

Treasurer Grossman's Online Products Task Force
Final Report
December 13, 2012

Preface

On February 15, 2012, Steven Grossman, Treasurer and Receiver General of the Commonwealth of Massachusetts, issued a directive establishing an advisory task force to gain a comprehensive, strategic assessment of the current landscape of online lottery products and play throughout the country and its short-term and long-term fiscal and societal implications for Massachusetts. Treasurer Grossman convened this group of advisors in recognition of the global onset of Internet gaming – estimated at the time to be a business generating over \$100 billion in Europe – and a duty to not only protect the current assets of the Massachusetts State Lottery, but also position the Lottery for potential growth. That duty is significant. As a \$4.75 billion business generating a record \$984 million profit in Fiscal Year 2012, the Lottery is the single largest source of unrestricted local aid for the Commonwealth's cities and towns.

The Task Force immediately acknowledged crucially important considerations. New platforms for lottery products potentially compete with the Lottery's loyal partners – 7,400 retailers (and employers) across the state – who promote daily the Lottery brand while thriving on Lottery commissions and related ancillary sales. Online play could impact the nascent casino industry in Massachusetts and its anticipated job development. And online play introduces human, economic and social challenges that demand vigilant attention and effective solutions.

Composed of representatives of the Legislature, the Governor, the retailer community, the Massachusetts Mayors' Association, the Massachusetts Gaming Commission, and the Lottery Commission, as well as citizens with strong, relevant knowledge, and a working group comprised of management team members from both the Treasury and the Lottery, the Task Force met several times. Its work was facilitated and supported by consultants engaged to provide global and local research, findings and recommendations. Further informed by the working group's shared perspectives and expertise, the Task Force reached a consensus for a practical plan of action, reacting with proper restraint to the many unanswered questions that Internet gaming in Massachusetts currently presents.

The Task Force submits this final report to guide Treasurer Grossman and Paul Sternburg, Executive Director of the Massachusetts State Lottery, as they plan for the future of the Lottery at this critical juncture of the gaming business in Massachusetts.

Conclusions

Based on the research of the consultants retained by the Lottery and the benefit of direct input from field experts, Lottery retailers, gaming vendors, concerned citizens and other stakeholders, the Task Force makes the following conclusions:

- The introduction of online products and play is inevitable as it is indisputable that the world is shifting rapidly to online and mobile for all manner of commerce. ***The threat is imminent.***
- Massachusetts residents spend on average \$720 per capita per year on Lottery products – almost double the rate of any other state. This extraordinary market penetration is why the Lottery has been able to generate the profits it does to benefit local aid – and why that local aid would be threatened if the Lottery’s market is undercut.
- The Lottery is highly profitable compared to other forms of gaming, returning 90% of net operating revenues to the state.
- The status quo is not a choice. If the Lottery does not enter this online market, other entrants – including commercial casinos, tribal casinos, commercial gaming companies and other states – will. And given the high per capita spending now and the fact that personal incomes are growing modestly at best, the inevitable consequence would be that those new entrants would cannibalize Lottery sales, putting at risk local aid.
- Immediate protection of the Lottery is a must given that it is the single largest source of unrestricted funds – nearly \$1 billion in fiscal year 2012 – to the Commonwealth’s 351 cities and towns.
- The Massachusetts State Lottery is an important driver of more than 7,000 small businesses. Any plan to introduce a new Lottery sales channel must make clear the Lottery’s unwavering commitment to its 7,400 agents, which include convenience stores, supermarkets, package stores, restaurants and bars located across the state.
- Expansion of the gaming business through new venues and products raises concerns about problem gambling that must be addressed. At the same time, online play presents unique opportunities to learn more about gambling addiction and related issues.

