



ONLINE GAMING FROM LAND-BASED PERSPECTIVE:

Observing 15th Anniversary of SIGHT
(Spectrum Internet Gaming Heuristic Theorem)

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Implications of Evolution of Online Gaming in United States

In 2002, Spectrum Gaming Group developed a ground-breaking theory to project how land-based gaming and online would eventually converge: The Spectrum Internet Gaming Heuristic Theorem (SIGHT). At the time of its initial development, we based the theorem on a confluence of related occurrences:

1. The brick-and-mortar gaming industry will abandon its rejection of Internet gaming and ultimately accept, adopt and embrace it.
2. In doing so, the industry will develop new business models that harness the Internet as a chief marketing tool to identify, cultivate and reward customers.
3. The entrance of land-based casinos, armed with brands and an array of licenses, will alter the face of Internet gaming, and render nearly all past and present revenue projections as obsolete.

At that time, online gaming did not exist in the United States. Fifteen years later, we have some experience to help elaborate, update and expand this theory. With that in mind, the 2017 version of SIGHT adds the following findings:

1. Land-based casino operators, as projected, are moving along the continuum from rejection to acceptance to embrace, and are presently in the early stages of a full embrace. Indeed, those land-based operators that have ventured into online are clearly in the “embrace” mode.
2. Public policy can be best advanced by ensuring, to whatever degree is practical and politically possible, that land-based casinos be the primary operators and/or beneficiaries of online gaming.
3. Online gaming will help capture a different demographic than the traditional land-based casino customer base, including a new cohort of younger adults who can be effectively encouraged to visit land-based casinos.
4. Online gaming will, for the most part, not cannibalize land-based spending. Indeed, the evidence indicates that existing land-based customers who also wager online will ultimately increase their land-based spend.

While such findings might seem counter-intuitive, they are supported by actual results and assumptions that led to our original thesis in support of SIGHT:

- People are hard-wired to enjoy games of chance and to take reasonable risk, regardless of the decade in which they were born.

- People are also hard-wired to enjoy social settings, and to seek entertainment experiences with other adults.

With those precepts in mind, our initial theorem, as developed in 2002, made it clear that online gaming in the United States should develop differently, not simply as a new revenue stream, but as a marketing tool that would reach new demographics in a new way that would increase both online and land-based revenue.

By primarily ensuring that land-based casinos are central to online gaming in the United States, we examined the benefits that land-based operators bring to this issue:

- Well-known brands that are associated with an entertainment experience, as well as with gaming integrity; i.e., players know intuitively that their games are honestly run.
- Established player-loyalty programs that can be easily redeemed for entertainment options, including free rooms, show tickets and dining experiences.
- Experience with the existing compliance process in land-based regulations, which include transparency in reporting, as well as the development of detailed, effective responsible-gaming procedures and programs.

In short, policies developed to implement online gaming in the United States need to ensure that its land-based industry plays a leading role, as that is also an effective pathway to ensuring optimal policy impacts.

Harnessing online gaming to land-based licensees will not only grow online and (as noted) land-based revenue, but will also do more to increase employment, generate capital investment and encourage other sources of revenue, such as sales taxes. After all, if online gaming spurs more visits to a casino, that translates into a need for more dealers, food servers, housekeepers and other positions. At the same time, more meals, drinks, show tickets and room nights generates more sales tax and other revenue streams.

We recognize that there may be multiple pathways to an effective online policy, and there are contrary views that need to be considered. For example, we sought the views of Gideon Bierer, Managing Partner of Partis Solutions, a consulting firm with a long history in online gaming. He noted the following cautionary note to help ensure that policies developed in the United States are developed carefully, and are not protectionist:

Look at the United Kingdom for an alternative model. The open licensing model has created a far larger market which has generated a significant amount of tax revenue and employment. By embracing an open market, the UK is a global leader in iGaming with many high-wage, cutting-edge jobs. If the UK had limited iGaming to the land operators, the market would be very constrained by comparison. The land operators – sportsbooks, casinos and bingo halls alike - have all thrived in an open market but are not dominant.

