

LOTTERIES & CONTESTS

*A BROADCASTER'S HANDBOOK
THIRD EDITION*

National Association of

NAB
BROADCASTERS®



LOTTERIES & CONTESTS

***A BROADCASTER'S HANDBOOK
THIRD EDITION***



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Foreword

It is essential that broadcasters have a working knowledge of both federal and state laws which regulate the broadcast of lottery advertisements or information about lotteries. Many states have laws that are much more strict than the new federal requirements, and penalties for broadcasting lottery information may be significant and vary from state to state. Learning what the law says is rather simple; applying it, however, can be considerably more difficult. The factors which result in a given contest being categorized as a lottery are often obscure. In states where lotteries are prohibited or when federal laws provide no exemption, seemingly innocent “give-away” schemes must be carefully analyzed to be reasonably certain that they are not lotteries.

Lotteries and Contests: A Broadcaster’s Handbook has been updated to explain and clarify recent changes in the federal lottery laws and to assist broadcasters in avoiding the common problems involved in advertising contests and promotional plans. This 1990 version, updates the 1985 edition of the handbook, originally written by Cathy E. Blake in 1980, and both expands and revises Chapter IV of the **NAB Legal Guide to FCC Broadcast Regulations** (3d. ed. 1988). The 1990 revised edition was prepared by NAB Fellowship Attorney Eldred D. Ingraham with the assistance of Barry D. Umansky, deputy general counsel, NAB; and the NAB Legal Department law clerks, particularly Dina Casanova. NAB wishes to especially acknowledge the following persons for their valuable assistance in reviewing this publication: Charles Kelley, chief, Enforcement Division, Mass Media Bureau, FCC; Edythe Wise, chief, Complaints and Investigations Branch, Enforcement Division, Mass Media Bureau, FCC; and Michael Cox, assistant solicitor, Division of Indian Affairs, U.S. Department of the Interior.

Although this booklet reflects changes in federal law that allow the broadcasting of most lottery information, the revised federal laws do not preempt state lottery laws, which may be more restrictive. This booklet, therefore, also contains information about state laws, and material reflecting past FCC rulings that may serve as a useful guide to broadcasters in states with lottery restrictions or prohibitions, or for factual situations where the federal law still prohibits the airing of the particular lottery information.

Henry L. Baumann
Executive Vice President and General Counsel

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I. Lotteries

Lottery Advertising and Lottery Information

Federal v. State Lottery Laws

The new Charity Games Advertising and Clarification Act of 1988 Pub. L. No. 100-625, 102 Stat 3205, 3206 (1988), effective on May 7, 1990, relaxes the old federal law by lifting the ban on the broadcasting of advertising and information concerning most legal lotteries. Moreover, another congressional act, the Indian Gaming Regulatory Act, Pub. L. No. 100-497, 102 Stat 2467 (1988), which became effective in the fall of 1988, opens the door to broadcast advertising of certain gaming held on Indian lands.

Most states, however, have their own lottery laws. Many of the state laws are more strict than the new federal law—and the federal law does not preempt current or future state restrictions on the broadcasting of lottery information. Since this booklet focuses primarily on federal lottery laws, one should consult a local attorney or the appropriate state attorney general's office about applicable state laws.¹

Changes in the Federal Lottery Laws

Under the Charity Games Advertising Clarification Act of 1988, effective May 7, 1990, broadcasters generally are allowed to advertise, promote, and provide information about lotteries conducted by non-profit groups, governmental entities and also by commercial organizations² (including the station itself) provided there is no state restriction or ban on providing or advertising such information, and the lottery is legal in the state in which it is conducted.

Additionally, the state-operated lottery provision of the revised federal lottery law expands the "adjacent state" exemption to allow broadcasters licensed to cities in a state that itself conducts a lottery, to advertise state-operated lotteries of not only their own state but of any other state in the country. Here again, however, keep in mind that the federal law does not preempt existing or future state restrictions.

Remember, even though your state may have a state-operated lottery, it may still have significant restrictions on the conducting and/or advertising of lotteries not conducted by the state. The prohibition may be absolute—covering the conduct and the advertising—or it can address only the advertising. As an example of the latter, a state may authorize non-profit groups to hold bingo games but it may nonetheless prohibit the advertising of those games.

In those states where there are lottery advertising restrictions, it is likely that, however slight the reference is to a lottery in the advertising copy, the

broadcast of that advertisement would be prohibited, as virtually always was the case under the former, more stringent federal law. For example, if your state were to restrict the advertising of a lottery, a reference to the "fun and games" at a retailer's store would likely be disallowed under that state law. If the event being advertised does indeed contain a lottery, merely veiling or omitting the scheme's details in an advertisement will not prevent the ad from being "lottery information."

One further change in federal law is the Indian Gaming Regulatory Act enacted on October 17, 1988. This law generally enables broadcasters to advertise Indian "bingo" and certain other games conducted on Indian lands. But, here again, state law is not preempted. That is; if the state completely forbids bingo in the state, then bingo can't be played on the Indian reservation located in that state. And if the state allows bingo activity to take place but prohibits the advertising of the activity, then broadcasters would not be allowed to air spots for Indian bingo.

Also, it is important to underscore that the federal law change *has not* affected the federal prohibition against the advertising of casino gambling. Thus, stations cannot accept spots for Atlantic City or Las Vegas casinos (except under the conditions outlined on page 12 discussing ads for establishments with the name "casino" as part of the entity's formal name, or ads for the non-gambling aspects of a hotel or other edifice which houses a casino, ads that mention casino gambling that takes place on cruise ships, or ads for establishments (e.g., blackjack parlors) which are, in essence, gambling halls). Here, the federal law does preempt state law. Regardless of whether the state has OK'd casino gambling, radio and television stations cannot advertise such casino gambling. Violation of this federal prohibition on casino gambling advertising can subject a broadcaster to prosecution by the United States Department of Justice as well as by the FCC for violation of its rules (which continue the statutory prohibition against casino gambling).

The Broadcaster's Responsibility and Liability

Although federal lottery laws have been significantly relaxed, broadcasters must remember to check the provisions of state laws before airing information about a particular promotion. The new federal lottery laws do not preempt state laws. Broadcasters, therefore, may still be penalized under state law for airing information about lotteries, and should make sure that the information aired complies with state restrictions as well as any applicable federal restrictions. Remember, also, that a state law conviction can reflect adversely on your character at license renewal.

Broadcast of Non-Lottery Promotion Actually Conducted as a Lottery

Suppose a station were to broadcast the following advertisement: "Hurry

down to Howie's Shoe Station and take a look at our beautiful shoes. Spin Howie's wheel of discount and chop \$1-\$5 off your purchase price should you decide to buy a pair of shoes. You can spin the wheel with no obligation to purchase any shoes."

This promotion is not a lottery since the customer need not make a purchase in order to participate. He or she can simply spin the wheel and then walk away free of any obligation to purchase any shoes if dissatisfied with the discount. However, if Howie's Shoe Station disregards the content of its advertisement and actually requires a customer to make a purchase before or after spinning the wheel, the promotion is being conducted as a lottery. *Metromedia, Inc. (WASH-FM)*, 60 F.C.C. 2d 1075 (1976). (The WASH-FM case turned largely on the fact that: "the words of the announcement *on its face* indicated, or at least should have alerted the licensees to the possibilities, that the promotion was probably a lottery." 60 F.C.C. 2d at 1082). Similarly, if a station advertises that entry blanks are available both free of charge and with any purchase, the licensee must exercise reasonable diligence to confirm that the entry blanks are equally available to all without purchase.

A Word of Caution

This booklet contains a number of sample lottery and contest promotional plans with opinions as to the legality of advertising such plans. The comments primarily represent NAB Legal Department analyses, often based on previous interpretations of federal law by the FCC and the courts. The opinions are meant to serve as a guide in determining whether the elements of various promotional schemes constitute a lottery (where airing ads or information about such a lottery would be prohibited under state and/or federal law) or would violate the FCC's policies on station-conducted contests. They should not be construed as legally authoritative.

It is important to remember that federal and state laws are constantly subject to change, as are interpretations by agencies and courts. Thus, what is considered to be a lawful contest or promotion today, might become unlawful under a future law change or ruling.

Also, it should be emphasized that the lottery/non-lottery examples offered in this book are based largely on the definitions and interpretations evolving under federal law. Some states have defined certain lottery elements differently than have been the federal interpretations. Thus, and with state lottery laws now having much greater importance to broadcasters, it is critical that stations check the laws of their own states when analyzing advertiser copy or a proposed station promotion. Also, it is essential that broadcasters be reminded that there is no substitute for the timely advice of an attorney when confronted with a specific case.

Defining A Lottery

Three Elements of a Lottery

The traditional elements of a lottery are (1) prize, (2) chance and (3) consideration. All three elements must be present for there to be a lottery. If any element is missing in a promotional plan, then it is not a lottery under federal laws. *Federal Communications Commission v. American Broadcasting Company, Inc.*, 347 U.S. 284 (1954).

Under the revised federal law, even if it were determined that a particular contest were a lottery, that activity—and advertising of that activity—may well not be prohibited under these more liberal federal laws. This is where the lottery is conducted by a state itself, by an entity described in section 501 of the Tax Code or by a commercial organization where the lottery is promotional, occasional and ancillary to the primary business of that organization.

Individual states generally use the same prize, chance and consideration definition of what constitutes a lottery. However, the definitions of individual elements of a lottery tend to vary somewhat from state to state. For example, while one state might view the “mailing of an entry” as not being “consideration” (on the theory that the purchase of the stamp did not amount to “consideration flowing to the promoter of the event or contest”), another state might deem any such purchase to be enough to constitute the consideration element of a lottery.

Prize

A prize is anything of value offered to the contestant. It is irrelevant what the prize is, how little its value, or if the prize is in the form of a refund or price discount. Usually no difficulty is encountered in determining whether the element of prize is present. If there is no prize, there can be no lottery. Prize is the first clue to a lottery. However, the elements of chance and consideration often are not as readily detected.

Chance

The element of chance exists if the winner or the value of the prize is determined in whole or in part by chance. The element of chance is present in contests or promotions in which the prize is awarded to a person whose selection depends in whole or in part upon chance rather than the contestant’s skill or other factors within the contestant’s control. Generally, if the winner of a contest is determined solely on the basis of the contestant’s skill or other factors within the contestant’s control, or the entrant is allowed to research the answer to a question, the element of chance will not be present.

For example, chance exists in promotions in which the winner is determined by drawing or wheel spinning; by being the fifth person to call the station; or by being at a given (and not previously disclosed) spot in a business establishment when a bell rings. Similarly, future predictions and any types of guessing contests involve chance.

Some promotions—which at first glance appear to be based on skill—have been determined by the FCC to be based on chance. A small segment of the population may have expertise in predicting the final scores of sporting contests, such as the Super Bowl, or guessing the number of votes a candidate will receive, but for the general public the element of chance is paramount. Most baby contests and beauty pageants have been held to involve the element of skill. However, it is important that the criteria upon which the judges base their decision be carefully delineated and that objective or subjective criteria determine the winner, not chance.

Finally, chance may be present in a contest that initially involved skill. This may occur when a contest operator fails to adopt, announce or follow the appropriate standards for judging the entries or selecting the winner so that chance actually determines the outcome of a promotion. For example, if a “best slogan” contest is advertised, but the winner is actually selected by a drawing, the element of chance is present.

Value Of Prize Determined By Chance

Even if the winner is not determined by chance, the element of chance will be present in promotions in which the amount of the prize is determined by chance. For example, everyone who purchases a certain product at a local supermarket is entitled to select a prize from a grab bag of prizes ranging in value from a few cents to several dollars. Since everyone is a winner, the winner is not determined by lot or chance, but the value of the prize is determined by chance. Thus, the promotion is a lottery. *Public Clearinghouse v. Coyne*, 194 U.S. 497, 24 S. Ct. 789, 48 L.Ed 1092 (1904).

There is no FCC ruling which authoritatively states that offering prizes of similar cash value (such as a grab bag containing spatulas, potato peelers and can openers) is sufficient to eliminate the element of chance, or if it is necessary for all participants to be offered identical prizes (red coffee mugs). This is a gray area of the lottery law and it would be wise for a broadcaster to contact his or her attorney.

Tie-Breaking Procedures. A promotional plan that initially involves a participant’s skill may succumb to the element of chance if tie-breaking procedures are done on a random basis. For example, if six contestants tie in a “best slogan” contest that was based on writing skill, but a name is drawn out of a hat to break the tie, the element of chance would arise. Thus, the tie-breaking procedure should involve a further test of skill if the

element of chance is to be avoided. The reverse of this example also would be a lottery. Thus, if there were first a drawing and the selected contestant were required to answer a history question based on skill before receiving a prize, the contest would still be a lottery.

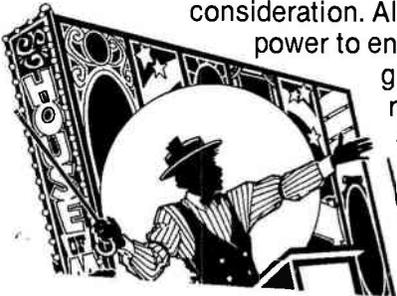
Consideration

Of the three elements necessary for a lottery, the element of consideration presents the greatest difficulties. Basically, consideration is an item of value—money, substantial time or energy—that a contestant must expend in order to participate in a promotional plan. The Commission has stated that consideration is present in any contest or promotion which requires a contestant to (1) “furnish any money or thing of value;” (2) “have in [his or her] possession any product sold, manufactured, furnished or distributed by a sponsor of a program broadcast” by a station (47 C.F.R. §73.1211 (b) (1988)); or (3) meet any other requirement which involves a substantial expenditure of time and effort by the contestant.

Payment Necessary To Participate

Substitution of “Reasonable Facsimile” for Proof of Purchase. Determining whether or not money is paid to enter a promotion usually presents no problem. However, it is very important to note that in a contest or promotion in which a contestant must make a purchase in order to participate, the purchase price constitutes a payment of money and is, therefore, consideration. The United States Supreme Court has ruled that the fact that a purchaser receives the full value for money paid in making a purchase in order to participate in a contest does not eliminate the presence of consideration. *Horner v. United States*, 147 U.S. 449, 13 S. Ct. 409, 37 L.Ed. 237 (1893). The Court held that the purchase price was consideration on the theory that part of the price was allocated to the item purchased and part to the chance to participate. *Id.* at 463.

The guideline that possession of a particular product constitutes consideration should be qualified to the extent that if the product is furnished to the contestant at no cost by the sponsor as part of the promotion, possession of the product will not constitute consideration. Also, the U.S. Postal Service, which also has the power to enforce certain federal lottery laws, has noted a general exception to this rule in contests which require evidence of purchase with each entry (e.g., submission of box top or label). If a participant may also enter by submitting a plain piece of paper on which is written the name of the product or some other specified term, or if the entrant may submit a



reasonable facsimile of the box top, label, entry blank, etc., consideration may not be present. Facsimiles must be simple to make on the basis of information supplied in advertisements for the contest. A complete description of the rules of entry should also be included in the contest advertisements.



Purchasers And Non-Purchasers On Equal Ground

Entry slips may be distributed with purchases if the contest also provides a means for obtaining a "free entry" to participate without a purchase. The FCC has emphasized that the non-purchaser must not be disadvantaged in any way, and that free entry must be available on an equal basis to that enjoyed by contestants who make a purchase. If an applicant must purchase a specific product, free entry slips must be obtainable at most or all customary outlets where the product is sold. Also, a sufficient quantity of "free chances" must be available to ensure that everyone who acts will be able to obtain them.

Placing entry slips that are freely available to non-purchasers in front of the counter places buyers and non-buyers on equal ground. Certain complexities may arise by placing entry blanks behind the counter. *Tuscola Broadcasting Co.*, 76 F.C.C. 2d 367, 46 R.R. 2d 1616 (1980).

Expending Time And Effort As Consideration

Careful scrutiny is necessary in order to determine whether a contestant must furnish "substantial time and effort" or provide a "thing of value," as either would constitute consideration. For example, the cost of a postage stamp for submitting an entry blank does not constitute consideration (of course, the price of the stamp is paid to the post office—not the promoter), but the requirement of taking a test drive in an automobile while accompanied by a salesman, to qualify as a contestant in a car dealer's contest, has been determined to be consideration.

Broadcasters can rely on several definite rulings in determining whether consideration is present. First, the U.S. Supreme Court has ruled that simply listening to or viewing a program does not constitute consideration. *FCC v. American Broadcasting Co.*, 347 U.S. 284, 74 S.Ct. 593, 98 L.Ed. 699 (1954). Second, the U.S. Court of Appeals (D.C. Circuit) has ruled that the mere act of going to a store solely for the purpose of picking up a card in order to participate in a promotion does not constitute consideration. On the other hand, having to visit multiple stores in a mall has been viewed as consideration. *Caples Co. v. United States*, 243 F.2d 232 (D.C. Cir. 1957). The U.S. Postal Service, which has powers similar to the FCC to define certain lottery matters, has stated that if a participant is required to visit the store to obtain an entry blank and also to be present for a subsequent,

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- * scheduled drawing, consideration would not be present. However, in the latter situation, the time of the drawing must be pre-announced and the drawing held on time. If the drawing were delayed or held at an unannounced time, thus requiring the continuous presence of the contestant, a substantial expenditure of time and effort would have occurred and consideration would be present. In addition, if contestants have to travel a considerable distance to enter, or if the only store distributing entry blanks is not centrally located, consideration might be present.

Eligibility Requirements

Certain eligibility requirements, by their very nature, constitute consideration. Also, attractive promotions that encourage people to expend energy or money in order to qualify as a contestant contain the element of consideration. The FCC has stated that requiring a contestant to open a savings account or enlarge an existing account in order to be eligible to participate in a promotion, is consideration, since the deposit of money into a savings institution for an indeterminate period of time is an item of sufficient value. *In re Lottery Broadcasts Involving Savings Accounts*, 65 F.C.C. 2d 870, 39 R.R. 2d 1285 (1977).

Other eligibility requirements such as possession of a driver's license, residing in a particular area, or calling from a telephone which has a certain exchange do not present problems of consideration. Since it is unlikely that most promotions would actually encourage people to spend time and money moving to a different locale or requesting a new telephone number, the element of consideration is absent.

