



Internet Sweepstakes Cafes: Unregulated Storefront Gambling in the Neighborhood

Executive Summary

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In recent years, thousands of “Internet sweepstakes cafes” have sprung up in storefronts, gas stations and convenience stores in more than a dozen states. Carefully designed to take advantage of state sweepstakes laws and to avoid state antigambling laws and gambling licensing restrictions, the Internet sweepstakes cafes are estimated to earn more than \$10 billion a year with games that closely mimic the experience of traditional slot and video poker machines. The cafes advertise and sell a product — usually Internet time or long-distance telephone minutes — that the gambler does not actually want. Along with that unwanted product, the customer receives a supposed bonus of “entries” in the Internet sweepstakes. With those entries, the customer can participate in Internet-based games at the cafe’s specially-programmed personal computers. Based on a random allocation of winning and losing entries, the customer may or may not win cash prizes through those games. According to the cafes that are reaping unregulated profits, this elaborate masquerade is not gambling, but a sweepstakes. According to every appellate court that has decided a case involving similar games, it is incontestably gambling.

Nevertheless, through aggressive litigation tactics and high-powered lobbying at state legislatures, the cafes have managed to forestall effective law enforcement against them in many jurisdictions. The result is that many neighborhoods now house gambling venues that are free of the legal restraints that Americans have traditionally demanded for gambling businesses:

- Cafe owners and managers are neither licensed nor subject to criminal background checks.
- No one regulates the fairness and integrity of cafe games.
- The results of cafe gambling are not reported publicly.
- Cafes siphon gambling revenue from state lotteries and state-licensed gambling businesses such as commercial casinos and racetracks, thereby reducing the funds that go to public education, health and social programs.

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- Yet cafes pay no gaming taxes whatever.
- Cafes need not exclude underage gamblers, nor are they required to give their customers information about compulsive gambling counseling options.

The viral growth of Internet sweepstakes cafes marks a signal failure of public policy. State legislatures and law enforcement officials should eliminate these unregulated gambling venues, which injure publicly-approved forms of gambling and reduce their contributions to essential public programs.

Introduction

Every day, Internet sweepstakes cafes — storefront operations that provide slot-machine-like gambling through specially-programmed personal computers — are challenging the rule of law in strip malls and neighborhoods across the country. At thousands of locations, those cafes attempt to pass off their gambling businesses as innocuous product promotion, claiming they are no different from sweepstakes offered by major consumer companies like Coca-Cola and McDonald’s. Yet Internet sweepstakes games replicate the look, sound and feel of slot machines. Virtually all customers pay for the opportunity to play them — sometimes paying thousands of dollars — and win prizes based on the laws of chance.

Many local law enforcement agencies have attempted to close down the sweepstakes cafes in their communities, meeting with some successes and some failures. The failures derive from several sources. Some lower court judges have misunderstood the cafes’ legal arguments, including the claim that anti-gambling laws unfairly restrict their constitutional right to free speech. In other instances, statutes have proved an awkward fit for new technologies and business practices ingeniously crafted to skirt the law. Also, the widespread nature of the Internet sweepstakes phenomenon often makes localized enforcement inadequate to the task. In these circumstances, state governments should aggressively exercise their traditional powers to control which gambling businesses may operate, to insist that gambling businesses meet strict regulatory standards, and to ensure that they pay appropriate tax rates.

The threat from Internet sweepstakes businesses can be framed by considering the responsibilities those businesses do not have to meet in most communities where they operate:

- Their owners and principal managers are not licensed by any public agency, so they are not subject to criminal background checks or investigation as to their business integrity.
- Their games and programs are not subject to any meaningful public oversight to ensure that they are fair to customers. If a

customer believes she has been cheated, there is generally no public agency to which she can complain.

- They are not regulated by local zoning ordinances, so in many communities they may locate in any retail or commercial district.
- They need not report their results to any public entities.
- They have no obligation to exclude underage customers from gambling.
- When customers have difficulty controlling their gambling, the cafes have no obligation to provide information about treatment options.
- They do not pay gaming tax at the level that a commercial casino or other publicly-licensed business would have to pay.

That last point bears further consideration. Internet sweepstakes cafes can be established with minimal capital investment, yet they siphon billions of consumer dollars away from state lotteries and those licensed and regulated gambling businesses that statutorily provide funding for public education, health care and programs for the elderly.

Because Internet sweepstakes cafes are largely unregulated, statistics about their true dimensions are difficult to assemble. Nevertheless, this paper presents the information that is publicly available in addressing the following five questions:

1. What are Internet sweepstakes cafes and how do they operate?
2. How many of them are operating and what are their revenues?
3. Do they offer gambling?
4. What is the status of law enforcement efforts against them?
5. What public policies should apply to Internet sweepstakes cafes?

What are Internet Sweepstakes Cafes and How Do They Operate?

