

IN THE IOWA DISTRICT COURT FOR POLK COUNTY

LARRY DAWSON)	
)	CASE NO. _____
)	
Plaintiffs,)	PETITION AND JURY DEMAND
vs.)	
)	
MULTI-STATE LOTTERY)	
ASSOCIATION and IOWA LOTTERY)	
AUTHORITY)	
)	
Defendant.)	
)	

COMES NOW the Plaintiff, Larry Dawson, by and through the undersigned counsel, and for his Petition at Law and at Equity states to the Court as follows:

PARTIES AND JURISDICTION

1. Plaintiff Larry Dawson was at all material times hereto a resident of Webster City, Iowa.
2. Defendant Multi-State Lottery Association (“MUSL”) is an Iowa unincorporated non-profit association whose principal place of business is Polk County, Iowa.
3. Defendant Iowa Lottery Authority is a public authority created specifically to administer the state lottery pursuant to Iowa Code chapter 99G, and pursuant to the Code is authorized to sue and be sued in its own name.
4. The damages giving rise to this Petition are sufficient to meet the jurisdictional requirements for the amount in controversy.
5. The conduct giving rise to this action primarily occurred in Polk County, Iowa.

NATURE OF THE CASE

6. MUSL is owned and operated by agreement of its 33-member state lottery departments (“Lottery Departments”), including the Iowa Lottery Authority.

7. MUSL was created by these Lottery Departments to facilitate the operation of multi-jurisdictional lottery games on their behalf, including Mega Millions, Hot Lotto, Powerball, and scratch tickets.
8. On December 29, 2010, Defendants operated a rigged Hot Lotto game such that rather than a random drawing, the game produced predetermined numbers.
9. The predetermined numbers matched a Hot Lotto ticket MUSL's information security director, Eddie Tipton, purchased for the rigged December 29, 2010 game.
10. As a result, the proceeds held in the December 29, 2010 Hot Lotto jackpot were removed from the prize pool and ultimately went back to the MUSL Lottery Departments participating in Hot Lotto for their own benefit and gain.
11. Had Defendants not operated a rigged Hot Lotto game on December 29, 2010, the Hot Lotto jackpot would have continued to progressively accumulate for each successive Hot Lotto drawing until such time as a legitimate jackpot-winning ticket was purchased.
12. Plaintiff Larry Dawson purchased the next legitimate Hot Lotto jackpot winning ticket on May 7, 2011, and claimed the jackpot prize within the time period prescribed by the Iowa Lottery Authority rules.
13. But for Defendant's conduct as described herein, Mr. Dawson's jackpot would and should have included the amount of money in the Hot Lotto jackpot as of December 26, 2010 (the Hot Lotto drawing that occurred immediately prior to the December 29, 2010 rigged Hot Lotto drawing).
14. Accordingly, Mr. Dawson brings this cause of action against Defendants for declaratory and equitable relief, as well as for damages.

STRUCTURE OF THE LOTTERY

15. A lottery generates revenue by selling lottery tickets to create a “pool” of money, awarding a portion of that “pool” to the winner, and remitting the remainder of the “pool” to the government.

16. State run lotteries necessarily have a positive cash-flow. For example, in 2014 American lotteries generated \$70.1 billion in sales, resulting in a \$19.9 billion profit for the States.¹

17. Since lotteries involve gambling, jurisdictions, including Iowa, often outlaw all lotteries except those specifically authorized by the government.

18. To oversee their officially sanctioned lottery games, jurisdictions create autonomous, independently funded and managed Lottery Departments, such as the Iowa Lottery Authority.

19. These Lottery Departments have the sole authority to establish, conduct, and administer the lottery games that are offered within their respective jurisdictions.

20. The Iowa Lottery Authority, through its CEO and Board of Directors, has the independent authority to promulgate rules governing the operation of the lottery, which includes the ability to issue rules regarding the types of games to be conducted, the sale price of tickets, the number and amount of prizes, the method of selecting winning tickets, the means of conducting drawings, and the specific rules of the various lottery games. Iowa Code §99G.9.

21. The Iowa Lottery Authority also has authority to enter into written agreements with other states for the operation, marketing, and promotion of a joint lottery game. Iowa Code §99G.21(f).

22. Other than specific exceptions involving non-profits, the Iowa Lottery Authority is the sole entity permitted to offer lottery games within the state of Iowa.

23. The Iowa Lottery Authority is entirely self-sustaining and self-funded.

¹ North American Association of State and Provincial Lotteries,
<http://www.naspl.org/index.cfm?fuseaction=content&menuid=17&pageid=1025>

24. Upon receipt of any revenue, the Iowa Lottery Authority deposits the moneys into a lottery fund.

25. At least fifty percent of the projected annual revenue accruing from the sale of tickets must be allocated for payment of prizes to the holders of winning tickets.

