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GAMING

I N T E R N A T I O N A L

Featured Interviews



Ed Van Petten,
Executive Director of
Kansas Lottery



Wayne Lemons,
Director of
Delaware Lottery



Tim Cahill,
Massachusetts
State Treasurer



Michael Chambrello, President,
Scientific Games Corporation;
Georgia Governor **Sonny Perdue;**
Margaret DeFrancisco, CEO,
Georgia Lottery, at ribbon cutting
ceremony to commemorate new
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Our industry news gets reported here as soon as it hits the wires. If it's lottery and gaming news you need, you can surf the web yourself to find it, or you can come to our website and get all your industry news in one place.

PGRI's Morning Report is our weekly electronic newsletter. It is sent out to your e-mail address every Monday morning. This provides you with a brief synopsis of the previous week's industry news. In addition to the news items, our editor, Mark Jason, follows up to get commentaries and quotes from the news makers themselves. Join your colleagues (15,000 of them) and subscribe to *Morning Report*. E-mail your request to subscribe to sjason@publicgaming.org.



PUBLIC GAMING RESEARCH INSTITUTE

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From the Publisher

By Paul Jason, CEO, Public Gaming Research Institute

This issue of Public Gaming Magazine focuses on the build-out of gaming alternatives in the United States today. Feature interviews with Ed Van Petten, Tim Cahill, and Wayne Lemons focus on how the expansion of gaming is likely to unfold in their states. Interviews with Julie Koenig, Bill Bissett, and Conrad Granito look at this expansion from the point of view of the Racing Industry, Facility Management, and Indian Gaming. Victor Duarte looks at how lotteries are expanding into the kinds of games and venues that the players are asking for. And Michael Koch talks about how technological changes will impact the players and operators of slots and video terminals.

What's driving this expansion? Well, in the words of Gov. Mike Easley of North Carolina in his 2005 State of the State address: "Our people are playing the lottery. We just need to decide which schools we should fund: Other states' or ours? I am for funding OUR schools." The modern era of expansion began with the New Jersey legislature deciding in 1976 that it is silly to send millions of people on the east coast flying across the country to Las Vegas to spend their money. Since then everyone is looking at the competitive landscape of this industry and trying to figure out what it means to them, to their political constituencies, and to the public who stands to benefit, or not, from this incredible expansion. We need to acknowledge that Indian gaming casinos, Riverboat gaming, Racinos, are here to stay and have made gaming easily accessible to virtually everybody everywhere.

This phenomenon was actually predicted back in 1976. Page 1 of the 'Commission on the Review of National Policy toward Gambling', explains... "Gambling is inevitable. No matter what is said or done by advocates or opponents of gambling in all its various forms, it is an activity that is practiced, or tacitly endorsed, by a substantial majority of Americans." The public policy question is no longer about whether to support the expansion of gaming but **how to effectively manage the inevitable expansion in ways that benefit your constituency, the general public.**

Is it logical, for instance, that the huge population of Chicago be forced to spend its money across the border in mega riverboat casinos domiciled in Indiana (causing Indiana's tax revenue from gaming, at \$851 million according to Indiana Gaming Commission's FY 2007 annual report, to be almost as much as Nevada's \$1 billion!)? How does it help the public for any jurisdiction to send its citizens to outside gaming venues, like Indian casinos and neighboring states? Questions of public policy will be a primary focus of our publication. Fundamental to our advocacy position are two things. First, how can public policy cause the greatest financial benefits to accrue to the public? Second, how can public policy promote the most responsible approach to safeguarding the public from the social

costs of problem gambling? One thing we all know at this point is that prohibition does not stop people from gambling. That is why advocates, like ourselves, of Lotteries and government sponsored gaming simply must integrate a realistic assessment of this highly dynamic environment into our strategies. By being open-minded and exhibiting a genuine appreciation for the public good, we hope to have our views and your views play a meaningful role in the shaping of public policy.

Our thanks to Michael Chambrello for a most thoughtful and straightforward interview. Scientific Games is an industry leader in the midst of an expansionary cycle of its own. Insight into the many different aspects of SG's strategies to support our industry and its customers is much appreciated.

Additionally, Andrew Gray explores some incredibly creative cross-promotion opportunities for the online lotto category, extending the tremendous power and reach of the lottery brand by collaborating with other brand powerhouses and packaged products. We ask Margaret DeFrancisco how the Georgia Lottery achieves such great sales results, especially in scratch-offs. Legal analyst Philippe Vlaemminck and colleagues address the role of patent protection in driving innovation, and John Tarr has a novel proposal to consolidate background info on employees and contractors.

As was the case last month and will likely continue, we simply ran out of space in this issue to include the interviews in their entirety, so we're asking you to go to www.publicgaminginternational.com to read further. The good news is that this website should be a daily stop for everyone in our industry anyway. It contains not only all the news relating to government sponsored gaming, but also a wealth of other news, original editorials and interviews, most of which never even appear in this magazine. On that subject, for a free subscription to our weekly newsletter "Morning Report", just send your e-mail address to sjason@publicgaming.org.

Thank you all for your support! I look forward to seeing some of you at the G2E gaming conference in Las Vegas. ♦

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An Interview with Ed Van Petten

Executive Director, Kansas Lottery



Ed Van Petten

The State of Kansas moves to take control of gaming within its borders by expanding into casinos-style gaming, referred to as Lottery Gaming Facilities. The job of executing this well-conceived strategy to manage gaming in a way that benefits the public has been given to the State Lottery.

The following is an interview with Ed Van Petten, Executive Director, Kansas Lottery and Mark Jason, Public Gaming Magazine.

Mark Jason (MJ): *First, congratulations on your seven year anniversary. It looks like the next seven years may be even more interesting than your last seven have been.*

Ed Van Petten (EVP): Well, it's going to be a lot different than the first seven, anyway. We're obviously expanding quite a bit. We won't be just a traditional lottery anymore.

MJ: *Is it too early to tell how important the Midwest Millions multi-state scratch-off will be?*

EVP: Yes, I think it is. We've only been on the market one week today. We'll have to get somewhat of a trend. However, we did have the ticket for sale in our booth at the state fair. It's been very well received. And, I just returned from a trip to Des Moines. It seems to be well received there also. Iowa distributes their tickets a little differently than we do, so it was not statewide until the end of last week. I also noticed in my stops that not every retailer had the tickets in the dispensers yet, as is the case here. I think it's going to take at least six to eight weeks before we really get a feel for how well the game will be received, how popular it will be.

MJ: *I assume Dr. Stanek's retirement won't have any impact on the game, as it's already moving forward?*

EVP: We finalized all the plans and agreements between the states some months ago. He and I have always had a good working relationship. He was very instrumental in getting this thing going, working with us on it. We hate to see him go, but we're glad we got this one project out of the way before he decided to do so.

MJ: *Is the game getting much attention in the general press, and does that generate benefits and exposure for other lottery products?*

EVP: We haven't seen a lot of exposure in the local press. We have, of course, had a lot of industry coverage, and that is starting to leak out into the general press. I've received comments from Associated Press wanting to continue to be updated on the success of the

game. So we'll probably issue periodic press releases in that regard.

MJ: *Does exposure in national or international press help the lottery in terms of adding revenue and motivation in sales?*

EVP: Absolutely. When you're dealing with the public, perception is reality. Even though I'm sure 99% of our players don't even know about a lot of the industry publications, when we get the word out that there is some national or international interest in what we in Kansas are doing, I think that does generate goodwill for the lottery. Especially in the political setting, positive publicity generates goodwill with legislators, with elected officials. My boss, the Governor, likes to see good things in the media. It all is greatly beneficial to us. There's kind of a 'trickle-down,' even if the press is in publications the normal person wouldn't read. Certainly when the AP or even just the local papers take an interest in what we are doing and report favorably I think that's very beneficial.

MJ: *On its own, an innovation like Midwest Millions will add revenue and positively impact your beneficiaries. How do you think it impacts the other scratch-off products?*

EVP: Well, to some degree there's going to be some cannibalization with any product. Some people will spend X number of dollars per week on lottery products, and they vary from scratch tickets to terminal issue tickets. I know from talking to people at the state fair that this was such a novel approach that some people would buy two and three Midwest Millions tickets, where normally they would have bought two or three crossword, bingo, regular scratch games. So, yes, there's going to be a slight cannibalization. But I think the concept is novel enough and will generate enough interest that it will be principally incremental sales, and add to the bottom-line overall.

MJ: *Do you think something like this gets enough attention that it draws in people who don't normally play the lottery?*

EVP: I believe so. In fact, while I'm somewhat limited on this particular product to conversations I had with people at the state fair, we have a lot of people come into our building who are not lottery players. They are more curious as to what's going on. Explaining a game like that, the novel concept, I saw people purchase tickets who are not lottery players. It's not people who are against the lottery, it's people who are just not normally players. I don't normally gamble myself, but I enjoy it once in a great while. I think those people will purchase tickets.

MJ: *And getting that group excited is certainly a key to growth.*

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An Interview with Michael Chambrello

President and Chief Operating Officer of Scientific Games Corporation



Michael Chambrello

Paul Jason (PJ): Did you say that SG's headquarters might be moved to Alpharetta?

Michael Chambrello (MC): It is an issue that occasionally raises its head but with all of the other activity we have underway it's really not a high priority for us at this time. That said, the bulk of our operations is in Georgia but we envision keeping a corporate office in our current location in Manhattan as well.

Our production and administrative organizations run seamlessly regardless of their proximity to one another or their location. We constantly strive to improve and may well realize some new synergies by such a move at some point.

PJ: Where do you live now when you're not on an airplane?

MC: Either in my office or in a hotel (laughter).

revenue will be those whose vendor/partner can deliver an integrated online games and marketing business model. That's clearly one of our immediate and ongoing goals and it's what we believe will set us apart in the online lottery space in the years ahead. This level of commitment to the category will give us the necessary platform for developing bold, innovative online content, while allowing us to deploy the right technology and organize our internal support systems to permit quick online game implementations.

We are already moving forward on this front. Earlier this year, MDI signed an exclusive licensing agreement with Hasbro that will enable us to bring up to 20 of Hasbro's classic brands to multiple lottery platforms. This was a landmark deal for both Scientific Games and MDI. For years our Hasbro license was limited to instants, while another supplier had long held the license for the online category.

Our full-line portfolio of Hasbro-branded content will be available to lotteries the world over, with few exceptions. We're now

Per capita sales levels are all over the board. In the U.S., as one example, the average weekly instant category per capita sales in 2006 were roughly \$1.85. In Europe, by comparison, the figure was about three cents, and in Asia virtually zero.

PJ: Speaking of organizational changes, what are some of the results of The Lottery Systems Group restructuring that you implemented in 2006.

MC: A restructuring or realignment is a necessary part of any business as it advances through the various stages of its industry life cycle. More important, however, we need to focus on the core drivers of future growth, specifically branding and content, which will need to play a bigger, more important role on the online side of the lottery business over the next decade. Branding and content solutions are necessary if we, as an industry, are to do for the online category what has successfully been accomplished for the instant category. And so our 2006 restructuring initiative was fundamental to our strategy to realign and apportion our resources to meet this important objective.

Over a three-year period from Fiscal Year 2004 through Fiscal Year 2006, top-line sales of U.S.-based online lottery customers of Scientific Games grew 11.85% compared to 3.92% for the rest of the U.S. lottery industry. Increasing online lottery sales by an additional 7.93% translates into more fun for players, more commissions for retailers and significantly more revenue for a lottery's beneficiary programs.

Going forward, lotteries that will see growth in online sales and

looking to build upon our scratch game successes in North America. Our Game Generation Group is energized by the challenge of being able to bring fresh, new creative content to the online category and to nearly all lottery gaming platforms throughout the world. Expect to see this new content in mobile applications, as well as on the Internet, on interactive television and via other emerging distribution channels where such play is permitted by law.

We're also developing new online terminal technology to power this content.

Our latest evolutionary engineering concept is known as the Wave, a stylish, sleek, high-performance online terminal. Launched at this year's World Meet in Louisville, the Wave sets new standards for ease of use, speed of service and ergonomic design.

The Wave features the fastest printer and document scanner on the market today. It offers lotteries and their retailers the convenience of an advanced bar code reader. Its peripherals are ergonomically advanced and easy-to-reach and it's easy to service and maintain. It also has the smallest footprint of any full-function lottery terminal offered today.

