

# DEBEVOISE & PLIMPTON

875 THIRD AVENUE  
NEW YORK, NY 10022  
(212) 909-6000

TELECOPIER (212) 909-6836

555 13TH STREET, N.W.  
WASHINGTON, DC 20004  
TELEPHONE (202) 383-8000  
TELECOPIER (202) 383-8118

11 AVENUE GEORGE V  
15008 PARIS  
TELEPHONE (33-1) 40 73 12 12  
TELECOPIER (33-1) 47 20 50 82

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LONDON EC4M 7 AA  
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TELECOPIER (44-171) 329 0860

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EL WHITNEY DEBEVOISE  
899.1990

FRANCIS T. PLIMPTON  
1300.383

JAMES C. GOODALE  
ANDREW C. HARTZELL JR.  
VINCENT M. SMITH  
PHILIP S. WINTERER  
OF COUNSEL

NOT ADMITTED IN NEW YORK

May 27, 1997

Matthew E. Fishbein, Esq.  
Chief Assistant United States Attorney  
Chief, Criminal Division  
United States Attorney's Office  
Southern District of New York  
One St. Andrew's Plaza  
New York, New York 10007

Paul A. Engelmayer, Esq.  
Chief, Major Crimes Unit  
United States Attorney's Office  
Southern District of New York  
One St. Andrew's Plaza  
New York, New York 10007

## Internet Sports Gambling

Dear Matt and Paul:

In connection with our meeting scheduled for Friday, May 30, at 2:00, enclosed are packages for each of you consisting of the following materials:

May 27, 1997

Exhibit A - Demand letter from Debevoise & Plimpton to World Sports Exchange on behalf of the NFL, the NBA, and the NHL, dated May 13, 1997.

Exhibit B - Demand letter from Debevoise & Plimpton to World Sports Exchange on behalf of Major League Baseball Properties, Inc. and the Office of the Commissioner of Baseball, dated May 19, 1997.

Exhibit C - Selected newspaper articles on Internet sports gambling:

- "Entrepreneurs Roll the Dice on a New Site," Wall Street Journal, April 10, 1997, p. B18.
- "Online, Off-Shore," Newsday, May 4, 1997, p. F8.
- "On-Line Gambling Curbs?" New York Times, March 13, 1997, p. B7.

Exhibit D - Print outs from Web sites offering online sports gambling:

- 1) [www.wsex.com](http://www.wsex.com)
- 2) [www.winnersway.com](http://www.winnersway.com) (plus print advertisement)
- 3) [www.4casino.com](http://www.4casino.com)
- 4) [www.gamingworld.com](http://www.gamingworld.com)
- 5) [www.interpublish.com](http://www.interpublish.com)
- 6) [www.gamblenet.com](http://www.gamblenet.com)
- 7) [www.wagernet.com](http://www.wagernet.com)
- 8) [www.islandcasino.com](http://www.islandcasino.com)
- 9) [www.ssp.co.uk](http://www.ssp.co.uk)

Exhibit E - Minnesota v. Granite Gate Resorts, Inc., No. C6-95-7227, 65 U.S.L.W. 2440, 1996 WL 767431 (D. Minn., Dec. 11, 1996).

May 27, 1997

Bruce Keller and I look forward to meeting with  
you.

Sincerely yours,

*Lorin L. Reisner*  
Lorin L. Reisner *by BPIK*

Enclosures

cc: Mary Jo White, Esq.

# DEBEVOISE & PLIMPTON

875 THIRD AVENUE  
NEW YORK, NY 10022  
(212) 909-6000

TELECOPIER 212 909-6836

333 13TH STREET, N.W.  
WASHINGTON, DC 20004  
TELEPHONE 202 383-8000  
TELECOPIER 202 383-8118

21 AVENUE GEORGE V  
19008 PARIS  
TELEPHONE 33-1 40 73 12 12  
TELECOPIER 33-1 47 20 50 82

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LEICESTER SQUARE, LONDON WC4A 3AA  
TELEPHONE 44 (171) 329 0779  
TELECOPIER 44 (171) 329 0860

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30 QUEEN STREET CENTRAL  
HONG KONG  
TELEPHONE 852 2810 7818  
TELECOPIER 852 4810 9828

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TELECOPIER 36-1 332 7995

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JUDAH BEST  
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BRUCE D. HAMS  
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EDWARD A. DEPELL  
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ROBERT J. CUBITTO

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MICHAEL P. HARRISON  
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ANDREW C. HARTZELL, JR.  
WILLIAM B. MATTESON  
ROBELL B. PERKINS  
VINCENT M. SMITH  
DELO ARAY, JR.  
OF COUNSEL

NOT ADMITTED IN NEW YORK

June 23, 1997

## BY HAND

Thomas Rubin, Esq.  
Jeremy Temkin, Esq.  
Assistant United States Attorneys  
Southern District of New York  
One St. Andrew's Plaza  
New York, New York 10007

## Internet Sports Gambling

Dear Tom and Jeremy:

Enclosed are copies of the most recent correspondence we have had with counsel for World Sports Exchange. As you can see, World Sports Exchange is continuing to offer and promote Internet sports gambling. We also thought you would find it interesting that this "Antigua" operation uses a San Francisco, California advertising agency. As you know, both principals of World Sports Exchange previously lived in San Francisco. This is further evidence of the U.S. contacts of World Sports Exchange. The same also can be said of its decision, as

BK 00001

Thomas Rubin, Esq.  
Jeremy Temkin, Esq.