26. After the payment of prizes, the expenses of conducting the lottery are deducted from the Iowa Lottery Authority's revenue prior to distribution to the state. Iowa Code §99G.39.

27. Based upon information and belief, all of the other thirty-two Lottery Departments that are owners and members of MUSL operate in substantially the same ways as the Iowa Lottery Authority.

28. These other Lottery Departments have substantially similar systems of administration and accounting, and are solely responsible for managing the lottery games offered in their respective jurisdictions.

29. For clarity, this means that all other Lottery Departments segregate lottery revenues and operational expenses from the general treasuries of their jurisdictions, and only the net profits (i.e. residual funds remaining after lottery winners and ongoing expenses are paid) are transferred to their respective jurisdictions' general treasuries.

INTERSTATE LOTTERY GAMES - MUSL

30. Lottery games can be either intrastate or interstate in nature. Regardless of whether a particular game is intrastate or interstate in nature, the participating jurisdictions' Lottery Departments are responsible for managing the games.

31. With respect to interstate games, many Lottery Departments, including the Iowa Lottery Authority, offer games such as Powerball, Mega Millions and Hot Lotto, which are offered across

multiple jurisdictions, and are administered by the offering jurisdictions' Lottery Departments collectively.

32. The Lottery Departments participating in interstate lottery games have entered into various agreements to create associations and enacted rules that facilitate the collective administration of various interstate lottery games. One such association includes the Defendant MUSL.

33. MUSL provides a variety of services for its member Lottery Departments, including: game design, management of game finances, production and uplinking of drawings, the development of common minimum information technology and security standards and inspections of lottery vendor sites; the building of a quantum-based Random number generator (RNG), coordination of common promotions and advertisements, coordination of public relations, and emergency back-drawing sites for lottery games. MUSL also hosts the Powerball web site and the websites for more than a dozen U.S. lotteries.

34. MUSL provides these services to the lotteries at no cost.

35. MUSL earns its income from non-game sources such as earnings on its accounts, bond swaps, and licensing of its trademarks.

36. MUSL owns the patents and trademarks involved in its operations, holding them for the benefit of its member Lottery Departments.

37. MUSL games operate under the same core game rules in each jurisdiction; however, each Lottery Department is free to vary rules pertaining to such things as purchase age, the claim period, and some validation processes.

38. Interstate lottery games administered by MUSL use the same accounting procedures and order of priority of payment: first, lottery winners are paid; second, the ongoing expenses of the interstate

lottery games are paid; third, any residual funds are divided between the participating jurisdictions' Lottery Departments based on their pro-rata sales of the game.

39. Interstate lottery games administered by MUSL utilize a three-step process to pay winners: First, the participating Lottery Departments each remit their proportional share of the prize money to one aggregating Lottery Department. Next, the aggregating Lottery Department transfers the winning funds to the Lottery Departments of the jurisdictions with the lottery winners. Finally, each Lottery Department of the jurisdiction with a lottery winner transfers the winning funds to its respective lottery winners.

HOT LOTTO

40. Hot Lotto is a multi-state lottery game administered by MUSL pursuant to agreement of fifteen Lottery Departments.

41. The fifteen participating jurisdictions include: Delaware, District of Columbia, Idaho, Iowa, Kansas, Maine, Minnesota, Montana, New Hampshire, New Mexico, North Dakota, Oklahoma, South Dakota, Tennessee and West Virginia.

42. In addition, Vermont also participated in Hot Lotto at the time of the rigged drawing in 2010.

43. Hot Lotto was created to allow Lottery Departments located in jurisdictions with relatively small populations the opportunity to create the same types of jackpots that are commonplace in single-state games which serve relatively larger population bases.

44. Hot Lotto is operated in accordance with rules published by MUSL, the Iowa Lottery Authority and the other participating Lottery Departments.

45. Pursuant to these rules, Hot Lotto "drawings" take place on Wednesdays and Saturdays at MUSL's headquarters in Iowa.

46. Pursuant to these rules, a consumer pays \$1 and picks five numbers from 1 through 47 (the “White Balls”), plus one additional number (the “Hot Ball”) from 1 through 19. The “Hot Ball” is drawn from a second, separate pool (meaning it can be the same number as one of the White Balls drawn from the pool of 47).

47. When purchasing a ticket, the player may manually select his/her desired numbers (“manual play”) or allow the lottery terminal to select the numbers (“easy pick” or “quick pick”).