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An Interview with Margaret DeFrancisco

President and CEO of Georgia Lottery



Margaret DeFrancisco

Public Gaming Research Institute (PGRI): *The Georgia Lottery has posted especially impressive sales increases, in Instants/Scratch-Offs. I'm sure that solid execution of all the basic operational and marketing components plays a role in that. But is there anything you could point to that's a little different than others that is contributing to this success?*

Margaret DeFrancisco (MD): You are correct – one of the primary drivers of our growth and success has been the execution of our laser focused business plan. We all work together across all functions, disciplines and departments to develop, introduce, execute and market our games.

The Georgia Lottery Corporation has the great benefit of having been organized as a public corporation with very specific beneficiaries, in our case, the HOPE scholarship and pre-kindergarten programs. In fact, earlier this year we crossed the milestone of the one millionth HOPE recipient, and we're at the 860,000 mark for the pre-k participants. Now 14 years old with the demand for our dollars increasing, we've had to change from 'start-up' mode.

PGRI: *Anything new and different you are thinking about over the next couple years that will contribute to hitting your ambitious sales targets?*

MD: We have been focused on both the instant and online products and used 360-degree integrated marketing to pro-

mote our offerings. Aside from the way the Georgia Lottery is organized, I don't think we are at all unique in our industry with the current challenges of the demand for the dollars we raise – so much can vary and can depend on age of the lottery, economic conditions, population growth or decline, region, culture, statutory restrictions. Each lottery has to do the best it can with all these various factors in play.

PGRI: *Instants/Scratch-offs have increased at an even higher rate. How are you doing it?*

MD: The Georgia Lottery began as a scratch lottery and thanks to the success early on, our customers look forward to and expect the next new games. We've built the instant product game by game – again establishing differentiation between price points. The ten-dollar games were built one at a time each one building on the previous game. Paul, I could go on for pages, but aren't all lotteries using similar strategies?

PGRI: *Any comments on progress being made with opening up distribution in the "big box" national chain stores?*

MD: As far as our national effort through NASPL to begin to "crack open" the big box retailers, this is a very exciting time. All lotteries are working together, pooling their information, energy and resources with the help of our vendors and NASPL headquarters. There are some very promising pilots going on now – our hope is to continue to learn from and build on this success. It takes great patience and perseverance – this won't happen in a "New York minute." ♦

Public Gaming Research Institute's International MORNING REPORT



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To sign up for a subscription, send an e-mail request to sjason@publicgaming.org.

An Interview with Wayne Lemons

Director of Delaware Lottery



Wayne Lemons

Organization of the Delaware Lottery

Mark Jason (MJ): Have you structured the organization of the Lottery into divisions to account for the different businesses? Do the lottery games side and the VLT side operate somewhat independently of one another?

Wayne Lemons (WL): Yes, we do have two different groups, the Video Lottery Group and the Traditional Lottery Group. There is overlapping, though. We have one accounting group for both. We have one IT group. So, they do share most of the services, except for security. Security is so different between the two. We have a state police unit that supervises the security of the Video Lottery.

Now VLT's generate around 85% of the return that the Lottery produces.

MJ: And security for the traditional group is provided internally?

WL: Yes.

MJ: Along those lines, any changes made based on the recent stories of potential for retailer fraud?

WL: We are making some adjustments. We took a very good look at what we had in place, and determined that we did not have much to add to really make our security what it should be. We did have 'ticket checkers', with which the player can check his own ticket, in about $\frac{1}{3}$ of the locations, for quite some time. We did decide to place those in every retail outlet throughout the state. So that's in progress now.

MJ: So, basically, the situation inspired a review, but you found that most of the concerns expressed were already being addressed?

WL: Exactly. And we are compiling a document of everything we do. This will be distributed to retailers and customers, in an attempt to give them confidence in the Delaware Lottery.

The Lottery and Gaming Policy

MJ: What role do you as the lottery director play in shaping gaming policy?

WL: I do have a role, and it varies, depending on the situation. I report to the Secretary of Finance, which is a cabinet-level position. The Secretary of Finance reports directly to the Governor. If there is anything legislatively that comes up need-

ing lottery input, my boss requests that I provide the input. Usually my input is directly to my boss. Occasionally, I'll be asked to attend committee meetings or investigations of the legislature, but almost always in conjunction with the Secretary of Finance. Now, if there is something to be initiated, it would operate in the same way. I would work with my boss, who in turn would have discussions with the administration. Then I would have a role in providing information to the proper people in the legislature, to enable them to initiate the program if approved by the administration and Secretary of Finance.

MJ: You started with the lottery in 1991, so you were involved when Video Lottery Terminal legislation was approved in 1993. How did that process of approval work?

WL: We worked with the legislators and the sponsors, the people who had a real interest in this, to push for the legislation. Not just the owners of the venues, but the horsemen were pushing for this also. So we worked with the Legislators, the venue owners, and the horsemen, trying to structure a process that would benefit all groups.

MJ: So in reality, the political side of things doesn't really kick into gear unless it's in a time of change. For instance, wouldn't 1993 be by far the most politically charged time in your entire 16 year tenure.

WL: Well, it certainly was. And it had the most significant effect on the Lottery, and the resulting revenue the Lottery generates, since the Lottery was first born.

MJ: And now VLT's generate around 85% of the return that the Lottery produces?

WL: That's correct.

MJ: Do you have a raffle?

WL: We will have our second raffle on sale November 5th. It's a \$10 ticket.

MJ: In general, after you submit an annual budget, do you then have the freedom to change and modify it to adapt to changing circumstances as the year progresses?

WL: We do put together an annual budget, just like all other sectors of the state government. We're in the process of doing that now. We have our first budget presentation next week, on November 8th. Then, early next year, the budget will go before the Joint Finance Committee for discussion. When I go before the Committee, it's always in the presence of the Secretary of Finance, and includes the other two divisions of Finance, accounting and revenue. At that time there is consideration by the Joint Finance Committee of the budget we have put together.

Normally we don't have a lot of problems with the budget we've put together, because after all we're a revenue generating group, and we do try to put together reasonable forecasts. So that's the way it's put together on an annual basis.

On an ongoing basis during the year, if there are changes we think need to be made, such as a change in price point or an increase in the payout of a particular game, I inform the Secretary of Finance. If it's something that he would consider to be something of particular importance, he would inform the administration.

MJ: So you don't have to make that call. You inform your boss, and then it's his decision whether the issue has to go before the Finance Committee or the administration. Your job is to make sure your boss is informed.

WL: That's correct.

MJ: You operate as a state agency, as opposed to some of the newer lotteries that operate as quasi-public corporations or independent entities. Does that impair your ability to operate the lottery effectively?

WL: I don't see that I am really restricted, except when it comes to compensating the personnel. In Delaware, we have what is called the 'merit system', much like civil service nationally. So I can't make a decision to give a bonus for outstanding performance.

One thing we feel that sports betting would do is add an amenity to our locations that no one in the surrounding states could do.

MJ: How about commissions for the sales people?

WL: No, we can't do that either. But that's about the only difference that I see. I feel that I have as much latitude in operating the Lottery as the new lotteries have.

MJ: And you've already ironed out or figured out the best way to work with any minor pitfalls that might exist in state law.

WL: Correct.

The Lottery and VLT's

MJ: The Lottery controls the VLT's, and leases the machines from the vendors. What other regulatory boards are in Delaware?

WL: We have a Charitable Gaming Board and two Racing Commissions, the Thoroughbred and the Standard Bred. We only have one Thoroughbred track, and two Standard Bred
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An Interview with Tim Cahill

State Treasurer for the State of Massachusetts



Tim Cahill

As the State Treasurer for Massachusetts, Tim Cahill oversees lottery operations but is also steeped in the legislative process. Like other U.S. states, MA is exploring the different ways to evolve with the changing gaming industry. PGRI's Mark Jason talks with State Treasurer Cahill about the legislative process, new distribution channels, and destination resort casinos.

Political Comparison

Mark Jason (MJ): *You must have a wide range of responsibilities, of which the lottery is only a part. How do the politics of dealing with the lottery differ from those*

of other aspects of your position?

Tim Cahill (TC): There are many aspects of my administration that require a large strategic commitment, and the Lottery certainly falls under that category. The sheer size of the Lottery's infrastructure necessitates this allocation of time and resources. In addition, the Lottery is unlike any of the other agencies that we regulate because – in its simplest form – it is a business. But the end result of the Lottery is one that has a larger societal impact through the money the Lottery's sales return to cities and towns. In addition, we are also mandated to work with the Governor and his A&F team with regards to Lottery aid projections,

der. This would allow the Commonwealth to control the process through which a casino is created and to maximize the benefits returned to Massachusetts. And to truly succeed, these facilities would have to offer not only casino gaming but also luxury hotels and attractions such as high-end restaurants and retailers, entertainment/tourist attractions, spas and golf courses.

These destination resort casinos would be significant revenue generators for our economy that would stimulate economic development, job creation, and entertainment and tourism. It would also allow Massachusetts to retain much of the \$1.1 billion spent annually by Massachusetts residents at gaming facilities in Connecticut and Rhode Island, provide the Commonwealth with added tax receipts and significantly reduce property taxes in every municipality statewide.

I'm in favor of having casino revenue directed toward Lottery Aid, which will absorb any decrease in Lottery Aid resulting from the introduction of casinos. This revenue, combined with the

I've proposed destination resort casinos in Massachusetts. I believe the market should determine the number and location of casinos, with the state awarding the licenses to the highest bidder.

and with the state Legislature to obtain approval for new games and concepts. This combination of business, political and social perspectives make the Lottery an agency that is unique in its role here in Massachusetts and thus requires our oversight of the Lottery to be innovative and inclusive.

Casinos

MJ: *A few years ago you were against legalizing casinos, with the thought that they would compete against the lottery. You have now come out for casino legalization. Do you envision the state retaining ownership of the casinos and outsourcing management like Canada does, or license and tax private operators like the Las Vegas/Atlantic City model, or some other option?*

TC: I've proposed destination resort casinos in Massachusetts. I believe the market should determine the number and location of casinos, with the state awarding the licenses to the highest bid-

der. This would allow the Commonwealth to control the process through which a casino is created and to maximize the benefits returned to Massachusetts. And to truly succeed, these facilities would have to offer not only casino gaming but also luxury hotels and attractions such as high-end restaurants and retailers, entertainment/tourist attractions, spas and golf courses.

MJ: *Will the Indian Casinos object to the increased competition and do they have any legal basis in the form of compacts to contest the state's right to operate its own casinos? What other obstacles are there to legalizing casino gaming?*

TC: The Wampanoags face several years of procedural hurdles before they could legally open a casino in Massachusetts. While their agreement with the town of Middleborough is a major step for them, the Tribe must also obtain both state and federal approval before being able to proceed with their plans

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On-Pack Printing Works for Major Global Brands – Why Not Lotteries?

How IGI Europrint Can Help Lotteries Promote their Product Portfolio

By Andrew Gray, Managing Director, IGI Europrint, a GTECH subsidiary



The concept of increasing sales by extending a brand to appeal to a wider audience is nothing new. What is new is the way in which this is accomplished. The printing of unique, variable game data directly on product packaging is taking brands such as Coca-Cola®, Pepsi®, Snickers®, McDonalds®, and Kellogg's® to a whole new level

of interactive marketing and the results are impressive. Best of all, this "on-pack printing" process provides companies with an avenue for cross promotions that are interactive and entertaining – something consumers eat up.

Take, for example, the iPod® craze. It seems you can't go anywhere these days without seeing an iPod. At the gym, walking down the street, and in many store-fronts, the iPod is everywhere. IGI Europrint, a GTECH® subsidiary, was hired by UK-based snack food manufacturer Walkers® to help with a promotional idea that takes advantage of the iPod's popularity. The promotion was called, Every 5 Minutes Win an iPod Mini and every day for a month, an iPod Mini was given away by Walkers Crisps every five minutes.

Here's how it was done: IGI Europrint (Interactive Games International) supplied over one billion bags of chips with unique alpha codes, and individual consumers could use the Internet or their cell phones to check if their code was a winner. Over 250,000 entries were received each day. At the end of the month, more than 8,000 iPods were won by Walkers Crisps consumers. This fun and attention-grabbing promotion helped Walkers Crisps increase sales on one of its core products.

The process to execute promotions such as the Walkers Crisps effort is based on the concept of "unique data," which is a string of letters and numbers that form a code. These codes are then printed directly onto packaging via an ink jet imaging printer.

It's important to note that before ink jet printing capabilities, companies used to print pure static instant win/lose promotions, which didn't offer much entertainment value. Consumers would receive a "Sorry, you are not a winner" message or "You have won a prize." Today, each product has a different code printed on it and the consumer is involved in unveiling that code via their cell phone with an SMS (Short Message Service; a.k.a. instant message) or the Internet to determine the message.