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June 23, 1997

demonstrated by the enclosed correspondence, to advertise in magazines with large circulation in the U.S. and the Southern District of New York.

As a result of the communication from World Sports Exchange described in the enclosed correspondence, we reviewed a couple of professional football magazines now on the newsstands. We found a number of full page ads (copies enclosed) that seemed responsive to Tom's request that we identify those Internet sports gambling operators that appeared to be most prominent. Several of these outfits were on our original list, which consisted of the following:

www.wsex.com  
www.winnerway.com  
www.4casino.com  
www.gamingworld.com  
www.interpublish.com  
www.gamblenet.com  
www.wagernet.com  
www.islandcasino.com  
www.ssp.co.uk

Please let us know if you have any questions about the enclosed materials.

Sincerely yours,



Bruce P. Keller

Enclosures

BK 00002

DEBEVOISE & PLIMPTON

*Keller*

87 THIRD AVENUE  
NEW YORK, NY 10022  
(212) 909-6000

555 13TH STREET N.W.  
WASHINGTON, DC 20004  
TELEPHONE (202) 383-8000  
TELECOPIER (202) 383-8118

21 AVENUE GEORGE V  
75008 PARIS  
TELEPHONE (33-1) 40 73 12 12  
TELECOPIER (33-1) 47 20 50 82

10 SPEED COURT 5 LUDGATE HILL  
LONDON EC4M 7AA  
TELEPHONE 44-171 329 0779  
TELECOPIER 44-171 329 0860

TELECOPIER (212) 909-6836

13/F ENTERTAINMENT BUILDING  
30 QUEEN'S ROAD CENTRAL  
HONG KONG  
TELEPHONE (852) 2810 7918  
TELECOPIER (852) 2810 3828

1065 BUDAPEST  
REVAY KOZ 2 II  
TELEPHONE 36-1 332 1845  
TELECOPIER 36-1 332 1995

November 21, 1997

BY HAND

Memorandum to: Thomas C. Rubin, Esq.  
Assistant United States Attorney

Internet Sports Gambling

As we discussed, enclosed is a memorandum setting forth information concerning a number of individuals who attended the First International Symposium on Internet Gambling Law and Management, which was held on November 11-14, 1997 in Washington, D.C. The memorandum also contains printouts from several additional Web sites that appear to be offering sports gambling services. We also have enclosed an agenda from the conference.

Please let us know if we can be of any further assistance on this matter.

Bruce P. Keller  
Lorin L. Reisner  
R. Townsend Davis

Enclosures

DEBEVOISE & PLIMPTON

Keller - 1/4/97

875 THIRD AVENUE  
NEW YORK, NY 10022  
(212) 909-6000

555 13TH STREET N.W.  
WASHINGTON, DC 20004  
TELEPHONE (202) 383-8000  
TELECOPIER (202) 383-8118

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TELECOPIER (36-1) 332 1995

November 21, 1997

BY HAND

PRIVILEGED & CONFIDENTIAL  
ATTORNEY WORK PRODUCT

Memorandum to: Paula Guibault, Esq.  
National Football League Properties  
Kathryn L. Barrett, Esq.  
NBA Properties  
Mary J. Sotis, Esq.  
NHL Enterprises  
Domna L. Candido, Esq.  
Major League Baseball Properties, Inc.

Internet Sports Gambling

As you may know, a conference billed as the First International Symposium on Internet Gambling Law and Management was held in Washington, D.C. on November 11-13, 1997. Lawyers from our office attended to monitor events. We recently were requested by the U.S. Attorney's Office to provide it with information concerning individuals at the conference who appeared to be involved in Internet sports gambling. Enclosed is a copy of a memorandum we sent to the U.S. Attorney's Office. We also are preparing a more detailed summary of the conference proceedings, which we will send to you next week.

Bruce P. Keller  
Lorin L. Reisner  
R. Townsend Davis

Enclosure

November 20, 1997

To: Bruce P. Keller  
Lorin L. Reisner

From: R. Townsend Davis, Jr.

20571-1001  
Internet Gambling Conference

Below is a brief summary of individuals attending the First International Symposium on Internet Gambling Law and Management on November 11-13, 1997 in Washington, D.C. who appeared to be connected in some way to sports gambling.

Jay Cohen: [www.wsex.com](http://www.wsex.com) (World Sports Exchange)

Mr. Cohen was a panelist on Nov. 12 and World Sports Exchange was listed as a co-sponsor in the written conference materials. An ad for World Sports Exchange was included in the written materials, and it described WSE as a "licensed sports book regulated by the government of Antigua and Barbuda" without listing any U.S. address or contacts. Mr. Cohen appeared on a panel entitled "Sports and Horse Racing on the Internet." He made general comments in favor of on-line wagering, claimed that his company had no contacts with the U.S., and gave no hard numbers on revenue or customers. He did not demonstrate the WSE site.