48. Pursuant to the Hot Lotto rules, a “drawing” takes place for each game during which the numbers are determined using MUSL’s in-house computerized Random Number Generator (“RNG”), as opposed to a ball machine.

49. Iowa law defines “drawing” as “that process that is used to *randomly* select a winning combination for the game plays.” Iowa Administrative Code §531-20.2.

50. Pursuant to Iowa law, the “winning numbers” means “the selection of an appropriate number of the variables, *randomly* selected at each drawing, which shall be used to determine winning plays contained on a game ticket.” Iowa Administrative Code §531-20.2.

51. A player wins the Hot Lotto jackpot by successfully picking the “winning numbers” – the five White Ball numbers plus the Hot Ball number - generated by the RNG during the “drawing”.

52. Hot Lotto is a “progressive jackpot” game. Pursuant to the Iowa Lottery Game Specific Rules for Hot Lotto, “if the jackpot is not won in a drawing, the prize money allocated for the jackpot prize shall roll over and be added to the jackpot prize pool for the following drawing.”

53. Each time a jackpot is hit, the jackpot prize returns to \$1 million. From there the jackpot prize increases at least \$50,000 per drawing until another successful jackpot is won.

54. A Hot Lotto jackpot won on or before May 11, 2013 entitled a winner of the choice of cash or receiving 25 equal yearly payments. These winners had 25 percent withheld towards Federal taxes, as well as additional withholdings in most cases.

55. The odds of winning the Hot Lotto jackpot are approximately one in twenty-nine million.

56. For every Hot Lotto ticket purchased, fifty-percent of the revenue from the sale goes into the Hot Lotto prize pool, while the other fifty-percent goes to paying expenses of the administration of the game and then to the general fund of the participating Lottery Departments' respective states.

57. No part of the Hot Lotto jackpot is earmarked or intended for public benefit programs, state revenue, administrative expenses or the like; rather, the entirety of the Hot Lotto jackpot is specifically intended to go to the holder of a winning Hot Lotto jackpot ticket.

PRIZES AND UNCLAIMED PRIZES

58. Each Lottery Department participating in Hot Lotto determines its own rules for claiming prizes, including the amount of time a winner has in order to claim a prize.

59. For example, the Iowa Lottery Authority requires a person to present a "winning ticket" in order to receive a lottery prize.

60. The Iowa Lottery Authority further requires the holder of a "winning" Hot Lotto ticket to claim his/her prize within 365 calendar days of the drawing in which the prize was won. Any prize not claimed within the specified period is forfeited.

61. Likewise, Iowa law provides that prizes shall not be paid upon a ticket sold or purchased in violation of Chapter 99G. Any such prizes constitute "unclaimed prizes".

62. Unclaimed prizes are returned to the participating Lottery Departments and distributed in accordance with the respective laws of their jurisdiction.

63. The following Hot Lotto participants ultimately distribute unclaimed prizes back to their respective general funds: Delaware, District of Columbia, Idaho, Minnesota, Montana, New Hampshire, and North Dakota.

64. The following Hot Lotto participants distribute unclaimed prizes back into their respective games' prize pools for which they can sell additional tickets and generate additional revenue: Iowa, Kansas, Maine, New Mexico, South Dakota, and West Virginia.

65. The following Hot Lotto participants distribute unclaimed prizes to special programs: Tennessee (one-half is returned to the prize pool and the other half is put into an account for after-school programs) and Oklahoma.

66. Lottery Departments and their respective jurisdictions benefit financially from having winning tickets go "unclaimed".

67. If Defendants and the other participating member Lottery Departments are permitted to treat the results of the December 29, 2010 Hot Lotto game as an unclaimed prize, they will receive the benefit of their own misconduct and inability to operate a legitimate lottery game in accordance with their own rules and procedures.

68. Accordingly, the law and rules applicable to Hot Lotto with respect to unclaimed prizes (including those resulting from a ticket sold or purchased in violation of law) presume and require a legitimate "drawing" prior to allowing Defendants and the other participating Lottery Departments to treat a prize as "unclaimed".

69. Likewise, any immunities provided to Defendants regarding payments made pursuant to Chapter 99G or the Hot Lotto Game Specific Rules also presume and require Defendants to first conduct an honest and legitimate "drawing".

70. In other words, if Defendants operate a Hot Lotto game without conducting a “drawing” as defined within the applicable Hot Lotto rules, there necessarily cannot be an “unclaimed prize” for that game.

RIGGED HOT LOTTO DRAWING

71. On May 26, 2010, a South Dakota resident won the Hot Lotto jackpot, resulting in the jackpot reverting to its \$1 million starting point.