For over 25 years, IGI Europrint has delivered innovative promotional games, contests, and sweepstakes in a variety of media formats, and each promotion is meticulously designed to match the sales and marketing goals of the customer. The company's niche and expertise is based on a combination of games, creativity, sophisticated computer software and advanced mathematics, together with a state-of-the-art printing knowledge.

IGI Europrint has worked to perfect unique data printing for promotional purposes. In 2001, MasterFoods® was the first company to print unique data on the inside of its wrappers with their Hit the Code, Win the Load promotion. IGI Europrint supplied 750 million unique codes and managed the operation across many of MasterFoods' brands. We also incorporated 250,000 instant-win messages into the data. Consumers who purchased a MasterFoods product with the coded promotional packaging could then log onto the product's website and use the code as an entry to play promotional games or collect points.

The MasterFoods project enabled IGI Europrint to formulate sophisticated mathematical techniques to produce uncrackable codes and instant-win messages across many of their brands. In fact, MasterFoods has used the concept in over 20 countries where IGI Europrint created the unique data, project managed the wrapper printing, and created the databases for SMS and Internet digital partners.

Unique codes allow tremendous opportunities to create cross promotions with licensing tie-ins for film and product launches, and sporting and music events. Consumers can log onto a company's Internet site to find out if they are a winner or receive an SMS over their cell phone. In return, companies receive excellent demographic infor-

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An Interview with William Bissett

President, Delaware North Gaming & Entertainment



William Bissett

Delaware North Companies is an international resort management and hospitality company. Delaware North Gaming & Entertainment is the division of Delaware North Companies with an expertise and focus on sports venues, gaming, racing and the 'racino' business. Horse racing, expansion of casino-style gaming, hospitality, and full-service facility management are converging in a way that will dramatically impact everyone in our industry. Delaware North Gaming is

right in the middle of this trend and Bill Bissett shares his insights and candid thoughts on where it is headed with Mark Jason of PGRI. Go to www.publicgaminginternational.com for the complete interview!

Mark Jason (MJ): *Before we jump into Delaware North's gaming initiatives, let's start with a brief history and current state of the company as a whole.*

William Bissett (WB): Okay, the short version...Delaware North is 95 years old, with the third generation of Jacobs family membership involved in managing the company. Over the years, we've been involved in a variety of different business, but I think it's safe to say that in the last 15 years we've grown our niche to be one of the largest and most successful hospitality companies in the world. Certainly our gaming division is an important facet of our hospitality-based organization. We are probably best known for the sports and entertainment locations – including more than 25 various sports venues worldwide, including Wembley Stadium in London; the Telstra Dome in Australia and a large number of National League Baseball, NHL, NFL or NBA venues in North America. That's about a \$515 million business.

MJ: *And that is the concession aspect of those?*

WB: Yes. It can be concessions from offering the traditional simplistic concession food, it can be white table cloth, it can be high-end catering. Or it can be retail. It just depends on the desires of the professional team you're involved with...what they feel they want to do themselves, or have multiple providers in the same building. For example, the St. Louis Cardinals, which we've had a great run with and we'll be there another 25 + years, ask us to do everything for them, whether it is the high end restaurants, suite catering, or retail. Others are different, but that's an example of one in which we act as master concessionaire.

We've evolved over the years from the sports concessions business to include airport concession and retail business. Our first contract was with Washington National, and everything was given to us, even things you would never think of anymore...shoeshine, haircut, parking, in addition to food. We farmed off some of that business, because we didn't think we could manage all of it in our first time out of the box in a new business. Ultimately, our actions led to Marriott entering into the food business in airports, strangely enough.

Since then, we've grown that business to 25 major airport venues around the world. We are in Houston, Fort Lauderdale, Newark, Denver, Los Angeles. The nature of those business relationships, with airport authorities, range from little involvement to master concessionaire. With full involvement, we're responsible for all the concession activities in an airport location. It's up to us to fill in the blanks on what type of products are available, whether they are national brands, proprietary brands, local concepts. We can lay it out pretty much as we see fit, and then present it to the airport authority and they say yes or no. We pay them a rent for the privilege. Or it could be as simple as we bid on

We'll have a full compliment of table games open to the public around November 1 (in WV).

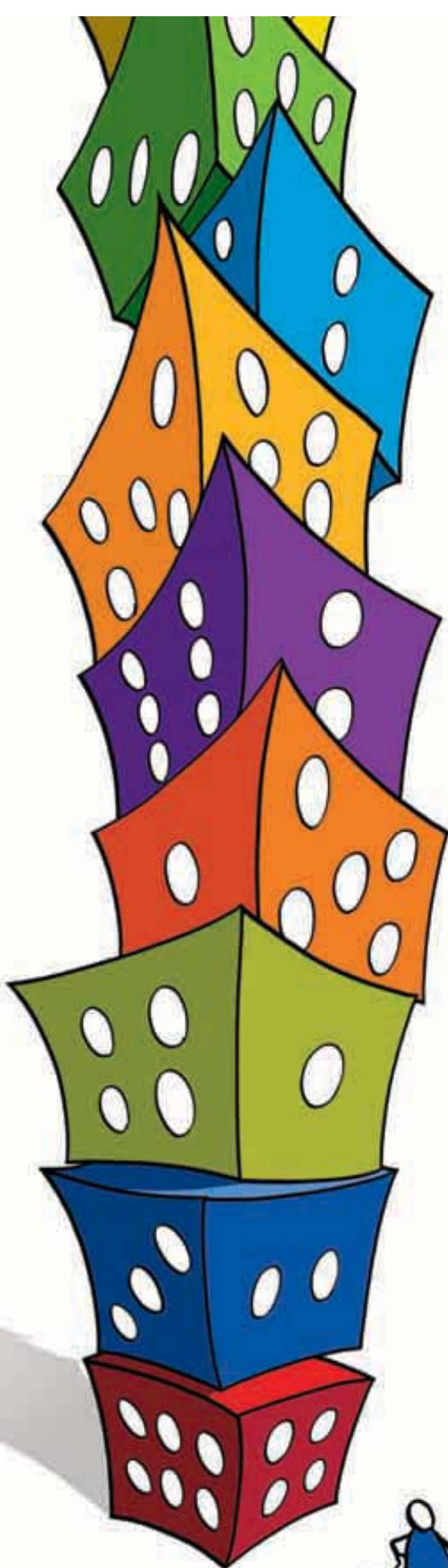
3 or 4 food or retail locations within an airport if they've chosen not to have a master concessioner and have hired more of a real estate development company to oversee their activity. The nature of the beast across the country varies from airport to airport, so we're involved in all different types of those scenarios. That's grown to be about a \$277 million business as well.

About 15 years ago, we bid on the Yosemite National Park concession. The Department of the Interior in Washington controls all the National Park concession activities. Up until that bid, we had not been in the parks hospitality business. We ultimately won that bid process and have since added a number of national and state park locations to our portfolio of hospitality business properties.

MJ: *Now, with for instance Yosemite, you're talking destination resorts, is that correct?*

WB: That is correct. It gave us a different look at the world, frankly. It really broadened our horizons on hospitality. Up until that point, we had not been formally in the hotel management business. Today, Delaware North is one of the top resort management companies.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.



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PATENTS IN THE GAMING SECTOR – IS IT A GOOD BET?

By Paul S. Hunter, Philippe Vlaemminck & Annick Hubert



Paul S. Hunter

Both in the USA and in the EU the future of gaming follows a pattern whereby technology is playing an ever increasing role. Competition between suppliers is also growing fast to the benefit of the operators and ultimately the players. But as in every other area it is not possible to continue to develop new gaming formats, data or technological devices, if the industry behind it is not able to secure its ownership, innovation and technology through adequate legal instruments. Patent protection is a vital

component to guarantee ongoing innovation and technological progress by assuring that resources allocated to R & D generate an adequate return on investment. Technological development has precipitated an exponential increase in patents applications to the benefit of society. In Europe this is in line with the so-called Lisboa agenda adopted by the European Council to make from Europe a high level knowledge based society. In line with it, a new Belgian tax incentive has been adopted by the Parliament, providing for a special patent income deduction. This concerns a tax deduction for new patent income, amounting to 80% of the income, thereby resulting in effective taxation of the income at the rate of 6.8%. The new tax measure is aimed at encouraging Belgian companies and establishments to play an active role in patent research and development, as well as patent ownership. The tax deduction applies to new patent income and came into force as from tax year 2008.

Patent protection is a vital component to guarantee ongoing innovation and technological progress by assuring that resources allocated to R & D generate an adequate return on investment.

In the EU we have seen long debates about data protection and the so-called “sui generis” right. That discussion is currently over following the judgments in the Fixture Marketing vs. Sven-

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Philippe Vlaemminck

ska Spel, Veikkaus and Opa cases. But what about patents?

Certainly in the EU this has not (yet) been the focus of the gaming sector, although the matter requires serious consideration. Besides the EU is still struggling with the need for a single Community patent and the creation of a unified and specialized patent judiciary to replace the bundling of national patents and the costs of multiple patent litigation in several

EU member States. In order to revitalize the debate on this issue the EU Commission has published a Communication (“Enhancing the patent system in Europe”) setting out its vision for improving the patent system in Europe,

which is currently considerably more expensive than the US system. A separate and comprehensive Commission Communication on Intellectual Property Rights (IPR) is planned for 2008 and intends to address the main outstanding non-legislative issues in all IP fields.

Also in the WTO, IP plays an increasingly important role. The TRIPS agreement is the clear evidence of the commitment to enhance trade in respect of IP rights. Unfortunately some see in this opportunities to improve their own status in the WTO dispute settlement process. Antigua, supported by some off shore operators, tries indeed to use the IP issues as regulated by the TRIPS agreement to increase its financial compensation in the WTO battle against the USA. Antigua is requesting the right to retaliate against the USA for not granting market access for Internet gambling services into the US territory. So far no problem. The problem starts where Antigua asks for the permission to be com-



Annick Hubert

Annick Hubert was previously a State Attorney of the Belgian Department of Foreign Affairs, legal representative of the Belgian Government at the Court of Justice of the European Union and the European Free Trade Area Court. She joined the EU law practise group of Vlaemminck & Partners this summer. Her e-mail is [HYPERLINK “mailto:A.Hubert@Vlaemminck.com” A.Hubert@Vlaemminck.com](mailto:A.Hubert@Vlaemminck.com)

compensated through the right to deny IP protection for US products on its market. In the past such approach was successfully used by some banana producing countries in the exceptional circumstance that the EU continued to refuse market access to the EU along the terms of the WTO and its recommendations. However the retaliation instrument was actually not used at that time.

With the purpose of defending its public order and its citizens the US is using the normal legal means provided by the GATS agreement to stop market access for Internet gambling services from third countries. There is nothing wrong with that. If companies or other governments would support Antigua in its “bargaining chip” tactics to get more compensation for such loss of potential market access, it will give a negative signal for those continuing to invest in innovative technologies and IP. The WTO dispute settlement body should be careful in letting some governments use TRIPS for the purpose of retaliation in order not to undermine technological developments.

Meanwhile the US made its own way forward. Over the past eight to ten years, the U.S. Patent and Trademark Office (PTO) has been flooded with patent applications. Individuals and companies see great potential value in the exclusive rights of a patent.

Much like other industries, the gaming sector has experienced an explosion in the number of patent applications filed. Based on an analysis conducted of gaming patent filings, fifteen times as many gaming patents were filed in 2000 as were filed in 1980.

The large gaming companies also need patents to generate “prior art” which is what patent lawyers refer to as patents or articles that pre-date a filed patent application and help prevent the patent application from becoming an approved patent.

Are there ways to gain an “edge” with patents? Much recent development in the gaming industry has been with software. While there are a number of software patents, companies are beginning not to file patent applications for software applications because of the delay in obtaining a patent in software which can be longer than the life span of the invention. Currently, there are so many filed software patent applications that the average software patent application in the U.S. is pending for six or more years. This long delay cuts into the potential profits a company could experience by excluding others from the invention with a patent since protection does not begin until the application is accepted.

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The Venue-Based Video Lottery Model – A Popular Direction for North American Lotteries

By Victor Duarte, Chief Operating Officer, Spielo, A GTECH Company



Victor Duarte

In today's venue-based environments, lotteries and their players are seeking games and machines similar to those found in traditional casinos. Players expect to find their favorite games in these properties, and lotteries are taking steps to meet those demands. As more jurisdictions consider adopting a venue-based Video Lottery Terminal (VLT) program, the move is one that is gaining in popularity and acceptance. What was once seen as a

way to assist horse racing and other pari-mutuel operations is now considered a mainstream alternative for raising much-needed revenue for the good causes that lotteries support.

