

Internet decision helps rally some gaming stocks

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Shares of casino operators and gambling equipment makers produced modest gains Tuesday following a U.S. Department of Justice legal opinion expected to open the door to Internet poker.

The ruling, made public Friday, could lead to states offering other forms of online gaming and lottery tickets to their residents. Todd Eilers, an analyst with Roth Capital Partners in Irvine, Calif., said that while the opinion dealt specifically with lottery ticket sales, it also applies to other forms of gambling.

"The ruling essentially allows individual states to consider allowing various forms of Internet gaming without threat of violating federal law," Eilers said in a research note Monday.

Without the threat of federal intervention, there should be a significant increase in legislative and regulatory activity regarding Internet gaming in several states next year, he said.

"We believe state lotteries will move forward the quickest given the opinion letter was issued in response to a specific request by the Illinois and New York state lotteries," Eilers said.

Eilers also expects many states with land-based casino gaming to consider Internet gaming to help fund large budget deficits. Only Nevada and Washington, D.C., now approve Internet gambling within their borders.

According to Gambling Compliance, California, Hawaii, Iowa, Florida and New Jersey are likely to consider Internet pokers legislation in 2012. H2 Gambling Capital estimates worldwide eGaming will hit \$30 billion next year.

Richard "Skip" Bronson, chairman and co-founder of U.S. Digital Gaming in Beverly Hills, Calif., described the opinion as "positive" because it removes the fear that the federal government would shut down intrastate online poker sites.

Bronson estimated online poker in the U.S. to be a \$6 billion industry annually. As poker becomes legal in more states, revenue would double, to \$12 billion, he said.

A number of publicly traded companies are poised to take advantage of growth of Internet poker on a state-by-state basis, Bronson said.

Eilers said state lotteries and vendors such as Scientific Games, Gtech and Intralot would be the first to sell online virtual lottery tickets. In addition, casino operators with strong brands --

Caesars Entertainment, MGM Resorts International, Las Vegas Sands Corp. and Wynn Resorts Ltd. -- also would benefit from online poker if enough states were to approve it.

Gaming suppliers such as International Game Technology, Bally Technologies Inc. and Shuffle Master Inc. should also benefit from providing game content or the technology to host the casinos.

While U.S. markets were generally flat on Tuesday, gaming stocks advanced. Shares of Boyd Gaming were the gaming sector's top gainer, adding 9.78 percent, or 68 cents, to close at \$7.63 a share on the New York Exchange. MGM Resorts and International Game Technology were also among the top gainers, both up about 5 percent.

As gaming companies, lotteries and state legislatures weigh options following determination that the Wire Act of 1961's ban on gambling over telecommunications that cross state lines or international borders applies only to sports betting, critics fear more online gambling will add to social ills.

"We were strongly surprised by the Justice Department's decision," Les Bernal, executive director of Stop Predatory Gambling, an advocacy group in Washington, D.C., said Tuesday in a phone interview. "It expands a government program that pushes people deeper into debt. It's also creating addicts to feed off of it."

Bernal said the new interpretation of the law means the federal government is pushing for gambling in every home, office or dorm room with an Internet connection.

"The United States Department of Justice has given the online gaming community a big, big present," said I. Nelson Rose, a gaming law expert at Whittier Law School in Costa Mesa, Calif.

The federal government's conclusion would eliminate "almost every federal anti-gambling law that could apply to gaming that is legal under state laws," Rose wrote on his gamblingandthelaw.com blog.

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GAMING STOCKS UP

Shares of casino operators and traditional gaming suppliers rose Tuesday following the U.S. Department of Justice opinion that reverses its previous long-standing view that all forms of Internet gaming, not just sports wagering, were illegal.

Here are Tuesday's closing share prices for several local gaming companies.