- As a result of the U.S. Department of Justice’s opinion released in December 2011, intrastate gaming is entirely at the discretion of state law – except for sports betting, which is still considered a violation of the federal Wire Act.
- Moreover, proposed federal legislation to federalize control over the online market such as the Reid-Kyl bill may include a “grandfather clause” protecting states that have online gaming legislation already on the books. Drafts that have been circulated of the federal measure would allow state-run online poker only in those states that authorized such games prior to May 1, 2012 (effectively limiting the applicability to Nevada). Other states would be limited to the option of joining a federalized system. *More important, all other forms of state-offered online products would be made illegal under federal law except for games in which winners would be chosen no more frequently than daily.* For Massachusetts that would mean that online versions of instant tickets or Keno would be barred and the legal status of the Lottery’s current Keno to Go game would be put in question.
- Given the immediate threat of competing Internet gaming, the Lottery must take affirmative steps to protect its current assets.
- Massachusetts law, however, presently bans the Lottery from online sales. This puts the Lottery’s market position and the profits available to the cities and towns at risk, and makes the Lottery’s retailer-partners vulnerable.
- To enter the online market effectively, significant investments in technology, advertisement and marketing, and personnel development may be required that may not be recouped in the short-term.
- Introducing an online channel will provide additional revenue sources to the Commonwealth, but Massachusetts-based research suggests that it may not significantly increase the number and type of players who currently engage with Lottery products. The Task Force’s market research found that heavy players would pay for Internet play by redirecting more than 40% of their current spending on traditional Lottery products.
- To properly project the Lottery’s return on investment over time, more research is needed before the Commonwealth and the Lottery should commit substantial resources. However, pilot projects should be considered and implemented if proven feasible.
- If the Lottery does not invest in online products and play, the Lottery’s business – and its retailers’ associated commissions and sales – will erode over the economic long-term, harmfully impacting the Commonwealth’s cities and towns.

Recommendations

The Task Force recommends immediate implementation of a strategy that permits the Lottery to take interim steps to enhance its online and mobile presence, while studying and testing its business model further.

European and Canadian business models, which include sports betting not presently permissible in the United States, suggest that Internet gaming could offer an opportunity for significant growth in sales of lottery products. Spectrum Gaming Group, a consultant for the Task Force, extrapolated from international data to project as much as a 5.9% growth in total Lottery sales from FY12-FY17 if a phased-in option of online products were introduced in Massachusetts, even after the establishment of casino gaming. Those international models, however, also presuppose that many more millions of dollars – particularly during the initial roll-out – are required to develop the necessary technology, acquire successful gaming intellectual property, and promote and market to attract players. So in the early phases of introducing the new products, a net gain in profit is by no means certain.

Online lottery initiatives underway in the United States – in Illinois, Maryland, Delaware and Idaho – however, are too new to offer tested models or reliable data at this time. Regardless, the Massachusetts Lottery, with its extraordinary network of retailers – creating a nationwide high penetration rate of one retailer to 833 members of the general population – and internally controlled and operated systems, is so uniquely positioned that accurate projections regarding the impact of online Lottery products may be impossible absent Massachusetts-based findings. To that point, the Massachusetts-focused market research conducted by the Task Force’s consultant, SocialSphere, revealed that local consumer interest in online gaming is far less than the international models suggest because of the already large market penetration of the Lottery. Absent costly outreach to attract potential players, there is no guaranteed market or clear new demographic to tap.

The consultants’ research exposes sufficient unknowns that additional data is needed before the Lottery should expand to a new platform that will demand (i) significant investments in advertisement and marketing, technology and personnel development, (ii) well-developed mitigation measures acceptable to the Lottery’s retailers to counteract possible substitution costs, and (iii) policies to address the potential for increased problem gambling, deterring underage play, and protecting against cybercrime and other security threats. In light of these considerations and the conclusions set forth above, the Task Force recommends the following action plan:

- File enabling legislation that will protect the Lottery and its assets from dilution of market share in order to safeguard the Lottery’s significant

contribution to local aid. The legislation should not only repeal existing statutory restrictions on the Lottery, but also affirmatively authorize the Lottery to enter the online market and undertake limited pilot programs. The legislation should be enacted with an emergency preamble to permit its immediate effectiveness given the threat of competing federal legislation. As an alternative, consider including the legislative language in a supplemental budget to expedite this legislative protection.

