

**Gambling Law Update**  
**By: Lawrence G. Walters, Esq.**  
**[www.GameAttorneys.com](http://www.GameAttorneys.com)**

April 2003

**Anti-Gambling Efforts Resumed**

Opponents of Internet gambling are resuming their campaign. The House Financial Services Committee recently approved legislation that would prohibit the use of credit cards checks and electronic funds transfers to pay for Internet betting transactions. Rep. Jim Leach's bill, H.R. 21 attacks Internet gambling by cutting off its financial support, and placing enforcement burdens on financial institutions. The bill now goes to the House Judiciary Committee, where Chairman Jim Sensenbrenner is said to be a skeptical of the bill, because previous bills have been handicapped there in the past. More than \$2 billion will be illegally wagered by Americans through offshore Internet gambling sites this year according to testimony before the U.S. Senate Banking Committee<sup>1</sup>. The panel held a hearing on another proposed Bill; this one by Sen. Jon Kyl, S. 627, which contains similar language to Rep. Leach's bill. Frank Catania, former Director of the New Jersey Division of Gaming Enforcement was one of several experts to testify during the hearing. He warned that anonymous transactions would make money laundering easier, stating, "a ban on credit cards and other financial instruments for Internet gaming will likely result in the development of settlement solutions that banks cannot recognize and block – anonymous e-cash."<sup>2</sup> While praising legislative efforts to combat Internet gambling, Stewart A. Baker, general counsel for the U.S. Internet Service Providers Association, urged the committee to avoid "unintended consequences" that may hurt the economic growth of the Internet, including requiring ISPs to block customer access to gambling sites not residing on

---

<sup>1</sup> Roy Mark, *Illegal Internet Gambling Thriving*, DC.internet.com (3.18.03)

<sup>2</sup> Rick Smith, *Stark choice for the US Congress*, igcouncil.org/read\_news.php?id=5 (3.18.03)

their networks and not under their control. "Service providers are unable to block user access to websites on other service providers' networks with any reliability," Baker said. "Blocking efforts can be easily circumvented and will seriously disrupt legitimate e-commerce and speech." Congress has tried to outlaw Internet gambling for years, but no bill has passed both chambers due to procedural issues and power struggles among casinos, dog tracks and horse tracks.

### **Legislation to Review Internet Gambling**

Not all lawmakers are out to ax the Internet gambling industry. A small bipartisan group of lawmakers wants to let states regulate and tax Internet gambling, even as others in Congress renew efforts to ban the rapidly increasing form of wagering. Rep. John Conyers introduced legislation this past month that would pave the way to legalizing Internet gambling in states interested in states interested in licensing, overseeing and collecting taxes from the growing industry.<sup>3</sup> The Conyers bill, H.R. 1223, was introduced with co-sponsors from both political parties. The Interactive Gaming Council, a longtime advocate of regulation and licensing of online gaming, believes the Leach / Kyl bills would exacerbate the problems they seek to address. According to Rick Smith, executive director of the IGC, "The Conyers bill offers the best opportunity to protect U.S. citizens and deal with the issues that accompany this type of gambling." "Just as outlawing alcohol did not work in the 1920s, current attempts to prohibit online gaming will not work, either," said Conyers, the ranking Democrat on the House Judiciary Committee, in a release about his bill. Conyers added that, "Attempts to prohibit Internet gambling in the name of fighting crime and protecting children and problem gamblers will have the opposite effect. Prohibition will simply drive the gaming industry underground, thereby attracting the least desirable operators who will be out of the reach of law enforcement. A far

---

<sup>3</sup> Associated Press, *Lawmaker Proposes Some Legalized Internet Gambling*, foxnews.com (3.13.03)

better approach is to allow the States to strictly license and regulate the Internet gambling industry, to foster honest merchants who are subject to U.S. consumer protection and criminal laws.”<sup>4</sup> MGM Mirage Inc., the largest operator of Las Vegas Strip hotels, last year became the first major U.S. gambling company to open an online casino, based in and regulated by the Isle of Man off the British coast. MGM Mirage spokesman Alan Feldman said the Conyers proposal is a welcome indication that some lawmakers have open minds about how technology and the public appetite for gambling have evolved.

