available right in your own home. I think there are studies that indicate the more accessible it is, the more people do in fact gamble. Preliminary studies that I've seen show, the Harvard study and others, that teenagers have almost twice the addictive rate as adults. Does it bother you at all that that kind of accessibility would be available to families and especially kids by having a gambling center in your own home, in every home?

MR. BELL: I agree. That's something that we should be very concerned about. I'm not going to pretend Internet gambling is all pluses. My argument is simply there are benefits that seriously deserve consideration.

As regards teenagers getting on the Internet, I'm not a big fan of regulation, but I can tell you, I have to think it would be easier to regulate the access of teenagers to Internet gambling than it would be to prevent them from gambling in casinos. The last time I went through Las Vegas, no one checked my ID at the door. Whereas with the Internet there's various
automated processes that you could use, that are used now on pornography sites.

COMMISSIONER DOBSON: They don't work at all.

MR. BELL: They work to greater or lesser efficiency, it's true.

COMMISSIONER DOBSON: They work to lesser efficiency.

They don't work at all.

MR. BELL: No one will have an incentive to do any of these things you're describing if it's made illegal. Contrary to Mr. Terwilliger's comments, we will not be able to stop overseas Internet servers from offering their gambling services to U.S. consumers. We might be able to prosecute U.S. consumers. That will be very unpopular, but we will not be able to send the Marines to Antigua and shut down a server. We are not going to extradite people running those servers.

So my comment is simply we have to learn to live with this. If it's illegal, you'll have no protection for those teenagers. If it is legal, you will have more than you have now.

COMMISSIONER DOBSON: For what it's worth, of all the people who have testified before us, I think I disagree most strongly with you, sir.

MR. BELL: Thank you.

COMMISSIONER MOORE: Have you gambled on the Internet?

MR. BELL: Actually I haven't. I'm not a gambling man myself, except for the baby.

COMMISSIONER MOORE: Usually you think gambling on the sexes would be 50/50. Are there more girls born or more boys born?
MR. BELL: I'm sorry. More adults gambling on the Internet?

COMMISSIONER MOORE: Are there more female babies or more male babies?

MR. BELL: Honestly I've not seen any statistics on that. When an activity is considered illegal, it's hard to get good figures.

COMMISSIONER MOORE: But you need to know those odds if you're going to make your money.

MR. BELL: Are you talking about the baby bet? Oh, actually I didn't put money down. I thought that was unfair, as the father.

COMMISSIONER MOORE: That's a separate example, but if you were a real gambler you'd want to know if there's more girl babies than boy babies that are born.

MR. BELL: Right. I think there's a few more girls.

COMMISSIONER MOORE: So you should always bet on a girl.

CHAIRMAN JAMES: I could not agree with you more.

(Laughter.)

CHAIRMAN JAMES: Any other questions for Mr. Bell? Mr. Bell, thank you so much for being here. We appreciate your testimony and with that, we're going to move to our next panel.