Legislation approved in Kansas in April 2007 allows VLTs to be operated in the state, making it the newest VLT jurisdiction in North America. A decade ago, there was a greater likelihood that gaming machines would be installed in licensed establishments distributed across the state. This is not the case today, as Kansas has chosen a venue-based VLT solution over the traditional distributed model. Nevertheless, distributed VLT programs remain very viable solutions as lotteries have implemented several improved system features and site standards over the past decade.

Originally coined "racinos" and developed to provide revenue to a weakened horse racing industry, venue-based VLT programs now include non-racetrack operations. Traditionally, lotteries have been chosen to oversee these operations because of their proven ability to deliver gaming in a socially responsible way. Lotteries have also been able to differentiate these facilities through their responsible gaming programs and specific features mandated for their program and provided by their VLT and central system vendors.

Several lotteries have had some success with this model. In Canada, venue-based VLT programs exist, sometimes alongside wide area programs in British Columbia, Alberta, Ontario, Quebec, and on Prince Edward Island. Lotteries in Delaware, Pennsylvania, New York, West Virginia, Rhode Island, and soon Kansas also operate track or non-track venue-based VLT programs. Massachusetts and Maryland are presently examining the idea of allowing gaming operations in casinos or other venues in their jurisdictions.

There are several reasons for the emerging shift from the wide area or distributed model, common to earlier VLT programs. One reason is competition. With casinos nearby, lotteries understand the need to provide options similar to what is available to play-

ers. Kansas, for instance, currently has Native American casino gaming within its state lines as well as casino-style gaming in neighboring Oklahoma, Nebraska, Colorado, and in nearby New Mexico and Iowa. With large numbers of people venturing out of their home state to gamble, many lotteries feel the best way to keep gaming tax dollars within their state is to permit video gaming at tracks and other venues.

Player preference is also a factor in the movement toward venue-based gaming. As games and gaming have evolved, the venues that

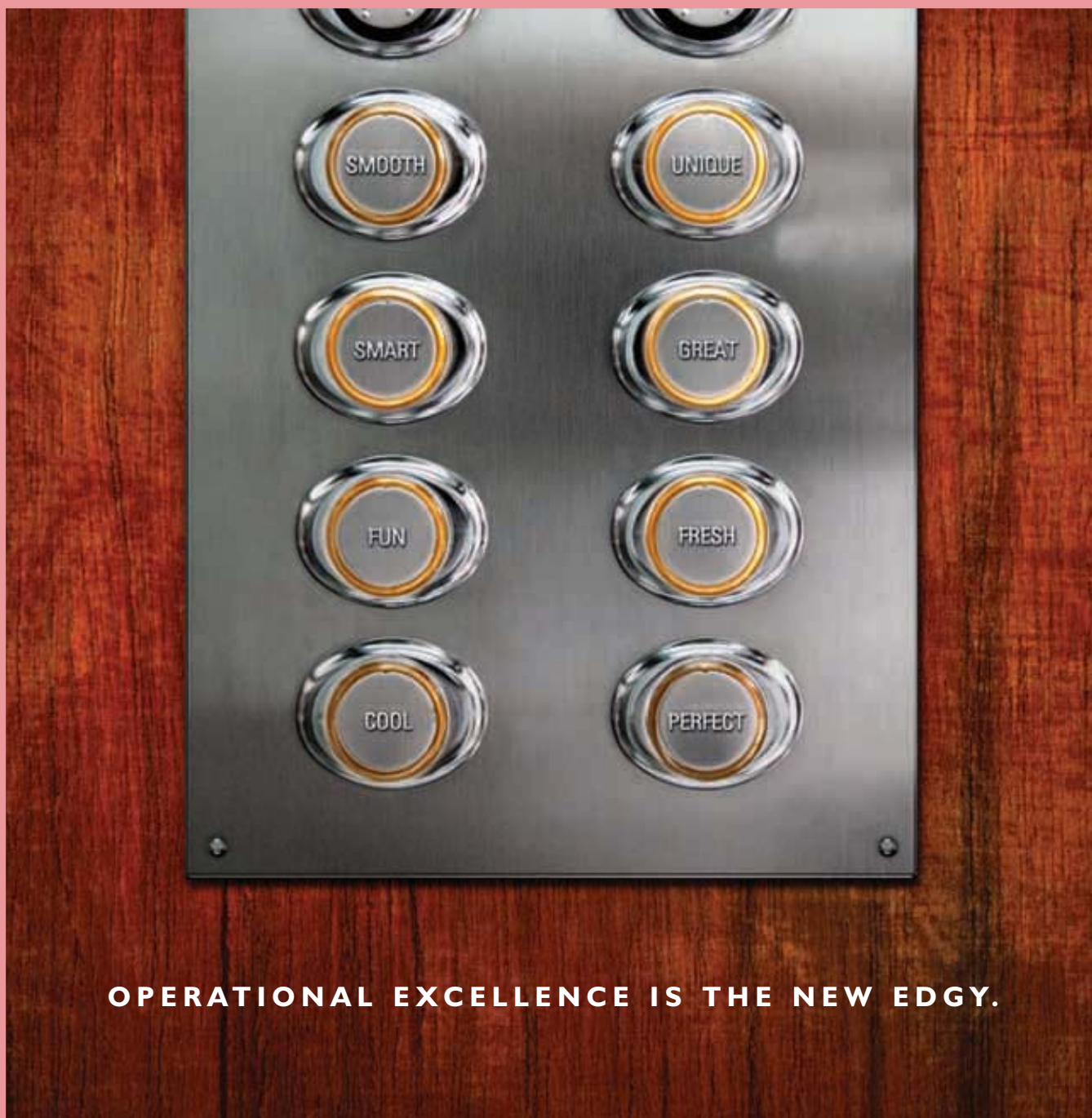
Whether game outcomes are generated by the VLT or the central system, game speed does not differ from that of a casino slot machine.

provide gaming have also changed. Restaurants, entertainment centers, golf courses, and hotels are now commonplace for some gaming venues. Players have also become more sophisticated and they expect much more from their gaming facilities. Gaming states realize this and have already taken steps to become competitive.

Lotteries are also looking closely at the option of venue-based operations as part of their ongoing responsible gaming initiatives. Self-exclusion programs can be better monitored with a venue-based operation and, as in some existing locations, responsible gaming counselors can be located on-site. States sometimes look to their existing lotteries to operate these gaming facilities because it is often easier to gain public acceptance when they are present-

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On Server-Based Gaming (SBG)

An Interview with Michael Koch, CEO of ACE Interactive



Michael Koch

We have all heard about “Server-Based Gaming” (SBG) and “Downloadable” (DL) gaming platforms for slot machines and video gaming. PGRI asked Michael to explain these terms and the differences between them, to clarify the advantages and disadvantages of one over the other, and why it is important. As Michael explains, it is not so much about technology. It’s much more about the user experience, delivering a richer variety of games to the players, giving operators more control over everything to enhance the entertainment value and implement more effective problem gaming strategies. As some jurisdictions expand into video gaming, these are some of the topics they will need to be thinking about.

PGRI: What exactly is “Server-Based Gaming” (SBG)?

Michael Koch (MK): To answer this question, one has to first understand what differentiates next generation video gaming from the current stand-alone machines.

The most common form of video gaming machines remain those that contain a sophisticated amount of hardware and software located within the terminal. Those terminals also house the Random Number Generator (RNG), responsible for calculating the outcome of a game according to local gaming legislation.

The software is located on a chip (EPROM). If an operator decides to run a different game on the same hardware, often referred to as box, then this EPROM needs to be changed, i.e. it requires a person being physically present at the box to make the change.

True Server Based Gaming

Here all software logic is taken out of the video gaming machine and placed onto a central server. All game outcomes are determined centrally. Logically, this decreases the hardware and basic software requirements, permitting third party hardware that can be easily used at the gaming site. As a result, hardware investments are dramatically decreased.

The move of game logic from the terminal to a central site breaks the traditional value chain, opens up competition and could produce better value for operators. If a player wants to play another game, he simply chooses another game from the menu and can do so instantaneously, no download necessary.

ACE Interactive is specialized in True Server Based Gaming (SBG). With its solution initially developed for the Norwegian Lottery – Norsk Tipping – in 2003, more than 10,000 terminals can be run simultaneously, delivering many different games and styles in parallel.

There is no doubt that this is where the video industry is going. However, some jurisdictions are yet to allow RNG location outside the video gaming machine and, as a responsible gaming provider, Aristocrat offers a downloadable solution for those operators. Aristocrat’s downloadable solution is a bridge for clients from today to tomorrow into the next generation of gaming, True Server Based Gaming (SBG).

PGRI: So, why is Server-Based Gaming (SBG) so important? What does it mean to the player experience?

MK: SBG is all about linking players, making game content available at the player’s fingertips, following player demographics, time and location whilst giving operators total control of problem gaming. These are true values that easily justify a business case in itself. However, we need to understand that we are very

SBG is all about linking players, making game content available at the player’s fingertips, following player demographics, time and location whilst giving operators total control of problem gaming.

When we talk about next generation gaming we should generally differentiate between two approaches:

Downloadable (DL)

In this approach gameplay remains largely the same except that the software part is downloadable from a central server over a communications line into the machine. The RNG remains in the machine. If a player wants to play another game, a new game has to be downloaded before it can be made available.

early in the adoption phase of such technology and not every operator understands yet where these values can be identified. At ACE Interactive, we have a sophisticated client expertise program in place in which we help our clients position themselves in the context of SBG and how SBG can boost their operations and profitability in a sustained manner.”

PGRI: Why is Downloadable (DL) better than traditional single stand-alone machine gaming?

MK: Traditional single machines are just that, single. Linking single machines is difficult due to the complexities of the protocols and difficulties of the connecting network.

Downloadable machines, based on server technology, are, by definition, linked. Linkages allow us to run many forms of game content: slots, poker, blackjack, roulette, bingo, keno all on the same terminals. Linkages also allow us to develop new forms of content: competitions, tournaments and new forms of progressive and mystery jackpots.

Down Loadable Server (DLS) simplifies and in some cases removes the requirement for floor technicians, reducing the cost of operations.

PGRI: *What exactly is the difference between “Downloadable” and “Server-Based”?*

MK: DLS-based and Server Based Gaming (SBG) are two very different technologies that should not be simply bundled together. DLS allows an operator to control the deployment of content at the gaming machine.

SBG allows an operator to not just deploy and control content on a gaming terminal but to deploy and enhance the very way the player interacts with that gaming terminal. SBG deploys a limited protocol between the terminal and the server because the game logic is actually executed on the server. The advantage of this is that ‘linking’ the player experience is now easier and it is this linkage which will allow us to develop and deliver new gaming content in the future.

PGRI: *So SBG will, in the end, have a bigger impact on the industry than Downloadable?*

MK: Downloadable has very limited potential to change the industry. Essentially, all that is happening is that instead of physically altering or changing the game we are doing it automatically or remotely. It is still the same basic game.

SBG does have the potential to alter the industry substantially, akin to the way iTunes has changed the delivery of music.

SBG does have the potential to alter the Industry substantially, akin to the way iTunes has changed the delivery of music. The decrease in the cost of distribution in the music industry has resulted in a phenomenon called the ‘Long Tail’ whereby consumers seek and play music that is attuned to their specific preferences. SBG has the potential to create the Long Tail effect in gaming, fundamentally changing the way content is delivered and developed and the way that the operators pay for it.

In particular this means that instead of the industry determining when a game is available to the player, it will now be the player’s choice because all the games of his or her preference are available at any gaming machine at any given moment. This way an operator can generate profit from games that have already far surpassed their peak times in a traditional EGM model where the games would have been taken off the floor already and thus be unavailable to the player.

PGRI: *Will it be difficult to get the SBG and Downloadable platform and the games certified in various jurisdictions due to the disembodied nature of games and machines in a downloadable system?*

MK: In a DLS environment the games can only be developed by the current game developers associated with a particular manufacturer. The route to regulatory approval will not change to the one we have today. In an SBG environment the games are ‘ported’ to the technology. This porting process encompasses sophisticated testing and quality certification. The game once ported will be presented to the regulators as part of the SBG suite. ♦

Patents in the Gaming Sector — Is it a Good Bet? ...continued from page 17

To address this delay the U.S. Patent Office introduced at the end of 2006, the Accelerated Examination Program in which a patent application is examined in twelve months or less. For this “fast track,” applicants are required to provide a worldwide search of patents and articles as well as a comparison of relevant search results to the invention they are trying to patent. Regular patent applications are not required to submit a search and evaluation. To date, only a small number of patent applicants have chosen to use the accelerated program. First, the additional work increases costs. Professional search firms can charge \$5000 for this type of search. Then, patent lawyers must study the results and prepared a detailed, costly analysis. In all, the accelerated examination requirements can double or triple the total costs of patent application preparation.