72. Over the next several months purchasers from the participating jurisdictions collectively increased the advertised Hot Lotto jackpot to approximately \$16 million for the Hot Lotto drawing that took place on December 29, 2010. The lump sum cash option for this jackpot prior to withholdings totaled approximately \$10 million.

73. At the time of and prior to the December 29, 2010 drawing, Eddie Tipton served as MUSL’s director of information security.

74. Sometime prior to the December 29, 2010 Hot Lotto drawing, Mr. Tipton rigged the RNG such that rather than generating random numbers for the December 29, 2010 drawing, the machine generated preprogrammed numbers.

75. On or about December 23, 2010, Mr. Tipton purchased a Hot Lotto ticket for the December 29, 2010 drawing.

76. Mr. Tipton purchased the ticket as a “manual play”, and specifically chose the five White Balls and the Hot Lotto ball based on the numbers he rigged the RNG to generate for the drawing.

77. As a result of the above, Mr. Tipton correctly picked the “winning numbers” for the December 29, 2010 “drawing”.

78. Accordingly, \$16 million was immediately removed from Hot Lotto jackpot prize pool and the jackpot reverted to its \$1 million starting point for the next drawing.

79. Had the December 29, 2010 Hot Lotto game not been rigged, the \$16 million jackpot would have continued to carry over until the next legitimate winning ticket was purchased.

80. Defendants treated the results, including Mr. Tipton's inability cash in on the rigged game, as an unclaimed prize, thereby allowing them to return the \$16 million jackpot to the jurisdictions participating in Hot Lotto.

81. Larry Dawson was the next legitimate winner of the Hot Lotto, having purchased his ticket for the drawing that took place on May 7, 2011.

82. Mr. Dawson's jackpot did not include the money that accumulated into the progressive jackpot up to the December 29, 2010 rigged game.

83. On July 20, 2015, Mr. Tipton was convicted for rigging the December 29, 2010 Hot Lotto drawing in connection with the above.

84. After Mr. Tipton's conviction, charges were asserted accusing Mr. Tipton of rigging additional lottery games and as of the filing of this Petition Mr. Tipton has been charged with or is being investigated for rigging the following:

- a. November 23, 2005 Colorado Lotto drawing in which Mr. Tipton's brother won \$568,990;
- b. December 29, 2007 Wisconsin Megabucks Lotto drawing in which a \$783,257.12 payout was claimed by Delta S Holdings, LLC, owned by Mr. Tipton's close personal friend Robert Rhodes;
- c. December 2010 Kansas 2x2 lottery game in which Mr. Tipton purchased two winning tickets worth \$44,000;
- d. December 29, 2010 Hot Lotto game which is the focus of this lawsuit; and

- e. November 23, 2011 Oklahoma Hot Lotto game which involved a cash payment of \$907,715.

MUSL'S FAILED SURVEILLANCE SYSTEM

85. MUSL's chief security officer, Ed Steffan, acknowledges the top security threat to the lottery is its own information technology employees as, according to Mr. Steffan, "They have the knowledge, they have the background, they have the access, they have the understanding. They have the keys to the kingdom".²

86. At the time of the rigged December 29, 2010 Hot Lotto drawing, MUSL housed its RNG within a glass room completely cut off from any outside connections, making video and personal surveillance and the RNG's fraud prevention/detection capabilities crucial to ensuring legitimate drawings.

87. According to documents and testimony provided in connection with Mr. Tipton's criminal matter, MUSL purchased the video surveillance equipment and software utilized to monitor the RNG from EyesThere, a company owned by Mr. Steffan's brother.

88. The video surveillance MUSL purchased from its chief security officer's brother utilized GeoVison System ("GVS") software.

89. The GVS consisted of a digital video recorder (DVR) machine and several cameras (two of which were placed in the RNG draw room), a direct feed of the RNG computer screen to the DVR, and a hard drive.

90. The system was installed in December 2008 or January 2009, upon which EyesThere provided Jerry Bossard (a MUSL IT employee) with a half-day tutorial on how to use the system.