Stanley Collesano/Tim Mallalieu: [www.cybercasinos.com](http://www.cybercasinos.com)

Collesano and Mallalieu are principals in Cyberspace Casino Technology (CCT USA, Inc.), which designs and markets casino software, but does not appear to offer wagers directly. The company is based in St. Kitts, Virgin Islands. Mr. Collesano says he is a lawyer and a member of the New York bar; Mr. Mallalieu is a manager on the technical side and a native of St. Kitts. The two appeared on a panel at the conference on Nov. 13 and demonstrated the types of software CCT has designed for blackjack. They mentioned a sports betting product but did not demonstrate it. A quick Web search reflects that CCT advertises a product called CCT Cyber Sportsbook.

BK 00111

which is designed for interactive betting on the major professional sports in the U.S. Printouts from its Web site are attached at Exhibit A.

Tom Meredith: Interactive Gaming, Inc.

Mr. Meredith is President/CEO of Interactive Gaming, Inc. and says he is a Harvard MBA. His company appears to assist other companies in starting interactive wagering sites. He spoke at the conference on Nov. 13 and endorsed a variety of Internet-based games, including one based on horse racing. He said that start-up capital for an Internet gaming operation was about \$100,000. He did not mention a particular Web site or demonstrate one.

Sue Schneider: RGT Online, Inc.

Ms. Schneider is head of the Web magazine "Rolling Good Times Online" and chairs a new trade association called the Interactive Gaming Council (45 members to date), which has developed a "Code of Conduct" for Internet gambling. She spoke at the conference on Nov. 12 and estimated that 70 to 80 sites today provide live Web-based wagering, although she did not estimate how many of those offered sports betting. A few sports-betting operators (e.g., "Intertops On-Line Sports Betting") are reviewed on her magazine's Web site, [www.rgtonline.com](http://www.rgtonline.com).

Martin Moshal, CEO: MicroGaming Systems

MicroGaming Systems is a distributor of Internet gaming software to operators seeking to set up their own businesses and another sponsor listed in the conference materials. Although it did not make a presentation at the conference, it took out a half-page ad in the materials, and several representatives were available to demonstrate their software, which included sportsbook programs, in the hallway.

Other Web Sites:

--[www.intercasino.com](http://www.intercasino.com): took out a full-page color ad in the conference materials, but no speaker was identified at the conference. Appears to offer a range of sports-based betting via the Web. See site printout attached as Exhibit B.

--[www.sportsnetwork.com](http://www.sportsnetwork.com): took out half-page ad in the materials offering sports betting information and listing the following U.S. address: The Sports Network,

95 James Way, Suites 107-09, Southampton, PA 18966, tel: 215-942-7890, fax: 215-942-7647. This site offers odds, but not wagering directly, although it links to at least one Web site that does ([www.caribsports.com](http://www.caribsports.com)). See site printouts attached as Exhibit C.

--[www.winnersway.com](http://www.winnersway.com): no presence at the conference, but appears to be offering sports betting via the Web. See attached printouts at Exhibit D.

--[www.gamblenet.com](http://www.gamblenet.com): no presence at the conference, but appears to be offering sports betting via the Web. See attached printouts at Exhibit E.

R.T.D.

# DEBEVOISE & PLIMPTON

875 THIRD AVENUE  
NEW YORK, NY 10022  
(212) 909-6000

TELECOPIER: (212) 909-6836

555 13TH STREET N.W.  
WASHINGTON, DC 20004  
TELEPHONE: (202) 383-8000  
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75008 PARIS  
TELEPHONE: (33-1) 40 73 12 12  
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TELEPHONE: (44-171) 329 0779  
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TELECOPIER: (852) 2810 9828

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TELEPHONE: (36-1) 131 0843  
TELECOPIER: (36-1) 332 7995

BARRY R. BRYAN  
GEORGE B. ADAMS  
LOUIS BEGLEY  
DAVID V. SMALLEY  
JUDAH BEST  
ROBERT L. KING  
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ALAN H. PALEY

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ANDREW L. SOMMER

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THOMAS M. KELLY  
IVAN E. MATTE  
GEORGE E. B. MAGUIRE  
PETER SCHWARTZ  
BRUCE E. YANNETT  
PAUL S. BIRD  
MARGARET ANDREWS DAVENPORT  
MICHAEL J. GILLESPIE  
DAVID F. HONOK  
DARY W. KUBEX  
ELIZABETH PAGEL SEREBRANSKY  
KATHERINE ASHTON  
GREGORY V. GOODING  
MICHAEL P. HARRELL  
ANTOINETTE P. KERRY  
LORIN L. REISNER  
JAMES C. SCOVILLE  
COLBY A. SMITH  
MARK P. GOODMAN

ELI WHITNEY DEBEVOISE  
1999-1990

FRANCIS T.P. PLIMPTON  
1900-1983

ANDREW C. HARTZELL, JR.  
WILLIAM B. HATTESON  
ROSWELL B. PERKINS  
VINCENT M. SMITH  
CEDL WRAY  
OF COUNSEL

\*NOT ADMITTED IN NEW YORK

December 2, 1997

## BY HAND

Thomas C. Rubin, Esq.  
Daniel C. Becker, Esq.  
Assistant United States Attorneys  
United States Attorney's Office  
Southern District of New York  
One St. Andrew's Plaza  
New York, New York 10007

## Internet Sports Gambling

Dear Tom and Dan:

As we discussed, attached are the following materials:

- (1) Printouts of "who is" queries for selected sports gambling sites we previously have identified;

BK 00031

Thomas C. Rubin, Esq.  
Daniel C. Becker, Esq.