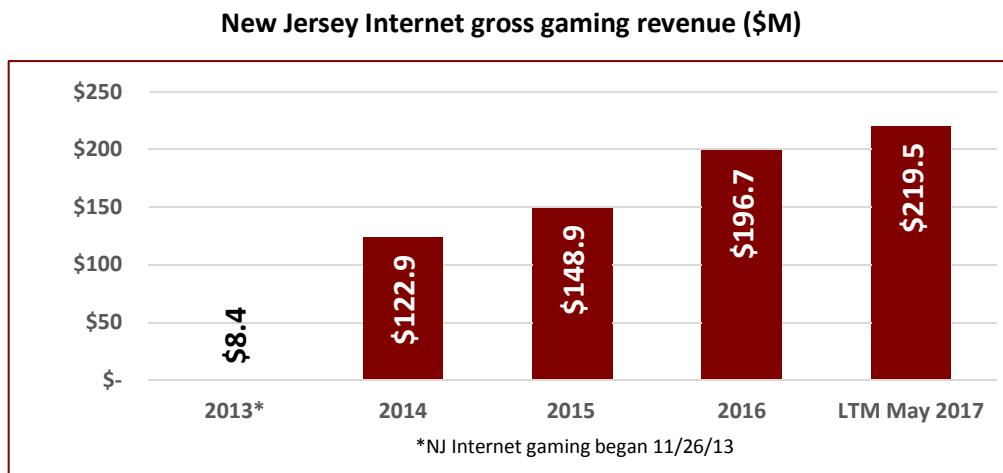
Casinos are not the only companies with brands, loyalty programs or the ability to comply with regulations.

The UK experience might suggest the following for the US:

- Online is incremental to land-based.
- Casinos can compete successfully (look at New Jersey and the United Kingdom)
- US online regulation should be strict, as it is for land-based gaming, but licensing should be fairly open to encourage competition, innovation and growth.¹

Atlantic City Experience

The model established in New Jersey allows online wagering to be conducted by – and for – Atlantic City casino licensees to adults living in the state. Online gaming in the state commenced in the fourth quarter of 2013, with high expectations.² The results to date have shown steady growth, as seen in the following chart:



Source: New Jersey Division of Gaming Enforcement, Spectrumetrix

That model has clearly demonstrated that online and land-based gaming should be linked at the proverbial hip to engender mutual benefit and to best advance public policy in the state.

Earlier this year, Caesars Entertainment – the largest operator in Atlantic City – offered the following facts to support the notion that online gaming can be an important marketing channel to support land-based gaming:

- “(The) poker market in land-based casinos has grown since the onset of online poker.”

¹ Email from Gideon Bierer, June 20, 2017.

² Bob Jordan, “Atlantic City casinos roll the dice with online games,” *Asbury Park Press*, Nov. 22, 2013. <https://www.usatoday.com/story/news/nation/2013/11/22/atlantic-city-launches-online-gambling/3673285/>

- “Offline poker revenues have grown since the inception of online poker.”³

Caesars, which operates the highly successful Total Rewards player-loyalty program – also noted that:

- 80 percent of its online players are new customers.
- Of the players in its Total Rewards database, 42 percent of those who played online were inactive prior to the offering of online play and then reactivated after signing up online.

The ability to leverage online play to generate land-based activity is hardly unique to Caesars. Veteran gaming reporter Steve Ruddock noted earlier this year in a report on online gaming in New Jersey:

In the months following its launch, Borgata executives revealed that about 85 percent of online registrations were either new to its database or had been inactive land-based customers for at least two years.

“Online gaming is growing our database,” stated Boyd Gaming President and CEO Keith Smith in a February 2014 earnings call. Smith remarked that online gaming was “creating a long-term opportunity to market Borgata to an entirely new group of customers.”

Borgata hasn’t updated these numbers since Smith’s 2014 comments. But its early results lined up closely with Caesars’.