- Do not seek, however, an appropriation to launch a full online products operation as many issues must be resolved first:
 - Clearly, the maximum protection for the Lottery would be for it to be the sole provider for all future online gaming. However, tribal gaming laws may prevent that. Moreover, it would be advisable to study whether partnerships with other providers and the Massachusetts Gaming Commission would prove to be the most cost-effective strategy.
 - Any plan must protect the 7,400 Lottery agents that are the backbone of the Lottery's success. We need to find a productive and mutually-profitable way to work with our retailer-partners.
 - The Treasurer is also committed to avoiding any step that might jeopardize the successful launch of casino gaming in Massachusetts and its attendant construction and service jobs.
 - Ensure that the proper safeguards against and remediation programs for problem gaming are in place along with security techniques to prevent underage players from engaging in online gaming.
 - Take steps to guard against cybersecurity threats that are growing in intensity and frequency. The combination of gaming, government, and e-commerce make online products a prime target for hackers and cybercriminals. Additionally, because of the intrastate limitation placed on Internet gaming at this time by the Department of Justice, effective geolocation capabilities will be required.
- Secure from the Legislature and Administration sufficient funding needed for the planned replacement of the Lottery's current gaming systems – including its long-ago obsolete mainframe computers and the electronic terminals and communications network used for Keno, to sell such “draw games” as MegaMillions and PowerBall, and to monitor all transactions including instant tickets and prize payouts – to safeguard the Lottery's current assets and business plan, and to gain flexibility needed to integrate any required

technology for Internet gaming and related business, finance and security functions.

- In the immediate short term, finalize a Lottery business model for conducting online gaming by collecting additional data. To learn more about the Commonwealth's appetite for online gaming and the pitfalls of this new platform, the Lottery should take initial steps to further explore the market's potential, such as:
 - Exploring the launch of a pilot program introducing one (or more) new online Massachusetts Lottery product(s), perhaps by procuring an outside operating vendor for a restricted amount of time. While the Task Force recognizes that the Lottery's business model, which includes internal operation of both the front- and back-end of its business, keeps its administrative costs at a national low, procuring outside services for the limited pilot program makes sense for immediate evaluative purposes. The pilot program would include a program for validating age and geographic location of players. The Lottery would consider options for the pilot program to mitigate cannibalization of the retailers' profits, including possibly requiring online players to purchase pre-paid gift cards from Lottery sales agents and cash final winnings at the agents' places of business, the payment of appropriate commissions, and cross-promotional campaigns. Market and other research would be conducted to measure the success of the program.
 - In the very near future, introducing at least one mobile app to advance the Lottery brand without involving gaming for a cash prize. Apps will target the demographic that the Lottery and retailers hope to expand. Apps may be built at low cost, but serve as an entertainment offering to effectively draw the user's attention to the Lottery's products and cultivate the mobile platform. Consider using an app design contest to attract and identify local gaming talent and generate public interest in and awareness of the Lottery's newest venture. Market and other research would be conducted to measure the success of the program.
 - Exploring the launch of some form of online social game. Introduction of such a program could be considered once any threshold legal issues are addressed and opportunity for the Lottery within an already quite saturated market is clarified.
 - Working with the Massachusetts Gaming Commission and casinos to study the impact of online gaming on their operations and to discuss business models that ensure maximum revenues for the Commonwealth and preserve local aid funding.

- Exploring licensing rights to run an online, intrastate poker game operated by outside vendors/casinos, and the possibility of an interstate compact among lotteries that might enable Massachusetts to launch a New England-wide poker game, enhancing the liquidity of the game, and, accordingly, its potential success. Such a project would require consultation with key stakeholders including the Massachusetts Gaming Commission and Massachusetts casino licensees.
- Continuing to work with retailer-partners to develop measures to mitigate substitution costs, including payment methods, promotional online plans and other joint marketing tools. We do not expect this to be a quick or simple process, but rather one producing ultimately effective solutions that will require extensive dialog and experimentation.
- Because of the extreme threat posed by Kyl-Reid and other federalization proposals, the Task Force calls on Massachusetts' senators, congressional delegation, the Governor, the Legislature, and other leaders and stakeholders to vigorously oppose the legislation and preserve the Commonwealth's autonomy on gaming issues.