2

December 2, 1997

(2) A memorandum providing information concerning additional sports gambling sites that appear to be currently active;

(3) NEXIS and Web printouts on Internet sports gambling issues, with a focus on Michael Simone and Kerry Rogers; and

(4) The final program for the First International Symposium on Internet Gambling Law & Management, held in Washington, D.C., on November 12-13, 1997.

Also enclosed are audiotapes of the "Symposium."

Please feel free to call with any questions.

Sincerely yours,



Lorin L. Reisner

Enclosures

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# DEBEVOISE & PLIMPTON

875 THIRD AVENUE  
NEW YORK, N.Y. 10022  
(212) 909-6000

TELECOPIER (212) 909-6838

555 15TH STREET, N.W.  
WASHINGTON, DC 20004  
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December 9, 1997

## BY HAND

Thomas C. Rubin, Esq.  
Daniel C. Becker, Esq.  
Assistant United States Attorneys  
United States Attorney's Office  
Southern District of New York  
One St. Andrew's Plaza  
New York, New York 10007

## Internet Sports Gambling

Dear Tom and Dan:

As promised, enclosed is a memorandum summarizing events at the Internet gambling "symposium" recently held in Washington, D.C.

Please feel free to call with any questions.

Sincerely yours,



Lorin L. Reisner

Enclosures

00485561-111

BK 00015

December 9, 1997

To: Bruce P. Keller  
Lorin L. Reisner

From: R. Townsend Davis, Jr.  
Heidi M.V. Sullivan

Internet Gambling Conference--Enforcement Issues

Below is a brief summary of remarks and materials presented at the First International Symposium on Internet Gambling Law & Management on November 11-13, 1997 in Washington, D.C.<sup>1</sup> This memo focuses on enforcement issues, rather than developments in technology, marketing, and issues facing special operators (i.e., Indian tribes and state-sponsored lotteries).<sup>2</sup>

The majority view at the conference was distinctly pro-Internet gaming, fueled by a Gold Rush mentality about future profit opportunities. The Wire Wager Act, the Kyl bill, and state law, to the extent they were discussed at all, were not viewed as insurmountable obstacles. The majority of speakers stated that because the gaming industry would inevitably grow, self-regulation or a regulatory model of the sort now governing land-based casinos was appropriate.

The sessions were well attended by entrepreneurs, gambling regulators, prosecutors, the FBI, lawyers and academics. Approximately 240 people appeared to attend the conference. Notably absent were any participants from land-based casinos.<sup>3</sup>

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1. A list of topics and conference speakers is annexed hereto as Exhibit A.
  2. A separate memo dated November 21, 1997 highlighted the sports gambling aspects of the conference.
  3. We have audiotapes of all conference presentations, as well as all the written handouts distributed to participants. A list of conference participants is not available (the organizers kept this information confidential at the express wish of attendees), and the press was excluded from the conference. Another conference on Internet gambling is scheduled for June 1998.

BK 00016

## I. WELCOMING REMARKS, INTRODUCTION AND OVERVIEW

**Participants:** Dawn LaRochelle, Milbank, Tweed, Hadley & McCloy, Editor-in-Chief of *Gaming Law Review*, Joseph Kelly, J.D., Ph.D., Gaming Consultant CCT USA, Inc., Chair of International Bar Association Section on Sports and Gaming, Associate Professor of Business Law at the State University College at Buffalo, Anthony Cabot, Lionel, Sawyer & Collins.

LaRochelle described two ends of a spectrum: those who want to ban Internet gambling entirely and those who foresee a \$10 billion industry within the next three years. She urged participants to help create effective regulation to ensure the proper development of on-line gambling.

Kelly pointed out that no U.S. politician has come out in favor of regulation, which differs from the views expressed in many other countries. According to Kelly, Internet gambling may currently be legal in New York and California, while Wisconsin is the state most aggressively prosecuting it. He cited three legal defenses to enforcement action: (i) lack of minimum contacts under the due process clause, (ii) the First Amendment, and (iii) the commerce clause of the U.S. Constitution.

Cabot outlined two possible strategies for the U.S. government: (i) international enforcement of its criminal statutes, or (ii) international treaties aligning U.S. criminal statutes with those of other countries. He described treaties as unlikely given the great divergence of international attitudes towards gambling. Cabot predicted that U.S. enforcers will target the "weak link" in Internet gambling--Internet service providers--rather than operators or bettors. Cabot also predicted that prosecutors will next go after financial providers (VISA, e-cash, etc.), advertisers, and index providers (search engines that provide links to cybercasinos).