There’s no reason to think the two gaming behemoths have diverged since. Nor is there any indication that Borgata is now an outlier in the New Jersey online gaming market.⁴

Golden Nugget reported the following data points to Spectrum about its experience to date with online gaming in New Jersey:

- Only 11 percent of online signups have come from Golden Nugget Atlantic City rated patrons.
- Of those, only 8 percent were active at Golden Nugget Atlantic City in 12 months prior to online signups.⁵

Tropicana Entertainment, which operates the Tropicana Casino & Resort Atlantic City, reports a quite similar experience. According to Luisa Woods, Vice President, Online and Internet Marketing at Tropicana Entertainment Inc⁶:

³ PowerPoint presentation by Caesars Entertainment Senior Vice President David J. Satz, March 7, 2017 before Pennsylvania House Gaming Oversight Committee

⁴ Steve Ruddock, “Five out of Five New Jersey Operators Agree: Regulated Online Gambling is Good for Business,” *Online Poker Report*, May 8, 2017. <https://www.onlinepokerreport.com/25201/online-gambling-helping-nj-casinos/>

⁵ Email from Thomas Winter, Golden Nugget Vice President of Online Gaming, June 12, 2017.

⁶ Interview with Luisa Woods, March 23, 2017

- Approximately 60 percent of the players who signed on to play online were “new acquisitions”; i.e., they were not previously enrolled in the Tropicana’s customer database.
- Of the remaining 40 percent, about half were inactive or “lapsed,” meaning that they had not generated any tracked play at the Tropicana during the previous 12 months.

On one level, those data points appear to portend profound implications for a critical question: Does online play cannibalize land-based play? The basic data would indicate that one out of every five online players – half of the online players who were in the Tropicana database – were existing land-based customers, and the initial assumption would be that such online play would cannibalize the land-based spending by these customers.

Not so, according to Woods. Those customers who played in multiple channels – online and land-based – *increased* their total land-based spend, as well as their frequency of visitation. Woods summarized it thusly: “Not only was their online spend completely incremental, but they also grew their land-based spend.”

If you assume that humans are rational, the reasons for that phenomenon are easy to glean: Adults earn rewards online, which supplement their rewards at land-based casinos, so they have an added incentive to increase their visitation to the host casino where they can redeem the rewards they have earned.

These observations raise several critical questions, including:

1. Why are online sites that are tied to land-based brands well positioned to gain more play than would free-standing brands – such as those that predominate in Europe?
2. What are the public policy implications for states that seek to pursue online gaming?

Historical Overview, Relevance

In order to understand the current state of online wagering in the United States, we must first explore and analyze the recent history of the relationship between land-based and online forms of gaming. That, in turn, requires an examination as to how other, similar industries have reacted to landscape-shifting technologies, such as the Internet. Indeed, history has shown that many industries initially react to new technologies as a threat. Rather than adapt the technology to create a new business model, existing industries often begin by affirmatively rejecting the technology. This rejection evolves into acceptance and ultimately into an embrace.

Industries in the entertainment field are particularly susceptible to this phenomenon, and thus it is no surprise that the casino industry initially reacted to Internet gaming in such a fashion.

SIGHT is grounded in history, noting that the tension between land-based gaming and Internet gaming is not the first time that private industries in the entertainment field have wrestled with the challenges created by new technologies. In the late 1920s and early 1930s, professional baseball — then in its heyday as the national pastime — was faced with the new technology of radio, which was viewed as a threat to the game’s primary source of revenue: ticket sales.

In their book, *Baseball*, authors Geoffrey C. Ward and Ken Burns quote pioneer broadcaster Red Barber:

When radio came along and began to broadcast some baseball games, some of the entrenched conservative owners said, ‘Wait a minute. Why give away something that you’re trying to sell for your living, to try and keep your enterprise afloat? And especially on days of threatening weather when people would say, ‘Well, it looks like it may rain. I’ll just listen to the radio. I won’t go.’ They did not realize at the time the beneficial effect of radio, that it would be making families of fans.⁷

A similar pattern emerged in the 1950s, and later in the 1970s and 1980s. Hollywood film studios viewed television, and later electronic recording, as threats to their primary source of revenue: ticket sales. Television quickly became a new market for the studios’ archives of older films, and studios became the leading source of new programming for the new medium. Additionally, television became the primary marketing vehicle to develop awareness of new films. The same pattern emerged with tapes and DVDs: They became a new market, and a new marketing opportunity.