Second, many patent lawyers discourage clients away from using the accelerated program because there is a certain measure of risk. The idea of preparing a detailed report indicating what is and is not new in the patent application is seen by lawyers as risky. If a relevant article or patent is not included in the search or the report of the relevant material is mischaracterized, the attorneys can be accused of “fraud” and the patent rendered unenforceable.

Despite these drawbacks, accelerated examination can provide an edge—patents are issued sooner, the patents become prior art sooner, and patent owners have a much better idea that the patent will stand up if challenged. Some may find it hard to believe that faster patents provide an “edge,” and sometimes they do not, but, as in gambling, patent players should try to do as much as possible to preserve their R&D investments. ♦

Lottery Vendor Background Clearance Repository: A Proposal to Facilitate the Process of Background, Security, and Due Diligence Checks

John Tarr, Chief of Security for the Montana State Lottery



John Tarr

If you are in the lottery security business, you will perceive this commentary either as one horrifying idea, or as a potential starting point for future discussion. I hope you choose the discussion option, but regardless, someone needs go on record as seeking a practical and cooperative method to establish a more efficient way for lotteries to conduct background clearances for vendors.

Why even write a commentary when some of your peers are going to think you're nuts? Well, my reasons are based on the frustration level I've experienced trying to conduct and maintain a proper vendor background investigation file without breaking the checkbook. Furthermore, the checkbook remark is a real quandary for those of us working within small lottery operations with limited funding and small Security staffing levels.

Security staffs will doubtlessly agree that the legal and operating environments we function in vary from one jurisdiction to

ago. Compounding these changes is the fact that ownership is becoming progressively more multinational, and the numbers of lotteries utilizing the services of a worldwide vendor is increasing yearly. The multinational shift in ownership, for example, is resulting in an increased demand for access to high-level managerial staff for extensive interviews by Security investigators. Often these interviews are conducted back to back by different lotteries, yet they are asking the same or parallel questions that seek the same answers. Lottery Security officers are also requiring financial, criminal and family member information on these high-level managers, a requirement that those living outside of the United States may construe as an intrusion of their individual rights based on their country's laws. Frequently these investigative requirements involve conversations or letter writing efforts that entail the utilization of interpreters if the manager's language is different from the Security officer's language.

Another example of this process is that lottery operations are becoming increasingly dependent on computer systems to accomplish operational goals and business objectives. It is important to note that dependence on computer systems can equate to higher personnel turnover for a vendor because of the psycho-

The information is maintained in the central system, which is then made available to regulators with the proper authorization any time day or night.

another. One size simply does not fit all in our business, particularly since business practices, organization policy, and governing laws and codes gradually evolved at different points in time. The resulting impact is that we end up utilizing a variety of security criteria, criteria interpretations, and guidelines developed over thirty plus years.

These approaches and solutions to security operations developed over time worked well early in lottery evolution, but several marketplace changes are influencing our operations. These changes in the marketplace are challenging Security managers to seek better ways of conducting the necessary background clearances and due diligence requirements.

For lottery vendors these marketplace changes are affecting their operations in ways that were not contemplated ten years

logical burnout rate that often follows technical personnel. For Security types, this ever-increasing personnel turnover results in additional requests for background clearances. In addition, changes to Federal and State laws designed to protect the privacy of employee information even from those of us who function as Law Enforcement Agencies are on the rise in the United States.

This whole background compliance process is not without other overheads, such as time, money, and staff away from normal duties for both a lottery and a vendor. Not to mention trying to explain to a part time legislator why staff needed to travel overseas and spend \$10,000 for one background check even though you are getting the costs back from the vendor. In their eyes, the costs still come out of bottom line revenue and thus affect the transfer to other needs.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.

An Interview with Conrad Granito

General Manager of Santa Ana Star Casino

Conrad Granito, General Manager of the Santa Ana Star Casino in New Mexico, talks about gaming classes, table games, and Indian Compacts. Yes, PGRI is still in the business of covering Public Gaming issues and Lottery news. We are expanding our coverage, though, to include a broad range of issues and topics. The reason for this is that state and government sponsored gam-

ing and lotteries are being directly impacted by this broad range of issues. Perhaps it wasn't long ago that we did not think of ourselves as being in competition with other gaming venues or that we would never expand our product offering beyond traditional lottery games. We respectfully propose that this is no longer the case and that we want to be informed about all areas of the gaming industry. Go to website www.publicgaminginternational.com for the complete interview!

Understand, though, that if the scope of gaming expands beyond what is currently allowed, if the racetracks get table games, then our payment to the state ceases.

That's a contingency within the Compact. Same thing in Connecticut. If the state expands the scope of gaming beyond what they currently have, then the hundreds of millions of dollars that Foxwood and the Mohegan Sun are paying the state go away.

ing and lotteries are being directly impacted by this broad range of issues. Perhaps it wasn't long ago that we did not think of ourselves as being in competition with other gaming venues or that we would never expand our product offering beyond traditional lottery games. We respectfully propose that this is no longer the case and that we want to be informed about all areas of the gaming industry. Go to website www.publicgaminginternational.com for the complete interview!

Mark Jason (MJ): *Let's begin with table games. There's a distinction between table games and slot machines legally. New Mexico is but one example wherein the racetracks can have slots but not table games. Why would that distinction be made, since both slots and table games are Class III games?*

Conrad Granito (CG): The designation of Class I, II, or III only applies to Indian Country. There is no standard designation of gaming 'classes' in every jurisdiction in the country. The states, then, when they speak to the scope of gaming, are only using this separation in classification as a guideline. Using this guideline, though, not every table game is a Class III game.

MJ: *What exactly would you see as the difference between these electronic games and a 'table game'?*

CG: The biggest difference in most areas, and here in New Mexico in our conversations with the NM Gaming Control Board, is this: if a game has a random-number generator that actually generates the game, and in essence there is no human interaction at all, for example video blackjack or video poker, even video roulette...these are gaming devices, slot machines. As

you're probably well aware, many jurisdictions call slot machines 'gaming devices', video lottery terminals, every jurisdiction is different. In the case of New Mexico, we've had conversations wherein we have no problem with the video blackjack machines that are sitting over at the Downs in Albuquerque right now. But if the Downs decided to put in WaSioux or PokerTec, or any of

the DigiDeal games, we would view those as table games, because there is player interaction. It is not a gaming device.

MJ: *When you say 'player interaction', are you discriminating between players playing against one another vs. playing against the house?*

CG: No, there's a player interaction in some way. In the case of WaSioux, there's a dealer handling chips, there are chips going back and forth. In the PokerTec game, there is no dealer per se, but all the players are playing against each other. They are not playing against either the house or a random number generator.

MJ: *So you would say it's both the context of a live person interacting with and facilitating the game, and playing against one another vs. playing against a random number generator.*

CG: You got it. The lines are blurring, and that's one of the issues, particularly right now. In Pennsylvania, you see a hologram, or whatever, dealing you the cards. Does Pennsylvania view that as a gaming device?

MJ: *I've been told that these games are viewed as a gaming device, and therefore legal. They actually had the manufacturer re-write the software so that players are playing one-on-one against the house. This even if there are six players sitting at the table.*

CG: So the effect is the same as if there were six players sitting with six machines?

MJ: *That is my understanding of it, as described by the Penn. Gaming Control Board. My feel is that many jurisdictions are trying to gain access to the full range of casino products, while the laws are only going in certain stages. Oftentimes it's slots vs. table games.*

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.

An Interview with Julie Koenig Loignon

Vice President of Communications, Churchill Downs Incorporated

Julie discusses a wide range of topics relating to the horse-racing industry with Mark Jason of PGRI – the complementarity of racing with casino-type gaming, marketing to the next generation of players and sports fans, legislative issues, and more... Go to website www.publicgaminginternational.com for the complete interview!

On Racinos

Mark Jason (MJ): *The financial health of the racing industry has been improved by the addition of casinos. To what extent does the future of the racing industry depend on the addition of racino dollars?*

Julie Koenig Loignon (JKL): I think it depends on the racetrack. There are certain racetracks that have very strong racing seasons due to the continued quality of their purse programs. Strong purses attract the top owners, trainers, jockeys and horses to compete at your facility. A racetrack's history, tradition and importance in its local community can also contribute to its financial success. For instance, during the late summer months, Saratoga Race Course and Del Mar Race Course run the annual meets. And those are both tracks that do well financially because of the popularity of their racing product and the popularity of being there in person. It's a big social event in those locations. It's not just about racing, but also the overall entertainment value.

But there are other, smaller tracks that are really struggling, especially those located in states that have state lotteries, riverboat casinos or Native American casinos in close proximity. We have seen examples where smaller racetracks, such as Prairie Meadows in Iowa and Delaware Park in Delaware have been able to revitalize their racing programs because they've been able to add alternative gaming revenues, which are used in part to put more money into their purse programs.

MJ: *It's hoped in the industry that racino dollars will be used in part to improve purses, product, and increase marketing. Do you believe this can turn the industry around?*

JKL: Our view is that it's certainly part of the solution. Having more money to be able to invest in updating our facilities is critical. Churchill Downs racetrack is fortunate in that, because we do host some of the premier events in our sport, the Kentucky Derby and Kentucky Oaks, we have a source of non-pari-mutuel revenue that many other tracks don't enjoy. Plus the Kentucky Derby and Kentucky Oaks race cards are incredibly popular pari-mutuel products. The revenues we derive from those events enables us to invest in our facilities, creating nice dining rooms, corporate hospitality areas, luxury suites, the new amenities we added as part of our \$121 million renovation. Otherwise, it can be very difficult to turn a substantial profit in horse racing, and that's true for racetracks, horse owners,

trainers and breeders. Racing is a very low-margin business, especially as more wagering dollars have shifted from on-track to off-track. As a rule, horsemen and racetracks make more money when you wager a traditional \$2 bet, at the actual racing facility. However, within the last fifteen or years or so, 90 percent of handle, our total sales, has migrated to off-track sources, and host tracks and horsemen make a lower margin on wagers placed off-track.

Given the migration from on-track to off-track wagering, and how that affects our economics, it has become more challenging to put aside money capital upgrades to the grandstands. So that is where alternative gaming can help racetracks – even moderately successful racetracks – remain competitive. The legislation is typically written to dedicate a percentage of net revenues to purses to help keep them strong. A percentage also comes back to the racetrack operator. Typically, the track operator's share is used for capital improvements to the racing and gaming facilities and for marketing programs.

On the Need to Reach a Younger Audience, and Technology

JKL: Churchill Downs Incorporated takes a strong view that we still need to go out and recruit new and younger fans to our sport. Many consumers under age 40 have more choices than previous generations had with regard to how to spend the time and entertainment dollars. You've got the opportunity to do a lot of things on-line now, in the form of entertainment, that didn't exist before. Also, the old entertainment stalwarts – movie theatres, shopping malls, other spectator sports – still compete for our customers' attentions. Horse racing needs to make itself relevant today to fans of all ages. I think we all agree that we've lost some ground over the last few decades.

MJ: *So, like the lotteries, racing needs to better engage the interest of the younger generation, which has so many ways technologically to entertain itself?*

JKL: We have not been an industry that has quickly invested in technology or technology upgrades, which are now vital to stay ahead of the curve. Until recently, the key technical part of our business involved the totalisator systems that actually process all the wagers. You may have read stories in recent years about some weaknesses in those systems, whether from a security standpoint or just the speed in which they can transfer wagering data from hub to hub – that is from the location where the bet is made to a location where the bet is accepted. A lot of that infrastructure is owned by vendors. And again, because everybody who's associated with racing is probably working on very low margins, there has not been sufficient capital to keep the technology that supports horse racing on the cutting edge. That's something that the entire industry has acknowledged and is trying to address.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.



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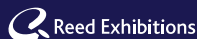
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An Interview with Ed Van Petten ...continued from page 6

EVP: It is a benefit to us, I believe. We can't know for sure until we get some market trends and see what's going on with our other games. But, I think we're going to see an incremental increase, both in new players and in existing players who may make an extra purchase because of the new game.