Although thousands of Internet sweepstakes cafes follow business models that may vary in small ways, their basic elements have been described in numerous court cases and journalists' reports.¹ The cafe is ordinarily a storefront, though some are wedged into gasoline service stations and convenience stores. They prominently advertise "Internet sweepstakes" both outside and inside. The facility includes a control area where employees operate and receive payments. Personal computers are ranged in rows on tables for the customers. The number of computers may range from only a few to over 100. Some cafes offer free food and drink to prolong customers' play.

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or Internet access time, but that ostensible product is often not even discussed with customers. Instead, the cafe employee carefully explains that customers receive a specified number of “entries” into the Internet sweepstakes. In many versions of Internet sweepstakes, \$1.00 earns the customer 100 entries. In those instances, the customer ordinarily can acquire her first 100 entries (worth \$1.00) for free, a feature of the business model that is intended to shoehorn the cafes into the definition of legal sweepstakes. In some cafes she can simply request those free entries; others require that she mail away for them. Those cafes that award the 100 free entries on the spot will make only one such award per day to each customer.

The customer can discover the outcome of the sweepstakes in one of three ways. She can ask the cafe employee to determine for her whether her entries yield any prize money. Alternatively, the customer can use, for free, one of the computers for that purpose. At the computer, the customer must either enter a unique access code or swipe her card to determine whether she has won. In finding out that information, she can choose between a “simple reveal,” which instantly discloses any prizes, and a program that discloses the outcome after simulating the sights and sounds of slot machines (for example, spinning wheels with different types of fruit or characters) or video poker play (such as dealing cards). The “games” have themes similar to slot machine games, such as “Lucky Larry Leprechaun,” “Blazing 7s” or “Pot of Gold Poker.”²

Customers may interact with the games they play — for example, by stopping the spinning wheels at a certain point. Those interactions, however, have no impact on whether they win or lose. (One commentary describes the games as “pseudo-interactive.”)³ The outcome is determined by a randomized allocation of sweepstakes prizes that was performed according to a program connected to the issuance of the card or access number; the computer only “reveals” that outcome.

The computer records the player’s wins as additional entries or points with which she can continue to play. The player determines the size of each win by choosing how many “lines” to play per spin; some games permit play on as many as 45 lines. By playing more lines at a time per play, the customer can multiply the value of any win but also increases the deduction in her entries if she loses. Customers may purchase additional entries either directly at the computer or from the cafe employee. Customers routinely spend several hours at a sweepstakes cafe. If the customer has a positive balance when she leaves, she can redeem those entries for cash.

Through different means, the storefronts make the Orwellian proclamation that the activity on their premises is not gambling. This message may be embodied in posters on the window that state “You are not

gambling!” It may be asserted in a waiver form that the customer must sign before using a computer. Despite these protestations, sweepstakes games are designed to replicate the experience of gambling and the screens seen by players mimic slot machine screens, featuring “paytables” and “paylines,” along with multiple “win lines” to which players may apply “multipliers.”⁴

No state currently regulates Internet sweepstakes cafes, though a few have expressly banned them. In many jurisdictions, an operator need simply acquire a business license from the local government. A few local governments have enacted their own bans, or approved special fees for Internet sweepstakes cafes, which range from \$1,000 to \$7,500 per year, along with annual per-machine fees of \$100 to \$600.⁵ As the cafes have proliferated, their operations have matured, adopting more sophisticated and more casino-like marketing. For example, many offer free food and drink to encourage customers to remain on the premises, and some are rolling out customer loyalty programs.

Despite the cafes’ insistence that they do not offer gambling, some of their customers seek counseling to control their gambling at cafes, as reported by the Florida Council for Compulsive Gamblers. Cafe customers who want treatment for gambling problems must find it on their own; unlike licensed gambling businesses, the cafes have no obligation to make available information about treatment resources. Similarly, the cafes have no legal obligation to exclude customers who are under the legal age for gambling or who might wish to self-exclude from the gambling venues.⁶

How Many Internet Sweepstakes Cafes Are Operating And What Are Their Revenues?

Because Internet sweepstakes cafes are almost entirely unregulated businesses, no central repository of information tracks how many are in operation or what revenues they generate. From pieces of information available from different states, it looms as a multi-billion dollar industry. One supplier of Internet sweepstakes systems, Hest Technologies of Texas, claims to have installed 4,000 terminals for its systems. Another supplier, Figure Eight Technologies of North Carolina, claims to have equipment at 2,000 installations. Citizens in Florida are estimated to spend more than \$1 billion a year at Internet sweepstakes cafes.⁷ A 2011 report in *Business Week* magazine estimated that between 3,000 and 5,000 Internet sweepstakes cafes were operating then, and that a search on Google Maps identified 2,823 such facilities in North America.⁸

In at least three states, Internet sweepstakes cafes are widespread. Seven hundred eighty-two have registered with the Ohio Attorney General’s office, 79 in Cuyahoga County alone. Florida is widely

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estimated to have more than 1,000 such storefront operations. And an informal survey in North Carolina found 34 facilities with 1,140 computers, or an average of 34 computers per location.⁹ Law enforcement efforts have found Internet sweepstakes cafes operating in a dozen other states, including Pennsylvania, California, Texas, New Mexico, Arkansas, Indiana, Michigan, Virginia, South Carolina, New Jersey, Massachusetts and New Hampshire.¹⁰ Even Utah, the most anti-gambling state in the nation, found Internet sweepstakes cafes within its borders.¹¹