It is no coincidence that baseball’s greatest years of attendance — when top teams could draw 3 million or more fans a season — happened long after the advent of radio and television. Those potential threats ultimately generated new interest, which laid the groundwork that encouraged that live attendance. The same phenomenon happened in Hollywood, in which the highest-grossing films emerged long after those perceived threats had turned into marketing opportunities.

These examples demonstrate the continuum that online gaming will travel along, as it moves from its rejection phase to full embrace. Note, however, that two major potholes along this path have been identified and addressed. In 2012, Spectrum noted the two potential stumbling blocks:

⁷ Geoffrey C. Ward and Ken Burns, “Baseball,” Alfred A. Knopf Publishers, 1994, p. 236.

1. The gaming industry, and those who have a vested interest in it, such as public officials, tend to favor the status quo.
2. Internet gaming is replete with regulatory and licensing concerns, some of which can be easily addressed, but some will require answers to questions that have not even been asked yet.

The first phenomenon deserves recognition as an essential part of this process. In the gaming world, there are few coincidences. For example, it is no coincidence that Nevada – a state that is more dependent on wagering than any other – has no lottery. Proposals for a Nevada lottery have failed thus far, in part because of opposition from the gaming industry. On April 24, 2009, the *New York Times* analyzed a proposal for a Nevada lottery that went nowhere:

Lori Nelson, a spokeswoman for Station Casinos, which owns 18 casinos geared to Nevada residents, asked, ‘Why would you want to have the state compete against its largest industry?’ And Rob Stillwell of Boyd Gaming, owner of seven Las Vegas properties, said lotteries, which ‘can operate as kiosks’ with relatively few employees, had an unfair advantage over casinos, which have the expense of infrastructure, amenities and a substantial payroll.⁸

This embrace of the known and the rejection of the unknown is arguably non-productive but is clearly understandable. More important, it can be skirted once it becomes clear that the rationale for rejecting the unknown is based on flawed assumptions.

In this case, the core assumption – that Internet gaming is a threat to land-based wagering – has ultimately proven to be flawed, in part because it fails to recognize a principal reason why adults visit casinos: socialization. Television may have cut into live attendance at movie theaters, but hardly ended it. Similarly, while a few professional sports fans might prefer big-screen viewing to sitting in a stadium, attendance continues to do well.

Similarly, it is no coincidence that nations such as Great Britain, which were early adopters of online wagering, do not have what has been termed “Las Vegas-style” casino resorts, and has hitherto rejected them. As Gideon Bierer points out:

Internet adoption is not a gambling-specific phenomenon, and gambling customers are on their mobiles, whether you like it or not. Casinos can ignore that fact or embrace it as an opportunity. Nine times out of 10, it’s better to focus on going to where your customers are, rather than trying to get them to change their habits and come to you. Look at the music industry, newspapers, bookstores.

Look forward not back, as a business’ value is based on projections of future profits, not past profits.⁹

⁸ Steve Priess, “A Nevada Lottery? The Line Forms in California,” *New York Times*, April 24, 2009, <http://www.nytimes.com/2009/04/25/us/25nevada.html>

⁹ Bierer.

When we developed SIGHT, we added a critical corollary to our message: Online gaming in the United States would have to create a new business model, one that would rest on the foundation of a land-based, brick-and-mortar gaming industry that today boasts more than 1,000 casinos generating more than \$70 billion in annual revenue. Clearly, there is no one European model; the models vary from country to country, market to market, and operator to operator. Nor will there be one US model, as it has to adapt to different markets and rules.

The smart European operators and the smart US operators will be the ones to adapt and profit, and we suggest that adaptation must take into account that the business model in the United States would more likely succeed if it follows the general terms of the Atlantic City model: Leverage online for the benefit of land-based operators.