According to Cabot's hand-out, anti-gambling laws will dissuade legitimate businesses (e.g., cable operators) from entering the field, but such laws will not result in a gambling-free environment. In fact, sports bettors will be willing to make illegal sports wagers over the Internet as long as it is no riskier than placing bets with illegal bookies. Sports International, an off-shore sportsbook operating at [www.gamblenet.com](http://www.gamblenet.com), is cited in Cabot's hand-out as having netted \$6 million in 1995 (up from \$2.4 million in 1994).

## II. FEDERAL OUTLOOK FROM THE UNITED STATES

**Participants:** Albert Angel, Interactive Communications Network; Cory Aronovitz, Cooper Perskie Law Office; Kevin Mercuri, Interactive Services Association; David Safavian, principal, Merritt Group; Sue Schneider, RGT Online, Inc.; Mark Tratos, Quirk & Tratos.

Schneider is chair of the Interactive Gaming Council (IGC), the leading organization endorsing self-regulation of Internet-based gambling operators. She said true interactive, Internet-based wagering has increased from 15-17 sites in January 1997 to approximately 75-80 sites worldwide today. Although land-based casinos have steered clear, she says they are probably developing test models not just for the Internet, but also for in-room, in-flight and satellite-based interactive gaming. She said there are approximately 15 companies offering interactive gaming software and support.

The IGC was founded a year ago to formulate a Code of Conduct for interactive gaming operators and to address the issues of compulsive and underage gambling.<sup>4</sup> It currently has 45 members.

Tratos is an intellectual property lawyer who said he has handled electronic gaming patents. He said that due to the uncertain scope of the Wire Wager Act, many Internet gaming site operators are reluctant to release hard numbers on customers or dollars handled. However, he said disclosure of ownership and staff by such operators and disclosure of odds is essential to gaining the trust of customers and regulators. He encouraged operators to share information with the IGC or each other. He noted that at least one company has set up a satellite-based link to avoid the Wire Wager Act, although it is too expensive (\$7,000-\$8,000 per customer) for mass marketing.

Safavian gave an update on the Kyl bill, which he said was likely to move forward during the new Congressional session in January. He said the bill has formidable election-year momentum with about 11 Senate co-sponsors and 43 House co-sponsors. Both political parties have reasons to back the bill. Republicans aligned with the Christian lobbies are against gambling generally and are wary of the Internet, while Democrats may be eager to appear tough on crime and protective of children. New language may be added to protect Indian tribes, state lotteries and pari-mutuel racing.

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4. A copy of the IGC Code of Conduct is annexed hereto as Exhibit B. Schneider submitted written testimony, which included the IGC Code of Conduct, to the Senate subcommittee hearings on the Kyl bill in July.

Mercuri said the first on-line casino appeared on August 18, 1995. It was much less expensive than opening a "real" casino, requiring only \$1.5 million and 17 employees. Mercuri warned that the Kyl bill was a "hostile regulatory beachhead to the Internet," and noted that Senator Kyl opposes all gambling in his home state. The IGC, in an effort to affect the shape of the bill, has given technical briefings to Congressional staff and argued that the Kyl bill presents free speech threats similar to those posed by the Communications Decency Act recently struck down by the U.S. Supreme Court.

Mercuri noted that the IGC Code of Conduct was designed to operate like a Good Housekeeping seal of approval. It seeks pledges from sites to adhere to the Code and to provide a link on their sites to the IGC to file complaints. He said the IGC had already conducted mediation for six to nine months "on an unofficial basis" and that Sue Schneider was the chief mediator.

Aronovitz, a former gaming regulator from Illinois, emphasized the importance of a disclosure level of 5% ownership interest or more in any Internet-based gaming operation. He applauded the efforts of some operators to procure insurance to assure winnings are paid out. One regulatory proposal is the creation of an organization funded by offshore host countries (e.g., the Caribbean nations) to create a uniform system of license fees, regulation (including background and spot checks), and penalties.

### III. ENFORCEMENT AND COMPLIANCE FOR INTERNET GAMING

**Participants:** David Stewart, Ropes & Gray; Peter Djinis, U.S. Dept. of Treasury; Steven Davis/Cheryl Campbell, Quixotic Solutions, Inc.

Stewart, a lawyer, stated that the Internet gaming industry should build a culture of compliance (currently lacking) but vigorously defend its free speech rights in advertising.

Campbell said that enforcement has focused on disclosure of ownership interests, background checks, and financial accounting. Her company, Quixotic Solutions, purportedly designs software to insure fair play through a multiple key system built into the game architecture. Players and regulators can check for fairness at the end of each transaction by choosing a "Verify" icon.<sup>5</sup>

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5. She said the potential for low-cost monitoring is great because, as illustrated by card games, the regulator can participate in the shuffling of each electronic deck before each hand is dealt.

Djinis, who said he has monitored bank and casino money laundering operations, said cybercasinos have a potential for illicit use, particularly given the potential for high volume trades and the ease of masking identities and erasing evidence. A regulatory system must allow meaningful access to gaming records, and operators should be required, as casinos are, to report suspicious activity to the authorities. He emphasized the importance of uniform and inexpensive cheating detection technologies.