Estimating the revenues of Internet sweepstakes cafes is problematic. Recently, two Internet cafes in Massachusetts paid \$750,000 to the state to represent their profits, though the settlement announcement did not indicate over what period of time those profits were earned.¹² In recent raids on only two cafes, New Jersey authorities seized \$60,000 in cash. The County Prosecutor of Cuyahoga County, Ohio, has stated that a single vendor of Internet sweepstakes systems (VS2 Worldwide Communications of New Jersey) earned \$48 million in profits from February 2008 to May 2012.¹³ A leading consultant to the Internet sweepstakes industry estimated last year that its annual revenues are at least \$10 billion. He also reported that each terminal generates between \$1,000 and \$5,000 per month.¹⁴

The best financial snapshot of a single Internet sweepstakes cafe comes from the analysis of the financial reports for a single location in Palm Harbor, FL. The financial reports covered six weeks of operation from June 1 to July 15, during which the cafe sold telephone access time at 3 cents per minute; customers purchasing telephone time also received sweepstakes entries. The analysis of this report determined that:

- Of 640 customer visits, on 171 occasions the customer purchased at least \$100 of telephone time; \$100 translated into more than 55 hours of telephone time,
- Twelve of those customer visits involved the purchase of more than \$1,000 of telephone time, or more than 550 hours.
- One customer purchased more than 231,000 minutes of telephone time, or almost 4,000 hours. To use that telephone time, the customer would have to talk on the telephone — nonstop, 24 hours per day — for more than 160 days.

A New Mexico case found a similar pattern of customer indifference to the product supposedly being sold by an Internet cafe; the cafe sold 140,000 hours of Internet time, but customers used only 330 of those hours, or less than 0.25%.¹⁵

Some Internet sweepstakes cafes have associated themselves with charitable purposes. For example, in a Florida lawsuit challenging the state's antigambling laws, the first plaintiff listed is a cafe sponsored by a veterans' organization; the for-profit suppliers of the sweepstakes

equipment and other cafe owners are listed thereafter. (A newspaper investigation of that veterans' organization discovered that it reported only \$600,000 of annual revenue to the IRS for one recent year even though it claimed to take in \$100,000 per week and operates dozens of cafes.) In Columbus, Ohio, the Guiding Light Spiritualist Church opened an Internet sweepstakes cafe in its building. A New Hampshire storefront claimed it was a donation center for charities though it never explained how that was related to its sweepstakes business.¹⁶

The cash at Internet sweepstakes cafes, which are often small and isolated establishments, attracts the attention of robbers. In a single month — July 2012 — at least two violent robberies were reported at North Carolina cafes and a 71-year-old customer at a Florida cafe opened fire on two robbers and wounded them both.¹⁷ The cash attracted by Internet sweepstakes cafes also is finding its way into the political process through direct candidate contributions and the hiring of lobbyists to head off legislative restrictions.¹⁸

Do Internet Sweepstakes Cafes Offer Gambling?

In claiming that the cafes are not involved in gambling, their advocates offer two types of arguments. First, they appeal to everyday experience with the sweepstakes mounted by major consumer companies like McDonald's and Coca-Cola. As one California cafe manager said, "On your coke and your fries, you get sweepstakes tickets." The same, he argued, was true for the Internet time and phone cards he sold.¹⁹ The cafes also employ a highly legalistic argument based on the traditional legal test for whether an activity is gambling, which asks if the customer, in order to gain an advantage (a "prize"), pays something ("consideration") for the possibility ("chance") of winning. Internet sweepstakes advocates insist that their activity involves neither consideration nor chance.²⁰

Every appellate court that has decided these questions has concluded that both types of argument are wrong.

First, there are crucial factual differences between a McDonald's sweepstakes promotion and the offerings at an Internet sweepstakes cafe, as illustrated by the following analysis:

	Traditional Sweepstakes	Internet Sweepstakes
Duration	A traditional sweepstakes promotion is a limited-term event designed to attract consumer attention to a product or a business, and ordinarily expires after a few weeks or months. Because they are of limited duration, most states have exempted them from general bans on gambling.	For Internet sweepstakes cafes, the sweepstakes games run perpetually, and are the reason the business exists.
Promotion	In a true sweepstakes promotion, the company seeks to increase consumer awareness of its products and, ultimately, to increase sales of those products — such as hamburgers, soft drinks and the like.	Internet sweepstakes cafes essentially ignore their supposed products (online time and phone cards). Signage promotes the sweepstakes, not the supposed products. Customers rarely use the supposed products, often amassing gigantic totals of unused telephone minutes or Internet time. Cafe employees often do not mention the supposed products to new customers.
Reward	The prizes offered represent a trivial share of the revenue earned by the company, because the sponsor's business is selling its other products, not offering a sweepstakes. Indeed, the odds of winning the sweepstakes are so remote that few customers purchase the basic product in order to have a chance at the sweepstakes prize.	Internet sweepstakes cafes ordinarily pay out in prize money more than 80% of their revenues; notably, slot machines at commercial venues also pay out between 85 to 95 percent.