Consideration Must Flow to the Promoter: XL-95 Golf Classic Ruling

In December, 1973, the Commission released a very significant ruling concerning the definition of consideration. *Greater Indianapolis Broadcasting Co., (WXLW)*, 44 F.C.C. 2d 37, 28 R.R.2d 1434 (1973). The ruling involved a station promotion called the "XL-95 Golf Classic," whereby a person entered by visiting a participating merchant's place of business and obtaining an "XL-95" scorecard. Thereafter, the participant played 18 holes of golf and mailed his or her scorecard to the station. Although participants had to pay a greens fee or country club membership in order to play golf, they furnished no consideration to the station promoting the contest. Winners were determined solely on the basis of a random drawing from the score cards submitted to the station and scores were immaterial to the participants' eligibility for winning. The Commission ruled that while the elements of prize and chance were present, the element of consideration was lacking. Its conclusion was based "upon the absence of any indication that consideration, substantial enough to

support a finding that there was a lottery, flowed directly or indirectly from the participants to the promoter." Id. at 38. Additionally, the Commission explicitly reversed any previous contrary rulings.

As a result of this ruling, some contests and promotions which have been considered lotteries in the past are no longer considered lotteries. For example, an automobile dealer, as part of a display at a county fair, conducts a drawing and awards the winner a new car. To enter, a person must visit the dealer's display at the fair and fill out an entry blank. Everyone must purchase an admission ticket to enter the fair, but the automobile dealer will receive none of the revenues from the sale of admission tickets. This contest will not be considered a lottery because even though participants may pay to enter the fair, the consideration does not flow directly or indirectly to the promoter of the contest (the automobile dealer). (If this were only an occasional contest put on by the car dealer, it would not be a prohibited lottery under federal law under any circumstances.)

A licensee should carefully study each promotion before concluding that the XL-95 ruling applies. First, identify the sponsor of the promotion. A sponsor is a person, group or business responsible for the promotion or one that provides financial backing, goods or services for the event. For example, one who would be legally responsible for injuries or debts incurred as a result of the promotion is a sponsor. Examples of goods and services include: free use of grounds or facilities; free supplies, prizes or manpower; or free organizational support. If anything of value is donated to the promotion, the donor might be considered a sponsor. If a sponsor keeps proceeds of the promotion, the promotion is deemed a lottery. Even if only one co-sponsor receives a share of the profits, the element of consideration is present.

For example, if the Elks Club sponsors a "Monte Carlo Night" to raise funds for the local chapter of the Red Cross, the event cannot be held at the Red Cross site without that agency being deemed a co-sponsor of a lottery. In fact, participation by the Red Cross would have to be virtually non-existent. Red Cross personnel should not even sell tickets, distribute posters or other promotional information, or even provide word-of-mouth advertising. See NAB Counsel Memo L-8803. Therefore, although the Red Cross is a non-profit organization, if it is a sponsor or co-sponsor of the Monte Carlo Night and receives some of the proceeds a licensee might be prohibited under possible state law restrictions from broadcasting information of the event. (For federal law purposes, broadcasting this information would be acceptable under the new Charity Games Act.)

As another example, suppose Bob's House of Melodies offers one year of free music lessons as a prize. To enter, a contestant writes his or her name

*legal difference between
proceeds & profits?*

and address on the back of any ticket stub to an event in the Renaissance Music Festival and drops the entry stub into a barrel in the lobby of the music theatre. Bob collects the barrels after each performance and will hold a drawing for the music lessons in his House of Melodies as soon as the festival ends. Bob has co-sponsored several of the music festival events. Since Bob is entitled to a portion of the ticket sale profits, a contest in which ticket stubs serve as entry blanks contains the element of consideration. For state law purposes, if there is doubt whether the XL-95 ruling applies to a particular fact situation, a broadcaster should seek advice of counsel.

Summary Of Guidelines On Defining A Lottery

From the above comments, it is apparent that determining what is or is not a lottery can be difficult. However, if a particular promotion is carefully analyzed step by step, most lottery problems can be readily resolved. In analyzing a particular scheme, set out all the details of the plan and then determine:

1. Is there a prize? Is anything of value being offered to the contestant? If the answers are yes, then go on to question #2.
2. (a) Is the winner selected on the basis of chance rather than on the basis of the participant's skill or other factors within his or her control? (b) Is the amount of the prize determined by chance? Does the contestant have a chance of winning any one of a number of prizes of differing values? If the answer to (a) or (b) is yes, proceed to question #3.
3. Must the contestant expend money or a substantial amount of time or effort in order to qualify for the contest? Do the requirements for participation constitute consideration? Does consideration flow to the sponsor of the promotion?

If it is determined that all three elements—prize, chance and consideration are present in a promotional plan, then under no circumstances should the plan be given broadcast time if the airing of lottery ads or information is forbidden under state law and/or not exempt from the scope of the federal lottery laws.

Federal Lottery Laws

Charity Games Advertising Act Provisions

Under the Charity Games Advertising Act, effective May 7, 1990, the broadcast of lottery information *generally* is not a criminal offense. Provided there are no state restrictions, broadcasters may air information about virtually any non-casino contest or game, regardless of whether the elements of the contest or game comprise a lottery.

For example, broadcasters are able to advertise contests and drawings as well as religious bingo games and lotteries sponsored by charitable organizations and civic groups defined in Section 501 of the United States Tax Code.

Broadcasters are allowed to advertise (again, subject to state restrictions) lotteries conducted by businesses or other commercial organizations where the lottery is a "promotional activity" and is "clearly occasional and ancillary to the primary business" of the organization conducting the lottery. A local retailer, for example, who occasionally runs a lottery-type contest to attract customers would be eligible to advertise on radio or TV, and stations occasionally may run their own promotions which contain all three elements of a lottery. Co-promotions with local and area businesses also are allowed, even if the contests prove to be lotteries.

Broadcasters also are able to advertise lotteries conducted by businesses and non-profit organizations in other states, provided there are no state restrictions on such advertising in the state in which the station's city of license is located.

Casino Gambling. Both the U.S. criminal code and FCC regulations *still prohibit the broadcast of information pertaining to casino gambling.* These restrictions apply regardless of the state where a station is located.

In essence, the Charity Games Act provides "exceptions" to Title 18 of the Federal Criminal Code.

The Charity Games Act modified the federal criminal code to set forth several exceptions from the scope of the law. That is, where a broadcaster airs material found in one of the exceptions, such a broadcast would be immune from federal (but not necessarily state) prosecution.

As revised, the general prohibition reads as follows:

"Whoever broadcasts by means of any radio/television station for which a license is required by any law of the United States or whoever, operating any such station, knowingly permits the broadcast of, any advertisement of or information concerning any lottery, gift enterprise, or similar scheme, offering prizes dependent in whole or in part upon lot or chance, or any list of the prizes drawn or awarded by means of any such lottery, gifts enterprise, or scheme, whether said list contains any part or all of such prizes, shall be fined no more than \$1,000 or imprisoned not more than one year, or both. Each day's broadcasting shall constitute a separate offense."

18 U.S.C. §1304 (1976).

The broadcast related exceptions include:

- an advertisement, list of prizes, or other information concerning a lottery conducted by a State acting under the authority of State law which is broadcast by a radio or television station licensed to a location in that State or a State which conducts such a lottery; or
- an advertisement, list of prizes, or other information concerning a lottery, gift enterprise, or similar scheme, other than one described in

paragraph (1), that is authorized or not otherwise prohibited by the State in which it is conducted and which is—

- conducted by a not-for-profit organization or a governmental organization; or
- conducted as a promotional activity by a commercial organization and is clearly occasional and ancillary to the primary business of that organization.

The Charity Games Act went on to define “not-for-profit organization” as “any organization that would qualify as tax exempt under section 501 of the Internal Revenue Code of 1986.” 18 U.S.C. § 1307 (d).

The term “State” is defined as “a State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.”

Obviously, if a station were to air lottery information for a scheme which did not fit into one of these exceptions (e.g., an ad for a lottery of a foreign country or a spot for casino gambling), then the full force of the federal criminal code prohibition would apply—with possible grave consequences for the broadcast station.

In the opinion of the FCC staff, the criminal code’s prohibition against casino gambling covers any video depiction of, or audio reference to, gambling activities that take place in casinos or hotels with casinos, even though the casinos may be legal under state law.

The FCC staff’s interpretation, similarly, would apply to broadcast commercials for airlines, travel agents, governmental tourism bureaus, etc., depicting casino gambling activities at a particular casino or referencing such activities, no matter how brief or fleeting the depiction or reference.

Advertising of hotels with casinos may focus upon non-gambling activities and facilities available at the hotel. These could include, for example, restaurants, floor shows, lounges, shops, sports facilities, types of room accommodations, etc.

If the word “casino” is part of the actual name of the hotel, it may be included in broadcast advertising when the full name of the hotel is stated or shown, for example, “Rex Hotel & Casino.”

The Indian Gaming Regulatory Act

In this separate Congressional Act, the U.S. Code was amended to allow broadcasters (in most situations) to advertise Indian “bingo” and certain other games conducted on Indian lands.

This legislation clears the way for broadcast advertising of the multi-million dollar Indian gaming industry. It also defines three classifications of Indian gaming, and authorizes the establishment of a National Indian Gaming

Commission ("Indian Commission") with regulatory authority over Indian bingo and certain other games.

Of the three classifications of Indian gaming defined in the Act, Class I (tribal ceremonies or celebration-type of Indian gaming) is inconsequential with respect to broadcast advertisements. Class II—the real meat and potatoes category—includes bingo and card games conforming to the Act. Not only is immediate (unless prohibited under state law) in-state broadcast advertising of these games generally allowed, but cross-border broadcasts (e.g., advertisements of Indian bingo conducted in one state carried by stations in another) also now are allowed. Class III Indian gaming (e.g., casinos, slot machines) requires Department of the Interior approval of a "compact" between a tribe and the state.

Class II Indian gaming includes bingo ("whether or not electronic, computer, or other technologic aids are used in connection therewith"), pull-tabs, lotto, punch boards, tip jars, instant bingo, and other games similar to bingo, if they are offered in the same location where bingo is played.

Card games are also part of Class II gaming, and are allowed if there is an explicit state authorization given by the state where the activity is to be conducted, or if no express state prohibition in the relevant state exists.

While Class II Indian gaming specifically excludes any "banking" card games, including baccarat, chemin de fer, and blackjack (21), such card games currently played in Michigan, North Dakota, South Dakota, and Washington are "grandfathered" in terms of operation and advertising. To gain such grandfather status, they must have actually been operated in those states by an Indian tribe on or before May 1, 1988, and must still be operated in the same nature and scope as they were on that date. Valid card games must conform to state laws and regulations governing hours or period of operation and limitations on wagers or pot sizes.

Five states have criminal prohibitions against any gaming: Mississippi, Utah, Arkansas, Hawaii and Indiana. The 45 remaining states permit some forms of bingo, and tribes with Indian lands in those states are free to operate bingo on Indian lands, leaving broadcasters free to immediately advertise valid Class II activity in and outside the state where the activity actually takes place.

If the Indian tribe itself runs an ongoing bingo or similar game, it is valid Class II activity and generally can be advertised now. However, one exception involves situations where third-party contractors set up and run the gaming activity for the tribe. Where there are legal third-party contracts associated with ongoing Indian gaming and the contracts were approved by the Secretary of the Interior, the games now can be advertised. But games operated under third-party contracts would be "technically flawed" if they have not been approved by the Secretary. These games may not be

advertised or mentioned until the Secretary approves the contract or the new Indian Commission gives approval to such third-party games. The Indian Commission has not yet been established. The Secretary of the Interior is vested with interim authority to regulate Class II Indian gaming until the Commission is created. As of this writing the Secretary had not ruled on any third-party games.

All advertising-related contracts in excess of \$25,000 annually, and pertaining to Indian gaming, may be subject to an independent audit by the Indian Commission.

Class III Indian gaming, which includes all forms of non-Class I or non-Class II Indian gaming, e.g., casino gambling, craps, roulette, and slot machines, may be subject to tribal and state regulation. It will only be lawful if the Secretary approves a tribe-state compact. At press time, the Secretary of the Interior had been presented with several tribe-state compacts, one of which proposes casino gambling on the Fort Mojave Indian Reservation in Nevada. According to Department of the Interior staffers, once that casino gambling activity were to be approved and begin operation, broadcasters would be eligible, under federal law, to air that form of casino gambling. Such an interpretation would give an advantage to Indian casino gambling in that non-Indian casino gambling still would be barred from broadcast advertising under the provisions of the Charity Games Act. Broadcasters should check with their own attorneys and/or the NAB Legal Department regarding such Indian casino gambling before airing any spots for this form of gambling activity.

Moreover, NAB strongly advises broadcasters to check the status of each Class II or Class III operation prior to broadcasting any advertising pertaining to particular Indian games. Special-rule checks should be conducted on Rhode Island, Maine, North and South Dakota, Washington and Florida due to specific provisions in the Act. Broadcasters making such inquiries can contact the Office of the Solicitor, Department of the Interior at (202) 343-9331.

FCC Rules

At press time, in order to conform with the Charity Games Act, the FCC was in the process of modifying its own lottery rules to conform precisely with the terms of the federal law (in the same way that the earlier FCC rules precisely tracked the federal statutory prohibition).

Where a station airs lottery information in violation of these FCC rules, the station would be subject to the agency's enforcement and "fine and forfeiture" power. These penalties can include fines of up to \$25,000 per occurrence, up to a \$250,000 limit. *See Regulatory Agency Fees*, Pub. L. No. 101-239, 103 Stat 2124, 2132 (1989). Also, the Commission theoretically can deny a broadcast license renewal application or revoke a license where

lottery violations are found. However, an FCC fine is the likely form of any FCC penalty.

State v. Federal Law

Many states not only have their own lottery laws but also have trade regulation laws which may restrict or prohibit "contests" that technically may not be "lotteries." And, as discussed earlier, state lottery laws tend to vary widely from jurisdiction to jurisdiction. Moreover, it is essential to remember that the revised federal lottery laws specifically *do not* preempt state law. As such, it likely will be state law, rather than federal law, that may stand in the way of a broadcaster airing a particular ad for a "lottery" contest, event or promotion.

Other Lottery Restrictions

United States Postal Service and the Federal Trade Commission. Both the United States Postal Service and the Federal Trade Commission have a certain degree of jurisdiction over the dissemination of lottery information and a broadcaster may occasionally run afoul of these restrictions.

United States Postal Service Jurisdiction

Consistent with the terms of the Charity Games Act and the Indian Gaming Act, federal statutes empower the United States Postal Service to restrict the use of the mails for certain non-exempt lotteries. These statutes largely parallel the federal lottery laws applicable to broadcasting. For a station, these statutes only would come into play if the station were using the mail to distribute non-exempt lottery information.

Although the practice was discontinued in the 1980s, for years the Postal Service offered its own interpretation of the former federal lottery laws as they applied to the use of the mails. In the text of this booklet there are references to these earlier Postal Service rulings. Because the Postal Service statutes (like the broadcast-related federal statutes) have been revised to exempt many lotteries on the basis of the organization conducting the lottery, these earlier rulings largely will be helpful in determining whether a particular contest might be a "lottery" prohibited under a state law restricting or prohibiting lotteries.

Federal Trade Commission Jurisdiction

The Federal Trade Commission is another agency that could take action against a broadcaster in lottery matters. The FTC can proceed against merchandising in interstate commerce by means of a lottery on the theory that it is an "unfair and deceptive" method of competition. Action would normally be in the form of a "cease and desist" order. The order, though, would be directed only to the lottery sponsor unless the broadcaster were the promoter or operating obviously, hand in glove with the sponsor.

The FTC has issued specific regulations pertaining to games of chance by food and gasoline retailers. These rules, in Title 16 of the Code of Federal Regulations, Section 419 et seq., make it unlawful for "users, promoters, or manufacturers" of games of chance used in the food retailing or gasoline industries to engage in broadcast or newspaper advertising pertaining to prizes unless such advertisements disclose the exact number of prizes in each category, the odds of winning any prize worth over \$25 and other relevant contest information. However, in August 1982 NAB and others filed a letter with the FTC's Consumer Protection Bureau requesting that the FTC temporarily suspend enforcement of the regulations pending the outcome of a rulemaking proceeding that was to amend these rules.

NAB asserted that the disclosure requirements of these regulations, in effect, banned broadcast advertising of games of chance promotions of food and gasoline retailers, as full disclosure of the required information was not feasible in a spot radio or television advertisement.

The FTC granted a temporary partial exemption from the regulations for broadcast advertising, effective January 1983. See *FTC Notice of Temporary Exemption and Advance Notice of Proposed Rulemaking*, 48 Fed. Reg. 265, (January 4, 1983). A proposed amendment to the FTC's rules to make the exemption permanent was pending as of publication date.

Summary: The Law And Its Enforcement

To summarize this section, the broadcasting of most lottery information or advertisements generally will no longer be prohibited under federal law. The new federal law, however, does not preempt current or future state restrictions on lotteries. Moreover, the airing of information concerning casino gambling is still a criminal offense, subject to prosecution by the Justice Department under the United States Code and punishable by fine or imprisonment. FCC penalties range from fines to revocation of license. These are the primary sources of regulation and channels of enforcement concerning the broadcasting industry and lotteries. However, the FTC, in extreme cases, might in the future exert jurisdiction over broadcasters in lottery matters.

Lottery Exceptions And Anomalies

State-Operated Lotteries

On January 2, 1975, Congress exempted lotteries "conducted by a state acting under authority of state law" from the coverage of Section 1304 of Title 18, thereby permitting licensees to broadcast advertisements, lists of prizes and other information concerning a state-conducted lottery. Such broadcasts were permissible only if two conditions were met:

- the licensee was located in a state³ which conducted such a lottery; and
- the lottery information concerned the lottery in the licensee's home state or in an "adjacent state" which conducted such a lottery.

For the purposes of this section, "state" means a state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States. "Lottery," under this section means the pooling of proceeds derived from the sale of tickets or chances, and allotting those proceeds, in whole or in part, by chance, to one or more chance takers or ticket purchasers. "Lottery" does not include the placing of bets or wagers on sporting events or contests.

With the new lottery laws, Congress has removed the "adjacent state" provision. Licensees located in a state which conducts a lottery will be able to advertise that lottery or the state-operated lottery of any other state, regardless of the latter's geographic location.

Recently, however, a federal district court in Virginia concluded that a broadcast station licensed in the non state-operated lottery state of North Carolina, but located near the border of Virginia, could advertise the Virginia state lottery. *See Edge Broadcasting Co. v. U.S.*, No. 88-693-N (E.D. Va. 1990). Though limited to the particular facts of the Edge case, the decision could signal a new and different standard that may be emerging for border stations licensed to locations in non state-operated lottery states but wishing to advertise an adjacent state's lottery.