² Grant Rodgers, *Lottery security chief: Rigging game "sadly" possible*, Des Moines Register, July 15, 2015, <http://www.desmoinesregister.com/story/news/crime-and-courts/2015/07/15/lottery-official-admits-rigging-hot-lotto-game-possible/30197073/>

91. Shortly after installation MUSL moved the RNG to another location, which required Mr. Bossard to move and re-configure the GVS.
92. In connection with Mr. Tipton's criminal investigation and trial both Mr. Bossard and Mr. Steffan admitted the GVS was "buggy" from the date of installation.
93. The GVS system would freeze causing a "blue screen of death" to appear.
94. While in use the GVS was set to record to the DVR upon sensing motion in the RNG room (as opposed to constantly recording) due to the limited storage capacity of the hard drive.
95. On a quarterly basis MUSL's IT personnel placed the recordings onto a disk and literally stored them in Mr. Steffan's home basement.
96. According to documents filed by Mr. Tipton's counsel in the criminal matter, MUSL maintained no written policies or procedures for operating or maintaining the GVS, or for the production and storage of back-up disks.
97. According to documents filed by Mr. Tipton's counsel in the criminal matter, from April 2010 through October 13, 2011, the GVS malfunctioned on at least twenty separate occasions, including the dates in which Mr. Tipton is believed to have rigged the RNG for the December 29, 2010 drawing.
98. The malfunctions resulted in the GVS recording for only a second at a time, thereby preventing any review of activity within the RNG room.
99. According to documents filed by Mr. Tipton's counsel in the criminal matter, the backup data is completely unavailable due to complete hard drive failure for the entire first six months of 2011 and on approximately twenty-six other dates during the second part of 2011.
100. According to documents filed by Mr. Tipton's counsel in connection with the criminal matter, at some point Mr. Bossard and Jason Maher (another MUSL IT employee) wiped the system

entirely in December 2011, which required reinstallation of the Windows Operating system and the GVS software.

101. According to documents filed by Mr. Tipton's counsel in the criminal matter, after approximately four years of not working correctly, MUSL became fed up and replaced the video surveillance system.

102. The video surveillance failed to operate properly at the time Mr. Tipton manipulated the RNG for the December 29, 2010 draw, thereby preventing the rigging of the machine and further preventing MUSL from identifying the conduct prior to the draw or within a reasonable time thereafter to ensure the jackpot returned immediately to the Hot Lotto prize pool.

MUSL'S RNG LACKED FRAUD PREVENTION CAPABILITIES

103. MUSL developed its own RNG in-house rather than acquiring existing RNG technology readily available on the commercial market.

104. Eddie Tipton helped build the RNG utilized for the Hot Lotto drawings.

105. At the time of the December 29, 2010 Hot Lotto drawing, the RNG developed in-house by MUSL lacked fraud prevention and fraud detection capabilities otherwise readily available on the commercial RNG market, as demonstrated by Mr. Tipton's apparent years of ongoing conduct for which he has been charged.

106. At the time Mr. Tipton rigged the RNG machine for the December 29, 2010 drawing, technology was readily available to both prevent and detect Mr. Tipton's conduct.

107. MUSL chose not to utilize this technology in favor of its own in-house RNG.

108. MUSL failed to maintain and/or execute any policies or procedures with respect to auditing the RNG after being accessed by MUSL employees in order to identify and deter tampering or

damage to the RNG, as demonstrated by Mr. Tipton's apparent years of ongoing conduct for which he has been charged.

109. As a result, MUSL was unable to deter or prevent Mr. Tipton from manipulating the machine and further unable to readily detect that manipulation had occurred prior to the December 29, 2010 drawing.

MUSL'S OVERALL FAILURE TO ENSURE THE SECURITY AND INTEGRITY OF THE
HOT LOTTO GAME

110. Implicit with the state's creation of Lottery Departments and the sale of lottery tickets to the public is the promise that the Lottery Departments utilize and implement whatever security measures are necessary to ensure the integrity of the games.

111. At minimum this includes ensuring the security measures in place actually function properly.

112. Also implicit is the promise that neither MUSL, nor its member Lottery Departments will financially benefit from rigged games, and in particular, games that are rigged by their own personnel.

113. MUSL's overall security was so lax that Mr. Tipton was literally able to access the RNG so as to allow him to rig the December 29, 2010 drawing without anyone noticing.

114. Defendant's security was so lax that it allowed the rigging of the December 29, 2010 Hot Lotto drawing (as well as at least four other lottery games) to go virtually undetected for several years.

115. Defendant's failure to implement reasonable and necessary security measures allowed for the rigging of countless unknown other lottery games as Mr. Tipton continued to work as MUSL's information security director until November 17, 2014.

116. Mr. Tipton was “caught” in November 2014 only because the retailer at which he purchased his ticket for the rigged December 29, 2010 drawing happened to save the video of the transaction.

117. But for the retailer saving the video, Defendants’ operation of rigged games would have gone completely undetected and possibly ongoing.

118. As a result of Defendants’ conduct, the \$16 million Hot Lotto jackpot in place as of December 29, 2010, specifically earmarked and intended to be awarded to a legitimate Hot Lotto winner, went back to MUSL, MUSL’s member Lottery Departments and those departments’ respective states, allowing these entities to realize a substantial financial windfall.