For all of these reasons, no appellate court has found that the games conducted by Internet sweepstakes cafes bear any significant resemblance to traditional sweepstakes.

Moreover, Internet sweepstakes cafes plainly satisfy the three-part legal test for gambling. Even cafe advocates concede that the cafe customers receive prizes, thus satisfying the first leg of the legal test. They insist, however, that the customers do not pay any consideration for the sweepstakes “entries” they play on the computers. Rather, cafe advocates contend that the customers are truly buying Internet minutes or telephone minutes, and simply accept the sweepstakes entries as a bonus. The New Mexico Court of Appeals recently explained the error in this claim when it affirmed the criminal conviction of a cafe operator on gambling charges. Pointing out that the cafe paid most of its revenues as prize money and that most customers were entirely uninterested in the Internet time they received, the court concluded:

Defendant’s cafe operation was structured as a guise for commercial gambling. Based upon these facts and the casino-style display of Defendant’s ongoing sweepstakes promotion, ... the controlling inducement for the monies being paid by customers for Internet time was in fact consideration to participate in a lottery that was disguised as a legitimate business promotion.²¹

Other appellate courts have reached the identical conclusion on similar facts. In a 2006 decision, the Alabama Supreme Court concluded that the sale of Internet time was a masquerade, and that customers were paying to play an associated sweepstakes game on dedicated terminals. The Alabama court stressed the uncontested factual finding that few customers cared about the Internet time they acquired, which meant that their payment (consideration) was to play sweepstakes games. The U.S. Court of Appeals for the Fifth Circuit reached a similar decision in August 2012; the appellate court stressed the trial evidence that “the sale of Internet time at the defendants’ cafes was an attempt to legitimize an illegal lottery”: customers did not use the Internet time that ostensibly was the café’s main product; over two months, the cafe generated only \$400 of sales of services other than sweepstakes; and the court emphasized the “casino-like atmosphere at the cafes, complete with tinted windows and free food and drink.”²³

Some cafe advocates also point to the ability of customers to acquire a very limited amount of free sweepstakes entries — \$1.00 worth in many current sweepstakes games — as proof that they pay no consideration. The National Indian Gaming Commission in 2003 rejected a similar claim concerning the play of a phone card sweepstakes machine (a technological ancestor of today’s cafes), stressing that although a few games could be acquired for free, “virtually all of the games are played in the traditional way: a player pays by inserting a bill.” The Texas Court of Appeals similarly rejected that argument when it was offered to justify the sale of phone cards that were linked to play on a gambling machine. The Texas court found ample evidence that the defendant “structure[d] the business to entice players to exchange money for chances to pay, which they did; and that the telephone cards were not the primary subject of the transaction, but mere subterfuge.”²³

When they try to deny the role of chance in their sweepstakes games, cafe advocates emphasize that whether the customer wins or loses is already determined at the moment the customer acquires her swipe card or access number.²⁴ Even if the customer plays the sweepstakes game on the computer, the argument goes, nothing about the playing of the game changes the predetermined outcome.

In making this hyper-technical argument, cafe advocates seize on a feature of the games which does not support their contention. That the random allocation of wins and losses is performed before the player acquires her phone card or access number in no way changes the randomness of those outcomes, which are still the result of “chance.” Indeed, in one lawsuit the cafe submitted a sworn description of its product that drives this point home (emphasis added):

That the random allocation of wins and losses is performed before the player acquires her phone card or access number in no way changes the randomness of those outcomes, which are still the result of “chance.”

Because Internet sweepstakes cafes are selling games that involve prize, consideration, and chance, the cafes are engaged in the business of gambling.

*Each finite self-replenishing pool associated with the Gateway Sweepstakes system is pre-created, containing sweepstakes entries with assigned prize values. These pre-created sweepstakes entries **are randomly selected** from the static self-replenishing pools without replacement, until the entire pool has been exhausted.²⁵*

Because the cafes do not report their operating practices or results to any public regulator, of course, we do not know what percentage of the amount spent on the games is returned in prizes, nor how much money that actually involves.

The claim that chance plays no role in Internet sweepstakes games has never prevailed with an appellate court. As the Mississippi Court of Appeals explained in a recent en banc ruling, “the element of chance is considered from the player’s point of view,” and the consumer purchasing the telephone card was engaged in a game of chance because she “did not know whether the card contained a winning or losing sweepstakes points.”²⁶ In other words, the customer is making a gamble. The Mississippi court’s emphasis on the player’s point of view is reinforced by a separate phenomenon — that customers at Internet sweepstakes cafes seek counseling to help them control their gambling at the cafes. Internet sweepstakes games are not only designed to deliver the experience of gambling, they plainly do so.

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What is the Status of Law Enforcement Efforts against Internet Sweepstakes Cafes?