#### IV. CRIMINAL LAW AND THE FUTURE OF INTERNET GAMBLING

**Participant: Paul Hugel, Clayman & Rosenberg**

Hugel, a criminal defense lawyer who said he has represented people in the gaming industry, expressed surprise at the lack of discussion of criminal law at the conference. He outlined the well-known federal acts (Wire Wager Act, Travel Act, RICO) and added that the money laundering statute (18 U.S.C. § 1956) was broad enough to cover Internet casinos and exposes operators to heavy penalties, including a minimum of 46 months in jail and fines of up to twice the amount of money handled. Turning to the Wire Wager Act, he stated that current law makes clear that operating offshore is no defense, citing the McDonough and Blair cases. He said the 1995 sentencing of Ron "The Cigar" Sacco, who pled guilty to Wire Wager violations committed while in the Dominican Republic, confirms this view.<sup>6</sup> Hugel expressed skepticism about current efforts to take advantage of the Wire Wager Act exception for transmissions between two gambling-legal jurisdictions. His view was the exception covers only information assisting in betting, not betting itself.

Hugel noted that, in addition to federal law, two thirds of states criminalize gambling generally. Several have a state counterpart to the Wire Wager Act, and in some instances states punish the bettor in addition to the gambling operator. Some courts have endorsed the theory that if web advertising is accessible in a state, the advertiser is subject to that state's general jurisdiction. Although he said this theory was questionable under due process, states such as Minnesota and Missouri can assert jurisdiction by seeking an injunction, followed by a contempt order if the injunction is ignored.<sup>7</sup>

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6. According to press reports, Sacco, who ran what some consider to have been the largest illegal sports betting ring in U.S. history, was sentenced by a U.S. district court judge in San Francisco to 68 months in prison and fined \$75,000.
  7. Hugel noted that a Pennsylvania court recently honored a Missouri court's contempt finding against a Grenada-based Internet gaming company (Interactive Gaming and Communications Corp.) indicted for promoting gambling in

Hugel recommended the following to minimize one's risk of prosecution:

- (i) make sure your operation is truly a foreign entity (with no assets, no officers, and no employees in the U.S.);
- (ii) operate under a license of the jurisdiction in which you are located;
- (iii) make reasonable efforts to take bets only from states in which it is not illegal to place bets; disclaimers alone (i.e., "If you are logging on from Minnesota, you can't bet") may not be enough -- one must attempt to screen out certain users;
- (iv) comply with injunctions to avoid contempt orders.

## V. SPORTS AND HORSE RACING ON THE INTERNET

**Participants:** Jay Cohen, World Sports Exchange (WSE); Michael Shagan, consultant, former official of New York Off-Track Betting; Linda Goldstein, Hall, Dickler, Kent, Friedman & Wood.

According to Cohen, WSE is the only on-line sportsbook offering "true interactive wagering" and wagering after every play of a game. He said WSE is regulated by the government of Antigua, which conducts thorough "FBI" checks on "everyone" associated with the company. Cohen claimed operators are kept honest by word-of-mouth condemnation on web sites such as [www.odds wiz.com](http://www.odds wiz.com) and [rgtonline.com](http://rgtonline.com). He claimed Antigua is selective in whom it licenses and lists true licensees on its own web site, [www.atgftpzone.com](http://www.atgftpzone.com).

Cohen endorsed the "virtual visit" theory of gaming, claiming bets placed through WSE take place in Antigua. He said players must wire money to Antigua before they can play (he said no credit is offered), and Cohen said he viewed this as "no different than moving money from one off-shore bank account to another." According to Cohen, WSE is "a totally foreign company" with no agents in the U.S. and no operations taking place in the U.S. Cohen characterized efforts to regulate Internet servers outside a jurisdiction's boundaries as "unrealistic," citing a recent column that identified more than 30,000 U.S. state and local jurisdictions. He said WSE had taken care of concerns about underage gambling by registering with various "watch" services (e.g., SurfWatch, Net Nanny, Cybersitter) and had posted Gamblers Anonymous links on each WSE page to address compulsive gambling. He claimed sites such as WSE would not exacerbate

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Missouri. According to press accounts the lower court has been overruled by a Pennsylvania Superior Court. Pending further appeal the company's principal, Michael Simone, is prohibited from leaving Pennsylvania.

potential fixing of games and that the main problem was the integrity of the players. When asked if he had ever encountered any difficulties with enforcement authorities, Cohen said that he hadn't "heard from anyone in particular" and asserted "We run a clean operation." He added "We don't hide from what we do, we get a lot of good press." Cohen, the only Internet gaming operator to present at the conference, was well received by the crowd.