119. This result destroys the entire legitimacy of the Hot Lotto game (indeed all progressive jackpot games) as it incentivizes Defendants to promote the sale of tickets for large jackpots only to have those jackpots go “unclaimed” through their own negligence, fraud, error or other conduct.

COUNT I: DECLARATORY JUDGMENT

120. Plaintiff repleads paragraphs 1 through 119 of his Petition as though fully set forth herein.

121. Iowa Rule of Civil Procedure 1.1101 authorizes courts to declare opposing parties’ rights, status, and other legal relations whether or not further relief is or could be claimed.

122. Defendant Iowa Lottery Authority is the sole authority authorized to conduct lotteries in Iowa pursuant to Chapter 99G of the Iowa code.

123. Defendant Iowa Lottery Authority delegated the administration of the Hot Lotto game to Defendant MUSL, but at all times remained responsible for the operation of the game in accordance with Iowa law and the Hot Lotto Game Specific Rules.

124. Defendants collectively represented the security and integrity of the Hot Lotto game to consumers in order to induce consumers to purchase Hot Lotto tickets and, in turn, generate revenue for the participating Lottery Departments and their respective states.

125. Defendants expressly and implicitly warranted they would conduct the Hot Lotto game in accordance with the published rules.

126. The rules presume and indeed require Defendants to conduct a fair and random “drawing”.

127. Defendants’ December 29, 2010 Hot Lotto game was not conducted in accordance with the rules of the contest; rather, the December 29, 2010 Hot Lotto was rigged in order to ensure a predetermined result.

128. A process to randomly select a winning combination for the game plays was not utilized; therefore, a “drawing” as defined within the Iowa Code, Iowa Administrative Code and Hot Lotto’s published rules did not occur.

129. Likewise, “winning numbers”, as defined within the Iowa Code, Iowa Administrative Code and Hot Lotto’s published rules, were not selected.

130. Pursuant to the Hot Lotto’s published rules, because a jackpot prize was not won or unclaimed following a “drawing”, the prize money allocated for the December 29, 2010 jackpot prize was required to roll over and be added to the jackpot prize for the following drawing.

131. Pursuant to the Hot Lotto’s published rules, the jackpot was to continue accumulating until such time as a jackpot prize was won or went unclaimed following a legitimate “drawing”.

132. Plaintiff Larry Dawson purchased the next legitimate winning ticket for the Hot Lotto drawing that took place on May 7, 2011.

133. Pursuant to the Hot Lotto’s published rules, Mr. Dawson’s May 7, 2011 jackpot should have included the money removed from the December 29, 2010 jackpot as a result of the rigged game.

134. Notwithstanding the Hot Lotto rules, Defendants and the other participating member Lottery Departments treated the December 29, 2010 Hot Lotto game as a legitimate “drawing” resulting in an unclaimed prize.

135. The controversy presented in this case is definite and concrete, and affects the adverse legal interests of the parties. Plaintiff's legal right to the jackpot proceeds that should have rolled over from the December 29, 2010 Hot Lotto game directly impacts his ability to pursue appropriate remedies to acquire said jackpot proceeds.

136. Defendants have an opposing tangible interest in the claims set forth herein, as this case will determine the legal scope of Defendants' obligations to Plaintiff and other consumers relative to the December 29, 2010 Hot Lotto drawing.

137. There is an actual controversy between the parties of sufficient immediacy and reality to warrant the issuance of a declaratory judgment because Defendants deprived, and continues to deprive, Plaintiff of his property rights with respect to the money removed from the Hot Lotto jackpot as a result of the rigged drawing.

138. Plaintiff has suffered damages as a result of Defendants' and the other member Lottery Departments' wrongful retention, use and enjoyment of the jackpot as a result of their own misconduct and the misconduct of its employees.

139. Consequently, Plaintiff will continue to suffer financial harm and the controversy will continue to exist if the Court were to deny Plaintiff's request for declaratory relief.

WHEREFORE, Plaintiff respectfully requests the Court enter an order declaring as follows:

- a. The December 29, 2010 Hot Lotto "drawing" was void. Pursuant to the Hot Lotto rules, a "drawing" did not occur. The jackpot prize from the December 29, 2010 was not "won" and/or "unclaimed". Pursuant to the Hot Lotto rules, the jackpot prize allocated to the December 29, 2010 drawing should have rolled over and been added to subsequent drawings until a legitimate winning jackpot ticket was purchased.
- b. Pursuant to the Hot Lotto rules, since a "drawing" did not occur, Defendants and the other participating member Lottery Departments were prohibited from treating the rigged December 29, 2010 jackpot as an "unclaimed prize".