Some local law enforcers have made it a priority to shut down the Internet sweepstakes cafes, while others have not. Police in several states — such as Virginia, New Mexico, and Texas — have encountered little difficulty in their efforts. A recent series of arrests in Texas targeted the senior executives of Hest Technologies, a major supplier of Internet sweepstakes systems.²⁷ In the three states with the most active cafe industries, however, police and prosecutors have encountered setbacks.

This summer, a multi-front legal war erupted in the Cleveland area when a Cuyahoga County grand jury indicted 10 individuals and seven companies involved in the Internet sweepstakes cafe business, charging them with 70 counts of violating Ohio’s gambling laws. Some of the defendants struck back, filing a civil suit that sought to restrain the county prosecutor from pursuing those charges. The local judge, in a finding

contrary to every appellate decision on the question whether Internet sweepstakes cafes are engaged in gambling, entered the requested injunction, writing that “the business activity is not gambling.” Similar rulings were entered by a Toledo municipal court in 2009, though an Akron municipal court entered a conviction on similar charges in the same year.

Enraged that a trial court would enjoin a criminal prosecution — an order that is disfavored in the law — the Cuyahoga County prosecutor filed his own action against the trial judge, demanding that the Ohio Supreme Court enjoin her from enforcing her orders.²⁸ The state attorney general has joined the county prosecutor in that lawsuit, which has not yet been resolved. In the midst of the courthouse donnybrook, the Ohio legislature adopted a one-year moratorium on the opening of new Internet sweepstakes cafes, stalling for time while it tries to figure out what to do about the almost 800 already open in the state.²⁹

A comparable stalemate has arisen in North Carolina, where Internet cafe owners have pursued a novel legal strategy which is gaining popularity: to claim that their businesses are engaging in protected First Amendment speech that cannot be shut down under state anti-gambling laws. A divided panel of the North Carolina Court of Appeals accepted this argument in March 2012 in a case brought by Hest Technologies, a major supplier of Internet sweepstakes cafe products. The state statute at issue, enacted in 2010, barred the promotion of sweepstakes that employ an “entertaining display.”³⁰ The two judges in the majority noted that the U.S. Supreme Court recently held in *Brown v. Entertainment Merchants Association* that video games are a means of expression entitled to First Amendment protection.³¹ The majority concluded that the state ban on sweepstakes featuring “entertaining displays” was unconstitutionally overbroad and should be struck down. The dissenting judge, however, found the law rationally related to the legitimate government purpose of protecting the morals of North Carolinians by banning a form of gambling. He emphasized that the law did not prevent the cafes from making their games available to the public — and thus expressing themselves — but prevented them only from making the games part of a sweepstakes. The case will be argued before the state supreme court in December.

The First Amendment argument has become a favorite of cafe advocates, who have raised it in pending cases in Florida, Ohio, South Carolina and Arkansas.³² Two federal district judges in Florida have considered the free speech claim and rejected it. In *Allied Veterans of the World, Inc., Affiliate 67 v. Seminole County*, an Orlando judge refused to grant a preliminary injunction against enforcement of a county ordinance which banned “simulated gambling devices.” Because the ordinance “regulates conduct rather than speech,” the court denied that the ordinance is a content-based restriction on speech and also is overbroad. “The

Ordinance in no way prohibits access to the Internet,” the court explained; “it only regulates the simulated gambling devices.” When the cafe owner appealed the ruling, the U.S. Court of Appeals for the Eleventh Circuit affirmed the trial judge. Another Florida federal judge reached the same conclusion in a case filed by a different Florida cafe owner.³³

Despite these pro-enforcement outcomes, prosecutions of Internet sweepstakes cafes in Florida have encountered obstacles. As detailed in a lawsuit filed by an Internet cafe owner, officials in Marion County brought several prosecutions in 2009, but after pro-defendant verdicts in two cases, they elected to dismiss charges against twelve other defendants.³⁴

Several state legislatures have acted to support law enforcement by adopting new laws designed to address the sweepstakes cafe phenomenon. Ironically, Massachusetts recently adopted legislation patterned on the North Carolina statute that was found to violate the First Amendment.³⁵ In view of the decision in the North Carolina case so far, it may be problematic for states to use the term “entertaining display” to define the sweepstakes games that the statute prohibits. That term seems to have focused the North Carolina court on the images portrayed on the sweepstakes screen, which arguably is the only potentially expressive part of the game. Nevertheless, the dissenting judge and the Florida federal courts properly pointed out that the state laws ban conduct — gambling — that cannot claim First Amendment protection.

The Pennsylvania Legislature took a more promising approach in recent legislation barring citizens from offering a “simulated gambling program” in return for “direct or indirect consideration, including consideration associated with a related product, service or activity.”³⁶ The Pennsylvania legislation properly focuses on the activity it prohibits: providing a “simulated gambling program” in return for consideration. That course should make clear that the law addresses conduct only, not expression.

What Public Policy Should Apply to Internet Sweepstakes Cafes?