The Task Force Process

The DOJ Opinion

Prior to the issuance of the groundbreaking opinion of the Department of Justice in December of last year, the Criminal Division of the DOJ had opined that the federal Wire Act prohibited states from conducting in-state lottery transactions over the Internet because such transactions were presumed to cross state lines even if intended to be intrastate. The Criminal Division made no distinction as to whether the gaming involved sports betting or some other form of wagering. In its December-published opinion, however, DOJ reversed that position and, in the context of proposed plans of the New York and Illinois state lotteries, determined that the Wire Act applied only to sporting events or contests – which the DOJ concluded did not include traditional state lotteries. Consistent with historic federal deference to states to regulate gambling and lotteries within their state borders, federal law – with the clarification offered by the DOJ opinion – is now understood to *not* restrict a state authorized entity such as a lottery from selling lottery products over the Internet to its in-state adults. Furthermore, the DOJ said that interstate transactions such as processing credit card charges to support an intrastate game were permissible.

The bottom line of the ruling was that except for sports betting, which is still regarded as illegal by the DOJ, state laws are now the controlling factor in online gaming.

While the Massachusetts State Lottery Commission had begun to address the potential for growth through possible future Internet sales, the DOJ opinion issued on December 23, 2011 prompted a new sense of urgency. Its chair, Treasurer Grossman, stated, "The Lottery, a national industry leader in sales and innovation, is well poised to advance any opportunity presented by online lottery products if so directed. At the same time, I recognize that any such expansion of the Lottery's business must be accompanied by careful planning to protect the Lottery's current assets and potential for growth and, most importantly, by a regulated environment that safeguards our citizens and their interests."

Establishing the Task Force

To assist in such planning and advise him in the assessment of the state of online play and its implications for Massachusetts, Treasurer Grossman established the Online Products Task Force.

Paul Sternburg, Executive Director of the Massachusetts State Lottery, chaired the Task Force. The Task Force was comprised as follows: Senator Jennifer Flanagan; Senator Richard Ross; Representative Timothy Toomey; Representative Daniel Winslow; Mayor Joseph Sullivan; Kate Cook, Director of Cabinet Affairs, Office of the Governor; Beth Boland, Commissioner, MSLC; David Murdock, Executive Vice-President of Honey Farms, Inc. and Chair of New England Convenience Store Association; Stephen Crosby, Chair, Massachusetts Gaming Commission; Enrique Zuniga, Commissioner, Massachusetts Gaming Commission; David Fubini, Director, McKinsey & Company; Thomas D. Herman, Of Counsel, Smith Duggan Buell Rufo LLP, and Malcolm Salter, Professor-Emeritus, Harvard Business School. The Task Force's Working Group included management team members from the Treasury and the MSLC. Serving on behalf of the Treasury were James MacDonald, First Deputy Treasurer; Kathryn Burton, Chief of Staff; Al Gordon, Deputy Treasurer/Director of Policy; Jamey Tesler, General Counsel; Craig Stepno, Director of Research, and Francis Orlando, Director of Government Affairs. Serving on behalf of the MSLC were Paul Mandeville, Asst. Executive Director/Director of MIS; Beth Bresnahan, Asst. Executive Director/Director of Marketing and Communication; William J. Egan, Jr., Asst. Executive Director/General Counsel; David Sweeney, Asst. Executive Director/Chief Financial Officer; Stephen Quinn, Asst. Executive Director/Director of Sales, and Cathy Judd-Stein, Asst. Executive Director/Director of Policy and Special Counsel.

References to offices and agencies are made for identification purposes only and are not provided to suggest any office- or agency-wide approval of a particular position.