- c. Pursuant to the Hot Lotto rules, Mr. Dawson, as the next legitimate jackpot winner following the December 29, 2010 rigged game, should be awarded the jackpot that was in place at the time of the rigged game, including interest, but excluding any portion of the jackpot comprising of sales for the December 29, 2010 drawing.
- d. Defendant Iowa Lottery Authority, as the sole entity authorized to operate lotteries in the state of Iowa, is liable for MUSL's conduct in operating the Hot Lotto game in Iowa.
- e. Granting all such further relief as the Court deems appropriate under the circumstances.

COUNT II – UNJUST ENRICHMENT

140. Plaintiff repleads paragraphs 1 through 139 of his Petition as though fully set forth herein.

141. At all times material hereto Defendants operated and administered the Hot Lotto game on behalf of its member Lottery Departments.

142. During this time Defendants and the other participating member lottery Departments sold Hot Lotto tickets under the premise that a portion of the proceeds from the purchase price of a ticket would be placed into the jackpot and ultimately be awarded to the holder of a legitimate winning Hot Lotto jackpot ticket.

143. This progressive jackpot characteristic of the Hot Lotto is designed by Defendants to encourage more purchases as the jackpot continues to accumulate over time, thereby allowing Defendant and its member Lottery Departments to generate more revenue for the participating Lottery Departments.

144. Plaintiff purchased a Hot Lotto ticket for the May 7, 2011 Hot Lotto drawing in exchange for the opportunity to win the full amount of the Hot Lotto jackpot that accumulated from the date of the previous legitimate winning ticket (which occurred on May 6, 2010).

145. On December 29, 2010, Defendants advertised a Hot Lotto jackpot of a \$16 million annuity or \$10 million lump sum payment payable to the holder(s) of a winning jackpot ticket.

146. Defendants, by their own conduct and that of MUSL employees, rigged or allowed to be rigged the December 29, 2010 game, and thereafter took the jackpot money for their own benefit and the benefit of the other participating member Lottery Departments.

147. In doing so, Defendants failed to conduct a legitimate Hot Lotto drawing and further failed to award the jackpot to the next legitimate winner as required by their own rules and their representations to the public.

148. If Defendants and the other participating member Lottery Departments are permitted to treat the results of the December 29, 2010 Hot Lotto game as an unclaimed prize, they would have received a financial benefit for which they are not entitled, which violates the fundamental principles of justice, equity and good conscience.

149. Defendants and the other participating member Lottery Departments' treatment of the December 29, 2010 jackpot as an unclaimed prize would be at the expense of Plaintiff, as the next legitimate Hot Lotto jackpot winner following the rigged game, and constitute an unjust enrichment upon Defendants and its participating member Lottery Departments.

150. Since Defendants and the other participating member Lottery Departments have retained and/or used money to which they are not entitled, the principles of equity and good conscience require that they deliver the money to its intended and rightful recipient – the next legitimate winner of the Hot Lotto jackpot after the December 29, 2010 rigged drawing.

WHEREFORE, Plaintiff respectfully requests that judgment be entered against Defendants for damages, together with interest thereon as provided by law, plus the costs of this action and any other relief as the Court may deem proper under these circumstances.

COUNT III – BREACH OF CONTRACT

151. Plaintiff repleads paragraphs 1 through 150 of his Petition as though fully set forth herein.

152. In May 2011, Plaintiff, for valuable consideration, purchased a Hot Lotto ticket from Defendants for the May 7, 2011 Hot Lotto drawing.

153. In exchange for Plaintiff's purchase, Defendants agreed to pay a jackpot prize to Plaintiff upon his presentation of a winning ticket in accordance with the Hot Lotto's published rules.

154. While Defendants advertised an *estimated* jackpot for the May 7, 2011 Hot Lotto game, the ultimate amount of the designated prize Defendants were obligated to pay was to be determined based on Defendants' published rules.

155. Shortly after the May 7, 2011 drawing, Plaintiff presented Defendants with the winning ticket entitling him to the full amount of the designated jackpot required under Defendants' rules.

156. Pursuant to Defendants' published rules, the amount of designated the Hot Lotto jackpot to which Plaintiff was entitled should have included the amount of the December 29, 2010 jackpot.

157. Plaintiff has performed all of his obligations under the terms of the transaction.

158. Defendants have failed to pay Plaintiff the full amount of the designated jackpot to which he was entitled pursuant to Defendants' published rules and terms of the Hot Lotto game.

159. Defendants' failure to pay Plaintiff the entire amount of the designated jackpot prize to which he was entitled constitutes a breach of their agreement with Plaintiffs.

160. As a result of this breach, Plaintiff has sustained damages in the amount of the December 29, 2010 jackpot, plus interest and costs.