While our core thesis is that land-based operators have a vital policy role to play in online gaming, we are not suggesting a protectionist sentiment, nor do we believe the Atlantic City model is well-suited for all jurisdictions.

In any scenarios, providers and suppliers from Europe and elsewhere can bring their experience to bear in multiple ways, ranging from serving as white-label providers to providers of stand-alone online sites, which various states have expressed an interest in pursuing.

Lotteries: Competition or Convergence?

One wild card in this evolution will be the role of lotteries, which have a presence in 44 states, as well as the District of Columbia, Puerto Rico and the US Virgin Islands. In some states, such as Delaware and Maryland, lotteries also regulate brick-and-mortar casinos, while in most states – New Jersey being one example – lotteries and casinos have historically operated within their own silos, with little overlap in either their marketing pursuits or their regulatory regimens.

Massachusetts offers a special challenge in that it is home to the nation's most successful lottery on a per-capita sales basis and is also developing a significant casino industry. The two entities are not only separately regulated, but the Lottery is under the direct purview of the Massachusetts Treasurer, who is independently elected from the Governor, who has oversight responsibilities of the Gaming Commission.

In 2012, Spectrum produced a groundbreaking report for the Massachusetts Lottery as to whether that lottery should pursue online gaming and, if so, how. Our report noted:

Casino gambling is regulated by the Massachusetts Gaming Commission. If the casino industry is authorized in the future to conduct any form of online gambling, that would clearly fall under the full purview of the Gaming Commission. We are not suggesting that the Massachusetts State Lottery Commission should regulate the casino industry. If, going forward, different entities – including the Lottery – are authorized to conduct online wagering, we recommend that marketing efforts be coordinated in an effort to optimize the overall benefit to the

Commonwealth. If exclusivity is not granted through enabling legislation, we recommend that joint ventures with, or licensing through, the Lottery be mandated or encouraged for Internet gambling enterprises seeking to operate in Massachusetts. Such combined efforts could include partnering with the Lottery to operate within the state, utilizing a common platform maintained by the Lottery, or providing a percentage of revenue to the Lottery as a condition of licensure.¹⁰

While we do not suggest that such a recommendation would be appropriate for all states that have both casino gaming and lotteries, the basic principle is sound: They must find common ground in the online realm to best advance public policy.

Notably, we dispute the notion that lotteries will simply be selling draw games or multi-state progressive tickets online, but will rather pursue online versions of instant games, as is the case with lotteries such as Michigan, that have already moved their products online. An electronic instant lottery ticket will effectively evolve into the same product as an online slot machine, and there will be competition between the two, unless policymakers encourage joint ventures or similar arrangements to boost convergence, rather than competition

Branding: An Essential Concern

When New Jersey developed and authorized online gaming for its Atlantic City licensees, it allowed its land-based licensees to authorize outside providers to develop their own online games, with their own brands, under regulated licensing arrangements. Indeed, New Jersey casinos offer a range of online brands, beyond those of the casinos themselves.¹¹

New Jersey Internet gaming online brands, by casino

Borgata Hotel & Casino	Golden Nugget
www.Borgatacasino.com	www.GoldenNuggetCasino.com
www.Borgatapoker.com	nj-casino.goldennuggetcasino.com
www.NJ.Partypoker.com	www.betfaircasino.com
www.palacasino.com	www.playsugarhouse.com
www.palabingousa.com	Resorts Atlantic City
Caesars Entertainment	www.resortscasino.com
www.CaesarsCasino.com	www.mohegansuncasino.com
www.HarrahsCasino.com	www.pokerstarsnj.com
www.WSOP.com	Tropicana Entertainment
us.888.com	www.tropicanacasino.com
us.888poker.com	www.virgincasino.com
us.888casino.com	

Source: New Jersey Division of Gaming Enforcement

¹⁰ Spectrum Gaming Group, “Facing the Lottery’s Future: Implications and Strategies Regarding Internet Sales,” Report for the Massachusetts Treasurer’s Online Products Task Force, December 4, 2012. <http://www.masslottery.com/lib/downloads/leadership/pdfs/SpectrumGamingGroupFinalReport12-4-12Ammended.pdf>