The Task Force was constituted as an advisory panel to the Treasurer, as authorized by state law. Members were asked to perform, with the assistance of a consultant retained pursuant to a competitive procurement process, the following tasks:

- Examine the legal and regulatory framework governing online lottery/gaming and advise on the state of the law with respect to Massachusetts.
- Advise as to technological needs associated with online lottery products and play.
- Assess the economic and fiscal implications of online lottery products and play for Massachusetts taking into consideration, without limitation, such matters as (i) the Lottery's current business, consumers and agents, (ii) the anticipated development of "brick and mortar" casinos in the Commonwealth, and (iii) other online lottery/gaming initiatives being considered nationally.
- Investigate the prospect for and means to cultivate new technological and business opportunities here in Massachusetts in connection with any expansion into online lottery products.
- Evaluate the human and social issues accompanying online lottery products and play and means for addressing them.
- Advise as to legislative and regulatory resources needed to position the Lottery for the introduction of online products, while protecting its assets and safeguarding the interests of our citizens.

A copy of the Treasurer's directive forming the Task Force is attached to and made a part of this report.

Meetings

The Task Force

The Treasurer convened the full Task Force six times over the course of ten months for presentations from the retained expert consultants, updates from the Working Group, and rigorous discussion and exchanges among its members. Detailed minutes were recorded and approved.¹

The Public Sessions

Notwithstanding the advisory nature of the Task Force, Treasurer Grossman, Director Sternburg and members of the panel hosted two public sessions to learn from the testimony of key stakeholders and interested citizens of the Commonwealth. The first public session was held on May 30, 2012 in Boston, and 40 members of the public attended. The second public session was held on June 28, 2012 at Westfield State University in Westfield, and 20 members of the public attended. At each session, the Treasurer stressed to those in attendance that this was the Task Force's opportunity to

¹ The Task Force would like to thank Jean Caron, Executive Assistant to Director Sternburg, for her assistance in recordkeeping for the meetings of both the Task Force and Working Group.

listen. Director Sternburg emphasized that the Lottery's retailers are its partners and reminded all that Massachusetts has the best penetration rate for retailers to consumers in the United States. He assured those in attendance that the Task Force is conducting research, with the assistance of its consultant, Spectrum Gaming Group, without a pre-determined objective. Finally, he clarified that, regardless of any recommendation made by the Task Force, the Lottery may not proceed with online play without affirmative legislative action.

Representatives of the retailer associations in Massachusetts – including the New England Convenience Store Association and Massachusetts Package Stores Association – offered clear and compelling testimony. They stressed that retailers were concerned that the introduction of online play would make the Lottery a competitor, leading to the erosion of the retailers' longstanding, successful partnership with the Lottery. They expressed worry that Lottery play on the Internet would reduce not only their Lottery sales, but also the foot traffic created by Lottery customers, resulting in the loss of critical ancillary sales. These reductions, they testified, will lead to a loss of jobs. To these stakeholders, Internet gaming is simply a "jobless casino." In addition, package store employees, the Task Force learned, are trained to prevent sales to minors, a service that might not be available with online sales.

Lottery agents and their employees comprised the majority in attendance. They also expressed passionately that online play would negatively affect their partnership with the Lottery, diminish sales and related commissions, and result in job losses. They reminded the Task Force that they are mindful of problem gaming and are uniquely positioned to offer through personal interactions important social benefits to the Lottery customer. While the retailers generally welcome the use of social media and the Internet to create a "buzz" to benefit their businesses, they stressed that the sale of Lottery products over the Internet is simply an untested business plan.

Representatives from the digital and high technology industries and problem gaming professionals rounded off attendance at each public session. The business representatives testified that use of the mobile platform is rising steadily, and argued that with new habits comes economic opportunity. They acknowledged the retailers' concerns as fair, but testified that technology exists for age verification and that payment for online play through a pre-paid gift card purchased at the Lottery's retailers could ultimately lead to an increase in their sales and commissions. They stressed that online sales will engage a new, younger demographic necessary for the Lottery's and retailers' future growth.

Those appearing as advocates for problem gamblers testified that increased access to Lottery products over the Internet could increase gaming problem incidence. Nonetheless, they also recognized that online gaming might offer additional tools for monitoring problematic behavior, creating enhanced opportunity for treatment and prevention.