MJ: Any important initiatives or changes in store for your tenure as president of MUSL?

EVP: Well, no. It's a one year term. I don't foresee anything changing. It's getting a little hard for me to keep all the irons in the fire, with our expanded gaming initiatives and those duties. The Multi-State Lottery Association has a fantastic staff, and they'll keep me well informed and minimize the amount of time I need to devote to those functions.

MJ: How important are games other than Powerball to MUSL?

EVP: For us they're very important. We're involved in Hot Lotto and 2by2, which are also administered under the multi-state lottery umbrella. Hot Lotto was very critical to our sales mix last year. And 2by2 continues to be a niche game, kind of a cross between a numbers game and a lotto-style game. Sales are pretty steady in that game. It's not one of our stronger games, but

Most of the final applications for the casinos are due in December of this year.

it is very important to us. We could not participate in any of the multi-state games without MUSL being in existence. Even Midwest Millions was contingent upon MUSL administering that game, for the financial end of it.

MJ: Oh, I see, as a financial liaison between the different states. I should have looked this up before, but...Did you get involved with Scientific Games' 'Deal or No Deal'?

EVP: Yes.

MJ: Did Scientific Games involve MUSL at all?

EVP: No. The difference is that with Midwest Millions we are jointly pooling a prize fund. With the Deal or No Deal contract, that was a set cost based on a percent of sales, similar to any licensing agreement. That contract also includes the trips to the game show. The same game is being offered to multiple states at the same time, but there's no joint funding of the game. So that's really just a typical contract similar to other games we have with Scientific Games or the old MDI.

MJ: Do you have a timeline for the rollout of the Lottery Gaming Facilities?

EVP: Lottery Gaming Facilities is the term given to the casinos, and the timeline is pretty loose. We're trying to get the

Racetrack Gaming Facilities opened on a temporary basis within the first quarter of 2008. But, it could very well be April or May.

MJ: That's the existing racetracks for which there was authorization given to put in slots. Wasn't one of those voted down on the local level?

EVP: There are three, and one was voted down. The facility in Wichita, Sedgwick County, was voted down. We have a facility in Kansas City, Kansas, Wyandotte County, and a facility in Pittsburg, Kansas, which is Crawford County. Both of those are moving forward. We are negotiating with those facilities for a gaming contract. We are in the process of trying to select a central system to monitor those facilities. I can't give you a firm timeline, but we're hoping for February or March of 2008.

MJ: That's for the racinos. There's no real timeline on the Lottery Gaming Facilities simply because there are so many complex processes to go through?

EVP: At this point that's correct. Most of the final applications for the casinos are due in December of this year. That begins the clock on our negotiations, which are a maximum of 90 days. Then the Casino Review Board gets them, then the Racing and Gaming Commission. So realistically we're probably looking at two to three years before we have a casino operating.

MJ: Last year (FY 2007) the lottery generated \$242 million in sales and \$71 million in transfers. Any financial projections for 2008, 2009, beyond?

EVP: We have projected \$250 million in sales with \$72 million in transfers for this fiscal year. Part of the reason for the limited increase in transfers with somewhat of growth in sales is that we will be absorbing some of the start-up costs for the electronic gaming in this fiscal year. Most of that will be reimbursed by the facilities once they are open, but we are going to have some costs that we are going to have to absorb, in equipment and possibly additional employees.

MJ: It would seem as though projections beyond what you have now, with so many things on the docket as far as gaming facilities and racinos, would be just this side of impossible.

EVP: That's true. In the budget process, we are required to project two fiscal years out. We had to do a caveat with our 2009 figures, because we really don't know what those will be. We can estimate based on a March or April opening what those figures will be, and we have done that. But they are very loose figures.

MJ: What are some of the advantages to having the lottery manage the implementation of the gaming facilities, as opposed to simply licensing private operators?

EVP: Under our constitutional provisions, any operation must be state owned and operated. That does not mean we will own the building the machines sit in. Similar to the way the lottery

*We will continue to own and operate the gaming business itself.
The management company will just be responsible for the management of the facility.*

currently operates, we will continue to own and operate the gaming business itself. The company will just be responsible for the management of the facility.

To meet our constitutional guidelines, the operation itself must be state-owned and operated. That doesn't necessarily require that it be placed under the lottery. I assume the legislators' thought process was that the lottery already has a lot of this equipment in place, we have our communication system, all we really need to add is a central monitoring system and then expand out to the electronic gaming side of it.

MJ: My next question was going to relate to the reasoning for choosing the lottery as the overall manager of the facilities. It seems that the legislature viewed the lottery as having the infrastructure and resources to take these new responsibilities on?

EVP: Well, that, and the fact that the lottery has excellent management.

(Ahem, bit tongue-in cheek there...)

MJ: Could you describe the basic approach that you are using with respect to procurement, how you're going about evaluating who's going to build, operate, manage the gaming facilities?

EVP: With regard to the racetrack gaming facilities, there's a statutory requirement that they hold a pari-mutuel license. There's no selection process there, just a negotiating process. With regard to the Lottery Gaming Facilities, we have adopted an application procedure which is posted on our website for the

tract with to be the facility manager. I'm sure there will be other parties involved, with regard to construction, management of ancillary facilities, but the company we deal with will be directly responsible for the management of the gaming operation, the day-to-day stuff. However, we will continue to own and operate the gaming business itself. The company will just be responsible for the management of the facility.

MJ: Any applications other than Penn National as yet?

EVP: No. Penn is the only one we have so far.

(NOTE: This interview took place on September 19th. Other applications may have been received since that time.)

MJ: Isn't it a little strange that Penn National is the only one that has filed?

EVP: As it turns out, probably not so strange. Penn National hit the ground running as soon as the legislation was passed. And the area they intend to build is not subject to zoning. So getting the local approvals was somewhat simpler for them. They fully intended to have their application filed by the original deadline. As it turns out, Penn National wants to build a facility in Cherokee County in the southeast. Crawford County has more stringent zoning requirements, and felt like they could not give adequate consideration to matters within that original deadline period. So they asked for an extension. Penn National did not want an extension, and decided they would go ahead and file their application since they were ready anyway. That way we can

These will expand the gaming opportunities in Kansas, but certainly it would be more correctly stated that we are just trying to claim our market share back.

applicants to follow. This details the information that will need to be submitted. Once they have applied, we as the lottery (the statute says the executive director) will sit down and hammer out the fine points of how the facility will actually be managed, as well as what the facility and the ancillary facilities involved or attached thereto will involve or entail. It's going to be a fairly complex and intense process, to negotiate a contract of that size within 90 days. I think we can do that.

MJ: Is the idea that there will be a single contractor for each of the facilities, and that contractor will be responsible for finding or building a building, getting everything set up from start to finish?

EVP: Yes. There will be a company or party that we will con-

go ahead and begin a negotiation process with them, and thus speed the whole process up. So I think it will be of benefit to all parties that they went ahead and filed.

MJ: And that one is positioned close to the Oklahoma border in order to provide an alternative to those who are going cross-border?

EVP: It's also close to the Missouri border. It's right in the southeast corner of Kansas. And Missouri has some population centers down that way. So it should draw from both aspects, as would a facility in Crawford County.

MJ: I noted a study done in which it was identified that there were, I believe, ten gaming facilities within 35 miles of the Kansas border.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.

An Interview with Michael Chambrello ...continued from page 8

Anecdotally, what we've been hearing from clerks who've sampled the machine is that the speed at which it processes play slips is something they've not witnessed before. They especially like how the terminal returns both the play slips and tickets after they've been processed. They also like how quiet the printer is.

Already, the Wave is meeting with rave reviews, and is scheduled to debut in Connecticut in the first quarter of 2008.

PJ: *On the subject of online, can you (or might you) leverage your strength in the instant/scratch-off category to penetrate other categories in the gaming market?*

MC: Scientific Games has led the innovative charge on the instant side for many years and is now actively engaged in applying to the online category many of the same marketing principles that have sparked the incredible growth of instant games since the early 1990s. We have always maintained that to grow the online market lotteries must step outside the traditional online game product mix. This means that lotteries must find a way to effectively raise price points and payouts for online games, and, it must be done in a way that returns value to the player through

our Multi-Hand Easy Win games and through multiplier components such as Power Play. In some U.S. jurisdictions, Power Play participation exceeds 30 percent. To raise the price-point of online games, you have to add value to the product. It's really no different than what we've successfully been doing with the instant product for years.

Myth #3: You can't payout more than 50 percent

Look at the South Carolina Education Lottery and its Palmetto Cash 5 game, where the multiplier component Power Up quickly propelled average weekly sales of the game from \$407,000 to \$870,000, a 114% increase. Even after almost 3 years on the market, Palmetto Cash 5 sales in CY07 are still averaging \$500,000 per week. The payout for this game: 63.1%.

Printing business and production

PJ: *In the most recent annual report, it is stated that since "growth of the instant lottery ticket category continues to change the manufacturing, finishing, and game programming paradigm, suppliers have been challenged to step forward and invest in this new environment" – How so, why so?*

Fundamentally, instant category best practices that work in one market also work in another market. There are, of course, very distinct differences. For example, U.S. lotteries introduce more instant games, more often than do their European counterparts.

a good lottery gaming experience.

Of course, fresh ideas and innovative thinking begins with a commitment to addressing head-on the principal myths that have long stifled online category growth.

Myth #1: A matrix change constitutes a new and innovative online game.

Some companies do a matrix change and claim it as a new game. But a matrix change does not constitute online game innovation.

- Fresh game ideas and innovative thinking are the result of an integrated game plan and cohesive strategy collaboratively developed, planned and timed by the lottery and its vendor/partner.

Partnership goals include:

- Bringing new games to players
- Developing fresh approaches to the way processes are performed
- Optimizing retailer selection and expansion (i.e., making sure the Lottery has the right mix of retailers, the right number of retailers, and the right locations)

We believe in an inclusive strategy for providing customized game planning for our customers. It must be focused on their unique market, player-base and product mix.

Myth #2: People won't play online games priced above \$1

At Scientific Games we have successfully done this through

MC: The steady, worldwide growth of instant games has forced the suppliers' finishing lines to become more efficient. Today's finishing lines are required to be much more efficient compared to just five years ago. This, coupled with the increasing demand for shorter lead times, is an overlooked area of instant game manufacturing, and can be where short-term bottlenecks in meeting increased customer demand often occur.

SG has distinguished itself by making major investments in technology, equipment and quality systems. We have added several new presses, both long- and short-run, to meet the demands of shorter lead times for different sized ticket runs. We have also automated several steps including our finishing and packaging areas, increasing capacity to meet customer demand. Our recent acquisition of OGT has allowed us to combine best practices of both companies and further fine tune our packaging and finishing lines.

PJ: *And so that's what you've been doing...not just in Alpharetta...but in Leeds (UK) and other facilities around the world. Tell us about why this new press is so important. What are some interesting and important aspects to ticket printing from a security point of view or a customer point of view?*

MC: Press 6, or P-6 as we call it, represents the world's most advanced integrated press technology. We also believe it is the high-

est-capacity lottery press in the world. In fact our two newest presses – P-5 in Leeds and P-6 in Alpharetta – are so sophisticated and advanced that a full and comprehensive explanation of their benefits to customers would require several more pages of your magazine.

Here's just one example: We can now produce tickets in an almost infinite variety of sizes, shapes, heights and widths. This flexibility is made possible through something called Sleeve Technology, which allows a press operator to vary the circumference of a cylinder. Unlike in years past, ticket sizes are no longer predetermined by the size of the cylinder.

The ingenuity of this technology resides in its simplicity. We simply mount a flexo plate onto a lightweight sleeve and then slide the sleeve onto the cylinder to adjust the diameter of the cylinder to accommodate virtually any size ticket a customer may request.

Three people can change-out the sleeves in the various units in minutes. This particular task, which traditionally took hours to complete and is integral to the make-ready process, can now be completed within approximately 10 minutes, making the process more efficient and enhancing product quality.

PJ: *What proprietary technologies, processes, or competencies does SG have when it comes to ticket print production? It would seem like this kind of investment reflects not only a confidence in the continued growth of the market, but also in SG's ability to increase market share. Are there particular production competencies, perhaps related to security or other concerns, which differentiate SG from other ticket printers? Or is the growth being driven more by your marketing and creative sides?*

MC: The real answer is yes to all of the above.

Where we have long differentiated ourselves is in our commitment to the full life cycle of the lottery product. Of all the variables involved in producing and selling an instant game, the cost of producing the ticket – that is, the ticket print production – represents the smallest expenditure of any component in the delivery chain.