¹¹ New Jersey Division of Gaming Enforcement. <http://www.nj.gov/lps/ge/gamingsites.html> (accessed June 20, 2017)

Note that while New Jersey gains the benefit of tax revenue from all such sites, all sites do not all produce the same desired results. For example, SugarHouse – which maintains a site under the Golden Nugget license – also has a brick-and-mortar casino in Philadelphia area, just west of the New Jersey border. SugarHouse, owned by Rush Street Gaming of Chicago, has leveraged its brand to help drive business to its property, and is also uncovering the same demographic benefits noted by New Jersey operators: “Our online players in NJ are, on average, 8 to 10 years younger than those players visiting SugarHouse’s physical facility,” said Richard Schwartz, President of Rush Street Interactive.¹²

We suspect that New Jersey lawmakers did not anticipate that their online gaming efforts would boost attendance at casinos in other states, but that is not an inconsequential consideration. Going forward, states need to consider such consequences, which may or may not have been anticipated. If they allow other brands to provide online gaming, should the states consider whether or not there is a land-based consequence, or simply leave that to the operators?

The benefits of a multi-channel operation was made in greater detail when Schwartz testified on March 7, 2017, before the Pennsylvania House Gaming Oversight Committee:

We believe that, if implemented properly, online gaming represents a unique opportunity to increase the financial performance of the brick-and-mortar casinos in Pennsylvania, while at the same time generate significant licensing fees and tax revenues for the Commonwealth. First, while there’s much discussion about market saturation and competition for a limited pool of gamers and limited gaming dollars, there is compelling evidence that online gaming helps to attract new players to the casinos, the land-based casinos.

SugarHouse’s online gaming partner in New Jersey is the Golden Nugget in Atlantic City, and they’ve been operating online for over three years. Specifically, for the first 35 months since the Golden Nugget launched its online casino in New Jersey, only 8 percent – I say 8 percent of its online players were active at the Golden Nugget in the 12 months prior to signing up for an online account. So 92 percent of these players were not active at that property for a year before they signed up for an online account. The fact that online gaming is attracting a different demographic than land- based casinos validates why we believe online gaming represents a compelling marketing tool to acquire new players into the gaming industry. The next point I’ll address is the younger demographics.

The brick-and-mortar industry has focused in recent years on attracting millennial players. As it turns out, Internet gaming is an effective way to attract younger customers who are looking for a different gaming experience than their parents. As some of you may know, again, through a partnership with the Golden Nugget in Atlantic City, the SugarHouse brand has been operating online in New Jersey through the PlaySugarHouse.com branded website for the past six months.

¹² “Making Waves: Our Interview with Rush Street Interactive chief Richard Schwartz,” *iGaming Business North America*, Issue 30, p. 27.

Although this time period is too short to evaluate any meaningful financial impact on land-based SugarHouse property, we have seen that on average SugarHouse online players are eight years younger than those players visiting the SugarHouse land-based property. So as the brick-and-mortar industry seeks to acquire younger players, online gaming represents a proven and effective player acquisition tool for new players.

Next, I'd like to address the small percentage of the land-based players who do sign up for online accounts, what impact it is on them. As we know, the only way to grow revenues for a business is to either find new players or grow existing revenues from existing players. As I previously mentioned, online gaming does attract the new players, but now I'd like to shift the focus on how online gaming helps to grow revenues from existing players.

Again, looking at New Jersey as a model, Internet casinos have had a materially positive impact on revenues generated from the existing brick-and-mortar casino players. Specifically, Golden Nugget has found that online casino players increased their average monthly spend at the Golden Nugget brick-and-mortar casino by 15 percent after they opened an online account. So when an existing land-based player opens an account with the online account, they subsequently spend 15 percent more at the same property than they did before.

This is a big deal because, again, it validates that when online gaming becomes available as an option in the market, the existing land-based players are still increasing their entertainment spend at the land-based properties. And the fourth point that I'd like to address is the multiple channels of having an ability to engage players online and through land-based work well together in parallel to complement each other. Players who are cross-sold from an online casino to a brick-and-mortar casino or vice versa going from a brick-and-mortar casino to an online casino, they spent 33 percent more with the Golden Nugget in aggregate after they started playing at both online and brick-and-mortar properties.