The analysis in this paper yields some basic conclusions:

First, Internet sweepstakes cafes are in the gambling business, as concluded by every appellate court to review that question.

Second, in most communities in which they currently operate, cafes are subject to no regulation (i) of the background and integrity of owners and managers, (ii) of the fairness of the games they offer, (iii) requiring the exclusion of customers who are too young to go to licensed commercial gambling venues, (iv) imposing special zoning standards or (v) requiring that information be provided about counseling and other treatment options available for those unable to control their gambling.

Third, cafes do not pay any special gaming tax of the type that applies in every state to commercial casinos, racetracks and other state-licensed gambling businesses.

Fourth, they have experienced viral growth throughout the country; because their businesses require so little investment, they can open swiftly and inconspicuously in many communities.

Fifth, because they now enjoy commanding market positions in many communities, as well as annual revenues estimated to exceed \$10 billion, the sweepstakes cafes are siphoning off revenues from state lotteries and state-licensed gambling businesses that employ thousands and make major capital investments. That reduces revenues from lotteries and gambling taxes, which reduces the education, health and environmental programs they support.

Sixth, because of their commanding market positions and large revenues, the sweepstakes cafes spend heavily to protect their uniquely favored position as a largely unregulated and undertaxed gambling business. They spend that money freely on litigation to confound law enforcement, contribute generously to state-level campaigns in order to support legislators who support the industry, and lobby to obstruct legislation.

In these circumstances, the only responsible public policy is to enact and enforce effective prohibitions on this unintended sector of the gaming industry. That the Internet sweepstakes cafes are well-financed and resourceful is no reason to abandon America's longstanding policies that legalized gambling businesses must be strictly regulated to protect consumers and that a significant portion of their revenues must be allocated to the public good. For Internet sweepstakes cafes today, neither policy currently applies.

Endnotes

¹ This description is assembled from a variety of sources, including Christopher W. Derrick, *It Ain't Over 'Til It's Over: Video Gambling Returns to North Carolina*, Family North Carolina 5 (Spring 2010); *Moore v. Mississippi Gaming Comm'n*, 64 So.3d 537, 541 (Miss. Ct. App. 2011) (en banc); Affidavit of James Wentz, *Florida v. Crisante*, No. CRC1207398CFANO (Pinellas Cty. Cir. Ct. April 17, 2012) (submitted as part of "Direct Information" along with Felony Information); Order, *Allied Veterans of the World v. Seminole County, FL*, No. 6:11-cv-155-Orl-28DAB (M.D. Fla. May 6, 2011); Jon Greenberg, N.H. faces tough odds in bid to ban Internet sweepstakes, *Seacoastonline.com*, May 27, 2012; Affidavit of Chase Brooks, *J&C Marketing, LLC v. Mason*, No. CV-12-784234 (Cuyahoga Cty. Ct. of Common Pleas June 4, 2012); Miriam S. Wilkinson & Kelly B. Mathis, *Internet Cafes: Much Ado about Nothing – A Legal Analysis of Electronic Sweepstakes in Florida*, 16 Gaming L. Rev. & Econ. 278 (2012); Noelle Phillips, *Sweepstakes cafes arrive in Richland The State*, May 21, 2012.

² Wentz Aff., *supra* note 2; SweepstakesReviews Webpage, <http://www.sweepstakesreviews.com> (last visited Aug. 15, 2012); VS2 Worldwide Communications Webpage, <http://www.vs2wwc.com> (last visited Aug. 15, 2012).

³ Wilkinson & Mathis, *supra* note 2.

⁴ Expert Report of D. Robert Sertell, *Crisante v. Coats*, No. 8:11-CV-2007-T-17TBM (M.D. Fla. Oct. 12, 2011); Wentz Aff., *supra* note 2.

⁵ Daniel Carson, *City council talks about Internet cafe settlement* (June 22, 2012), *The News-Messenger*, June 22, 2012; Matthew Rink, *City to license skill games, Internet cafes, IndeOnline.com*, Sept. 7, 2011; Amelia Robinson & Tom Stafford, *Internet sweepstakes cafes raise concern across Ohio*, *Springfield News-Sun*, April 6, 2012.

⁶ Felix Gilette, *The Casino Next Door*; *Bloomberg Business Week Magazine*, April 21, 2011.

⁷ Hest Technologies Webpage, http://www.hesttech.com/who_is_hest.php (last visited Aug. 15, 2012); Figureeight Technologies Website, <http://www.figure8tech.com/about/> (last visited Aug. 15, 2012); *Don Van Natta, Jr., Worries About 'Convenience Casinos' in Florida*, *NY Times*, May 6, 2011.

⁸ Felix Gilette, *supra* note 8.

⁹ Alan Johnson, *'Strip Mall Casinos,' Internet cafes spreading across Ohio offer a form of gambling that no one oversees or regulates*, *The Columbus Dispatch*, July 29, 2012; *Don Van Natta, Jr., supra* note 8. The North Carolina survey is a proprietary document shared with the AGA on condition of confidentiality.