Sporting Events

Fishing Contests. Certain fishing contests have been specifically exempted from the federal prohibitions against broadcasting lotteries. 18 U.S.C. §1305 (1984). However, this exemption only applies where "the fishing contest is a self-liquidating type of undertaking, whose receipts are fully consumed in defraying the actual costs of operation, and are not intended or used for any other collateral purpose such as establishment of a fund for civic, philanthropic or charitable objects, no matter how benevolent or worthy."⁴ Any fishing contest conducted for the profit or personal gain of any individual or organization is not exempt from the federal laws prohibiting the broadcast of lottery information. However, if occasional and ancillary to the sponsoring organizations' primary business, a fishing contest might well be exempt under the revised federal law.

Horse Racing, Dog Racing and Jai Alai. The bettor's handicapping skill and knowledge in placing a wager have been construed as eliminating the element of chance in horse racing, dog racing, and jai alai. Therefore, such competitions may be broadcast and legally advertised without running afoul of the lottery laws. However, prior to September 24, 1984, the broadcasting of horse races, horse race betting advertisements and other horse race information were strictly regulated by the FCC.⁵ The primary concern of the Commission was that these broadcasts might directly aid or encourage illegal gambling activities (*In re Broadcasting of Information Concerning Horse Races*, 41 F.C.C. 2d 172, 26 R.R. 2d 1731 (1973)).

In a Report and Order effective September 24, 1984,⁶ the Commission eliminated all FCC regulations directed at horse race related broadcasts and betting advertisements. The Commission cited the infringement such regulations imposed upon broadcaster's editorial discretion as one reason for their elimination. The other compelling reason was the Department of Justice's opinion that federal statutes proscribing illegal gambling activities⁷ were sufficient to regulate such broadcast-related activity. Therefore, the Commission will now look to the Department of Justice to enforce these statutes which provide authority to prosecute any person who uses broadcasting to conduct or assist in the conduct of an illegal gambling operation.

Broadcasts involving other sports that have been the focus of gambling activity, such as dog racing and jai alai, are also free from FCC regulation. However, as with horse racing broadcasts, they will be closely scrutinized by the Department of Justice for violations of the above mentioned federal statutes after elimination of FCC regulations.

Lotteries As Editorial And News Topics

With the passage of the Charity Games Act and Indian Gaming Act, most lottery information is exempt from the scope of the federal prohibition. In those limited situations where a lottery may not be exempt, it would still be likely that a station could carry information about such a non-exempt lottery if such information were of a non-commercial (i.e., news or editorial comment) nature. A federal court has stated:

"There is a difference between information directly promoting a lottery and information that is simply 'news' of a lottery...We are aware that at times the line drawn may be thin..." *New York State Broadcasters Association v. United States*, 414 F.2d 990, 998 (2d Cir. 1969).

During the era where the Federal Communications Commission enforced the formerly stringent federal lottery laws, it recognized the merit of allowing full discussion of the policy issues concerning lotteries and the "human interest" elements of a news story about, for example, a thrilled winner of a lottery. Thus, and while it is important on this matter for a broadcaster to consult an attorney familiar with state lottery laws, it is likely that a broadcast station's airing of news or editorial comment about a lottery would not subject the station to prosecution under state law. Again, consulting an attorney on the scope of any state prohibition is essential prior to airing such an item.

Sample Lotteries And Legal Analyses

The following pages contain a sampling of typical “give-away” plans and various lottery schemes that raise recurring questions. Although most of these promotions are now legal under the revised federal laws, the samples may serve as a useful guide to those broadcasters who must adhere to tighter state restrictions. Some of the opinions expressed, as to the legality of broadcasting the cited material, represent past FCC or court decisions. Where no citations are given, the opinions represent “educated guesses” by the NAB Legal Department as to how the FCC or courts would have reacted in considering the same material. In presenting these samples, NAB reminds broadcasters to check the laws of their individual states before airing information about a particular promotion. State law may vary somewhat from the opinions presented in this section. It is also important to emphasize that there is no substitute for the advice of an attorney in specific cases. Whenever any doubts exist as to whether the broadcasting of given material would violate state lottery laws, the advice of an attorney should be obtained.

Lotteries Sponsored by Commercial Organizations

Example #1: Commercial establishment holds regular bingo games.

A local dance hall advertises bingo games every Wednesday and Thursday night. An admission fee is charged and winners are awarded prizes at the end of the night. On Saturday and Sunday nights, the hall restricts its activities to dancing.

Bingo games are considered lotteries because they contain the elements of prize, chance and consideration. Although the federal rules for broadcasting information about lotteries have been relaxed, it is the opinion of the NAB legal staff that the dance hall’s bingo activities could not be advertised over the air. The new federal law exempts from its lottery prohibitions, advertisements by commercial establishments of promotions that are clearly “occasional and ancillary” to the primary business of the establishment. The FCC has indicated that an event is not “occasional” if it is held on a daily basis or at regular intervals (weekly or monthly) so close together that the event appears to be part of one ongoing promotion or a series of promotions. In this example, the promotion is an ongoing (weekly) and major part of the dance hall’s business and neither occasional nor ancillary.

Example #2: Radio station holds lottery drawing at local dance hall.

A radio station announces it will hold a dance at a local hall at which there is a cover charge. The radio station receives part of the proceeds from the cover charge. Attendees will be allowed to participate in a drawing for a trip to the Caribbean that will be awarded to the holder of a winning ticket stub.

All three elements of a lottery are present here. A prize is to be awarded, the drawing represents chance, and the cover charge proceeds represent

consideration. Since this promotion is not a regular, ongoing activity, or a primary part of the radio station's business, however, it would fall under the Charity Games Act's "exceptions" to the criminal code as a promotion that is "occasional and ancillary" to a commercial organization's primary business. The activity, therefore, would not be prohibited under federal law. The station would, nonetheless, have to check state lottery laws before participating in or airing information about the promotion.

The Give-Away

Example #3: Contestant selected by mailing in an entry card.

Cards are distributed free by local merchants (no obligation to purchase). A person fills in his or her name and address and mails the card to a broadcasting station. A drawing is made, and the station announcer broadcasts the name of the person whose card is drawn. If the person calls the station, he or she wins a prize.

This is not a lottery because the element of consideration is missing. The time spent listening for one's name to be called is not consideration. Also, the cost of the postage stamp to submit an entry card "flows" to the United States Postal Service, not to the promoter of the contest. Therefore, purchasing a postage stamp is not consideration except in those few states that do not adhere to the "flow of consideration" analysis.

Purchasing Requirements

Example #4: No purchase necessary to enter; must be present to win.

A local supermarket holds a contest which anyone may enter by going to the store and filling out an entry blank. No purchase is required. The store announces in the contest rules and in all spots advertising the contest that a drawing will be held on the following Friday at 3 P.M. Participants must be present at the drawing in order to win.

This contest is not a lottery. Visiting the store once to enter and then again to be present at a drawing is not considered a substantial expenditure of time and effort and, therefore, is not consideration. However, it is essential that the time of the drawing be pre-announced and it be held on time. If, in the above example, the drawing were not held until 4 P.M., thus requiring participants to remain in the store for a considerable length of time, the contest would be a lottery. While there is no rule of thumb here, it is the opinion of the NAB Legal Department that consideration would be present if the drawing were delayed more than a few minutes. Similarly, if the time of the drawing were not announced, thus requiring participants to make frequent and/or lengthy visits to the store, the contest would be a lottery. Licensees should remember that where state and/or federal restrictions apply they bear the ultimate responsibility, and should take necessary steps to determine whether or not particular contests are operated as lotteries.

Example #5: Box tops, wrappers or reasonable facsimiles.

A sponsor plans to award a prize to a person to be selected through a drawing. In order to participate, all one need do is write one's name and address on a box top or wrapper from the sponsor's product. "Reasonable facsimiles" may be substituted for the box top or wrapper.

Promotion plans which require box tops or wrappers from the sponsor's product in order to participate contain the element of consideration, since a purchase is generally necessary in order to obtain a box top or wrapper. However, if participation requirements permit entries from persons who send in "reasonable facsimiles" of box tops or wrappers, then the element of consideration may be eliminated. Neither the FCC nor the judiciary has had occasion to rule on the "reasonable facsimile" of box tops or wrappers, thus there is no authoritative answer for broadcasters in this matter.

The Postal Service, however, has ruled on facsimile questions and is of the opinion that if the sponsors of a "box top" promotion treat "reasonable facsimiles" the same as actual box tops, then the element of consideration is removed. However, what is acceptable as a "reasonable facsimile" is most important. If all that is required, is printing in block letters, the name of the product involved, then there is no consideration. If art work is needed, or purchase of the actual product is a practical necessity in order to make a facsimile, then the Postal Service would be of the opinion that consideration is present.

Example #6: Rules or entry blanks appearing in newspapers or magazines.

A broadcaster airs a promotion for a newspaper advertiser which states: "Next week marks the beginning of seven weekly drawings for a one year's subscription to the Sunday Globe. Look in your Sunday Globe for details."

Promotions sponsored by the publisher of a newspaper or magazine which encourage a contestant to purchase the sponsor's newspaper or magazine in order to obtain an entry blank contain the element of consideration and are lotteries which would be subject to any state restrictions. Under the revised federal law, the airing of such promotions would be okay as long as they were occasional and ancillary to the publisher's primary business.

ok if occasional

Example #7: Random drawing for purchases.

A retail dealer wishes to advertise that at the end of the year a name will be drawn from among those who have purchased merchandise from her during the year and that a prize will be awarded.

This appears to be a lottery. The elements of prize and chance are apparent. Consideration also is present since an article must have been purchased in order to win. Hence, the NAB Legal Department feels that a

court would have little difficulty in finding that this constitutes a lottery. The Commission had held, under the old law, that the advertising of similar plans was illegal. *In re WRBL Inc.* 2 F.C.C. 687 (1936); *Metropolitan Broadcasting Corp. (WMBQ)*, 5 F.C.C. 501 (1938). The advertising of such plans over the air would likewise be illegal under the new law. According to an informal FCC opinion, a **single promotion that is ongoing throughout the year is not occasional.**

Example #8: Purchasers and nonpurchasers on equal footing.

Grocer A desires to attract new customers and wishes to advertise that a prize will be awarded to a lucky number holder selected in a drawing. In order to participate, all one need do is go to the sponsor's store for an entry blank and drop it in the hopper. However, Grocer A also gives entry blanks or registration tickets with all purchases.

According to the FCC, this contest would not be a lottery if **non-purchasing and purchasing contestants are accorded an approximately equal opportunity to obtain chances to win.** Furthermore, announcements promoting the contest should adequately describe the availability of such free chances and the locations, times and manner in which they may be obtained. In situations where state restrictions may apply, it is the broadcaster's duty to be reasonably certain, that, in fact, a purchase is not required in order to enter.

Example #9: Free admission during an event's final hour.

A station airs a promotion for a Halloween party to be held at a local nightclub. Those attending the party would be required to pay a cover charge during all but the final hour of the event when anyone could enter for free. People attending the party are eligible to win a vacation in a drawing to be held at midnight. The station will receive a portion of the proceeds from the cover charge.

Prize and chance are obvious in this promotion. The question is whether offering free admission during the last hour of the party eliminates consideration. According to the FCC staff, **free admission during the last**

hour of the event would not eliminate the element of consideration unless free admission during the last hour of the party was announced while promoting the party, and those arriving

during the last hour had an equal opportunity to participate in the drawing. This "reasonably equal availability" concept would require that those arriving during the final hour have equal access to entry blanks for the drawing and sufficient time before the drawing to deposit their entries before the winner is selected.



(Of course, under federal law, the promotion would be acceptable for broadcast whether or not consideration was present if the event was occasional and ancillary to the sponsor's primary business.)



Example #10: Discount or refund received prior to purchase. A record store wishes to advertise a promotion in which numerous balloons containing various discount amounts will be displayed throughout the store. Persons visiting the store will be entitled to break a balloon and receive the amount of the enclosed discount on a subsequent purchase.

This is not a lottery because while prize and chance are present, no consideration is involved. The mere fact that a prize is received in the form of a discount does not commit that person to make a purchase. Of course, if the person were allowed to break the balloon only after making a purchase or agreeing to make a purchase, the promotion would obviously be a lottery.

Example #11: Discount or refund received after purchase.

A ballpark wishes to advertise that every tenth ticket purchaser will receive a free baseball bat.

This is a lottery. The elements of prize and consideration are apparent. Winners are determined by the "chance" of being the tenth in sequence. It is highly unlikely that a ballpark would go through the trouble of requiring the ticket seller to call the numbered sequence of purchases. Thus, the customer's ability to win a bat is controlled predominantly by chance.

Example #12: Prize to the first twenty purchasers.

A greeting card shop announces that the first twenty card purchasers will receive a ball point pen as a prize.

This type of promotion can be risky. An informal FCC staff opinion indicates that this is not a lottery. Although prize and consideration are present, the staff noted that since theoretically, a person could camp out in front of the store to ensure that he or she were among the set number of automatic winners, the element of chance does not predominate. However, if there were more than one cash register or several entrances to the store, the element of chance would predominate and a lottery would arise.

Example #13: Refund if secret alarm rings or if receipt has a red star.

A store sets alarm clocks to go off at secret times at various checkout stands. The customer being waited on or checked out when the alarm goes off gets his or her purchase free.

This, in the opinion of the NAB Legal Department, is a lottery. In order to participate, a commitment to make a purchase is required. The fact that

those who do not win still receive full value for their purchase price is immaterial. The theory behind this is that part of the purchase price is allocated to the cost of the promotion plan. The prize element is obvious and the “chance” is being at the right spot when the alarm goes off. Similarly, prizes or discounts awarded to the lucky purchaser whose receipt bears a red star would constitute a lottery.

Example #14: “Fishing” for discounts, wheel spinning.

Purchase of an automobile valued at \$500 or more, entitles customers of a local automobile dealer to “fish” for a prize worth from \$1 to \$100.

All the elements of a lottery are present. The purchase price of the auto is consideration. Chance is present because the amount of the prize was determined by chance. And, of course, prizes are awarded. *Folkways Broadcasting Co.*, 30 F.C.C. 2d 80, 21 R.R. 2d 1297 (1971).

This type of promotion has many variations. For example, purchasers might “spin the wheel” and receive the indicated discount on the price of merchandise which they have purchased. Under the above ruling, this would be a lottery since the prizes vary in amount and are not within the control of the parties. If, however, every purchaser received the same prize, the promotion would not be a lottery, since the element of chance would be missing.

Example #15: Stocking up on an advertiser’s product.

A representative of an advertised product calls at a home, selected at random, and offers to purchase—at several times the actual value—any of that product found in the home. If none of the product is found, a smaller prize is usually given, generally, a sample of the product. Ordinarily, a broadcasting station’s participation is limited to an announcement of the plan and advice to consumers to “stock up.” Sometimes more elaborate coverage is given and calls at various houses are reported.

The key factor in this plan is that a product must be purchased. The plan, therefore, contains the element of consideration, along with elements of prize and chance. Consideration is present where, in order to win, persons are “required to furnish any money or thing of value or are required to have in their possession any product sold, manufactured, furnished, or distributed by a sponsor of a program broadcast on the station.” 47 C.F.R. §73.1211(b) (1988). The NAB Legal Department is of the opinion that this plan would constitute a lottery.

Example #16: Possession of a product or correct response required to win.

In addition to the requirement of Example #15 that a consumer must have in his or her possession at home the product involved, he or she must also

answer the company's "question of the day." If answered correctly, a prize is awarded.

When the need to have a given product is eliminated from this plan, there is no consideration and the promotion may be broadcast. As in Example #13 though, the requirement of possession of the advertiser's product supplies the necessary consideration which makes it a lottery banned from the air. Although skill may be involved in answering the question, the random method of selecting a contestant introduces the element of chance.

Example #17: Discount or free prize with purchase if customer mentions advertisement.

Leslie's Auto Works desires to air the following advertisement: "Hurry down to Leslie's Auto Works and we'll install a new muffler for the unbelievably low price of \$49.95. Mention that you heard this ad on station XXXX and we'll give you a free quart of oil."

In the opinion of the NAB Legal Department, this would not be a lottery. Consideration and prize are present, but chance appears to be missing. This promotion is structured more like a give-away to attentive listeners than a random method of selecting winners. Either a customer has heard about the prize and will remember to tell the mechanic about the advertisement, or the customer is unaware of the offer.

Competitions Among Clubs

Example #18: Making purchases to accumulate points.

Local clubs participate in an awards scheme. From time to time the station broadcasts how many "club points" can be earned by specific purchases from local merchants. Clubs accumulate points when their members purchase the specified items. Additionally, the station periodically broadcasts the names of club members. If the club member is listening and calls the station, the club receives more points. At the end of the contest, the club with the most points wins a prize.

Neither part of this promotional plan constitutes a lottery.

- **Club Members Making Purchases to Garner Points.** Although consideration is present where a club member purchases a product and the prize element clearly exists, there is no element of chance. The FCC has stated that chance is not present in a "purchase for points" game. However, to avoid any possibility that chance determines the winner, the station should broadcast the point standings of the clubs at regular intervals during the contest period. If the point standings are not announced until the end of the contest, the element of uncertainty might induce parties to make purchases. In such cases, the final winner could not be determined solely by human skills or ingenuity. *See United*

States v. Rich, 90 F. Supp. 624 (E.D. Illinois 1950); *Folkways Broadcasting Co.*, 27 F.C.C. 2d 619, 21 R.R. 2d 163 (1971).

- **Calling the Station to Earn Points.** The desire to listen to the radio with the hope that one's name might be announced does not constitute consideration. Thus, this part of the promotion is not a lottery.

Entry Blank As An Element Of Consideration

Example #19: Cash register receipt as entry blank.

To enter a grocery store contest, persons must sign a cash register receipt and deposit it in the bin for a subsequent drawing. Advertising spots for the contest indicate that entrants must sign their cash register receipt and also state that "no purchase is necessary."

Although the ad states that "no purchase is necessary," it is improbable that a prospective entrant would realize that a cash register receipt could be obtained without the necessity of purchase. In instances where there are state restrictions on commercial lotteries, or the lotteries are not exempt under the new federal law, licensees must ensure that advertisements are free of misleading directions or participation requirements which would cause the contest to operate as a lottery. With this scheme, cryptic messages like "no purchase necessary" and "nothing to buy" are not adequate to insulate such a contest from becoming a lottery.