This demonstrates that when players can access and play casino games through online and brick-and-mortar, both of them through both channels, they will increase their entertainment spend overall by 33 percent with that brand. So ultimately, having multiple channels, online and offline working together, will increase revenues generated from that brand and increase tax revenues for the Commonwealth.

In closing, there are few other marketing programs in the industry that share the same capacity to generate both new players and grow the spend of existing players in such a fashion that will materially improve the performance of the brick-and-mortar casinos in Pennsylvania. Brick-and-mortar casinos and online gaming increasingly offer different and complementary services and experiences. As the casino industry has matured in Pennsylvania, it has become more than just the gaming experience. With expanded dining and entertainment options at many casinos, including SugarHouse and Rivers, as a result of this and other compelling data points, we believe that online gaming represents an exciting opportunity to again increase the health of the brick-and-mortar casino industry in the State of Pennsylvania, while at the same time generating licensing and tax revenue for the Commonwealth.¹³

¹³ Pennsylvania House Gaming Oversight Committee Public Hearing joint with the Senate Community, Economic & Recreational, Development Committee, March 7, 2017, p. 133.
http://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2017_0032T.pdf

Conclusion: SIGHT Lives

Some casino operators, particularly those that have operations in Atlantic City, have begun to recognize the opportunities that Spectrum first identified 15 years ago. The future of gaming could ultimately rest on a business model in which adults who have a demonstrated propensity for games of chance make wagers from the privacy of their home, with certain assurances that the “house” that is accepting wagers offers a known brand and the seal of approval from state regulators. Such players can earn rewards for their play that can be redeemed for room nights, meals, show tickets or free play at a brick-and-mortar casino.

Clearly, land-based operators do not hold a monopoly on reliable brands, and indeed numerous online brands have emerged in multiple industries in recent years that convey trust and reliability. Rather, we suggest that the added value of a land-based license simply helps ensure that reliability.

Comprehensive regulatory oversight can send a clear message that online gaming is operated by those who have demonstrated the requisite level of good character, honesty and integrity. The technologies exist to help ensure that it can be regulated in more than name only.

Take, for example, the following excerpt from a 2009 paper, *Can Internet Gambling Be Effectively Regulated? Managing the Risks*, authored by Malcolm K. Sparrow of the John F. Kennedy School of Government at Harvard University:

Notwithstanding the current prohibitionist legal and regulatory approach, millions of U.S. residents gamble online through offshore gambling sites. As a result, the United States finds itself in the unfortunate position of incurring all the social costs of online gambling while having no control over the gaming sites that serve U.S. residents. The United States cannot disqualify industry participants from competing effectively for U.S.-based customers or offer its residents any consumer protections. Nearly all states permit some form of commercial gambling, and the industry is large and well-established. Clearly, policymakers have extensive precedent from which to draw strategies to mitigate the potential social harms of gambling. Although some controls used in bricks-and-mortar casinos may not translate well to online gambling, several of the risks we examined become *more* amenable to control online. New technologies can be effective, even for those risks that are more difficult to address online. For example, geolocation and age verification technologies can help turn potentially significant risks into manageable ones.¹⁴

Sparrow’s views have been vindicated over time, particularly in the markets that have already authorized online gaming.

¹⁴ Malcolm K. Sparrow, “Can Internet Gambling Be Effectively Regulated? Managing the Risks,” December 2, 2009, p. v, <https://www.standupca.org/legislation/sparrow.pdf>

The core of our original theorem is that brick-and-mortar casinos will embrace the Internet in the same way that, say, professional sports embraced broadcasting: as a new source of revenue and as a principal means of generating new customers.

This follow-up has a different core: Different forms of gaming, with different constituencies and differing levels of political support will identify new ways of using the Internet in an effort to become major players in this emerging virtual world. If the current set of nascent trends continues to evolve, state lotteries and pari-mutuel interests may find themselves competing against brick-and-mortar casinos for places in this new competitive dynamic.