¹⁰ *Kern County judge pulling plug on gambling at Internet cafes*, *BakersfieldNow.com*, July 24, 2012 (California); Dave Marquis, *Sacramento police bust 'sweepstakes' Internet cafe* (Mar. 9, 2012), <http://southsacramento.news10.net/news/crime/94609-sacramento-police-bust-sweepstakes-internet-cafe> (California); *State v. Vento*, No. 30,469, 2012 N.M. App. LEXIS 78 (Ct. App. July 26, 2012) (New Mexico); *United States v. Davis*, No. 11-40265, 2012 U.S. App. LEXIS 15875 (5th Cir. Aug. 1, 2012) (Texas); *Cancun Cyber Cafe and Business Center, Inc. v. City of North Little Rock*, 2012 Ark. 154 (2012) (Arkansas); *Indiana v. Lincoln Plaza Internet Sensations*, No. 02D05-1204-FD-000594 (Allen Cty. Sup. Ct. DATE) (Indiana); Bryan Cohen, *Judge keeps sweepstakes cafe closed*, *Legalnewsline.com*, June 21, 2012 (Michigan); Press Release, Michigan Attorney General Bill Schuette, *Schuette Orders Nine Additional "Internet Sweepstakes Cafes" To Halt Illegal Gambling Operations* (May 3, 2012) (announcing agreement to close nine Internet sweepstakes cafes in Michigan); Noelle Phillips, *Sweepstakes cafes arrive in Richland*, *The State*, May 21, 2012 (South Carolina); Meg Kinnard, *Sumter sweepstakes cafe owner suing SLED*, *The State*, Aug. 9, 2012 (South Carolina); *Internet Sweepstakes Cafes Raided in VB*, *WAVY.com*, Sept. 22, 2010 (Virginia); Louis C. Hochman, *Pequannock mayor: We were 'duped' by alleged gambling front*, *NJ.com*, July 21, 2012 (New Jersey); Dan Ring, *Cyber cafes, facing possible ban, struggle to survive in Western Massachusetts*, *Masslive.com*, July 16, 2012; Jon Greenberg, *N.H. faces tough odds in bid to ban Internet sweepstakes*, *Seacoastonline.com*, May 27, 2012 (New Hampshire); Joseph G. Cote, *BIGS Cafe said to lack regulation*, *Nashua Telegraph*, July 18, 2012 (New Hampshire).

¹¹ Felix Gilette, *supra* note 8.

¹² Press Release, Massachusetts Attorney General, *Two Internet Cafes Agree to Pay \$750,000 for Allegedly Facilitating Illegal Gambling* (July 25, 2012).

¹³ Press Release, Cuyahoga County Prosecutor, *Illegal Internet Cafe's Will No Longer Exist In Cuyahoga County* (May 30, 2012); Louis Hochman, *Management company: We didn't know about alleged gambling front*, *NJLive.com*, July 26, 2012.

¹⁴ Felix Gilette, *supra* note 8 (quoting James Mecham of SweepsCoach, a Sacramento company).

¹⁵ Vento, 2012 N.M. App. LEXIS 78, at *5.

¹⁶ Alan Johnson, *supra* note 10; Order, *Allied Veterans of the World, Inc.*; Felix Gilette, *supra* note 8; Joseph G. Cote, *supra* note 11.

¹⁷ Don Van Natta, Jr., *supra* note 8; 2 Arrested for armed robbery at Charlotte sweepstakes parlor, www.wcnc.com (July 25, 2012); Gunman robs Internet sweepstakes cafe, Rocky Mount Telegram, July 11, 2012; by Gray Rohrer, Oclala shooting intersects ‘stand your ground,’ Internet sweepstakes issues, *The Florida Current*, July 19, 2012.

¹⁸ Felix Gilette, *supra* note 8; John Kennedy, Internet cafes pour money into political campaigns to maintain gambling foothold, TC Palm, Aug. 7, 2012.

¹⁹ Dave Marquis, *supra* note 11; Wilkinson & Mathis, *supra* note 2, at 278; Felix Gilette, *supra* note 8; Vento, 2012 N.M. App. LEXIS 78.

²⁰ Wilkinson & Mathis, *supra* note 2.

²¹ Vento, 2012 N.M. App. LEXIS 78, at *23.

²² *United States v. Davis*, 2012 U.S. App. LEXIS 15875, at *24-25; *Barber v. Jefferson County Racing Ass’n*, 960 So. 2d 599 (Ala. Sup. Ct. 2006).