### **Federal E-mail Wiretaps Result in Convictions**

Over the course of three years in the late 1990s, a Caribbean server's Internet connections racked up more than \$400 million in sports wagers - on college basketball, professional football and everything in between. The profits lined the pockets of two Americans, Duane Pede, 52, and Jeff D'Ambrosia, 42, one of whom ran the international gambling ring from a small town in Wisconsin. Pede had started out in the sports information business, printing scorecards for bookies and giving them the point spreads on various games. D'Ambrosia's business began as a "tout" service - a way for gamblers and bookies to get recommendations on how to bet. Both enterprises may qualify for speech protection under the First Amendment. Eventually, their combined efforts in both tout and sports information came to be known as Sports Spectrum. Pede and D'Ambrosia risked trouble when they decided to branch out, starting a gambling service they could advertise to the people who used their other services, authorities say. The direct mail was easy because Pede also ran a small printing company where the two could print all their advertising materials for the new business. One of those brochures, stamped by a postage meter at Pede's printing company, fell into the hands of the Portage County Sheriff's Department and

---

<sup>4</sup> Press Release, *Internet Gambling Regulation Study Commission Bill*, Winneronline.com (3.14.04)

was forwarded to Daniel J. Graber, assistant U.S. attorney for the Western District of Wisconsin. Authorities now had a weak link, but the fact that the server was in the Caribbean was problematic. That's where undercover IRS bettors came in, making 50 wagers - sometimes at \$1,000 a pop. To minimize the government's losses, they bet against each other. Their efforts paid off when employees at the tout services referred them to Gold Medal for placing bets. Gold Medal employees then allegedly confirmed the sports book and the other services were tied together. The federal investigation into the Wisconsin-based online betting service, Gold Medal Sports, was just the third such case ever prosecuted in the United States. It was the first time the IRS used wiretapping hardware - specially designed at the request of investigators in Wisconsin - to monitor e-mail. The intercepted e-mails were a gold mine that clearly showed Pede and D'Ambrosia troubleshooting and giving instructions to employees of both the tout services and the gambling operation. So far, six people have been convicted of federal crimes in connection with the three-year investigation. A seventh, accused of helping the bookies hide their profits in offshore banks, is scheduled for trial in May.<sup>5</sup>

### **Anti-Gambling Support**

The U.S. National Collegiate Athletic Association voiced its staunch anti-gambling stance this past month and urged senators to pass legislation aimed at cutting off the money supply to Internet casinos. Bill Saum, the NCAA's top gambling watchdog, said Internet gambling is especially tempting for college students. "Young people, especially athletes, have characteristics that put them at risk, such as being risk-takers, being very aggressive and believing they can do no wrong," he said.<sup>6</sup> MasterCard International and other credit card

---

<sup>5</sup> Gina Barton, *Overseas Internet Gambling Trail Leads Back to Wisconsin*, JSOnline.com (3.14.03)

<sup>6</sup> Paul, *NCAA Urges Online Casino Ban*, OnlineCasinoNews.com (3.24.03)

agencies also joined the lynch mob in attempts to hang the Internet gambling industry out to dry. "Legislation introduced in the Senate (S. 627) and in the House (H.R. 21) contains core provisions that establish a workable framework for combating illegal Internet gambling and we are committed to working with Congress as it seeks to provide a legislative solution to this important problem" said Noah Hanft, MasterCard general counsel, in a statement from MasterCard International.<sup>7</sup> Contrary to U.S. banking regulations, the Australian finance industry is opposing moves to block Internet casino credit card transactions, warning that liability issues and difficulties in identifying gaming payments would make them too difficult. "Banks would struggle to identify gaming transactions, because online casinos often did not use correct industry codes when registering payments" said Australian Bankers' Association director Stephen Carroll.<sup>8</sup>

### **The Future of Internet Gambling**

The United Kingdom, as part of a major reform of its regulation of gaming, is moving steadily toward the licensing and regulation of interactive gaming. The Interactive Gaming Council, the industry's main trade group, salutes the British approach, and calls on members of the U.S. Congress to take note. "British leaders understand the importance and the value of regulating this relatively new means of gaming," said Rick Smith, executive director of the IGC. "I only wish the U.S. government would take such an enlightened approach, instead of futilely attempting to block a form of entertainment that millions of its citizens enjoy." Peter Dean, chairman of the Gaming Board for Great Britain, addressed members of the IGC at their meeting in London last month. He indicated that a package of gaming regulation reforms – including the full legalization and regulation of interactive gaming – should be enacted next year, with

---

<sup>7</sup> MasterCard International, *MasterCard Voices Against Illegal Internet Gambling*, Winneronline.com