Example #20: Label on product as entry blank, entry blank at advertiser's display case.

Entry blanks for a contest are printed on the label of a certain product. Entry blanks cannot be obtained otherwise. The winning entry will be determined by a drawing and a prize will be awarded.

Clearly, this is a lottery. To enter, a person must purchase the product. The purchase price is consideration. However, if an advertiser's display case offered **free "tear-off" entry blanks without a purchasing requirement**, the element of consideration would be absent and **no lottery** would be present.

Example #21: Submission of postcard as entry blank.

Listeners (or viewers) submit a postcard to the station. If the listener's card is drawn, he or she is called by the station and asked a question about the program then on the air. If the correct answer is given, the listener wins a prize.



This contest is not a lottery. The cost of postage to mail an entry card is not consideration, nor does the requirement of

listening to the broadcast in order to answer the contest question constitute consideration.



Example #22: Admission ticket as entry blank.

A movie theater has a "Bank Night" once a week. Persons who buy a ticket to see the movie that night thereby become eligible to win a cash prize in a drawing by dropping their names into a barrel in the lobby.

The NAB Legal Department is of the opinion that this is a lottery, whether or not a person must be present in order to win. The elements of chance and prize are obvious. As for consideration, the participants are required to buy an admission ticket and, thus, they are giving valuable consideration, which flows to the movie theater. The fact that purchasers receive full value for their money is immaterial. The purchase price is held to be consideration on the theory that part of the price of the ticket is allocated to the chance to participate in the drawing. *Horner v. United States*, 147 U.S. 449, 12 S.Ct. 409, 37 L.Ed. 237 (1893).

Example #23: Bingo card as entry blank.

A card similar to the familiar "bingo" card is made available to the public. (The usual plan makes it available at the sponsor's store, or by writing to the sponsor.) The card lists a number of songs to be broadcast over a particular program. The participant listens to the program, identifies the songs, and then checks them off the card. The first to identify songs falling in the usual "bingo" pattern telephones the station, announces the correct answers, and wins a prize. No purchase or entry fee is required.

The plan becomes a lottery only if the effort to secure a card is construed as "consideration." In view of the definition of "consideration" adopted in the *Capes* case, it seems unlikely that a court would find the plan to be a lottery.

Consideration Flowing From Participant To Promoter⁸

Example #24: Consideration paid does not benefit sponsor.

The sports news department of a news-talk radio station asks its general manager to approve the following promotional scheme: "Send us your last bowling game receipt from any bowling alley. We will have a drawing for a 'Bowl Across America' vacation. The vacation includes all travel, lodging and meal expenses for a two-week tour of San Francisco, Cheyenne, Chicago and New York."

Prize and chance clearly are present. However, the Commission has ruled that consideration must flow from the entrant to the contest promoter. In this example, the radio station is the promoter. The money paid to bowl a game and receive a receipt flows from the contest participant to the

bowling alley, not to the sponsoring radio station. Thus, the element of consideration is absent and the promotion is not a lottery. This broadcaster also was wise to describe what was to be included in the prize tour, since the word "vacation" may be vague and misleading.

Example #25: Admission fees to trade fairs.

The Boater's Club has rented the local auditorium for its annual "Boat-A-Rama." Display booths are leased to interested merchants. A \$3 admission fee is charged, all the proceeds from which go to the Boater's Club. The Happy Oar Boat Supply Shop has purchased display space and wishes to advertise a promotion. Any interested "Boat-A-Rama" spectator can visit the shop's display, fill out a card with no shop purchase necessary, and perhaps become the lucky winner in a drawing for an island cruise.

This advertisement would be permissible. Although a participant must pay to gain admission to the "Boat-A-Rama," the admission fee does not flow to the people who have purchased display space. The admission fee flows to the Boater's Club and not the Happy Oar Boat Supply Shop. The element of consideration is absent.

Example #26: Effect of co-sponsorship on flow of consideration.

Several youth groups joined ranks and are the sponsors of a Country Fair. For a \$5 admission fee each spectator receives a box lunch and can visit the craft booths organized by the different youth organizations. The profits from the admission fees will be distributed among the various youth clubs. The "Teenagers to Save Endangered Animals" Club is holding a drawing. No purchase or contribution is required and the prize is a natural history digest.

This would be a lottery. Since a portion of the profits from the admission price flows to the "Teenagers to Save Endangered Animals," the element of consideration would be present. A licensee would have to check state law for possible restrictions on airing such a promotion. The licensee would also have to find out if the club was a non-profit organization as defined in section 501 of the federal tax code. (Under the revised federal law, lotteries sponsored by non-profit organizations are exempt from federal restrictions on airing lottery information.) If the admission fee profits were not redistributed among the youth clubs, and instead were donated to another worthy cause, consideration would not be present and the promotion would not be a lottery.

Eligibility Requirements

Example #27: Age requirements, possession of driver's license or social security card.

A radio station holds a contest for persons over 25 years old who possess either a driver's license or social security card. Each entrant must submit a

postcard disclosing his or her driver's license or social security card number. A card is selected at random, the number is announced and if the proper listener calls the station, a prize is awarded.

A program of this type was considered by the United States District Court for the Eastern District of Virginia in 1951, and the court there found that the program was "not a lottery within the prohibiting statutes of the United States or the rules promulgated by the Federal Communications Commission." *Capital Broadcasting Co. v. Arlington-Fairfax Broadcasting Co.*, 8 R.R. 2026, 2028 (E.D. Va. 1951). Thus, in this example, the entry requirements did not constitute consideration.

Example #28: Merchandise club membership.

Each participant pays \$1 a week for thirty weeks into a "merchandise club." Once each week a name is drawn, and the person whose name is drawn receives a \$30 merchandise certificate immediately, without further payment. At the end of thirty weeks, all participants whose names have not been drawn receive a certificate worth \$30 in merchandise. The "club" is to be advertised over the radio.

It is the opinion of the NAB Legal Department that the lottery elements of prize, consideration and chance are all present in the plan. The fact that most participants receive full value for money paid does not remove the lottery aspects. That is because the amount of consideration necessary to get back \$30 varies by virtue of chance—will a contestant be picked after only contributing one, five, or ten dollars?

Broadcasters also should check their state lottery laws before airing advertisements for a plan such as this one. Further, merchandise clubs appear to represent a style of promotion long held to constitute an "unfair method of competition" by the Federal Trade Commission. *FTC v. Keppel & Bro.*, 291 U.S. 304, 54 S.Ct. 423 (1934).

Most civic club membership dues, would not constitute consideration and could be used as an eligibility requirement under the revised federal lottery laws.

Example #29: Showing a credit balance.

A local store conducts a drawing from among the names of those persons who show a credit balance at the end of each month. The winner is awarded a prize.

This is a lottery. Maintaining a credit balance is consideration because a purchase is required to be eligible to win. Also, the fact that this is a continuous (every month) promotion, makes it unacceptable for airing under Federal law.

Example #30: Possession of a credit card.

A clothing store is conducting a drawing in which only customers possessing the store's credit card may enter.

A broadcaster in an area with stringent state lottery laws must scrutinize the requirements for obtaining a credit card to be certain that a purchase, membership fee, or substantial time and effort is not required in order to acquire the credit card. The FCC has determined for example, that the requirement of disclosing considerable personal credit information is consideration. However, if the prospective entrant is required to fill out a sample form, but no purchase is necessary, it would appear that the element of consideration would be absent. Since the one time drawing is an occasional promotion, the presence or absence of consideration is irrelevant under the revised federal law, because references to events that are occasional and ancillary to a commercial organizations business are acceptable over the air.

Example #31: Cashing checks.

A local store holds a weekly drawing from the names of parties who have cashed wage or payroll checks there during the preceding week. A prize is awarded to the winner. No fee is charged for cashing the check, and the participant is not required to make a purchase at the store.

In the opinion of the NAB Legal Department, this is not a lottery since consideration is not present. A person may cash his or her check and leave. No consideration flows from the person cashing the check to the store.

Example #32: Possession of a savings/checking account.

A banking institution wants to advertise a promotion in which each 24-hour ATM banking deposit serves as an entry in a drawing for a Caribbean trip.

This constitutes a lottery. The Commission has ruled that depositing money into a bank for an indeterminate period of time is something of value, and constitutes consideration. The drawing and trip constitute the other elements of a lottery: chance and prize. *In re Lottery Broadcasts Involving Savings Accounts*, 65 F.C.C. 2d 870, 39 R.R. 2d 1285 (1977).

However, consideration may be removed if the bank allows non-account holders to participate, for example, through use of a demonstration ATM card. Also, because the contest is occasional, promotional and ancillary to the bank's primary business, it likely would not be barred from broadcast under the revised federal law. But, licensees should check relevant state law.

Winner Determined By Skill Rather Than Chance**Example #33: Best slogan, best jingle, best name.**

A dog food company offers two contests. One winner will be selected who submits the best name for the basset hound appearing in its commercials.

Another winner will be chosen for writing the best limerick on "Why My Pooch Likes Bowser Biscuits." Each entrant must purchase a box of biscuits to enter. The prize for each contest is \$500 worth of dog food and grooming supplies.

If these contests are judged impartially on their merits, rather than by chance, they do not appear to be lotteries, even though the purchase of some product is required to participate. The elements of prize, consideration and chance must be present. In these contests, skill and not chance is involved. Although prize and consideration are present, the third element is missing, therefore, no lottery exists.

Tie-Breaking Procedures. In a speech made to broadcasters in 1949, the Solicitor of the Post Office Department emphasized that caution must be exercised to keep this kind of contest within the law, remarking that, "even in such a contest involving skill, if a tie is possible, such as in 'best-name' and 'best-slogan' competitions, and consideration is required from contestants, it is necessary to include a rule that a prize identical with the one tied for will be awarded to each tying contestant in order to make such a contest acceptable. Otherwise, the possibility of two or more being tied for one or more of the prizes makes the amount of the prize indeterminate in advance, and, thus the element of chance enters into the contest..." Note also that ties may not be broken by awarding the prize to the entry bearing the earliest postmark. Such a contest rule may well introduce the element of chance.

Illustrating another possible pitfall in "best" contests, the Solicitor described a best-slogan contest wherein 8,000 entries were received in the last two hours of the contest, and the announcement of the winner was made exactly one hour after the closing time. Under such circumstances, it seems more than likely that chance supplanted skill as the means of selecting the winner.

Additionally, the Postal Service is of the opinion that chance is involved in contests when the judges take into consideration factors not disclosed to contestants. For example, in a "best-name" contest, if the judges give extra points to persons explaining their entry, but this is not disclosed to all contestants, the factor of skill is defeated and the element of chance is introduced. Remember, however, if the contest is promotional, occasional and ancillary to a commercial organization's primary business, under the revised federal law, it is not barred from the air. But, remember to check state law.

Example #34: Treasure hunts, word puzzles.

A money draft is hidden in the township of Tamarack. To be eligible to compete, a contestant must purchase the sponsor's product which

contains a list of helpful clues. Other clues are broadcast over the air which aid the contestant in deciphering the puzzle.

Although the elements of prize and consideration are present, if a successful search actually would require a good measure of skill, the element of chance would seem to be eliminated and there would be no lottery.

Example #35: Most sales.

A publishing company advertises that any person who sells the greatest number of subscriptions to a certain publication during a specific period wins a vacation to Miami.

According to an informal FCC staff ruling, this would not be a lottery. Even though the purchase of a subscription is necessary, the entrant need not make a purchase, and sale of subscriptions depends not on chance, but on the entrant's salesmanship.

Example #36: Beautiful baby pageant.

A photography studio wishes to broadcast its "Cupid Cutie Contest." To enter, a parent must pay \$15 to have several photographs of his or her child taken in different poses. A panel of professional photographers will judge the photographs on the basis of facial expression, personality and poise of the child. The winning child will receive a \$200 college scholarship.

It is the opinion of the NAB Legal Department that this would not be a lottery, so long as the judging criteria are spelled out clearly in advance, and are faithfully adhered to by the judging panel. However, if the judging guidelines were fuzzy, or the judges were slipshod in discharging their duties, the element of chance would be present and, in conjunction with the elements of consideration and prize, a lottery would exist.

Example #37: Dance competition.

The Blue Goose Disco Palace wishes to broadcast a dance competition advertisement. Each entrant would be required to pay a \$5 entry fee. The prize is \$100 and a guest appearance on a local TV show. The competition is judged solely on the basis of "audience reaction," whichever dancing couple receives the most enthusiastic round of applause wins.



Prize and consideration clearly exist, but it is unclear whether skill or chance determines the outcome of the competition. Since one couple could "stack" the audience by inviting numerous friends to act as a cheering squad, the most "skilled" couple may fail to prevail.

On the other hand, stacking the audience may involve skill, and not chance! Thus, a broadcaster located in a state where lotteries or the advertisement of lotteries is prohibited, may be treading on thin ice by broadcasting such a competition. (If the contest is not occasional, but run every week by the disco palace, a possible federal violation may exist as well.)



If the dancers were evaluated according to objective criteria (precision of movement, difficulty of steps, apparel choice) by a judge or panel of judges, the element of chance would be eliminated. The judges do not have to be professional dancers or teachers, but they should not have a predetermined bias in favor of particular contestants. In addition, the judging criteria should be articulated to participants in advance of the competition.

Example #38: Video games.

A local video arcade wants to publicize a "Dragonslayer Tournament," in which the participant with the highest score wins a mini-bike. Each participant must pay 25 cents per game, and is limited to a certain number of games.

Although video games depend on chance to a certain degree, an informal FCC staff ruling has held that video games are predominately games of skill. This promotion would not be a lottery.

Example #39: Poker tournaments.

A church advertises a poker tournament to raise money for its building fund. It charges \$5 for admission, and each player gets 20 tokens to start. Each participant plays until his or her tokens are exhausted. At the end of the evening, the player with the most tokens wins \$100. The church will use part of the revenue to pay the winner.

It is the opinion of the NAB Legal Department that this is an elimination tournament based on skill, and not a lottery. Although a single poker game would be considered a lottery, this tournament consists of a series of poker games to determine the best poker player. Information about the church's fundraiser, in this instance, could be broadcast.

Under the revised federal law, this contest would not be a problem because promotions sponsored by non-profit organizations, as defined by section 501 of the federal tax code (the church for example), are exempt from the federal prohibitions on broadcasting lottery information.

Guessing Contests

Example #40: Guessing the number of beans, scores of sporting events⁹, amount of money collected during a charity fund drive.

A prize is to be awarded to the person guessing most closely the number

of beans in a quart jar, the score of the championship high school volleyball game, the amount of money collected for the Cancer Drive, or the number of votes cast in a special election. The contest is to be advertised over the air.

Whether the contests of this type amount to lotteries will depend upon whether or not consideration is required to participate. If some product must be bought, an admission purchased, a toll call made, etc., the courts will probably find consideration to be present.

It has been contended, unsuccessfully, that such contests involve skill rather than chance, and hence, should not be considered lotteries. A number of court decisions have held that, although knowledge of the subject matter, or skill in mathematics might enable one to make a close approximation of the answer, determining the exact number is impossible and must depend upon guesswork, another word for chance. See cases collected in *United States v. Rich*, 90 F. Supp. 624, 629 (E.D. Illinois 1950).

Example #41: Guessing weights and measures.

A gasoline station offers a free road atlas to any customer who can guess, within one tenth of a gallon, how much gas it will take to fill up his or her tank.

In the opinion of the NAB Legal Department, this plan is a lottery. The prize is a free road atlas. A guess necessary in order to win is the chance. Guessing the amount of gas is no different than guessing the number of beans in a jar which, as noted in Example #40, is still chance, even though a mathematician could perhaps calculate the amount of gas needed. This does not change the guess into an exercise of skill. The existence of chance must be considered from the standpoint of whether the average person must rely on chance to win. The "consideration" in this plan is the commitment to make a purchase. The fact that full value is received for the purchase price by losers is immaterial. Broadcasters should check state lottery laws before airing this promotion. (If the promotion is "occasional," its okay under the revised Federal law.)

Answer The Question And Win

Example #42: Exceptionally difficult questions may constitute chance.

The House of Exotic Fish wishes to broadcast the following announcement: "Every purchaser will be entitled to a \$20 gift certificate if he or she can correctly answer two questions."

The House of Exotic Fish asks questions such as: (1) "What is the average number of scales on a piranha?" (2) "What is the respiratory rate per hour of an angel fish?" The contestant is not afforded an opportunity to research the answers to the questions.

At first glance, this might be considered a contest involving skill rather than chance, due to the difficult nature of the questions involved. However, these questions are so obscure, that they constitute a guessing contest and the element of chance outweighs the participant's skill in analyzing the queries. Since purchase is required, and a gift certificate is offered, all three elements of a lottery are present. However, if the contestant were permitted to research the questions before answering, skill rather than chance would be present, and no lottery would exist.

Example #43: Entrants selected at random.

Persons selected at random from the telephone directory are called and awarded \$5 if they can answer two questions correctly while on the air.¹⁰ Familiarity with the sponsor's product is not necessary in order to correctly respond to the questions.

The random selection process and the \$5 gift constitute chance and prize. However, this plan is not a lottery since so little effort is required to win a prize that it may be said that no consideration is present.

Notice that in this example, even if the questions posed required the participant to respond on the basis of personal skill, rather than by guessing (as in the previous example), the element of chance would still be present due to the random method of selecting the entrants from a telephone directory. However, since a purchase is not required, once again, the element of consideration would be absent.

Example #44: Value of prize determined by chance.

Every person who visits Noah's Hot House and makes a purchase is asked two questions while the purchase is placed in a bag. The ability to answer the questions is based on the participant's skill: (1) "Who was the Vice President of the United States in 1960?" (2) "What is the largest lake in California?" If the purchaser answers both questions correctly, he or she is entitled to pick a gift certificate from the grab bag ranging in value from \$1-\$10.

Initially, it might appear that the element of chance is lacking since the questions test the participant's skill. However, since the value of the grab bag items ranges anywhere between \$1-\$10, the amount of the prize is determined by chance. Thus, all three elements of a lottery are present.

One simple way to cure the lottery element of this promotion is to have one uniform prize (e.g., a percentage discount) for all entrants who successfully answer the question. If one type of prize is awarded to all who qualify on the basis of skill in fielding questions, the element of chance is eliminated.

