

Testimony of Scott Painter, Founder, USDG

Mr. Chairman, Senators, thank you for holding this hearing and for inviting me to join you today.

I am a technology entrepreneur. I have built over 30 companies leveraging computer technology and the internet and have raised nearly 1B for these businesses.

I am here today because I represent a high profile group of investors that have taken a serious interest in the explosive global growth that is occurring in the internet gaming space.

California unarguably represents one of the largest gaming markets in the world.

The question for this panel is if, when and how California will participate in this new growth industry.

Not only will you have to properly determine the size of the opportunity, but more importantly, you will need to identify the risks and concerns that must be addressed

as well, you will need to determine the most effective approach to enabling this market while addressing those concerns.

First things first, I want to assure this panel that the technology currently exists to ensure:

- Highly secure player registration and authentication
- Administrative controls to prevent illegal or irresponsible gaming
- Game technology to allow for robust play
- Security controls to ensure game integrity (against collusion, 'bots', etc)
- Banking and payment technology to facilitate micropayment and taxation
- Other technology to serve advertising and ecommerce

Despite all of this technology it is worth noting that none of these systems are currently developed on an integrated basis for the US market or for the individual niche solutions that will be required on a state by state basis.

The simple fact is that because of the issue of legality any investment becomes a speculative bet.

Other jurisdictions in (the UK, France, Italy, Sweden, Canada, even horse betting here in the US, etc....) are operating similar platforms that could provide shortcut to market.

That said, the specific approach to constructing and deploying the appropriate infrastructure is the issue and the key to fully realizing the opportunity.

California clearly has numerous issues to navigate with respect to existing licensees and compacts, geo-identification of players, responsible gaming, player registration, game integrity, compliance with Federal laws, flow of funds, taxation, enforcement, etc...

That said, California can, and should, lead the nation with a model for the legalization of Internet Poker that unleashes the power of open market competition while establishing a framework that is secure, manageable, robust, scaleable and immediately taxable.

In internet and technology terms the solution is to create a standardized technology, security and banking platform that can be licensed to all licensed operators.

These operators would then be able to personalize the technology (white label approach) so that individual brands could market and grow their player base independently.

Individual games could be developed and deployed by independent operators through an open architecture approach that would be game agnostic so long as the registration, security, banking, ad-serving, ecommerce and related components that ensure security, integrity, administration, related revenue and taxability are used by licensed operators.

It is only through this type of approach, commonly referred to as a “walled garden” that the State can manage this process effectively and efficiently while unleashing both the open market opportunity and the related growth of the technology investment and development that will certainly occur within the state.

Legislation has been proven to be able unleash new industries and wealth creation.

It is intuitive to understand that the legalization of online Poker will certainly grow the size of the existing market, create new tax revenue and prevent the exportation of gaming dollars to other jurisdictions...

That said, this isn't the end of the argument for online Poker.

The bigger question is whether or not California wants to leverage its inherent advantage as the “cradle of technology innovation” to lead the nation and the world in this opportunity.

The gaming industry is about to go through a boom irrespective of when or what California does. That said, this is an opportunity for California to create jobs, generate tax revenue and lead in the investment, innovation and development of one of the most explosive opportunities in recent times.