Shagan bluntly stated that Internet operators cannot ask U.S. policymakers to ignore current law: no sports betting, except that on pari-mutuel racing, is allowed in the U.S. He said regulation of the racing industry was a good model for Internet gaming operators because it maintained the primary enforcement power of the states and already functions to some degree in 30 states. He traced recent historical developments in the racing industry: betting on races in other states via simulcasting, telephone account wagering (legal in eight states), and pooled payouts between states. He said a pilot cable system (1,000 homes) currently operating in Louisville, KY allowed real-time odds and betting through the cable box on six to ten racetracks at a time. He said the Kyl bill might follow the same progression as pari-mutuel legislation at the federal level: defeats of bills that sought broad bans on interstate pari-mutuel racing followed by approval of a more moderate bill passed with the support of the pari-mutuel industry. He suggested the following reasons why the pari-mutuel industry might be looked upon more favorably than other types of gaming:

- (i) the house has no stake in wins or losses,
- (ii) the outcome is determined by a tangible event (a horse race), not just a computer-generated algorithm;
- (iii) there is an element of skill in selecting winners;
- (iv) wagering on horse racing is legal in most states;
- (v) the horse breeding industry provides jobs and benefits the state;
- (vi) credit is not accepted;
- (vii) interstate wagering by phone is already accepted in eight states;
- (viii) wagering data is public and thoroughly audited; and
- (ix) penalties for violations in one jurisdiction are honored in other jurisdictions.

He said that if the Kyl bill did not pass, New York State Senator William J. Larkin, Jr., chair of the New York State Senate Committee on Racing, Gaming and Wagering, might require every Internet gaming operator who has New York customers to register with the Secretary of State and to post a bond to insure winners are paid.

Goldstein, a lawyer, said that states varied widely in their treatment of fantasy sports leagues, which are distinguished by having a prize, consideration (i.e., an entrance

fee), and elements of skill. Some states simply forbid betting on contests of skill. Others use the dominant factor test: if skill, not chance, controls the final result, the game is legal. New Jersey law takes the minority view that if chance plays any role, the game is not legal. Montana is the only state that specifically allows fantasy leagues by way of statute. Attorney General opinions disapproving of fantasy leagues have been issued in Florida, Louisiana, Ohio, and a 1972 court decision in Washington state struck down a nine-week football forecasting contest based on the presence of chance elements.

She said that ultimately, the legality of the game depends on how complex the game is and how much control the player has: full-blown rotisserie leagues are likely to be legal in many states. However, this is an untested legal area, and disclaimers (i.e., ESPN's web site says "this is a game of skill") might not immunize a fantasy league from legal risk. According to Goldstein, the Kyl bill would rule out fantasy games, even small-scale promotions, because of the presence of entrance fees.

## VI. THE VIEW FROM THE STATES

**Participants:** Alan Kesner, Wisconsin Department of Justice, Chair of Internet Gambling Subcommittee of National Association of Attorneys General (NAAG), Fredric Gushin, Esq., Managing Director of Spectrum Gaming Group, Albert Angel, Interactive Gaming Council.

Kesner said NAAG had been out front on enforcing laws against Internet gaming since June 1995. According to Kesner, prosecutors are not attacking Internet gambling as a vice so much as they are asserting states' rights to enforce their own consumer protection policies. Because of fragmented state law, NAAG has concluded that federal legislation is necessary; thus, NAAG supports the Kyl bill. He rejected the notion that Internet betting is commercial speech entitled to First Amendment protection. He also rejected the theory, endorsed by some in the pari-mutuel racing industry, that the Wire Wager Act currently permits many forms of interstate phone or Internet betting. In response to questions, Kesner stated that if four criteria for Internet gaming could be demonstrated, some concerns would be alleviated (though no operator had met his standard to date):

- (i) location-based protocols (one must be able to verify the location of users and operators to know what laws they might be subject to);
- (ii) integrity of the games;
- (iii) integrity of the payment systems; and
- (iv) satisfactory background inspections and credible licensing.

Gushin stated that Internet gambling is a fact of life. Gushin's concern was that off-shore jurisdictions were peddling licenses to the highest bidders, thereby hurting the industry's credibility. In his opinion, some form of U.S. regulation is needed, but the Kyl bill would be extremely difficult to enforce, pitting one jurisdiction against another. He said he favored licensing, full disclosure of ownership and operations, testing of software before and during play, strict financial auditing to prevent skimming, and attention to social issues, such as compulsive and underage gambling. An important element would be the ability of states to shield their customers from particular games through opt-out software.

## VII. INTERNATIONAL PERSPECTIVE

**Participants:** Prof. I. Nelson Rose, Prof. of Law at Whittier Law School, Costa Mesa, California; Arjan van 't Veer, Dept. of Criminal Law and Criminology, Erasmus University Rotterdam; Anthony Coles, Jeffrey Green Russell, Solicitors, London; H.J.N. Pruden, B.S.W., L.L.B., Department of Justice, Canada; Trevor Garrett, Chief Executive, Casino Control Authority, New Zealand.

According to Rose, the prohibition of gambling has always fallen within the police power of states. In his opinion, Internet gambling will not be solved by treaty, since each nation, like each U.S. state, has the right to determine its own moral standards. Rose stated that there is currently no extradition treaty governing Internet gambling. He concluded that a foreign operator in a foreign country can probably not be prosecuted -- though he was not clear whether he meant this as a practical matter or as a matter of law.