Consider that many slot suppliers already license many of their best-known slot brands to lotteries, and there is a massive crossover between slots and lotteries on third-party brands.

Where will the line ultimately be drawn? We cannot answer that question, in part because the issue is evolving differently in different states. We can state, however, that the concerns will prove particularly acute in states that offer – or intend to offer – both lottery and casino gaming.

There are no assurances that such states understand the potential convergence, and competition between these forms of wagering. But we feel confident that the casino industry will continue to move along the SIGHT continuum. Whether all other stakeholders will accommodate that inevitable evolution remains an open question that we will address in future analyses that commemorate the anniversary of SIGHT.

About This Report

This report was prepared by Spectrum Gaming Group, an independent research and professional services firm founded in 1993 that serves private- and public-sector clients worldwide. Our principals have backgrounds in operations, economic analysis, law enforcement, regulation and journalism.

Spectrum holds no beneficial interest in any casino operating companies or gaming equipment manufacturers or suppliers. We employ only senior-level executives and associates who have earned reputations for honesty, integrity and the highest standards of professional conduct. Our work is never influenced by the interests of past or potentially future clients.

Each Spectrum project is customized to our client's specific requirements and developed from the ground up. Our findings, conclusions and recommendations are based solely on our research, analysis and experience. Our mandate is not to tell clients what they want to hear; we tell them what they need to know. We will not accept, and have never accepted, engagements that seek a preferred result.

Our public-sector clients have included 16 US state and territory governments, six national governments, 14 Native American governments, and numerous gaming companies (national and international) of all sizes, both public and private. In addition, our principals have testified or presented before the following government bodies:

- British Columbia Lottery Corporation
- California Assembly Governmental Organization Committee
- Florida House Select Committee on Gaming
- Florida Senate Gaming Committee
- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Illinois House Executive Committee
- Indiana Gaming Study Commission
- Indiana Horse Racing Commission
- International Tribunal, The Hague
- Iowa Racing and Gaming Commission
- Louisiana House and Senate Joint Criminal Justice Committee
- Massachusetts Gaming Commission
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- National Gambling Impact Study Commission
- New Hampshire Gaming Study Commission
- New Jersey Assembly Regulatory Oversight and Gaming Committee
- New Jersey Assembly Tourism and Gaming Committee
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- New York Senate Racing, Gaming and Wagering Committee
- Ohio House Economic Development Committee

- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- Pennsylvania House Gaming Oversight Committee
- Puerto Rico Racing Board
- US House Congressional Gaming Caucus
- US Senate Indian Affairs Committee
- US Senate Permanent Subcommittee on Investigations
- US Senate Select Committee on Indian Gaming
- US Senate Subcommittee on Organized Crime
- Washington State Gambling Commission
- World Bank, Washington, DC

We thank Spectrum Gaming Capital for its important contributions to this report. Spectrum Gaming Capital is an investment banking and financial advisory boutique headquartered in New York City and focused solely on the international gaming business. It is specifically oriented to providing advice to developers of casinos in the context of organization, strategic partnerships and capital raising. SGC is comprised of former Wall Street and Private Equity executives with disciplines in gaming-focused investment banking, development, equity research and debt research.

Additionally, SGC provides mid-market investment banking services and performs complex valuation work and litigation support. SGC fills the gap between gaming consultants and balance sheet-based investment banks, providing unbiased strategic guidance and access to long-term investors.

We also thank Partis Solutions for its review of this white paper and for its additional insights. Partis Solutions is a global leader in the provision of corporate services to the Interactive Gaming & Gambling industry. Partis delivers consulting, M&A advisory and business Development solutions to a diverse portfolio of international clients from across the sector. As part of the Conexus Group and sister company to Pentasia, the leading recruiting firm in the iGaming market since 2001, Partis Solutions is uniquely positioned to leverage over 15 years of collective market intelligence and industry understanding to provide tailored solutions that support the growth aspirations and strategic choices of our customers.

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