There is no FCC ruling which authoritatively states that offering prizes of similar cash value (such as a grab bag containing felt tip pens, small note

pads, or boxes of paper clips) is sufficient to eliminate chance, or if it is necessary to offer all participants identical prizes (red coffee mugs). This is another hazy area of the lottery law and a broadcaster would be prudent to contact an attorney.

Substantial Time And Effort As A Form Of Consideration

Example #45: Visiting promoter's place of business.

Numbered slips are made available to the public by a store. A purchase is not required, but the store must be entered to obtain the slip. A drawing is held and the number drawn is announced over the radio. If the person holding the properly numbered slip is listening, a prize is awarded.

Under the *Caples* decision, the requirement of entering the store would not appear to constitute consideration and, thus, the "give-away" is not a lottery. Listening for one's name to be called is not consideration under the *ABC* case.

Example #46: Substantial hardship in visiting promoter's place of business.

A local real estate developer wishes to promote his new development in an isolated mountain area 80 miles from the city by holding a drawing and awarding one of the lots to the winner. Participants would be required to visit the development to fill out an entry form. Only four-wheel drive vehicles would be capable of making a safe journey to the site.

This is a gray area of the lottery law. Although no purchase would be required, it is the opinion of the NAB Legal Department that travelling 80 miles to the site of the development through rough terrain would amount to a substantial expenditure of time and effort on the part of the contestant. Therefore, it would appear that consideration would be present. However, it should be noted that no hard and fast rule can define exactly how many miles or what type of external factors would constitute substantial hardship to the participant. The broadcaster should contact an attorney when in doubt. But, remember, if the event is, promotional, occasional and ancillary to the developer's primary business, airing information about the event would be acceptable under the revised federal law. Don't forget, however, to check the relevant state law.

Example #47: Test drive as consideration.

In order to participate in Lefty's "Buy-A-Wreck" promotion, individuals are required to visit Lefty's showroom and test drive a used car. After the test drive, the participant is entitled to spin the "Wheel of Gifts." There is no obligation to buy a "wreck," but a test drive is mandatory.

A test drive of an automobile with a salesperson present in the car for at least some of the time, constitutes consideration. Since the "Wheel of Gifts" furnishes the elements of prize and chance, all three lottery elements are present.

Las Vegas Nights, Monte Carlo Nights, Casinos

Example #48: Las Vegas Nights.

A "Las Vegas Night" is being promoted by the American Cancer Society, and is to be conducted as follows:

- Prior to entering the premises, participants are required to make monetary "contributions" in exchange for admission and "play money."
- Participants use this "play money" to play "games of chance" (gamble) and win or lose "play money."
- At the conclusion of the gambling, participants who have "play money" may take part in an auction of merchandise donated by local area merchants.
- The highest bidder purchases the items up for auction.
- The "play money" is used to pay for items won at the auction.
- The "play money" is not redeemable for cash.

All the essential legal elements of a lottery will be present in the actual operation of "Las Vegas Night." The element of prize apparently will be present since winners may participate in an auction and bid on and purchase a "thing of value." (The fact that prizes are donated by merchants does not make them valueless and is irrelevant.) The element of chance apparently will be present since participants will be engaging in "games of chance" (gambling), the results of which will determine whether prizes can be won. The element of consideration apparently will be present, inasmuch as persons will be required to pay money to the promoter, the American Cancer Society or its local chapter, in order to participate. Although broadcasting promotions of lotteries undertaken for charitable causes are now permissible under federal law, broadcasters should check state lottery laws to determine if any state restrictions are violated by airing such promotional information.

Large gambling houses have been permitted to broadcast advertisements pertaining to their restaurant and catering services and the names of celebrities currently providing entertainment in the casinos. If a local organization is sponsoring an extensive "Mardi Gras Night," with numerous food facilities, amusement rides and a substantial amount of entertainment, in addition to gambling tables, an advertisement restricted to the non-gambling activities (dining fare, thrill rides and entertainment) would be permissible in most instances. However, if only a 15-minute magic show and a cold sandwich booth were offered, an advertisement urging people to attend an "exciting social event" might be impermissible in states prohibiting lotteries or their advertisements since it would simply be a thinly veiled way of promoting a lottery.

Example #49: "Donations" to participate.

A church hosts poker games weekly. To play, participants are not required to pay any money. However, at the door, there is a sign requesting donations.

It is the opinion of the NAB Legal Department that this is a lottery. The fact that the church asks for donations is controlling. Even though no one is required to give money, one may feel morally obligated to contribute money to participate in the games. Again, under the revised federal law, if the church was qualified under section 501 of the federal tax code, there would be no federal violation for airing this promotion. Remember, however, to check relevant state law.

Example #50: No participation fee, refreshments sold.

The same facts as in Example #49, except the church, instead of asking for donations, charges \$1 for each beverage served.

In this example, it seems unlikely that one would feel obligated to purchase a beverage in order to participate in the poker game. Therefore, this would not constitute a lottery.

Example #51: Bus trip to casino.

A bus company wishes to broadcast the following ad: "Hop aboard the 'Casino Riders Bus Line' for a trip to Atlantic City for a day of fun at the 'Apex Hotel and Casino' which has the finest food and floor shows on the boardwalk." The word casino is a part of the actual name of both the bus line and the hotel.

Broadcasting information about casino gambling is still prohibited by federal law. However, where the word "casino" is a part of the actual name of a hotel or organization, as it is in this example, it may be included in broadcast advertising. Non-gambling activities of the hotels and casinos (such as floor shows and restaurants) may also be advertised.

Example #52: Reference made to gambling activities.

The same facts as example #51, except the following information is included. "Each bus rider will receive chips worth \$20 which can be used in the casino slot machines or gambling activity of your choice."

In this example, there is a direct reference to the gambling activities at the hotel. This ad violates the federal criminal code as well as FCC regulations.

A licensee airing this ad would be subject to prosecution by the Department of Justice, and fines and/or revocation of license by the Commission.



Radio And Television Auctions

Example #53: "Auction dollars" to bid for prizes.

A local merchant gives each customer "auction dollars" in a face amount equal to the value of goods purchased. The "auction dollars" are then used to bid for prizes

offered by the merchant, the highest amount of “auction dollars” bid taking the various prizes. The auction may be conducted over radio or TV and bids taken by phone, or the auction may merely be advertised by radio or TV. A variation of this format is for the bidding to be in terms of box tops, wrappers, etc.



The auction format, to date, has not been formally ruled on by the FCC, the courts, or the Postal Service.

Prize and consideration (here, the requirement that merchandise be purchased) are certainly present. There is doubt as to the presence of chance, the third element necessary to make the lottery. Ordinarily, merchandise awarded to the highest bidder is not considered to be awarded by chance. However, whether or not chance is present depends on the specific rules governing the auction. For example, in the case of ties for high bids, if the rules call for a drawing among the high bidders, chance would be present. On the other hand, if all of the high bidders are allowed to receive a duplicate of the prize bid upon, chance would not be present.

Charities

Example #54: All proceeds go to charity.

Charity Bingo. A local service club wishes to advertise its weekly “bingo” games over the air. All proceeds go to charity. There is a \$1 admission fee.

The game of bingo and its many variations are held to be lotteries within the meaning of federal law, if one is required to pay in order to participate. If the local service club is considered a “not-for-profit organization,” as defined in the Charity Games Act, ads for the weekly bingo games will be allowable under federal law. However, the games would still be subject to any applicable state restrictions.

Example #55: Commercial establishment leases space for charity bingo.

A local catering hall leases its premises for a flat fee to a non-profit charitable organization for once-a-week charity bingo games. An admission price of \$5 is charged and all proceeds go to the non-profit organization. The organization wishes to advertise the games on local radio stations.

Under the Charity Games Act, commercial organizations may only advertise lottery promotions that are “occasional.” In this example, however, although the games are regular, once-a-week events, it is the *non-profit organization* that wishes to sponsor and advertise the activities. The catering hall is merely being used as a place to hold the events. It would, therefore, be legal, under federal law, to advertise these games. This would not be the case, however, if the catering hall were receiving, instead of an agreed upon lease fee, some of the proceeds from the games. In that

instance the hall could be viewed as sponsoring an ongoing lottery activity. Advertising information about such ongoing activities is prohibited under federal law.

Example #56: "Las Vegas Night."

A restaurant hosts "Vegas Night" every first Thursday of the month. It sells admission tickets for \$60 each. Once inside, participants are given play money with which to gamble. During the evening, a drawing is held. The winner receives \$1,000. There are other monetary prizes as well. Aside from the money set aside for the prizes and operating costs, the proceeds go to charity.

In the opinion of the NAB Legal Department, although some of the proceeds go to charity, promotions such as this are considered to be lotteries because the use of part of the proceeds to cover sponsor's costs, is consideration flowing to the promoter of the event. Licensees also are urged to consult with their attorneys about how this item would be handled under state law.

Example #57: Prize in the form of a charity contribution.

A company holds a contest in which the prize is a cash donation in the winner's name to a charity designated by the winner. Entry blanks can be obtained only through purchase of the company's product. The winner will be determined by drawing.

This is one of the rare cases in which it is difficult to determine if there is a prize. However, the right to designate which charity receives the prize money, along with the benefit of having one's name associated with the donation, is sufficiently valuable to the winner to constitute a prize. In addition, the winner would receive "something of value" if he or she could claim a tax deduction for the donation. Therefore, this contest is a lottery.

Endless Chain Purchasing Schemes, Pyramid Clubs, Chain Letters

Example #58: Endless chain schemes.

An "endless chain" marketing scheme operates as follows: the purchaser buys not only the product, but also the right to sell the product and receive commissions upon his or her own sales and sales made by those who have purchased from him or her and subsequent vendees on down the chain. Should a broadcaster air such a plan?

The Postal Service has considered various "chain letters" and "pyramid club" schemes to be lotteries. Since the "endless chain" scheme is very similar, it would also seem to be a lottery. The commissions received are considered to be the prize. The purchase price of the item is consideration. Chance is present in the scheme because the amount of the prize is determined by chance. The amount of commission received depends upon

conditions which the purchaser may not be able to control. See *Public Clearing House v. Coyne*, 194 U.S. 497, 48 L.Ed. 1092 (1904). Also, such advertisements run the risk of being misleading or deceptive since they may imply the participant will accumulate a substantial amount of money when, in fact, this cannot be promised.

News Stories And Editorials Concerning Lotteries

Example #59: News report that promotes a non-state-operated lottery.

A station wishes to broadcast the following news report: "The winning lottery ticket was drawn at the Cherry Hill Shopping Mall, witnessed by the Governor and other state and local officials. The top prize winner was John Doe."

Its possible, under state law, that this announcement would not be considered newsworthy because only persons holding tickets in the lottery would be interested in the announcement of just the name alone.

Example #60: Broadcasting winner names and numbers of non-state-operated lotteries.

A broadcaster wishes to broadcast a wire service report of the winning number and the name of the winner of the lottery. The proposed broadcast would last only a few seconds.

This is not a bona fide "human interest" story profiling the lucky winner. The fact that wire services treat the information as newsworthy does not make it news if the information is used to promote a lottery. The court has drawn a distinction between information directly promoting a lottery and information that is simply news of a lottery. *New York State Broadcaster's Association v. United States*, 414 F. 2d 990,998 (2d Cir. 1969). In the limited instances where a private (non-state operated nor operated by a charitable organization) lottery will not be exempt from federal prohibition under the revised federal lottery law, a station could still carry information about such a lottery if the information were of a news or editorial nature. It is also likely that a station's airing of news or editorial comment about a lottery would not subject the station to prosecution under state law. It is essential, however, to consult an attorney regarding any state restrictions prior to airing such an item.

Example #61: Human interest stories on non-state-operated lotteries.

An individual who resides in the station's service area has won \$50,000 in a lottery. The station wishes to interview the winner asking about how he or she will spend the money, how it has affected his or her life, etc. The station will air the interview during its regular newscast on a day following the drawing.

Even for non-exempt lotteries, this broadcast would be legal under federal law. Interviews with winners are permitted, except where by their repetition

or airing in non-newscasts it is clear they are shams to promote the lottery. Again, however, a station should consult with an attorney about state prohibitions before broadcasting the spot.

Example #62: Use of interview as a promotional sham.

In the above situation, the station broadcasts a brief excerpt from the interview at brief intervals throughout the day during the time lottery tickets are being sold for the next lottery. This is not a state-operated lottery, and the excerpts are not broadcast as part of a newscast.

Although interviews with winners are permitted, they may not be used as promotional devices where airing such lottery information is prohibited by state law or is not-exempt under federal law. Clearly, seeing and/or hearing a “happy winner” of a previous lottery would encourage the public to participate in the upcoming lottery.

As in the examples above, consultation with an attorney on state restrictions is advised.

Example #63: Editorial in support of or against establishing a state lottery.

The hypothetical state of New Wave has legislation pending which would create a state-operated lottery. A radio station airs an editorial which discusses the public policy arguments in favor of the legislation.

Such an editorial would be legal. The FCC does not want to inhibit the free exercise of public debate on topics of concern to a community, such as the establishment of a state lottery.

Indian Games

Example #64: Indian games run by third party.

A local broadcaster wishes to advertise bingo games that are conducted each week on the local Indian reservation. The games are operated by a non-Indian commercial organization, which has contracted with the Indian tribe to set up and run the activity.

If an Indian tribe itself runs an ongoing bingo or similar game, it is a valid activity under the Indian Gaming Act and unless there are state restrictions, it can generally be advertised. Where a third-party contractor runs the games, as in this case, the games may not be advertised unless or until the contract between the

Indian tribe and the third-party has been approved by the Secretary of the Interior or approval of the games is given by the Indian Commission. In addition, Indian games, whether third-party or not, must be allowable under state law before they can be conducted, let alone advertised.



Example #65: Indian games consisting of casino gambling

The same facts as example #64 except for the following. In addition to the bingo games, there is a weekly "casino night" which consists of slot machines and roulette.



Casino gambling is not included in the class of Indian games (Class II) which, under the Indian Gaming Regulatory Act, now generally is eligible for broadcast advertising under the terms of the Act. Casino gambling falls under a separate class of games (Class III) that will only be lawful if the Secretary of the Interior approves a tribe-state compact. Once such a compact is approved, broadcasters are free to advertise the casino games authorized by tribal authorities. However, advertising *non-Indian* casino gambling over the air would still be prohibited under the Charity Games Act.

II. Contests

Licensee Responsibility

Defining a Contest

A contest is a plan in which a prize is offered or awarded to the public based upon chance, diligence, knowledge or skill. A lottery must contain prize, chance and consideration, but a contest may contain only one or two of these elements. Although there are still instances where certain lotteries may not be broadcast, contests generally may always be broadcast, so long as they are not deceptive. Once a broadcaster determines that airing a promotional plan or act is not a prohibited (not complying with state and/or federal law) lottery, the following guidelines on the broadcast of contests should be followed.

Licensee Liability

The broadcast of contest information, although not illegal, can subject the licensee to stiff penalties if such a contest is deceptively conducted. During the past several years, the FCC has repeatedly shown a strong interest in the manner in which contests and promotions are conducted by broadcast stations. On October 26, 1976, the following rule went into effect, 47 C.F.R. §73.1216 (1988):

“A licensee that broadcasts or advertises information about a contest it conducts shall fully and accurately disclose the material terms of the contest, and shall conduct the contest substantially as announced or advertised. No contest description shall be false, misleading or deceptive with respect to any material term.”

Material Terms Of A Contest

Material terms are those factors which define the operation of the contest and which affect participation therein. Although the material terms may vary widely depending upon the exact nature of the contest, they generally will include:

- how to enter or participate; eligibility restrictions; entry deadline dates;
- whether prizes can be won; when prizes can be won; the extent, nature and value of prizes;
- time and means of selecting winners; and
- tie-breaking procedures.

47 C.F.R. §73.1216 (b) (1988)

Thus, it is the obligation of the licensee to make certain, right from the beginning, that a contest does not mislead the audience. The Commission has consistently imposed heavy fines, issued short-term renewals, and even revoked station licenses where it found that rigged, deceptive or misleading contests were conducted. In connection with such contests,

the Commission has pointed out that a licensee's lack of knowledge of an improperly run contest is no excuse, because a licensee is responsible for the acts of its employees and for all material broadcast over the station. Prearranging or predetermining the outcome of a supposedly fair contest with the intent to deceive the public is subject to criminal penalty under Section 508 of the Communications Act and, under Sections 312 and 503, is grounds for a fine and/or revocation of license.

Failure To Disclose The Nature Of The Prize: Black Book Case

Failure to state the nature of the prizes to be awarded is a failure to disclose a material term of a contest, as required under FCC rules. A Washington, D.C. station received a Notice of Apparent Liability for a forfeiture of \$6,000.¹¹ The station broadcast announcements inviting listeners to call in and give their names and the names of three close friends for recording in a "Black Book." The announcements stated that the station would call friends listed in the Black Book. If the friend who was called happened to be listening to the station, both the friend and the person who submitted the friend's name would win a prize. No specifics about the prize were given.

The Commission found that this contest violated Section 73.1216 of the rules, which requires that a station "fully and accurately disclose the material terms of the contest." In its announcements, the station failed to indicate the exact nature of the prizes. The prizes were quite legitimate—record albums and pairs of tickets to sporting and musical events. The winners were informed of these prizes when they were called. Nonetheless, the Commission found that the material terms of the contest were not fully disclosed.

Danger Zones

Problem contests fall into three main categories: misleading contests; contests adversely affecting the public interest; and, rigged contests.

Misleading Contests. A misleading contest is one in which the station misrepresents the terms of the contest or overstates the amount that can be won. The FCC's main concern is that the licensee fully and accurately disclose the material terms of the contest and that the licensee conduct the contest substantially as announced. In January 1977, the FCC admonished a West Virginia station for failing to state that prizes in its contest, four-day "vacations" in resorts such as Las Vegas, San Juan and Acapulco, did not include transportation to the selected destination. It



appeared from the text of contest announcements that the prize reasonably could be construed to include transportation, since the prize was described as a vacation and the transportation costs were substantial. The Commission stated that it did not appear that the full and accurate details of the prizes were furnished to the listeners until after the winners were announced. Such conduct fell short of the degree of responsibility expected from licensees.