While extremely important, printing the tickets is only one component of a complex, interrelated process. Finishing the tickets, once printed, is equally critical to this process and, in fact, is where production-related bottlenecks have occurred during the instant product's sustained growth period.

Our ongoing investments in state-of-the-art finishing lines have enabled us to uncork these bottlenecks to ensure customers are able to get the right products to the right places at the right time.

Equally important is our investment in creative and marketing solutions and expertise. Our MDI subsidiary is the creative force that has enabled lotteries to bring to their players unique and unforgettable lifetime experiences. Presently, our creative offerings include Deal or No Deal, Major League Baseball and American Idol.

Last year, we placed an ad in this magazine that helped underscore our ability to partner with lottery customers with the goal



of driving instant sales and increasing the return to beneficiaries. Between Fiscal 2001 and 2005, the per person instant sales growth of U.S. lotteries whose “primary” instant ticket and services provider/partner was Scientific Games was approximately 173% higher than the instant sales growth posted by our nearest competitor in a similar “primary supplier” role. “Primary” – as we define the term – means the provider supplies 80 percent or more of the lottery's instant games.

The bottom-line for customers is that our investments enhance our product quality, as well as improve the speed, efficiency and accuracy of all aspects of our manufacturing process to ensure that their products get to the right places at the right time.

Helping each customer meet the specific goals of its Lottery is a hallmark of Scientific Games.

PJ: *Sort of an unimaginative question, but how do you print billions of tickets without glitches in quality control and security?*

MC: Well, first of all, no supplier is immune from glitches, particularly when you talk about producing billions and billions of anything. And that's certainly true of a product that is more complicated to print and keep secure than currency.

Having said that, zero-tolerance is how we approach each and every job. Moreover, our six-year, multi-million-dollar investment in press and systems technologies is part of an overarching corporate blueprint designed to keep our products secure and of the highest quality.

Since 2001, in fact, we have invested millions in our programming department on the latest, most advanced infrastructure security and hardware technology to protect the data created for each game.

There is nothing more important than the security of each job and game programming is the most important phase of the manufacturing process.

This is why we continue to go to great lengths to protect the integrity of our data.

Scientific Games has made major investments in this new hardware, including in new firewalls and secure switches, to name only a few. The company also has patented two security processes that are unique and proprietary to Scientific Games.

What we've done since 2001 is essentially hardened our environment against the outside world as well as against the inside world. This will always be an area in which Scientific Games will never compromise on our commitment to ensure that our games and our organization cannot be compromised.

PJ: *What markets will this facility serve?*

MC: Principally the North American market, but Alpharetta will certainly stand at the ready to accommodate our international customers when demand exceeds capacity at our other facilities around the world.

PJ: *How many printing facilities do you have worldwide and where are they located?*

MC: We currently have seven manufacturing facilities on four continents. We have announced the pending closure of our Texas facility, and are in the process of evaluating future rationalization. However, we are committed to having a strong local presence in all of our regions.

PJ: *How important is shipping costs and communications and therefore the geographical location of production? What other logistical and security related factors influence the decision of where to locate production?*

MC: Obviously geographical proximity to the customer is an important consideration as we look for ways to streamline the cost of our delivery chain.

There are several other benefits beyond cost. Let's look at Europe as one example. Scientific Games is now the only major producer of instant lottery tickets on that continent, and, unlike any time in our company's history, our capacity to serve Europe from Europe is now benefiting our customers in that part of the world in very important ways.

First, there are no cross-continent time differences to work around. Work-day communication between Scientific Games and the customer is real-time.

A strengthened European presence means we're able to respond ever more quickly to customer needs, including, for example, rapid reorder requests for hot-selling games. Shipping tickets from our dock in Leeds to the customer's warehouse, compared to that same shipment coming from Alpharetta, shaves up to 10

days off the order-to-delivery schedule.

And finally, but no less important, when a company and its people are invested in a community, their involvement and commitment to that community transcends work. Our people, regardless of location, are exceptionally generous, both in terms of their selfless volunteer activities and their heartfelt financial support of worthy causes. This depth of involvement in the communities in which we live and work is fundamental to our culture and our business philosophy and is very much alive and active throughout our organization.

PJ: *This facility (Alpharetta) produces 8 billion tickets a year?*

MC: That figure is actually the annual output capacity of the new press we just christened in mid-October. The aggregate annual press capacity for the entire Alpharetta facility is around 30 billion.

PJ: *How do you assess the advantages/disadvantages of revamping a facility like Oberthur Texas versus building a brand new facility?*

MC: We are not building a brand-new facility, but rather have taken steps to consolidate our San Antonio-Alpharetta operations consistent with our promise to customers to bring efficiencies and best practices to them as part of this acquisition. While we regret having to close the San Antonio facility, we are confident this is a positive step forward for our customers and our business in rationalizing our production operation to a single site in the United States.

PJ: *What was the capacity of the Oberthur plant in Texas?*

MC: Our production output in 2006 was 4.5 billion (2" x 4" equivalent), however, due to a steady decline over the past few years, the San Antonio facility was no longer printing near its available capacity.

PJ: *Was the equipment aging and cost of running it becoming a burden, such that building new was more economical than revamping the old?*

MC: It bears repeating that a consolidation of the two facilities was consistent with our promise to customers to bring efficiencies and best practices to them as part of this acquisition. The Alpharetta facility, of course, is where all other U.S. presses reside and where more than 1,000 employees are based.

As we further studied the San Antonio facility and future instant game demand, we already knew that printing press technology, including finishing and game programming systems, had changed dramatically in the last decade and the equipment in San Antonio would not allow us to meet the market's current requirements.

And so it was clear to us that Georgia was the only logical choice for the consolidated operation, and that an investment in the new servo-driven and sleeve technology now on the market was necessary to meet long-term customer demand for the product.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.

An Interview with Wayne Lemons ...continued from page 11

tracks. These regulate the racing. The Lottery has nothing to do with that.

MJ: *Is there much cross-jurisdictional difficulty, or is it pretty cut-and-dried?*

WL: The legislation provides for the percentage we, or the VLTs, contribute to the racing.

MJ: *So even though you have two regulatory agencies within a specific facility, things are sufficiently clarified in the legislation that you don't trip over each other?*

WL: Exactly. There is no conflict at all.

MJ: *And Scientific Games oversees the central operating system controlling the VLT's?*

WL: Scientific Games oversees the operating system for both the VLT and traditional side.

MJ: *How long have you worked with Scientific games?*

WL: We've worked with the company through a number of different ownership, going back to Control Data Corp. When

WL: We can, and we do. There is a process in the agreement with the manufacturers. The manufacturer is given notice by the Lottery of an under-performing machine. If it isn't corrected, we would then replace that machine with one from another manufacturer.

MJ: *How is it decided how many machines are at each location?*

WL: That is legislated also. We now have a cap of 4,000 machines at each of our three locations. To date, none of the venues have this many machines. The cap has been raised three times or so during the time we've had the legislation.

MJ: *So there's room legislatively for you and the particular venue to decide between yourselves whether and when to add machines without getting additional legislative authorization.*

WL: That's correct. For instance, Dover Downs is currently expanding, as you know. When Dover Downs gets ready to add additional machines, they'll just come to the Lottery. We will then place the orders with the manufacturers. That would be up to a maximum of 4,000 at their location.

MJ: *There are currently four VLT manufacturers under contract?*

The bids are effective for five years. But that does not mean the individual machines stay there for that long. As the machines age, they will in many cases be recycled... After all, the manufacturers are compensated by the amount of money that the machines generate, so they try to keep the very best machine on the floor.

Scientific Games was just an instant ticket provider, they were the Lottery's supplier for that, as they still are.

MJ: *Could you describe a little about how the purchasing of the VLTs work?*

WL: The legislation says that the state must be in control of the machines. It gives the Lottery the option of either owning or leasing the machines. The game must be run by the Lottery. We chose to lease the machines, rather than buying them. So we lease them from the manufacturers. We don't lease from distributors. Included in the lease is the requirement that the manufacturers maintain their own machines. Since it has to be under the control of the Lottery, we would not let the venues be in the position of maintaining the machines. In other words, it operates just like the traditional lotteries operate in just about every state, wherein the lotteries lease the terminals that sell the tickets.

MJ: *And the lease is based on a percentage of the take?*

WL: That is correct. The manufacturer is paid on what we call the 'net proceeds' that run through their own machines.

MJ: *If you have a machine or group of machines that are under-performing, can you decide to terminate the lease, and replace those machines?*

WL: That's correct. And recently we have added ShuffleMaster, for the Electronic Table Games, and also Spielo, a GTECH subsidiary.

MJ: *How long do the bids stay in place?*

WL: The bids are effective for five years. But that does not mean the individual machines stay there for that long. As the machines age, they will in many cases be recycled. Normally, we (the Lottery) don't have to make that decision. The manufacturers decide that it's time to move a given machine out and bring in a new model. After all, they are compensated by the amount of money that the machines generate, so they try to keep the very best machine on the floor.

MJ: *Do you know which manufacturer has the majority of the machines?*

WL: Well, IGT has more machines than anyone else. And you'd probably find that in any casino in the country.

MJ: *Your purchasing process, the bid award, allows for the Lottery to purchase from any one of four different vendors. Does the Lottery stipulate which manufacturer and which type of machine would be installed?*

WL: Yes, Don Johnson, who heads up the VLT portion of the Lottery, ultimately decides that. But he certainly doesn't do so unilaterally.

ally. He arrives at the decision through discussions with the manufacturers and with the particular venue, as well as reviewing current play rates and different model and manufacturers' daily take.

MJ: Presumably the ultimate deciding factor is which machine has the highest potential for the best take?

WJ: Absolutely.

MJ: Do the takes vary widely from newer versus older machines? As machines age, does it seem that the daily take goes down?

WL: Certainly some games have more attraction when they are newly introduced. After they've been around for some time, the players may lose some interest in them and go to a newer game. That doesn't always mean a newer machine. It may mean just replacing a game on the machine.

MJ: That's done at the machine level. There's technology out in which the choice of game can also be made at a central location.

WL: Yes, that technology has been around for some time. Not many people use it, that I know of.

MJ: Any possibility of adding more gaming venues?

WL: That would require legislation. There was some effort a couple of years ago to add a fourth venue, in the Wilmington

Maryland players. Do you anticipate that increased competition will change the dynamic of gaming in Delaware in the near future?

WL: Well, of course, when Maryland comes on, it will have an impact in Delaware. As you observed here, Dover Downs is making a significant investment in making that venue a destination resort. I think that effort will continue, and Harrington and Delaware Park will be doing the same.

MJ: Is there any discussion of full-fledged table games being offered?

WL: It has been discussed. But, a table game, except those electronic versions that we have, is not constitutional in Delaware. So, that would require a change in the State Constitution. To do that would require passage of two consecutive legislatures.

MJ: So it wouldn't have to be put to a popular vote?

WL: No, but it would require two consecutive legislatures, so it is very time consuming to do that. So that's a decision the legislature would have to make. That's not a decision the Lottery would make.

MJ: I've heard that table games have a significant impact on a venue's ability to sell itself as a destination resort.

WL: I don't really know. I would have no way to measure that. I do know that a very high percentage of revenue and income is

Dover Downs is making a significant investment in making that venue a destination resort. I think that effort will continue, and Harrington and Delaware Park will be doing the same.

area. That never really got off the ground.

MJ: Any real impact as yet on your venues from competition?

WL: We have seen some impact from Harrah's Casino in Chester, Pa. That casino is located just across the state line, just across from our largest venue, Delaware Park. I believe that since Harrah's has been open Delaware Park is down about 8%, compared with the same period last year.

MJ: Delaware Park is not a destination resort, not having a hotel. Which means that people would be driving to it for an hour, two hours, of gaming.

WL: Correct.

MJ: So a closer casino would have a greater impact. What about Dover Downs, which is a destination resort?

WL: Neither Dover Downs nor Harrington has seen much impact. Of course, neither had the percentage of players coming from southeastern Pennsylvania that Delaware Park has. Delaware Park is less than ten miles from the state line.

MJ: The Maryland legislature is currently debating 'racino' legislation. A significant portion of Delaware's VLT revenue comes from

from slot revenue, not table games.

MJ: So, from your perspective, table games don't bring in nearly the profit, and security costs are much higher. So that other than table games as a possibly critical feature for a destination resort, they wouldn't be considered an attractive addition?

WL: That's correct.

Sports Gaming

MJ: We know that sports gaming is federally prohibited in all but a few locations.