The Working Group

Supplementing the meetings of the full Task Force and the public sessions, the Working Group met seven additional times with stakeholders and experts in Internet gaming to address issues identified as central to the possible implementation of online Lottery play.

After a first session with the Task Force's consultant, Spectrum Gaming Group, to develop a plan for accomplishing the objectives of the Treasurer's directive, the Working Group, along with Spectrum, met with representatives from the retailer community and experts in gambling addiction. On behalf of the Lottery's sales agents, representatives of the New England Convenience Store Association and Retailers Association of Massachusetts explained how the Lottery drives critical ancillary business to the retailers' stores. When evaluating the potential substitution costs of online Lottery play, retailers' revenues from the sale of a cup of coffee, carton of milk, or a loaf of bread to a Lottery player must be considered in addition to the commissions directly derived from the sale of a Lottery product. The Massachusetts Council on Compulsive Gambling, while educating the Working Group about the hazard of increasing access to gambling over the Internet, also surmised that online gaming might offer, through expanded data collection, the unexpected benefit of research needed for treatment. Furthermore, online players might be given the opportunity to self-restrict play, by requesting limits on how much they spend on Lottery products. The experts acknowledged that such intervention is not available now. Both presentations reinforced the commitment of the Treasurer and Task Force to protect the Lottery's retailers and its customers from the economic and social effects of online play.

At subsequent meetings, the Working Group heard from business stakeholders, including national leaders in the lottery business and vendors engaged in Internet lottery gaming in Europe and Canada. They provided industry insights, explaining, for example, how requirements such as age and geolocation verification are satisfied in other jurisdictions. Additionally, they showed game concepts that have had successful online launches by lotteries outside the United States.

The Working Group also heard from two Massachusetts-based organizations. Akamai, which offers a globally leading cloud platform, spoke about existing security threats to online businesses and explained how technology works to counteract those threats. The Massachusetts Digital Games Institute (MassDiGi), a collaboration of local academic, business and governmental experts, fosters growth of the Massachusetts' gaming industry and its innovation economy. In its presentation to the Working Group, MassDigi described not only how local talent is ready to create inventive games should there be a decision to have the Lottery go online, but also how that decision will expand employment opportunities in the Commonwealth.

Working Group meetings often lasted up to three hours, providing opportunity

for questions to be answered and issues to be debated. The schedule of Working Group meetings is set forth below:

Date	Presenters
March 16, 2012	Spectrum Gaming Group
March 22, 2012`	Massachusetts Council on Compulsive Gambling New England Convenience Store Association Retailers Association of Massachusetts
April 10, 2012	GTECH Corporation Scientific Games Corporation
April 19, 2012	Intralot Paddy Power PLC Betware
May 24, 2012	NeoGames Jumbo Interactive Ltd.
August 23, 2012	Akamai Technologies, Inc. Massachusetts Digital Games Institute
November 6, 2012	Spectrum Gaming Group SocialSphere, Inc.

Consultants

To assist the Task Force in achieving its responsibilities prescribed by the Treasurer’s directive, the Lottery retained three consultants – Greenberg Traurig, Spectrum Gaming Group and SocialSphere – pursuant to competitive public procurements. Each procurement management team included management staff from the Lottery and the Treasury. The Lottery hired each consultant to provide distinctly different services, but each understood the following directives guiding the Task Force’s work:

- Do no harm to the Lottery’s 7,400 partners – its sales agents – who depend on annual commissions that average nearly \$37,000 annually as well as ancillary sales generated by Lottery foot traffic. The National Association of Convenience Stores reports that the lottery customer averages \$10.35 in convenience store purchases compared to the non-lottery customer who averages \$6.29. NACS states that Lottery customers purchase at least one other item on 95% of their visits.
- Consider the social effects of expanded gambling and how they are to be addressed.
- Assess any impact of the introduction of online products and play on Massachusetts’ nascent casino industry in light of the Commonwealth’s overall good.
- Explore the cost and benefit of doing nothing.