The Commission has listed a number of misleading practices relating to licensee-conducted contests that would raise serious questions concerning licensee responsibility. Such practices include:

- disseminating false or misleading information regarding the amount or nature of prizes; failing to control the contest to assure a fair opportunity for contestants to win the announced prize;
- urging participation in a contest, or urging persons to stay tuned to the station in order to win, at times when it is not possible to win prizes; failing to award prizes, or failing to award them within a reasonable time; failing to set forth fully and accurately the rules and conditions for contests on a continuing basis;
- changing the rules or conditions of a contest without advising the public or without doing so promptly; using arbitrary or inconsistently applied standards in judging entries; providing secret assistance to contestants or predetermination of winners;
- stating that winners are chosen solely by chance, when in fact chance played little or no part; broadcasting false clues in connection with a contest; and conducting contests without adequate supervision.

Contests Adversely Affecting the Public Interest. The Commission has, in the past, looked with disfavor upon contests or promotions of the "treasure hunt" variety which constitute a public hazard and might cause interference with or destruction of property. Examples of contest ventures that have infringed upon the rights of property or privacy include: a contest that required participants to travel to a specified place in a very short time, causing traffic violations and endangering lives;¹² a contest that led listeners to choose names at random from the telephone directory and to call the persons listed at all hours of the day and night, causing great annoyance and effectively blocking the use of their telephones for normal purposes; the broadcast of "scare announcements" or headlines that either were untrue or were worded in such a way as to mislead or frighten the public; and, contests that caused the accumulation of hazardous material in locations, so as to block the access to nearby commercial establishments. Although the FCC no longer has a specific policy against these particular types of promotions, licensees should be aware that such

promotions might be viewed by the FCC as violating the Commission's general policy of requiring licensees to program their stations in the public interest. These contests may expose the licensee to tort liability as well.

Rigged Contests. It is unlawful for a station to broadcast contest information where the outcome of the contest has been predetermined. The broadcast of rigged contests is a violation of Section 508 of the Communications Act, which makes it unlawful for any person, with the intent to deceive the listening public, to: supply to any contestant in a purportedly bona fide contest of intellectual skill any special or secret assistance whereby the outcome of such contest will be in whole or in part prearranged or predetermined; induce or cause by means of persuasion, bribery, intimidation or otherwise any contestant in a purportedly bona fide contest of intellectual knowledge or intellectual skill to refrain in any manner from using such knowledge or skill in such contest, whereby the outcome thereof will be in whole or in part prearranged or predetermined; engage in any artifice or scheme if the purpose of the scheme is to predetermine or prearrange in whole or part the outcome of a purportedly bona fide contest of intellectual knowledge, skill or chance.

An FCC-conducted field investigation of the operations of a Connecticut radio station revealed the following facts pertaining to an Ali-Norton "knockout" contest. Listeners were instructed to enter the contest by telephoning the radio station at certain times, as announced by a disc jockey. The disc jockey asked the listeners to guess whether the listener could knock out Ali in a make believe fight. After the caller made a guess, the disc jockey played a prerecorded tape cartridge which simulated a one-minute bout with Ali and announced whether the listener had won or not. However, prior to playing the cartridge the disc jockey first would consult a timetable and instructions which indicated whether a given contestant at a particular timeslot was "scheduled" to win or lose. The station maintained separate "winner" and "loser" cartridge tapes. The disc jockey would wait for the contestant to make a selection, but then consult the schedule in order to select the cartridge that would yield the prearranged result. Thus, the station controlled the outcome of the contest, regardless of the choice made by the contestant.¹³

The Commission determined that the contest was improperly conducted, because the contestant was misled into believing that he or she might make a correct guess, when, in fact, the station had predetermined the outcome of the contest.¹⁴

The Commission determined that there was another faulty aspect to the contest. Listeners were told that the prize for a correct guess would be tickets to see the Ali-Norton fight. The Commission stated that these announcements misled the audience into believing that the prize consisted

of tickets to see the Ali-Norton fight live in New York at Madison Square Garden. In fact, the tickets were for a closed-circuit broadcast of the fight at a local Connecticut theatre.

Suggested Safeguards

Content of Broadcast Copy. The FCC has made a number of suggestions pertaining to the proper content of broadcast copy dealing with contests. Such copy should include:

- Complete information on how the public may obtain the rules.¹⁵
- The beginning and termination dates of the contest.
- How to enter.
- The amount or nature of the prize. If the original prize becomes unavailable, the licensee should try to secure an equivalent prize, and if an equivalent prize cannot be secured, substitute a prize of comparable value. Also, be precise in describing what is included in the prize. For example, a prize described as a "vacation in France" that does not include everything normally included in vacations, such as air fare and lodging, would be misleading.
- If a contest involves the elements of prize and chance, there should be a statement that no purchase is necessary. Care should be taken to avoid overstating a participant's chance of winning.

Try not to make any changes in the rules or operation of the contest after the contest is underway. If a change of rules is necessary due to circumstances beyond the station's control, the change should be announced at the earliest possible opportunity and the impact of the change minimized in order to reduce the possibility of unfairly disadvantaging some contestants. As a further safeguard, the station may incorporate in its original rules that prizes may be substituted should they be unavailable due to circumstances beyond the station's control.

Contest Files

Because the FCC regularly receives complaints from disgruntled contestants concerning the manner in which contests are conducted, stations may wish to maintain appropriate written records. An efficient security procedure to be followed would consist of the following steps:

- Each contest or promotion broadcast by the station should have its own file.
- The rules and eligibility requirements should be attached to one side of the folder.
- Each prize awarded should be recorded in the file. A "receipt-release" form should be signed by the winner at the time the prize is awarded and the release placed in the folder. When awarding prizes worth \$600 or more in a station-sponsored contest, be sure to obtain the winner's

social security number in order to comply with Internal Revenue Service regulations.

- File any letters of complaint.
- The file should contain copies of all broadcast material pertaining to the promotion.
- Place in the file copies of any layouts, ads, billboards or other media advertising used to promote the contest.
- The file should contain a notation verifying the dates and times on which the rules and regulations were broadcast. A safe rule of thumb is to broadcast a rules announcement at different times during each day of the contest.
- If the station so desires and the winner is amenable, place in the file an agreement signed by the winner which would permit the station to use the winner's name in connection with the contest or publicizing the contest.

Tax Consequences Of Broadcasting Contests

Whenever a licensee broadcasts a station-run contest in which a prize worth \$600 or more is awarded, it must file a 1099 MISC federal tax form. In addition, whenever a party wins an aggregate of \$600 or more in prizes from the station during a calendar year, the station must file a 1099 MISC for that person. *See I.R.C. §6041; Treas. Reg. §1.6041-a(d)(3)*. The broadcaster who files a 1099 MISC tax form incurs no tax liability, and is simply complying with a law which requires the licensee who conducts a station-run promotion to inform the IRS as to the identity of a contestant who has won a taxable prize. It is important to stress that the broadcaster's duty to file a 1099 MISC form attaches only to station-sponsored contests, and not to promotions in which the licensee airs a paid advertisement for a non-station affiliated contest promoter. If the broadcaster is required to file a 1099 MISC form, it should be certain to acquire the contestant's social security number prior to awarding the prize, because it is necessary to report the winner's social security number on the tax form.

Form 1099 MISC must be submitted along with Form 1096, which is a form itemizing all of the 1099s submitted by each licensee to the IRS. Both forms must be submitted within a certain period each tax year. Contact the local IRS office listed in your area to order forms and to get the filing dates.

A broadcaster is entitled to deduct from its taxable income the amount of money spent in conducting a station-sponsored contest, such as the money spent to purchase prizes. I.R.C. §162. So long as such expenses are "ordinary" and "necessary" costs incurred in the course of business, the IRS fixes no dollar limit on deductibility.

Broadcasting The Contestant's Voice

Before beginning to record a telephone conversation for future broadcast, or prior to broadcasting such a conversation live, the licensee must inform any party to the conversation of the intention to broadcast the call. 47 C.F.R., §73.1206 (1988). The FCC allows an exception where such a party is aware or may be presumed to be aware, from the circumstances of the conversation, that it is likely to be broadcast.

Awareness is presumed only when the other party originates the call and it is obvious that the call is in response to a program which customarily broadcasts the telephone conversations. *Broadcast of Telephone Conversations*, 23 F.C.C. 2d 1, 19 R.R. 2d 1504 (1970). The purpose of the rule is to give the answering party an opportunity, while not on the air, to refuse permission to have the conversation broadcast by simply not participating in the conversation. Initiating a live broadcast with the intention of seeking the other party's "permission" for the broadcast once the person answers the phone or at some point during the conversation violates 47 C.F.R. §73.1206 (1988).

It is important to remember the requirements of 47 C.F.R. §73.1206 (1988) when planning a promotion in which contestants are selected at random from the telephone directory and called at home as part of the contest. The contestant must be informed of the station's intention to air the conversation "live" or record the conversation for future broadcasting, before the live broadcast or tape recording is initiated. If the licensee broadcasts the contestant answering the phone with a "hello" he or she has failed to comply with the rule. Even if a contestant voluntarily submits a postcard with his or her phone number on it in order to participate in a "Calling for Cash" contest, the broadcaster still must "inform" the contestant before recording the conversation.

If, for future promotions, the broadcaster wishes to use a taperecording of the winner accepting the prize as part of a station promotion, he or she should obtain a release. The release will serve as written permission to use the tape for commercial purposes and protect the station from future claims related to the use of the tape. (Sample releases may be found in the NAB publication "Getting What You Bargained For," available through NAB Services.)

Logging Requirements

As part of the FCC's radio and television deregulation decisions, broadcast stations are no longer required to maintain program logs, which formerly had contained entries for contest promotional announcements for both licensee-conducted contests and the contests of advertisers. However, the elimination of these logging requirements should not preclude the prudent broadcaster from maintaining appropriate records of station contests and

promotions. If questions arise as to whether the promotion constituted prohibited lottery information, or if a contest is characterized as fraudulent or misleading or otherwise adverse to the public interest, the record can document the licensee's actions. (See the discussion of contest files above.)

NAB recommends that a broadcaster maintain a commercial record which notes the date, time, duration and sponsor of commercial announcements, including those which promote contests.

The elimination of the program logging requirements has no effect upon the sponsorship identification rules. 47 C.F.R. §1212 (1988). This rule provides that whenever a station broadcasts any material for which it has received or will receive any money, service or other valuable consideration, it must fully and fairly identify the person or group sponsoring the broadcast.

Compliance With FCC Contest Guidelines

Please note: The following guidelines are provided only to help the licensee interpret 47 C.F.R. §73.1216 (1988). The standards suggested below are not required by the Commission because they were never officially adopted.¹⁶ These examples should be viewed as merely illustrative of the everyday situations facing licensees.

Scope Of Rule

For the purpose of 47 C.F.R. §73.1216 (1988), a contest includes any arrangement in which a prize is offered to the public. A prize can be anything of value: cash, refunds, negotiable instruments, securities, merchandise, services, tickets, trips, recording contracts, personal appearances and so on. The means of selecting a winner are not significant for the purpose of defining a contest, but typically involve ability, skill, knowledge, chance or similar factors or combination of factors.

The rule applies to all contests conducted by the licensee and broadcast to the public. The rule does not apply to licensee-conducted contests not advertised to the public. For example, sales contests among station employees are a private matter between the licensee and its employees, and such contests are excluded from the scope of this rule. Broadcast stations often advertise contests for businesses, non-profit groups or others, with no licensee involvement in the actual conduct of the contests. Even where a licensee's only connection with a contest is to advertise it for another, its responsibility is the same as for commercial announcements in general. The licensee should "take all reasonable measures to eliminate any false, misleading or deceptive matter."

and accurately. If a restriction is not reasonably disclosed, that restriction must be presumed by the audience not to apply, and a licensee that applies a restriction not reasonably disclosed will not have conducted the contest substantially as announced.



Contest Prizes

Example #4: Prize packages.

Station XXXX conducts a contest offering dozens of prize packages collectively worth thousands of dollars, but each package is worth about \$5,000. The contest will have two winners, each of whom may choose one of the prize packages. How should the prizes be advertised?

Since only about \$10,000 in prizes will be awarded, the licensee should avoid giving the misleading impression that it may award hundreds of thousands of dollars worth of prizes. The truth is, the contest offers only two winners a single prize package each. Announcements indicating that a total of \$10,000 in prizes will be offered or given away would be acceptable, as would announcements that each winner will receive \$5,000 in prizes. Announcements indicating that, "You can win \$10,000 in prizes," would be unacceptable, since there is little chance that a single person would win both prizes.

Example #5: Match the number and win.

Station XXXX conducts a contest offering \$1,000 to any listener who can present a dollar bill matching a serial number read over the air. During the course of the contest, 1,000 serial numbers are to be broadcast. Would it be acceptable to advertise the contest as offering \$1,000,000 in prize money?

No. The licensee should not "offer" more in prizes than it can reasonably expect to award. Because the odds that a listener might have the dollar bill whose serial number is announced are so small, it is likely there will be but a few winners. The odds that there will be 1,000 winners (or any number even approaching that many) are extremely low.

Example #6: Treasure chests.

Station XXXX conducts a "Treasure Chest" contest, offering 25 different prizes each worth about \$40. There will be a single winner, who may win 1, 5, 10, or all 25 of the prizes. Would it be acceptable to advertise the contest as a \$1,000 Treasure Chest?

Yes. This differs from the contest in the previous example in that all \$1,000 in prizes can be won. As long as all the prizes in the chest can be won (in other words, as long as they are all offered), the sum of their individual values can be publicized without deceptively overstating the prize values.

Example #7: Prizes acquired in exchange for advertising time—fair market value.

Station XXXX conducts a contest offering an item of merchandise as grand prize. The item regularly sells for \$250 in the station's area, but was bought for \$300 worth of advertising time. As consolation prizes, the station made a wholesale purchase of 1,000 T-shirts for \$1.25 each, though the equivalent T-shirt sells for \$2.00 retail. For advertising purposes, how should XXXX value the prizes?

Prizes should be promoted at their normal retail value, the retail price a member of the station's audience could expect to pay for the identical prize or its equivalent. In the example given, XXXX should advertise the grand prize as worth \$250, and the consolation prizes as worth \$2.

Misleading The Contestant About Prizes Offered

Example #8: Vacation prizes.

Station XXXX promotes a contest as offering "vacations" at a distant resort. In fact the prizes consist of only hotel accommodations; winners must provide their own transportation, meals, and expense money. Are the announcements misleading?

Yes. Since the term "vacation" popularly connotes more than just lodging, it should not be used where the prize is so limited. Prize descriptions should clearly indicate the nature and value of prizes offered, and should not mislead, whether by misstatement, exaggeration, implication, or omission of material facts. The ultimate test of descriptions of material terms—including prize descriptions—is how they are likely to be perceived by the station's audience.

Example #9: Guessing the prize.

Station XXXX conducts a contest in which an entrant wins by correctly guessing the prize offered. What information should be disclosed about the prize?

In such a contest, a licensee may disclose as much or as little information about the prize as it chooses. Disclosure of the prize is not required in contests where non-disclosure is an essential element in the operation of the contest. However, any information broadcast must be accurate and not misleading. Thus, it would not be an accurate description for a station to advertise a secret-prize contest with cash prizes between \$1 and \$10,000 if the maximum prize to be offered is only \$2,000, even though \$2,000 does lie between \$1 and \$10,000.¹⁸ Reasonable rounding-off is of course not misleading.

Example #10: Joke prizes.

Station XXXX promotes a contest by saying the winner will receive the keys

Material Contest Terms

The material terms of a contest are those factors that are significant in defining the operation of the contest. From the potential contestant's viewpoint, they are factors that affect his or her decision whether or not to participate in the contest and how to participate and win.

While the material terms of a contest will of course depend on the nature of the contest, in general they will include information about prizes, eligibility restrictions, how to enter or participate, how winners are selected, entry deadline dates, whether prizes can be won, when prizes can be won, the extent, nature and value of prizes, time and means of selecting winners, and tie-breaking procedures. For example, Station XXXX conducts a contest in which a \$100 cash prize is to be awarded. Anyone is eligible to enter as often as one wishes and may do so by mailing a postcard to the station. The winner will be selected by random drawing of the cards received. In this simple contest, the material terms are the prize, method of entering the contest, eligibility restrictions and the method of selecting the winner. The licensee should specify that the prize is \$100 cash, that the contest is entered by mailing postcards to the station, and that the winner will be selected by a drawing of the cards. The cut-off date for accepting entries (the only eligibility restriction in this contest) should be announced well before the deadline date. In more complex contests, special or unusual rules applying to the contest should be made clear. 47 C.F.R. §73.1216(b) (1988).

Disclosure Of Material Contest Terms

Method of Disclosing Material Contest Terms. The material terms should be disclosed by announcements broadcast on the station conducting the contest. They should be stated whenever the station purports to set out the conditions or terms of the contest (whether on the air or in other media), but need not be given in full with brief promotional announcements that do not purport to set out the conditions or terms of the contest.¹⁷ However, no contest description should be false, misleading, or deceptive with respect to any material term. The information given should be in letters of sufficient size to be readily legible to an average viewer, should be shown against a background that does not reduce their legibility, and should remain on the screen long enough to be read in full by the average viewer. Similarly, audio announcements should be understandable to the average listener. The nature of the station's audience should be taken into account. Licensees should, therefore, carefully review promotional material before its use to assure themselves that the material will be understood by the station's audience.

Sample Contests

Disclosure Of Material Terms

Example #1: Teaser announcements.

On May 15 Station XXXX begins promoting an upcoming contest with announcements such as, "The Spring Sweepstakes Contest is coming soon to XXXX!" On May 20 it adds announcements such as, "Enter the XXXX Spring Sweepstakes!" On May 25 announcements such as, "Win \$500 in the XXXX Spring Sweepstakes Contest!" are broadcast. On May 30 the audience is told how to enter the contest. When does the obligation arise to disclose the material terms of the Spring Sweepstakes Contest?

The obligation to disclose the material terms of the contest arises when potential contestants (a) are asked to participate in the contest and (b) have enough information about the contest to reasonably believe that participation is possible. The May 15 announcements neither invite participation nor tell how to participate, so disclosure is not required on May 15. The May 20 announcements invite participation, but do not tell how to participate; if information about how to participate has not been disseminated, disclosure is not required. Similarly, the May 25 announcements do not tell how to participate, so disclosure is not required. Disclosure is finally required on May 30, for then the audience has both been asked to participate and been told how to participate.

Eligibility Requirements

Example #2: Permissible eligibility requirements.

Station ZZZZ is promoting a contest in which only children attending religious schools can participate.