<sup>8</sup> *Australian Banks Oppose Online Casino Transaction Ban*, RGTonline.com (3.17.03)

implementation in 2005.<sup>9</sup> A sister company of The Venetian casino resort in Las Vegas, V.I. Ltd., a subsidiary of Las Vegas Sands Inc, has been awarded an Internet gambling license from regulators in Alderney, one of the British Channel Islands. The license procurement is the first move towards establishing a Web casino that will be operated by Venetian Interactive Ltd. in conjunction with business partner SSP Gaming LLC. A launch date and name have yet to be announced, but operational plans should be finalized within the next several months, said David Friedman, assistant to the board chairman of Las Vegas Sands Inc., The Venetian's parent company.<sup>10</sup> In addition to The Venetian, WagerLogic, owned by CryptoLogic, has been awarded a license as a software provider from Alderney. This will entitle all current and future customers of the software house to operate Internet casinos from Alderney.<sup>11</sup>

The British Channel Islands, in particular Alderney, has gained worldwide recognition for a highly regulated gambling industry, attracting reputable businesses who will only operate within the well-regulated environment established by the Alderney Gambling Control Commission. A possible licensing alternative to Alderney may just lie in the Channel Island of Sark. Sark looks set to become the next UK-offshore gambling jurisdiction. The island, located in the English Channel between the UK and France, has already drawn up a gambling law, which received Royal assent (one of the preliminary stages for a new law) last month. But the e-Gaming Committee said that a problem with the wording could hinder the island from deriving revenues from the licenses. Committee member Jonathan Brannam said an amendment was needed to make sure the island would be able to benefit from e-gaming business.<sup>12</sup>

---

<sup>9</sup> *Interactive Gaming- Will Britain Lead the Way?*, Igcouncil.org/read\_news.php?id=8 (3.5.03)

<sup>10</sup> Press Release, *Venetian Interactive Granted Internet Gaming License*, Winneronline.com (3.10.03)

<sup>11</sup> *Cryptologic Awarded License for the British Channel Islands*, OnlineCasinoNews.com (3.12.03)

<sup>12</sup> Paul, *Sark to Become Online Gambling Jurisdiction*, OnlineCasinoNews.com (3.12.03)

## Internet Gambling Expansion

Deciphering the laws Internet advertising can at times be problematical, making it difficult for the Internet Casinos to reach their target audience. PLAYMGMMIRAGE .com has decided to reach out to their fan base with offline advertising at Everton Football Club. The advertising, which runs to the end of the season, will consist of two perimeter board treatments featuring the sites URL address, www.PLAYMGMMIRAGE.com at the ground. Oscar Nieboer, Vice President Marketing at MGM MIRAGE Online explains, "We are always keen to explore new channels to drive awareness and recruitment and as the football season draws to a close, more interest and excitement is always generated. The forthcoming fixtures at Everton Football Club, which is a club that itself enjoys a significant fan base, will be big games, and we expect to reap substantial interest from the brand awareness campaign we will be undertaking." The campaign sees the PLAYMGMMIRAGE.com advertising running at the 40,200 capacity premiership club, for five major fixtures and ending on 11 May 2003.<sup>13</sup>

Even Microsoft can't resist the opportunity to try and cash in on the ever booming gaming industry. The Microsoft owned MSN has signed up SkillJam to provide play-for-cash games to its Zone.com site. Zone.com already offers a popular variety of card, board and word games but the new addition gives regular players the chance to test their skills against others. The major draw of play-for-cash game sites is that newcomers usually get the chance to initially play games for free. Once they have honed their skills, they can start playing to win the chance of a variety of cash or prizes. "When people think they are better than other players they are willing to put their money where their mouth is" explained Brad Greenspan, eUniverse's chief executive and chairman.<sup>14</sup>

---

<sup>13</sup> Press Release, *PlayMGMMirage.com Kick-Starts Offline Advertising At Everton FC*, Winneronline.com (3.20.03)

<sup>14</sup> Darren, *Play for Cash With Microsoft*, OnlineCasinoNews.com (3.26.03)

*Lawrence G. Walters, Esq., is a partner in the national law firm of Weston Garrou & DeWitt, with offices in Orlando, Los Angeles, and San Diego. Mr. Walters represents clients involved in all aspects of online gaming operations. Nothing in this article constitutes legal advice. Please contact your personal attorney with specific legal questions. Mr. Walters can be reached at [Larry@LawrenceWalters.com](mailto:Larry@LawrenceWalters.com), through his website: [www.GameAttorneys.com](http://www.GameAttorneys.com), or via AOL Screen Name: "Webattorney."*