WHEREFORE, Plaintiff respectfully request that judgment be entered against Defendants for damages, together with interest thereon as provided by law, plus the costs of this action and any other relief as the Court may deem proper under these circumstances.

COUNT IV – NEGLIGENCE

161. Plaintiff repleads paragraph 1 through 160 as though fully set forth herein.

162. Defendants maintain exclusive control to operate and administer the interstate Hot Lotto game in Iowa.

163. The entire premise of a state authorized lottery centers on legitimacy and fairness of the lottery games.

164. Accordingly, Defendants owe their consumers a duty of care to ensure reasonable and necessary security procedures are in place to prevent the known and identifiable risks of tampering with the Hot Lotto drawings.

165. Defendants also owe a duty to conduct legitimate lottery games.

166. Defendants breached their duty of care and were, therefore, negligent, in several respects, including but not limited to the following:

- a. Failing to utilize readily available technology capable of both preventing and detecting manipulation of the Hot Lotto drawings;
- b. Failing to utilize a functioning video surveillance system capable of monitoring the technology utilized to conduct the Hot Lotto “drawing” and to further deter any attempts by employees to manipulate the machine;
- c. Failing to implement and/or follow procedures and protocol with respect to employee access to the RNG, essentially allowing an employee to manipulate the machine wholly unnoticed or detected by any security mechanisms or oversight;
- d. Failing to implement and execute reasonable procedures for auditing the RNG following routine employee maintenance to ensure tampering or errors with the machine did not occur prior to the next regularly scheduled drawing;
- e. Failing to administer the Hot Lotto game in accordance with Defendants’ published rules and procedures;
- f. Failing to conduct a legitimate Hot Lotto drawing on December 29, 2010;
- g. Removing funds from the Hot Lotto jackpot following the December 29, 2010 drawing when it knew or in the exercise of reasonable care should have known the drawing was manipulated by one of its own employees;
- h. Failing to act as reasonably prudent operators and administrators of the Hot Lotto game under the circumstances.

167. But for Defendants' negligence, the funds in the Hot Lotto jackpot as of December 29, 2010 would have carried over and continued to accumulate until the next legitimate winning Hot Lotto ticket was purchased, at which time the winner would have been awarded the accumulated jackpot.

168. Plaintiff Larry Dawson was the next legitimate Hot Lotto jackpot winner, however, a direct and proximate result of Defendants' negligence, Plaintiff's jackpot award did not include the money that previously accumulated in the jackpot prior to the rigged drawing.

169. Accordingly, Defendants' negligence was the proximate cause of damages to Plaintiff, including the value of the jackpot prior to the rigged drawing, plus interest.

WHEREFORE, Plaintiff requests that judgment be entered against Defendants for damages, together with interest thereon as provided by law, plus the costs of this action and any other relief as the Court may deem proper under these circumstances.

COUNT V – RESPONDEAT SUPERIOR/ VICARIOUS LIABILITY

170. Plaintiff repleads paragraphs 1 through 169 as though fully set forth herein.

171. At all times material hereto Eddie Tipton served as an information technology employee for MUSL.

172. During the performance of Mr. Tipton's duties on behalf of MUSL, Mr. Tipton rigged the December 29, 2010 Hot Lotto game in order to ensure a predetermined result.

173. As a result of Mr. Tipton's conduct, the December 29, 2010 jackpot did not carry over and continue to accumulate as required under the published rules of the Hot Lotto game.

174. MUSL is responsible for Mr. Tipton's conduct pursuant to the doctrine of respondeat superior/vicarious liability.

175. The Iowa Lottery Authority is the sole authority authorized to conduct lotteries in Iowa.

176. The Iowa Lottery Authority is the sole entity authorized to conduct lottery games in Iowa.

177. The Iowa Lottery Authority delegated the responsibility of operating the Hot Lotto game to MUSL, but in doing so remained responsible for MUSL's and its employees' conduct in failing to operate the Hot Lotto in accordance with Iowa law and the game's published rules.

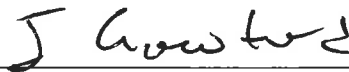
178. The Iowa Lottery Authority is responsible for MUSL's conduct in failing to conduct a legitimate Hot Lotto drawing on December 29, 2010.

WHEREFORE, Plaintiff requests that judgment be entered against Defendants for damages, together with interest thereon as provided by law, plus the costs of this action and any other relief as the Court may deem proper under these circumstances.

JURY DEMAND

Plaintiff respectfully requests that a jury determine all factual issues arising out of this matter.

Respectfully Submitted by: CRAWFORD & MAURO LAW FIRM



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