The Lottery, on behalf of the Task Force, engaged the services described below. To promote governmental transparency, all large Lottery procurements are posted on the Lottery's website. For additional details concerning these contract awards, please visit: <http://www.masslottery.com/about/procurements/awarded-procurements.html>

***Task Force Legal Services
Greenberg Traurig***

The Lottery in January of this year pre-qualified a host of varying sized law firms, including solo practitioners, to provide legal services to the Lottery upon need. The law firm of Greenberg Traurig – an international, multidisciplinary law firm with Boston offices – submitted its qualifications in response to the Lottery's request for qualifications and, after a competitive procurement process, was deemed to be pre-qualified for future retention.

In February of 2012, the Lottery, on behalf of the Task Force, issued a request for bids seeking legal services regarding the current legal landscape governing the sale of online lottery and gaming products. After a competitive small procurement process, Greenberg Traurig, with a team from its Boston and Chicago offices, was retained to provide an opinion and supporting memoranda by no later than March 28, 2012 that addressed the following questions:

- (i) Is the Massachusetts State Lottery Commission currently authorized to sell gaming products over the Internet or other electronic communications in the Commonwealth?
- (ii) Does the DOJ opinion limit its scope to intrastate sales to adults?
- (iii) Is an individual/entity that is not the Massachusetts State Lottery Commission currently authorized to sell gaming products over the Internet or other electronic communications in the Commonwealth?

Greenberg Traurig delivered its opinion in timely fashion and presented it to the Task Force. The opinion offered legal guidance that the Task Force relied upon throughout its deliberations. It is attached to and made a part of this report.

***Task Force Consulting and Facilitating Services
Spectrum Gaming Group***

In January of 2012, the Lottery issued a request for response for consulting services to facilitate the Task Force in achieving its responsibilities outlined in the Treasurer's directive. The Lottery sought a vendor capable of assessing the gaming industry statewide, nationally and worldwide in light of industry trends, emerging

markets and future business or technological paradigms and from multiple perspectives, including legal, economic, social and political. Deliverables included an interim report on the “State of Online Play” in Massachusetts and across the nation that described immediate competitive threats and steps needed to position the Lottery to commence delivery of online products if so directed, and a final report with the Task Force’s additional findings and recommendations.

After a competitive procurement process, Spectrum Gaming Group of Linwood, New Jersey was awarded the contract on March 9, 2012. Spectrum has provided broad consulting services – including, extrapolating from international data to project the economic effects of the introduction of online lottery products here in Massachusetts as well as addressing the potential human impact of expanded Internet gaming, and solutions for those risks. Its final report, with its integrated business and policy recommendations, is attached to and made a part of this report.

***Task Force Consulting and Market Research Services
SocialSphere, Inc.***

The Lottery issued on May 30, 2012 a request for response to procure a firm to conduct market research in support of the Task Force and ongoing marketing needs of the Lottery. That work included researching demographic characteristics and buying/spending habits of the Lottery’s existing customer base; future trends for that base; and demographic characteristics and buying/spending habits of potential customers for online lottery/gaming products, including those sold on mobile devices. The Lottery expected the awarded consultant to take into consideration (i) the overlaps, and potential cannibalization, of sales at the Lottery’s existing brick and mortar retail outlets by the online marketplace, (ii) the impact of online products on the impending launch of casino gaming in Massachusetts, and (iii) the impact of single-source versus multiple-provider models, giving note to overall profitability as well as total sales.

After a competitive procurement process, SocialSphere, Inc. of Cambridge, Massachusetts was awarded the contract on July 24, 2012. SocialSphere conducted multiple phases of local research that included segmentation, qualitative research (focus group studies), and quantitative research (online surveys and intercept interviews). Its Massachusetts-based market research became an integral part of the Task Force’s analysis given its recognition of the unique qualities of the Lottery’s retailer penetration and customer base. SocialSphere’s final report with recommendations is attached to and made a part of this report.

Respectfully submitted by:

The Treasurer’s Online Products Task Force
Date: December 13, 2012