²³ *Jester v. State*, 64 S.W.3d 553, 559 (Tex. Ct. App. 2001); Letter from Penny J. Coleman, Acting General Counsel, NIGC, to Bill Langley, Chairman, Cherokee Nation Gaming Commission (Oct. 17, 2003). The same conclusions were reached in decisions handed down by other appellate courts in evaluating sweepstakes products that were antecedents to the current Internet sweepstakes cafe games. In each instance, the court found the supposed product being sold was a subterfuge or guise for the real product – gambling. *Pre-Paid Solutions, Inc. v. City of Little Rock*, 343 Ark. 317, 34 S.W.3d 360 (2001); *F.A.C.E. Trading, Inc. v. Department of Consumer and Industry Services*, 270 Mich. App. 653, 717 N.W.2d 377 (2006); *Mississippi Gaming Comm’n v. Six Electronic Video Gambling Devices*, 792 So. 2d 321 (Miss. Ct. App. 2001); *People ex rel. Lockyer*, 82 Cal. App. 4th 699; *Sun-Light Prepaid Phonecard Co., Inc. v. State*, 360 S.C. 49, 600 S.E.2d 61 (2004).

²⁴ Memorandum in Support of Motion for Temporary Restraining Order, *J&C Marketing, LLC, v. Mason*, No. CV 12 784234 at 6-7 (Cuyahoga Cty. Ct. of Common Pleas June 4, 2012); Wilkinson & Mathis, *supra* note 2, at 291; *Moore v. Mississippi Gaming Comm’n*, 64 So.3d 537, 541-42 (Miss. Ct. App. 2011) (en banc).

²⁵ Brooks Affidavit ¶19, *supra* note 2.

²⁶ *Moore*, 64 So.3d at 541.

²⁷ “Executives at Halton City sweepstakes company are arrested,” www.star-telegram.com (Aug. 17, 2012).”

²⁸ This extraordinary sequence in Cuyahoga County is laid out in the prosecutor’s Petition and Complaint for Writ of Prohibition and Application for Immediate Alternative Writ, State ex rel. Mason v. Russo, No. 12-1128 (Ohio Sup. Ct. June 3, 2012). The decisions in the municipal courts of Akron and Toledo are described in Adam Ferrise, *Are cafes criminal?*, www.TribToday.com (Mar. 18, 2012) and *State v. Dabish*, No. CRB-08-25138 (Toledo Munote Ct. 2009). According to one press account, the Akron judge concluded that there was no “risk” in Internet sweepstakes cafe games because the customer who did not win the sweepstakes would still have her telephone card. That reasoning – which was in effect a finding that the customer paid no consideration to play the games – is contrary to the many appellate rulings discussed in this paper.

²⁹ H.B. 386, 129th Gen. Assemb. (Ohio 2012); Alan Johnson, *supra* note 10.

³⁰ *Hest Technologies, Inc. v. North Carolina*, 725 S.E.2d 10 (N.C. Ct. App. Mar. 6, 2012).

³¹ 131 S. Ct. 2729 (2011).

³² The Arkansas Supreme Court declined to decide the question in *Cancun Cyber Cafe*, *supra*, and the Ohio case was dismissed in July 2012. *Dabish v. State of Ohio*, No. 3:12-cv-00146-JZ (N.D. Ohio filed Jan. 20, 2012). No decision has been entered yet in the South Carolina case, *Land v. South Carolina*, No. 3:12-cv-02134 (D.S.C. filed July 30, 2012), and Florida decisions on the First Amendment question are discussed in text.

³³ For the Orlando litigation, see Order, *Allied Veterans of the World v. Seminole County*, No. 6:11-cv-155-Orl-28DAB (M.D. Fla. May 6, 2011); *id.* at Order (Sept. 8, 2011); *Allied Veterans of the World v. Seminole County*, 468 Fed. App’x 922 (11th Cir. 2012) (unpublished opinion). For the Tampa case, see *Crisante v. Coats*, No. 8:11-cv-2007, 2011 U.S. Dist. LEXIS 154760 (M.D. Fla. Nov. 18, 2011) (report and recommendation of Magistrate Judge); *Crisante v. Coats*, No. 8:11-cv-2007, 2012 U.S. Dist. LEXIS 61209 (M.D. Fla. May 20, 2012) (adopting report and recommendation of Magistrate Judge). In yet another Florida case attempting to raise the First Amendment issue, a magistrate judge recently denied Hillsborough County’s motion to dismiss the complaint filed by several Internet sweepstakes cafes. There has been no decision on the merits of that case, however. Order, *JWS Samuel, LLC v. Hillsborough County, Florida*, No. 8:11-cv-02803-T-MAP (M.D. Fla. Aug. 13, 2012).

³⁴ Verified Complaint for Declaratory, Injunctive, and other Relief and Demand for Jury Trial ¶¶ 59-68, *Crisante v. Coats*, No. 8:11-cv-02007-EAK-TBM (M.D. Fl. Sept. 2, 2011).

³⁵ H.B. 3765, 187th Gen. Ct. (Ma. 2012).

³⁶ H.B. 1893, Gen. Assemb. (Pa. 2012).

About the Author

David O. Stewart joined Ropes & Gray as a partner in 1989 to begin a litigation group in the Washington, D.C. office. His experience in complex litigation includes appellate and Supreme Court litigation, antitrust and commercial disputes, white-collar criminal defense work, health care law, gaming law and a variety of challenges to government regulation and enforcement.

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David lectures to professional groups on topics including antitrust, gaming law, health care law, money laundering, cable television litigation and white-collar criminal issues.



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