Veer gave a summary of European Internet developments. Although Austria recently enacted the relatively unenforced Anti-Internet Gaming Act, he said Europe stands a good chance of becoming a large Internet gambling competitor. Sweden, for example, will allow Swedish citizens over 18 to establish Internet gambling sites through the end of 1998 on a trial basis. The Netherlands also has established a site at [www.lotto.nl](http://www.lotto.nl).

Coles provided an overview of U.K. gambling. Sports betting is lawful in the U.K. on-course and off; it is also legal over the phone. More than £9 billion is spent on sports betting in the U.K. each year. Over £420 million (\$640 million) is staked each year on "football pools." Although other kinds of Internet gambling are currently illegal in the U.K., sports wagering is lawful over the Internet in the same fashion that it is lawful over the telephone. There is a 6.5% government tax on each bet. According to Coles, Internet gambling is legal in the U.K. if established offshore. Although U.K.-based lotteries are most likely illegal over the Internet, a U.K. citizen may purchase a

lottery ticket over the Internet which is lawfully sold elsewhere in the world (e.g., Liechtenstein)

Pruden provided a brief overview of Canadian law. Under the Canadian Criminal Code, all forms of gambling are illegal unless specifically permitted by the Code. At present, gambling is controlled by the individual provinces, which may operate "computerized gaming" within their respective territories. Provinces, however, cannot license others to operate lottery schemes using computer technologies. In addition, any individual who creates an Internet gambling web site would run afoul of § 206, which prohibits betting for commercial purposes. According to the Code, lottery offenses are applicable to foreign lottery schemes offered in Canada. The Ontario Jockey Club is seeking an amendment to their license (not to the Code) which would allow the Club to offer pari-mutuel betting via the Internet to anyone in the world. A bill was introduced in the last Parliament that would have given the federal government the right to operate and license Internet gambling. The bill died in June 1997 and has not yet been reintroduced.

Garrett echoed the view that Internet gambling will exist despite attempts to prohibit it. He said the first countries (like Australia) to offer credible regulatory schemes will discover that Internet gambling licenses are profitable commodities. In Garrett's opinion, the U.S. will lose out on revenues that will flow to licensing states, and countries like Australia may seek to allow U.S. users to access Australia-based gaming.

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STEVEN R. GROSS  
ROGER E. PODESTA  
WOODROW W. CAMPBELL, JR.  
MARCUS H. STROCK  
RALPH R. ARDITI  
DAVID A. DUFF  
LOREN KIEVE  
BRUCE G. MERRITT  
ALAN H. PALEY

ROBERT J. CUBITTO  
ROBERT N. SHWARTZ  
ROBERT J. STAFFARON  
DARRUS TENOZA  
JOHN M. ALLEN, JR.  
FRANK J. BLASSBERG  
JOHN B. BRADY, JR.  
STEVEN KLUGMAN  
RICHARD G. BOHM  
PETER L. BOROWITZ  
BARRY MILLS  
DEBORAH F. STILES  
ANDREW N. BERG  
MARCIA L. MAC HARG  
STEVEN OSTNER  
ROBERT F. QUANTANCE, JR.  
MICHAEL E. WILES  
DANIEL M. ABUHOFF  
BRUCE P. KELLER  
JOHN S. KIERNAN  
DAVID W. RYKUN  
BURT ROSEN  
CHRISTOPHER SWEALL  
WILLIAM B. BECKMAN  
MICHAEL W. BLAIR  
JEFFREY P. CUNARD  
JOHN T. CURRY, II  
SETH L. ROSEN  
EDWIN G. SCHALLERT  
LAWRENCE K. CAGNEY  
JOSEPH P. WOODCOCK  
DONALD FRANCIS DONOVAN  
GARY M. FRIEDMAN  
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JOHN M. VASLY  
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ELIZABETH RAGEL SEREBRANSKY  
KATHERINE ASHTON  
GREGORY V. GOODING  
MICHAEL P. HARRELL  
ANTOINETTE P. KIRBY  
LORIN L. REISNER  
JAMES C. SCOVILLE  
COLBY A. SMITH  
MARK P. GOODMAN

ELI WHITNEY DEBEVOISE  
1899-1990

FRANCIS T.P. PLIMPTON  
1900-1983

ANDREW C. HARTZELL, JR.  
WILLIAM B. WATTESON  
ROSWELL B. PERKINS  
VINCENT M. SMITH  
CECIL WRAY  
OF COUNSEL

\*NOT ADMITTED IN NEW YORK

February 4, 1998

BY HAND

Special Agent Lisa Ference  
Federal Bureau of Investigation  
26 Federal Plaza  
New York, New York 10007

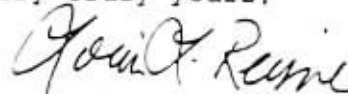
## World Sports Exchange

Dear Special Agent Ference:

At AUSA Thomas Rubin's request, enclosed is a copy of a recorded telephone conversation between Joe Aglione and representatives of World Sports Exchange on May 10, 1997. Also enclosed is a draft transcript of the conversation.

Please feel free to call me if you have any questions.

Very truly yours,



Lorin L. Reisner

Enclosures  
bcc: AUSA Thomas Rubin  
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