The rule does not prohibit the use of any eligibility restriction reasonably disclosed. However, some requirements (for example, race, gender, or religion) might be contrary to the public interest if the licensee were to air predominantly restricted contests. Permissible eligibility restrictions include residence, number of entries per person and time deadlines.

Example #3: Contestant calling from a particular exchange.

- Station XXXX conducts a call-in contest, each time asking for a contestant from a specified telephone exchange. Once the announcer intends to ask for a caller from the 632 exchange, but forgets to name the exchange. The first caller is from the 456 exchange. Should the caller be permitted to participate in the contest?

Yes. Any eligibility restriction is a material contest term and should be disclosed fully



Example #19: Disclosing contest deadlines.

Station XXXX begins a contest in which the winner will be selected by drawing a postcard entry, but does not state a deadline date for accepting entries. Has it failed to disclose a material contest term properly?

Yes. The deadline date should be announced at the outset so that any person who wishes to enter the contest may do so. In the case of mail entries, it should be specified whether the deadline date is the date of postmark or the date of receipt. A licensee may prefer to use the date of receipt as the deadline, since properly postmarked entries may be delayed in the mail.

Example #20: Substituting prizes.

Station XXXX conducts a contest with an announced prize of a vacation trip to Buenos Aires. After the contest begins, though, arrangements for the trip fall through, and XXXX substitutes a different prize. Has the licensee failed to properly conduct the contest substantially as announced?

The answer depends on the circumstances of the change, as mentioned in Contest Example #17. In this case the licensee should:

- take reasonable steps from the beginning to assure itself that the prizes offered will be available when the contest is concluded;
- attempt to secure an equivalent prize if the original becomes unavailable;
- substitute a prize of comparable value if an equivalent prize cannot be secured; and,
- announce the change to its audience as soon as possible.

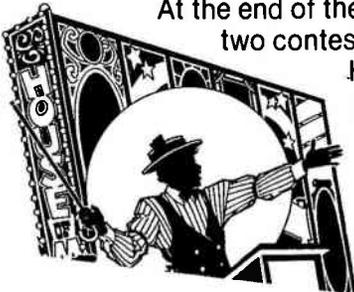
The Commission may find the change improper if the licensee fails to take these reasonable steps.

Ambiguous Rules**Example #21: Scavenger hunts.**

Station XXXX conducted a Scavenger Hunt contest, publishing a list of items to be collected. As the contest progressed, it became apparent that the list was ambiguous, and XXXX modified the requirements slightly.

At the end of the contest there was not a clear winner, though two contestants claimed to have met all the requirements.

How should the station have avoided these problems?



Contest rules and procedures should have been carefully reviewed in advance to assure that all likely problems had been anticipated and avoided. In this case, scavenger list

particular prize, the means of breaking the tie is a material contest term which should be disclosed in advance. For example, a contest with a \$10,000 cash prize ends with 100 eligible "winners." Will the station award each of the hundred \$10,000? Will it divide the \$10,000 equally among the 100? Will it conduct a random drawing to select a single winner? If the tie could reasonably have been anticipated, a tie-breaking procedure should have been adopted and disclosed.



Changes In Material Contest Terms

Example #17: Change made after contest has begun.

Station ZYZY announces that 10 "Zebra" cars will be awarded in a contest. The station is later informed by the Exotic Car Company that it is discontinuing its line of "Zebra" cars and that only two will be available as prizes. What should the broadcaster do?

The broadcaster should announce the substitution of prizes of equal value as soon as possible. Changes in material contest terms may constitute failure to conduct the contest substantially as announced. For the Commission's purposes, a licensee's liability under the rule will be determined by the circumstances of the change, and if the licensee's actions are reasonable, no sanction will be imposed. Factors considered include:

- the extent and significance of the change;
- whether the change unfairly disadvantages some contestants;
- if the change is necessitated by circumstances beyond the licensee's control; and,
- whether the circumstances requiring the change could have been anticipated.

When it is determined that a material contest term must or should be changed, the impact of the change should be minimized to reduce the possibility of disadvantaging some contestants, and the change should be announced promptly and conspicuously.

Example #18: Changes in eligibility requirements.

Station XXXX begins an hourly call-in contest without mentioning any eligibility restrictions, but decides to limit each contestant to a single call after noticing that a small group of entrants is making most of the calls. Is this proper?

Yes. Like all other changes in material contest terms, changes in eligibility restrictions will be considered in light of such factors as those mentioned in Contest Example #17. Since this change is made to make the contest more fair to a greater number of potential contestants, and does not unfairly disadvantage any, it is a proper change. However, adequate notice of the change should be given, and it should not be applied retroactively.

contest, the contest will not have been conducted substantially as announced. Thus, a contest would be conducted improperly if a station employee selects a tape that is known to match or not match the contestant's guess, or if the number of winners is controlled by some means other than chance.

Example #14: Special assistance to an entrant.

Station XXXX conducts a contest in which the winner will be the first entrant to identify a secret celebrity. XXXX broadcasts daily clues as to the identity of the celebrity. A listener, confused by a clue, calls the station requesting a clarification. What should XXXX do?

Fair conduct of a contest requires that each entrant have a fair opportunity to win. If special information or assistance that could affect the outcome of a contest is given to some entrants without being made available to all, the contest will not have been conducted substantially as announced. Thus, no contestant or group of contestants should be given special information or assistance that is not available to the station's entire audience.

Example #15: Thwarting a potential winner.

Station XXXX conducts a contest in which a person must listen for his or her name to be announced on the air, then call a special telephone number within five minutes in order to win. The telephone line is used for other station business, though, and is sometimes busy when contestants call the station. What should the station do?

The station should take special care to see that the telephone line is free when names are broadcast. If attempts to keep the line open do not succeed, the station should change the operation of the contest to assure that contestants have a reasonable chance to win. Failure to take such action may constitute failure to conduct the contest substantially as announced.

Example #16: Tie breakers.

Station ZZZZ announces that the child with the "goofiest Halloween costume" will win a \$100 gift certificate. This contest has been held for many years and ties frequently occur. The judges announce a tie between Patricia, dressed as a bag of french fries, and Marty, dressed as a washing machine. How should tie breaking procedures be disclosed?



Where it could reasonably be anticipated that there might be more than one winner for a

to an automobile. In fact the winner receives just that, the keys, but no car. Is such advertising misleading?

Yes. The advertising implies that not only will the keys be awarded, but that an automobile will be part of the prize. If an automobile is not part of the prize, the station has not fully disclosed a material term of the contest, and its failure to award the car would constitute a failure to conduct the contest substantially as announced.

Example #11: Delay in awarding a prize.

Station XXXX conducts a contest offering an automobile and announces a winner. However, the winner does not receive the prize until more than a year after the contest ends. Is the delayed award of the prize improper?

Yes. The prompt award of prizes at the conclusion of a contest is an implied material term of every contest unless there is an announcement to the contrary. Unreasonable delay in awarding prizes, therefore, is a failure to conduct the contest substantially as announced.

Determining Winners

Example #12: Sham winners.

Station XXXX conducts a contest in which the winner is to be selected by a random drawing of entries. Before the drawing, though, a winner is selected by some other means, and the drawing is a sham. Has the contest been conducted substantially as announced?

No. A contest is not conducted substantially as announced if the means of determining the winner is not the same as announced to the public.¹⁹ It also is a serious deception when legitimate entrants have no chance to win, as when a non-existent winner is announced to avoid awarding the prize, or the prizes are awarded to predetermined winners.

Example #13: Controlling the number of winners.

Station XXXX conducts a "Turkey Shoot" contest. Once an hour a contestant who calls the station is permitted to guess how many "shots" will be required to hit the turkey target: one, two, three, or four. Following the guess, a tape recording of shots is played. If the number of shots matches the contestant's guess, the contestant wins a lovely ceramic turkey vase. If not, no prize or a small consolation prize is won. What problems can contests of this type present?

The most common problem is that the winner-determining process may not operate as implied. In the example given, contest procedures imply that whether a particular contestant wins depends entirely on the chance coincidence of his or her guess and the number of shots on the tape. If for any reason chance is not the sole factor in determining winners in such a

descriptions should have been thoroughly analyzed to eliminate the ambiguities, and special attention should have been given to the procedure for determining the winner. Any clarifications required during the course of the contest should have been announced to the station's audience so no contestant would have an unfair advantage. Where such precautions are not taken, the contest may not be conducted substantially as announced.



Example #22: Increasing the value of prizes.

Station XXXX conducts a contest offering a year's car washes as the prize. Two weeks after the contest begins, a set of tires is added to the prize. Two weeks later, a car is added. Is there anything improper about these prize changes?

No. Since no contestant is unfairly disadvantaged by the increases in prize value, these changes are not improper. However, reductions in prize value are suspect, raising the question whether there ever was a reasonable chance that the larger prizes could have been won.

Misrepresentations

Example #23: Evaporating prizes.

Station XXXX conducts an hourly \$25 "guess the singer" contest, but once a day adds a bonus of \$100 if the contestant makes a correct guess during a particular hour. On a particular day, the bonus prize hour occurs in the early morning. However, the station's announcers continue to tell contestants later in the day that they may win an extra \$100. Has the contest been conducted improperly?

Yes. When a station states or implies that a prize can be won when in fact it cannot, a material contest term (whether the prize can be won) has not been fully and accurately disclosed, and the contest has not been conducted substantially as announced. Similar misrepresentations occur when: a station urges its audience to look for a hidden prize before it is hidden; a station urges submission of entries that it knows no longer have any chance of winning (for example, after receipt of a correct entry in a contest where the earliest correct entry is the winner); and, a station announces a \$1,000 Treasure Chest contest (see Contest Example #10), but there is no way all \$1,000 can be won.

Example #24: Stay tuned and stay tuned, etc.

Station XXXX conducts a contest offering \$5,000 in merchandise to a single winner. The winner will be the first person to call a designated telephone number once the station announces that calls will be accepted. The station urges its audience to stay tuned for an imminent

announcement that calls will be accepted (“maybe in five minutes, maybe in five hours, maybe in five days”) though the announcement will not be made for two weeks. Are the promotional announcements improper?

Yes. Representations that it is possible to win the contest in the immediate future are false if it will not be possible to win until much later. Such announcements do not accurately disclose a material contest term (when the prize can be won), and, therefore, are improper.

Conclusion

The purpose of this handbook has been to clarify the revised federal lottery laws and to guide broadcasters who are considering promotions that may still be subject to federal and/or state restrictions. NAB hopes that this booklet, and the examples contained within, has been a useful tool for broadcasters confronted with questions about federal and/or state lottery laws. We must stress, however, that there is no substitute for the advice of counsel when particular situations arise. Moreover, because most state lottery laws are subject to constant change, NAB urges broadcasters to consult their state broadcaster associations or state governments for information concerning the current status of individual state lottery laws.

Footnotes

¹As an indication of the varying nature of state lottery laws and restrictions, Appendix A contains a state-by-state rundown of the lottery law provisions that were in effect on the date of this publication. Because these state laws change over time—and are expected to undergo special scrutiny by state legislatures as a result of the recent federal law change—it is important that broadcasters carefully check these state laws periodically. The NAB Legal Department plans to update its own lists of state laws and may be contacted by individual member stations when state law questions arise. Broadcasters are also advised to contact their state broadcaster associations or state attorneys general offices. (See list of contacts in Appendix B.)

²Lotteries conducted by commercial organizations must be promotional activities which are clearly occasional and ancillary to the primary business of that organization.

By using the words “occasional” and “ancillary,” Congress originally intended to distinguish casino gambling from events sponsored time to time by commercial organizations whose primary business is not gambling. In an informal opinion, however, the FCC has indicated that it *does not* consider an event “occasional” if it is held on a daily basis, or if it is held at regular intervals so close together (i.e., weekly, monthly) that the event appears to be part of one ongoing promotion or a series of promotions.

Notwithstanding the FCC’s informal opinion, as this book was going to press, neither the FCC, nor any other government body, had developed a firm set of policies as to how the language of the revised federal law would be interpreted in factual situations. As such, NAB urges special caution in broadcasters’ implementation of contests under the revised statute.

³The FCC pointed out that it is the licensed location (city of license) of a station, rather than the actual location of a transmitter or studio, to which the statute refers in providing a limited exemption from the prohibitions of Section 1304.

⁴47 C.F.R. §73.1211(c)(2).

⁵47 C.F.R. §§73.4125, 73.4126, 73.4130.

⁶*Report and Order* in MM Docket 83-842, *In the Matter of Elimination of Unnecessary Broadcast Regulation*, 56 R.R. 2d (P&F) 976 (1984).

⁷18 U.S.C. §§1084, 1952, 1955, 1962.

⁸For greater detail on the topic, see page 8.

⁹See page 4 for more information on skill versus chance. For information on horse racing and jai alai, see page 17.

¹⁰It is important to inform the contestant that he or she will be on the air before you broadcast his or her voice, unless such a broadcast of the contestant's voice would be presumed from the nature of the program (e.g., a "call-in" show). For guidelines, see page 51.

¹¹*United Broadcasting Co. (WOOK-FM)*, FCC 78-819, November 27, 1978.

¹²A licensee who airs a contest which threatens lives or property may face a lawsuit for deaths, injuries and/or damage that result from such a broadcast.

¹³For more information, see Contest Example #12, page 57.

¹⁴*Letter to Colonial Broadcasting Co., (WFIF)*, 44 RR 2d 1191 (1978).

¹⁵The rules of the contest should include: (a) eligibility requirements; (b) the prize structure (i.e., the nature and value of prizes offered); (c) the number of entries permitted; (d) the type of submission required; (e) where, when and how entries are to be submitted; (f) the basis on which "prizes" will be awarded (including, where applicable, tie-breaking procedures); (g) the termination date of the contest; and (h) any conditions or limitations.

¹⁶*Report and Statement of Policy re: Commission En Banc Programming Inquiry*, FCC 60-970, 25 Fed. Reg. 7291, 20 R.R. 1901 (1960). See also *Public notice re: Applicability of Lottery Statute to Certain Contests and Merchandise Sales Promotion*, 18 F.C.C. 2d 52, 16 R.R. 2d 1559 (1969).

¹⁷Examples of such promotional announcements are: "Win up to \$1,000 on XXXX!" "Play Easy Bucks with XXXX! You may win!" "XXXX, your Cash Words station!"

¹⁸High-Low contests present a unique problem, and somewhat greater flexibility in announcing the prize range would be reasonable. An example of High-Low is a contest in which a contestant is asked to guess the amount of money in a barrel. If the guess is incorrect, the announcer informs the audience that the guess was too high or too low. The next caller has the benefit of the clue. A serious question of prize overstatement would be raised if several successive "jackpots" were offered, all worth substantially less than the maximum announced.

¹⁹This and some of the following examples may also involve violations of Section 509 of the Communications Act of 1934, as amended, 47 U.S.C. §509 (1976).

Appendix A

State Law Summary—March 1990

This state law summary which follows is the result of research conducted by NAB's Legal Department and in conjunction with state broadcaster associations. It is based on information available at the date of publication.

Because state lottery laws are subject to constant change, broadcasters are urged to consult with the appropriate state authorities and/or state broadcaster association (see Appendix B) or their local attorney for the current status of individual state laws.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
ALABAMA None as of date of publication.	Only Bingo conducted by licensed entities in certain counties (state constitution).	Not legal (state constitution).	Yes, advertising of all lotteries, even those of other states is illegal. No restrictions on bingo advertising by stations licensed in counties with bingo.
ALASKA None as of date of publication.	Only certain groups as identified by Alaska law can apply for permit. Limit on proceeds.	Not legal (statutory law).	Yes, can only advertise lawful non-profit lotteries.
ARIZONA Yes	Allowed if certain conditions are met (Opinion of Attorney General).	Not legal.	Yes, can only advertise lawful non-profit lotteries. No advertising restrictions for state operated lotteries (statutory law).
ARKANSAS None as of date of publication.	Not legal (case law).	Not legal (state constitution).	Yes, cannot even advertise out of state lotteries (statutory law).
CALIFORNIA Yes	Bingo allowed if proceeds go to charity and there is a local government ordinance allowing bingo (statutory law).	Not legal (opinion of Attorney General).	Yes, can only advertise lawful non-profit lotteries (statutory law). No advertising restrictions for state operated lotteries.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
COLORADO			
Yes	Allowed for certain organizations. Bingo allowed for certain organizations licensed by the secretary of state (state constitution).	Not legal (state constitution).	Yes, can only advertise state operated lotteries. However, certain restrictions apply (statutory law).
CONNECTICUT			
Yes	Traditional lotteries not allowed. Bazaars, bingo, Las Vegas Nights and raffles, allowed under certain conditions by certain organizations (statutory law).	Not legal (statutory law).	Yes, ads 30 seconds or longer for state operated lottery tickets require a statement of the chance of winning per ticket. Cannot advertise time, prize, or location of bazaar, raffle, or games of chance (statutory law).
DELAWARE			
Yes	Allowed for specific organizations. Restrictions apply (state constitution).	Not legal (state constitution).	Yes, can only advertise state operated and lawful non-profit lotteries.
DISTRICT OF COLUMBIA			
Yes	Only bingo if for charitable or educational purposes and regulated by lottery and charitable games control board (statutory law).	Not legal (statutory law).	Yes, can only advertise lawful non-profit bingo.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
FLORIDA			
Yes	Only eligible organizations that have been in existence for three years may conduct bingo or guest games. Proceeds must be donated to non-profit organizations (statutory law).	Not legal (state constitution).	Yes, can advertise state operated bingo. Cannot advertise non-profit bingo (statutory law).
GEORGIA			
None as of date of publication.	Bingo allowed (statutory law).	Not legal (state constitution).	Yes, can only advertise lawful non-profit bingo.
HAWAII			
None as of date of publication.	Not legal (statutory law).	Not legal (state law).	Yes, cannot even advertise other state lotteries.
IDAHO			
Yes	Not legal (statutory law).	Not legal (statutory law).	Yes, can only advertise state operated lotteries. Subject to regulation by lottery commission.
ILLINOIS			
Yes	Lotteries allowed. Bingo allowed. License required.	Not legal (statutory law).	Yes, can advertise state operated lotteries but specific groups or economic classes cannot be targeted. Lawful non-profit lotteries and bingo can also be advertised (statutory law).

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
INDIANA			
Yes	Not legal.	Not legal.	No restrictions apply to state operated lotteries.
IOWA			
Yes	Lotteries allowed. Bingo allowed but license required (statutory law).	Allowed if commercial organization's activity is occasional and ancillary to the primary business or activity of the organization.	No additional restrictions. Amended state statute to conform with federal law.
KANSAS			
Yes	Bingo allowed. License required. Restrictions apply (statutory law).	Not legal (state constitution).	Yes, can only advertise state operated lotteries Cannot advertise bingo (state law). Legislation to allow bingo advertising was pending as of date of publication.
KENTUCKY			
Yes	Bingo allowed (statutory law).	Not legal.	Yes, can only advertise state operated lottery and non-profit lawful bingo.
LOUISIANA			
None as of date of publication.	Charitable raffle, bingo and keno allowed. License required (statutory law).	Not legal (state constitution).	Yes, can only advertise lawful non-profit bingo, raffle and keno (statutory law).

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
MAINE Yes	Bingo and games of chance allowed for some organizations. License required (statutory law).	Not legal (statutory law).	Yes, the lottery director may pick a person or firm to advertise state operated lotteries. State advertising guidelines apply to bingo and games of chance.
MARYLAND Yes	Bingo and raffles are legal in certain counties (statutory law).	Not legal (statutory law).	Yes, can only advertise state operated lottery and lawful bingo and raffle games.
MASSACHUSETTS Yes	Bingo allowed if licensed by State Lottery Commission and approved by city council and mayor. Other restrictions apply. Raffles and bazaars are legal with a permit and if net proceeds go to non-profit organizations. Other restriction apply (statutory law).	Not legal (statutory law).	Yes, cannot advertise bingo. No advertising restrictions for state operated lotteries. No advertising restrictions for lawful raffles and bazaars (statutory law).

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
MICHIGAN			
Yes	Bingo, Millionaire Parties and raffles allowed. License required. Restrictions apply (statutory law).	Not legal (statutory law).	Yes, can only advertise non-profit bingo if Commissioner permits. Restrictions apply. No advertising restrictions for state operated lotteries. Can advertise lawful lotteries of other jurisdictions.
MINNESOTA			
Yes	Raffles, paddlewheels, tip-boards and pull tabs allowed by certain organizations. License required in certain cases.	Not legal as of date of publication. According to Minnesota Broadcasters Association, as of May 7, 1990, Minnesota law will change to conform to revised federal lottery laws.	Yes, restrictions apply to the content of state operated lottery advertisements. Cannot advertise non-profit lotteries. According to MN Broadcasters Assn., as of 5/7/90, Minnesota law will change to conform to revised federal lottery laws.
MISSISSIPPI			
None as of date of publication.	Certain organizations under certain conditions can hold bingo and raffles (statutory law).	Not legal (statutory law).	Yes, can only advertise lawful bingo (statutory law).
MISSOURI			
Yes	Bingo allowed. State license required (statutory law and state constitution).	Not legal (state constitution).	Yes, several restrictions on state operated lotteries. Cannot advertise bingo.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
MONTANA			
Yes	Bingo and raffles allowed. License required.	Bingo and raffles allowed. License required. Prize limit and other restrictions apply. Rodeo and agricultural lotteries allowed (statutory law).	Yes, must state odds in state operated lottery advertisements. Can advertise lawful bingo and raffles.
NEBRASKA			
None as of date of publication.	License required for lottery only where gross proceeds are more than \$1,000. Each organization may conduct one small lottery per calendar month. License required for raffle only where gross proceeds are more than \$5,000. Bingo allowed if conducted by licensed charitable organization and municipality (statutory law).	Legislature can authorize lotteries that are business promotions (state constitution).	Yes, advertising restrictions apply for bingo.
NEVADA			
None as of date of publication.	Lotteries are not allowed (Attorney General's opinion) Bingo allowed. License required (statutory law).	Lotteries are not allowed (state constitution). Bingo allowed. License required (statutory law).	Yes, can only advertise bingo.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
NEW HAMPSHIRE			
Yes	Bingo allowed, raffles allowed. Permit from city council required. Lotteries and gambling allowed (statutory law).	Special bingo licenses issued to certain groups. In very limited situations, gas stations can promote games of chance (statutory law).	No advertising restrictions for state operated lotteries, lawful bingo, and non-profit raffles and lotteries (statutory law).
NEW JERSEY			
Yes	Not legal (statutory law).	Only state regulated casino gambling is allowed (statutory law).	Yes. Federal prohibition preempts state advertising law allowing casino advertising.
NEW MEXICO			
None as of date of publication.	Two lotteries per year per organization allowed if all proceeds are expended in state for public purposes. No part of proceed can go to any individual or employee of organization. Bingo and raffles allowed.	Drawings at fairs are allowed if proceeds benefit certain organizations. Movie theaters can offer prizes (cash and merchandise for advertising purposes) (statutory law).	Yes, only lawful non-profit lotteries may be advertised. However, lawful non-profit bingo or raffles may not be advertised (statutory law).
NEW YORK			
Yes	Subject to state and municipal control. Proceeds must be for charitable purposes. Bingo is allowed, license required (statutory law).	Not legal (state constitution).	Yes, cannot advertise non-profit lotteries. Can advertise bingo on the radio, certain restrictions. No advertising restrictions for state operated lotteries.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
NORTH CAROLINA			
None as of date of publication.	Bingo and raffles allowed, license required (statutory law).	Not legal (state law).	Yes, can only advertise bingo or raffles. Cannot advertise lawful out-of-state lotteries.
NORTH DAKOTA			
None as of date of publication.	Lotteries allowed. All net proceeds must be used for non-profit uses. License required if more than \$2,000 is raised. If less, organization needs city approval in city where event is held (state constitution and statutory law).	Not legal.	No restrictions on how lawful lotteries can be advertised.
OHIO			
Yes	Allowed if conducted for charitable purposes by licensed charitable organization.	Not legal (statutory law and state constitution).	Yes, can only advertise state operated lotteries and charitable bingo. Cannot advertise charitable lotteries (state constitution).
OKLAHOMA			
None as of date of publication.	Bingo and games of chance allowed. License required (statutory law).	Not legal (statutory law).	Yes, can only advertise lawful bingo.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
OREGON			
Yes	Bingo, raffles and other games of chance allowed. License from State Department of Justice required (statutory law).	Not legal (statutory law).	Yes, for TV advertisements, certain restrictions apply. No restrictions for radio. No advertising restrictions for bingo, raffles, etc.
PENNSYLVANIA			
Yes	Bingo allowed if conducted for a charitable or civic purpose (statutory law).	Not legal.	No advertising restrictions apply for state operated lotteries and lawful bingo.
PUERTO RICO			
Yes	Charitable lotteries are allowed for certain organizations if: 1) proceeds are used for non-profit purposes; 2) organization files a report with the Department of Treasury (Puerto Rico statutory law).	Not legal.	No advertising restrictions apply for state operated lotteries or charitable lotteries.
RHODE ISLAND			
Yes	Annual or semi-annual commercial lotteries by clubs or societies permitted as long as all proceeds are donated to charity (statutory law).	Commercial events to promote retail businesses permitted. Promoter must file with Secretary of State where total of prizes is more than \$500 (statutory law).	No advertising restrictions apply for state operated lotteries or state authorized lotteries.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
SOUTH CAROLINA			
None as of date of publication.	Bingo allowed (statutory law and state constitution).	Bingo allowed if conducted at state and county fairs (statutory law and state constitution).	Yes, cannot advertise lotteries (state constitution).
SOUTH DAKOTA			
Yes	Bingo and other games of chance allowed if conducted by certain organizations and all net proceeds go to charitable purposes (statutory law).	Not legal (state constitution).	No advertising restrictions for state operated lotteries and other lawful non-profit lotteries.
TENNESSEE			
None as of date of publication.	Not legal (state constitution and statutory law).	Not legal (state and statutory law).	Not applicable.
TEXAS			
None as of date of publication.	Bingo allowed, license required. Restrictions apply (state constitution).	Not legal (state constitution).	Yes, the amount of a prize or series of prizes offered at a lawful bingo occasion cannot be included in the advertisement.
UTAH			
None as of date of publication.	Not legal (state constitution and statutory law).	Not legal (state constitution and statutory law).	Not applicable.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
VERMONT			
Yes	Bingo, raffles and games of chance allowed. Political parties are included in this category (statutory law).	Not legal (statutory law).	Yes, ads for state operated lotteries must state odds of winning. No restrictions for lawful non-profit bingo, raffles or games of chance.
VIRGINIA			
Yes	Bingo and raffles allowed if conducted by certain organizations, annual local permit required. Subject to other restrictions (statutory law).	Not legal (statutory law).	Yes, several restrictions apply to advertising state operated lotteries. No restrictions on non-profit bingo and raffles (statutory law).
WASHINGTON			
Yes	Raffles, social card games and fundraising events allowed. Restrictions apply (statutory law).	Agricultural fair can conduct bingo. Not more than 12 consecutive days in a calendar year (statutory law).	Yes, ads for state operated lotteries must include odds. No restrictions on agricultural fairs, non-profit raffles, bingo, etc. (statutory law).
WEST VIRGINIA			
Yes	Bingo allowed if conducted by charitable or public service organizations. License required. Prize limits. Raffles allowed by charitable or public service organizations. License not required.	Not legal (statutory law and state constitution).	No advertising restrictions for state operated lotteries and lawful bingo and raffles.

State Operated Lottery?	Non-Profit Lotteries (e.g., Church Bingo)?	Commercial Enterprise Lotteries (e.g., Retailer Raffles)?	Any Restrictions on Advertising Legal Lotteries?
WISCONSIN			
Yes	Bingo and raffles allowed. Prize limits, license required.	Not legal (statutory law).	Yes, advertising for state operated lotteries is limited to "informational advertising." Several restrictions apply for lawful non-profit lotteries.
WYOMING			
None as of date of publication.	Lotteries, bingo raffles, pull tabs, calcutta wagering allowed by charitable organizations. Several restrictions apply (statutory law).	Not legal (statutory law and state constitution).	No advertising restrictions on lawful bingo or raffles.

Appendix B

Sources of Information Concerning State Lottery Laws

To help broadcasters obtain information about their individual state lottery laws, we have included the following list of state government addresses and phone numbers, and appropriate state broadcaster association phone numbers. Because state lottery laws are subject to change, it is important for broadcasters to contact the numbers listed to find out about the current status of their state's lottery laws.

- 1. Alabama**
Public Information Dept.
Attorney General's Office
South House, 11 So. Union St.
Montgomery, AL 36130
(205) 242-7440
Alabama Broadcasters
Association
205-942-4571
- 2. Alaska**
Gaming Supervisor
Division of Occupational
Licensing
Department of Commerce and
Economic Development
(907) 465-2534
Attorney General's Office
P.O. Box K, State Capitol
Juneau, AK 99811-0300
(907) 465-3600
Alaska Broadcasters
Association
907-258-2424
- 3. American Samoa**
Attorney General's Office
P.O. Box 7
Pago Pago, American Samoa
96799
(684) 633-4163
- 4. Arizona**
Civil Division
Attorney General's Office
1275 West Washington
Phoenix, AZ 85007
(602) 542-1610
Arizona Broadcasters
Association
602-991-1700
- 5. Arkansas**
Consumer Division-Lottery
(501) 682-2341
Attorney General's Office
Press Secretary-Gambling
200 Tower Building
4th and Center Sts.
Little Rock, AK 72201
(501) 682-2007
Arkansas Broadcasters
Association
501-227-7564
- 6. California**
Deputy Attorney General
1515 K Street, Suite 638
Sacramento, CA 95814
(916) 324-5465
California Broadcasters
Association
916-444-2237

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7. **Colorado**
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Appendix C

Federal Statutes Concerning Lotteries and Indian Bingo

The following appendix contains selected sections of the federal "Lotteries" statute and the "Indian Gaming Regulation Act." NAB feels that these particular sections will be an important reference for broadcasters when they encounter problems or questions pertaining to federal lottery laws.

Lotteries

(As amended, effective May 7, 1990)

§1304. Broadcasting lottery information

Whoever broadcasts by means of any radio or television station for which a license is required by any law of the United States, or whoever, operating any such station, knowingly permits the broadcasting of, any advertisement of or information concerning any lottery, gift enterprise, or similar scheme, offering prizes dependent in whole or in part upon lot or chance, or any list of the prizes drawn or awarded by means of any such lottery, gift enterprise, or scheme, whether said list contains any part or all of such prizes, shall be fined not more than \$1,000 or imprisoned not more than one year, or both.

Each day's broadcasting shall constitute a separate offense.

§1307. Exceptions relating to certain advertisements and other information and to State-conducted lotteries.

(a) The provisions of sections 1301, 1302, 1303, and 1304 shall not apply to-

(1) an advertisement, list of prizes, or other information concerning a lottery conducted by a State acting under the authority of State law which is—

(A) contained in a publication published in that State or in a State which conducts such a lottery; or

(B) broadcast by a radio or television station licensed to a location in that State or a State which conducts such a lottery; or

(2) an advertisement, list of prizes, or other information concerning a lottery, gift enterprise, or similar scheme, other than one described in paragraph (1), that is authorized or not otherwise prohibited by the State in which it is conducted and which is—

(A) conducted by a not-for-profit organization or a governmental organization; or

(B) conducted as a promotional activity by a commercial organization and is clearly occasional and ancillary to the primary business of that organization.

(b) The provisions of sections 1301, 1302, and 1303 shall not apply to the transportation or mailing—

(1) to addresses within a State of equipment, tickets, or material concerning a lottery which is conducted by that State acting under the authority of State law; or

(2) to an addressee within a foreign country of equipment, tickets or material designed to be used within that foreign country in a lottery which is authorized by the law of that foreign country.

(c) For purposes of this section (1) “State” means a State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States; and (2) “foreign country” means any empire, country, dominion, colony, or protectorate, or any subdivision thereof (other than the United States, its territories or possessions).

(d) For the purposes of subsection (b) “lottery” means the pooling of proceeds derived from the sale of tickets or chances and allotting those proceeds or parts thereof by chance to one or more chance takers or ticket purchasers. “Lottery” does not include the placing or accepting of bets or wagers on sporting events or contests. For purposes of this section, the term a “not-for-profit organization” means any organization that would qualify as tax exempt under section 501 of the Internal Revenue Code of 1986.

Indian Gaming Regulatory Act—Pub.L. No. 100-497, 102 Stat 2467

DECLARATION OF POLICY

Sec. 3. The purpose of this Act is—

(1) to provide a statutory basis for the operation of gaming by Indian tribes as a means of promoting tribal economic development, self-sufficiency, and strong tribal governments;

(2) to provide a statutory basis for the regulation of gaming by an Indian tribe adequate to shield it from organized crime and other corrupting influences, to ensure that the Indian tribe is the primary beneficiary of the gaming operation, and to assure that gaming is conducted fairly and honestly by both the operator and players; and

(3) to declare that the establishment of independent Federal regulatory authority for gaming on Indian lands, the establishment of Federal standards for gaming on Indian lands, and the establishment of a National Indian Gaming Commission are necessary to meet congressional concerns regarding gaming and to protect such gaming as a means of generating tribal revenue.

DEFINITIONS

Sec. 4. For purposes of this Act—

(6) The term “class I gaming” means social games solely for prizes of minimal value or traditional forms of Indian gaming engaged in by individuals as part of, or in connection with, tribal ceremonies or celebrations.

(7)(A) The term “class II gaming” means—

(i) the game of chance commonly known as bingo (whether or not electronic, computer, or other technologic aids are used in connection therewith)—

(I) which is played for prizes, including monetary prizes, with cards bearing numbers or other designations,

(II) in which the holder of the card covers such numbers or designations when objects, similarly numbered or designated, are drawn or electronically determined, and

(III) in which the game is won by the first person covering a previously designated arrangement of numbers or designations on such cards,

including (if played in the same location) pull-tabs, lotto, punch boards, tip jars, instant bingo, and other games similar to bingo, and

(ii) card games that—

(I) are explicitly authorized by the laws of the State, or

(II) are not explicitly prohibited by the laws of the State and are played at any location in the State,

but only if such card games are played in conformity with those laws and regulations (if any) of the State regarding hours or periods of operation of such card games or limitations on wagers or pot sizes in such card games.

(B) The term “class II gaming” does not include—

(i) any banking card games, including baccarat, chemin de fer, or blackjack (21), or

(ii) electronic or electromechanical facsimiles of any game of chance or slot machines of any kind.

(C) Notwithstanding any other provision of this paragraph, the term “class II gaming” includes those card games played in the State of Michigan, the State of North Dakota, the State of South Dakota, or the State of Washington, that were actually operated in such State by an Indian tribe on or before May 1, 1988, but only to the extent of the nature and scope of the card games that were actually operated by an Indian tribe in such State on or before such date, as determined by the Chairman.

(D) Notwithstanding any other provision of this paragraph, the term "class II gaming" includes, during the 1-year period beginning on the date of enactment of this Act, any gaming described in subparagraph (B)(ii) that was legally operated on Indian lands on or before May 1, 1988, if the Indian tribe having jurisdiction over the lands on which such gaming was operated requests the State, by no later than the date that is 30 days after the date of enactment of this Act, to negotiate a Tribal-State compact under section 11(d)(3).

(8) The term "class III gaming" means all forms of gaming that are not class I gaming or class II gaming.

TRIBAL GAMING ORDINANCES

Sec. 11. (b)(1) An Indian tribe may engage in, or license and regulate, class II gaming on Indian lands within such tribe's jurisdiction, if—

(A) such Indian gaming is located within a State that permits such gaming for any purpose by any person, organization or entity (and such gaming is not otherwise specifically prohibited on Indian lands by Federal law), and

(B) the governing body of the Indian tribe adopts an ordinance or resolution which is approved by the Chairman.

A separate license issued by the Indian tribe shall be required for each place, facility, or location on Indian lands at which class II gaming is conducted.

(d)(1) Class III gaming activities shall be lawful on Indian lands only if such activities are—

(A) authorized by an ordinance or resolution that—

(i) is adopted by the governing body of the Indian tribe having jurisdiction over such lands,

(ii) meets the requirements of subsection (b), and

(iii) is approved by the Chairman,

(B) located in a State that permits such gaming for any purpose by any person, organization, or entity, and

(C) conducted in conformance with a Tribal-State compact entered into by the Indian tribe and the State under paragraph (3) that is in effect.

DISSEMINATION OF INFORMATION

Sec. 21. Consistent with the requirements of this Act, sections 1301, 1302, 1303, and 1304 of title 18, United States Code, shall not apply to any gaming conducted by an Indian tribe pursuant to this Act.

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