WL: Yes. Nevada, Montana, Oregon, and Delaware are the only states allowed to offer sports gaming.

MJ: Currently you have no offering in sports gaming. Do you see any potential for offering something along those lines in the future?

WL: There is potential, and it is being actively considered right now. How much potential, what it would add to the revenue, is difficult to make a firm judgment on. There have been some surveys, sponsored by the tracks, regarding revenue potential. One thing we feel that it would do is add an amenity to our locations that no one in the surrounding states could do. That in itself might be enough.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.

An Interview with Tim Cahill ...continued from page 12

for this casino. This process has the potential to be quite extensive. Even if this approval were forthcoming, the construction of the casino would face significant logistical obstacles, since their plans call for a highway infrastructure project in excess of \$172 million dollars. The Tribe has already indicated they will ask for state funding for at least some of this amount. This highway construction, combined with the actual time necessary to build the facility, will result in a long waiting period before anyone stands to benefit.

I would imagine that the Wampanoags are realistic about the likelihood of competition in the casino market here in Massachusetts. The possibility of a casino – or multiple casinos – in the Commonwealth has been discussed for some time now. Under my proposal, the Tribe would be allowed to bid on a casino license with the state and, if they submitted the highest bid, would be allowed to proceed as planned.

Privatization

MJ: *You've had an ex-governor roaming the halls of the state house with Lehman Bros. employees, discussing privatizing the lottery. Assuming you had a bid that exceeded the present value, what other questions would you ask of the bidder?*

TC: We are not marketing the Lottery, nor do we have any interest in doing so. I'm not in a position to speculate on this issue.

MJ: *Any other comments as to what needs to happen, politically and legislatively, for privatization to happen in Mass.? Can the Mass. state legislature and governor decide that it wants to lease the lottery, decide on a term and conditions, and put it out to bid? Or would something this important be put into a referendum for the citizens to vote on?*

TC: I would like to reiterate that we are not looking to privately market the Lottery or any of its operations. However, privatization would likely require approval from the Legislature as well as approval from the State Lottery Commission, since privatization would cause the Commission to be disbanded. There would also be significant union issues, since there is significant ambiguity regarding the future of the Lottery's employees under a privatization scenario.

Several other states; including California, Colorado, Indiana, Illinois, New Jersey, and Texas; have attempted to privatize their Lotteries in one form or another. Of those states, the four that made progress in discussing privatization in the political arena soon became embroiled in legislative debate or partisan politics that effectively ended deliberations on this issue in each respective instance.

While we are mindful of new possibilities to enhance the

Lottery's potential and are always seeking new and creative ways of generating revenue, privatization is not an avenue we will be pursuing.

Racinos

MJ: *There are no racinos in Massachusetts. Is there current discussion about allowing slots in the four racetracks in Massachusetts?*

TC: I'm not in favor of racinos or slots at the tracks. While I think a casino could certainly be built in conjunction with a track, I am in favor of a full-scale destination casino, rather than simply slots at the tracks. Though smaller, self-contained casinos or racinos may be a less contentious proposal from a political standpoint, these facilities would be unable to provide the same long-term economic benefits that resort destination casinos traditionally offer. Further, such proposals would not be able to offer the residual development, employment and tourism benefits that a destination casino would ensure.

The Lottery and Technology

MJ: *I read somewhere a few months ago that you discussed cell phone use for lottery play in India. Why doesn't the Mass. Lottery currently allow lottery play and sell lottery tickets over cell phones?*

TC: As the Lottery matures, we need to develop new and innovative technologies, and the possibility that Lottery games could be accessed via a cell phone or blackberry is something for us to explore. Research has proven to us that the future of the Lottery and similar gaming endeavors is through interactive media, and that younger generations have begun to view more traditional Lottery games as antiquated.

However, such access to Lottery games via cell phone – or any new game or initiative – would still require approval from the Legislature in order to be enacted. Shifting the focus of the Lottery beyond the traditional retail store will be a significant undertaking in the years to come, and there will be considerable discussions – both internally and with the Legislature – on how to continue to expand the Lottery's appeal.

Research has proven to us that the future of the Lottery and similar gaming endeavors is through interactive media.

I look forward to working with the Legislature in the years to come to offer more interactive and exciting Lottery games to our players.

...continued on the PGRI website. Go to www.publicgaminginternational.com to view the entire interview.

On-Pack Printing Works for Major Global Brands – Why Not Lotteries? ...continued from page 13

mation and can create loyalty-customer programs and other marketing tools such as mailing lists.

And now, back to our question: If on-pack printing works for major global brands, why not lotteries? Progressive lotteries, such as Camelot, operator of the United Kingdom's National Lottery, have been exploring options that offer players incentives to purchase multiple tickets from the same game with more opportunities to win. IGI Europrint has worked with Camelot extensively by providing online solutions for more than a dozen different projects—boosting sales for both online and instant products. One of these successes was the Lucky 3 game. IGI Europrint brought together the Mail Newspapers and the UK National Lottery to produce an exciting game promotion that increased the circulation of newspapers and the sale of lottery products.

From the beginning, the Lucky 3 promotion was designed to generate interest and awareness of three of the UK National Lottery brands, specifically Lotto, Daily Play, and Euro Millions. Millions of promotional game cards containing three numbers were inserted into the newspapers. Players could check the num-



out if they have won a prize. The concept can be added to online games as well as instant tickets to give players more entertainment for their dollar.

In 1994, Europrint formed IGI (Interactive Games International) to break into the mediums of broadcast television and teamed up with GTECH to explore this area. Since 1996, GTECH and IGI Europrint together have launched more than 10 television lottery games around the world and have generated over \$1 billion in game sales. Viewers buy interactive game tickets from their lottery retailer that are linked to popular television shows and play along at home. At-home players use information generated in the show for the chance to win prizes. Barbados, Germany, Lithuania, Slovakia, Ireland, and Estonia are some of the countries that use these games, which are positioned to provide extended play value against a televised draw and can be part of an hour, 30-minute, or even a 5-minute short break program.

The player's gaming experience is enhanced by GTECH and IGI Europrint's "Fast Track" software, which tracks the number of winners and calculates the amount won in each prize class in

Unique codes allow tremendous opportunities to create cross promotions with licensing tie-ins for film and product launches, and sporting and music events. Consumers can log onto a company's Internet site to find out if they are a winner or receive an SMS over their cell phone. In return, companies receive excellent demographic information and can create loyalty-customer programs and other marketing tools such as mailing lists.

bers in the paper to win up to £200,000. They could also check to see if their numbers were drawn in any of the three lottery games promoted on the card. The promotion increased circulation of newspapers and the sale of lottery products. Over a four week period, 24 million play cards were distributed in newspapers with an overall claim rate of 35%, which means over 8.5 million players tuned into the lottery drawings.

IGI Europrint is also working with other lotteries on a promotional game called "Crack the Safe." A set of six, two digit numbers is printed on a lottery ticket. The player goes to the "Crack the Safe" website for an extra chance to win. Using the code printed on the lottery ticket, the player clicks and drags the dial on the safe around to the desired number. Once all numbers have been entered, the player tries to unlock the safe. When the door opens, the player finds



real time. In addition, the status of all cards is displayed on television as each ball is drawn showing the number of players close to winning. This further heightens the excitement for all players at home, especially those close to winning the jackpot.

Promotions have always been an important ingredient to successful lottery marketing efforts. The team at IGI Europrint understands the lottery marketplace and offers the complete lifecycle of sales promotion service, including creativity, mathematical expertise, game content, and print and production knowledge. But perhaps IGI Europrint's true value lies in their ability to deliver creative solutions to a diverse set of challenges, no matter what the industry. Since 2001, IGI Europrint has provided over nine billion codes across 100 projects for global brands in the food sector. We have successfully applied this expertise to the lottery industry with proven, demonstrative results from a program specifically tailored to each lottery's unique needs. On-pack printing clearly works for major global brands, and lotteries can successfully use it to increase revenues for good causes as well. ♦

The Venue-Based Video Lottery Model – A Popular Direction for N. American Lotteries ...continued from page 18

ing expanded lottery programs versus trying to obtain public approval of casinos. This is made possible, in part, because of the umbrella of social responsibility under which lotteries operate and their long-standing record of integrity.

GTECH and others in the industry are well aware of this new direction and have been making product changes to meet the latest needs of the lotteries. Video lottery central monitoring systems have changed a great deal to address the requirements of venue-based networks. In the traditional distributed model, there are small numbers of terminals in a large number of locations with usually only a few VLT vendors to supply machines. The communication protocol between VLTs and central system is usually proprietary, which raises the cost of game development, keeping the number of vendors to a minimum. It can also limit the number of available games and the frequency of their refreshment.

With players expecting to find games similar to those in casinos, VLT central systems are moving toward casino industry standard communication protocols. This gives lotteries the opportunity to offer more of the most current games to its customers. This has opened the VLT market to other qualified vendors who may have originally stayed away from distributed markets, allowing lotteries to offer more choices to their players.

In addition, lotteries considering the venue-based model are demanding added functionality from central systems. Historically, central systems resided at the lottery offices and provided monitoring of the financial data along with control over VLTs in several locations. Now, central systems have moved beyond that scope to provide support for hundreds or even thousands of VLTs in single or multiple locations. With the focus shifting to venue-based VLT programs, support for coinless solutions, player tracking, bonus, downloadable games, and game management are becoming standard requirements for VLT central systems and casino management systems alike.

A common misconception about central systems is their effect on the speed of game play and how game outcomes are managed. Part of this misconception is based on a belief that game outcomes reside on or are generated by central systems. In fact, every VLT program in North America, with the exception of one, uses machines where game outcomes are determined by software and a Random Number Generator (RNG) that resides in the gaming machine. Even so, whether game outcomes are generated by the VLT or the central system, game speed does not differ from that of a casino slot machine.

Many central systems have the functionality to speed up or slow down game play in tiny increments, but use of this functionality is determined by the jurisdiction. It is not an inherent characteristic of VLTs or the result of having a connection to a central system. Even in those rare situations where a jurisdiction elects to increase game play



time, the difference appears transparent to the player. Similarly, slot machines are connected to casino accounting systems with no affect on game play.

It is not only central systems that are changing. There was a time when VLTs looked different than the slot machines that were found in casinos. They were large, bulky units resembling older video arcade games. As VLTs evolved

and migrated into tracks and other venues, voucher redemption was replaced with coins and coin trays, plexi-glass inserts were replaced with colorful glass, and multi-button finger boards appeared along with player tracking card readers.

Many machines now use at least one, if not two LCD monitors. Powerful processors and additional memory are used to drive stereo sound, high resolution graphics and animation. To the player, most VLTs at tracks or other venues look and play much like a casino video slot machine. There are several differences often driven by jurisdictional requirements, although these are not always openly apparent to the player.

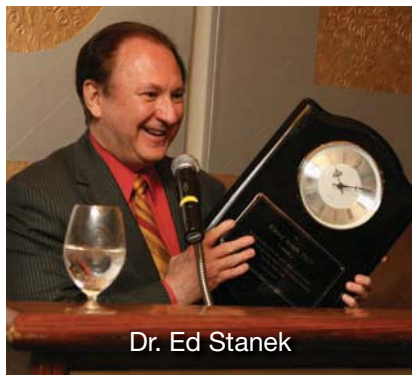
The most significant difference between VLTs and slots remains unchanged. The way a gaming machine and its game software is configured, monitored, and controlled is how VLTs have been differentiated from casino slots. In almost every case, VLTs are closely monitored by a government lottery organization. The game and gaming machine specifications, pay tables, wager limits, prize amounts, and

Lotteries are also looking closely at the option of venue-based operations as part of their ongoing responsible gaming initiatives.

responsible gaming features are often different than those found on casino slot machines and are almost always controlled by the lottery. Aspects of venue operations such as hours of business, complimentary gifts or beverages and marketing activities are often very different than those of commercial casinos.

As the needs of the players and gaming operators change, products and services provided by the vendors will continue to change to meet those needs. Governments may be looking to venue-based gaming programs to meet player demand, however, one thing remains unchanged – a reliance on lotteries or other public agencies for the delivery of gaming in a socially responsible manner while maintaining the highest level of security and integrity in video lottery game software, terminals, and the central systems which monitor and control them. ♦

Editor's Note: Spielo, A GTECH Company will exhibit its video lottery solutions at this year's G2E show Nov. 13-15 in Las Vegas, NV. Booth #1685



Dr. Ed Stanek



Hall of Famers



Guy Simonis



Rebecca Hargrove



Hans Savonije



Margaret Gordon



Gerald Aubin



Wayne Lemons



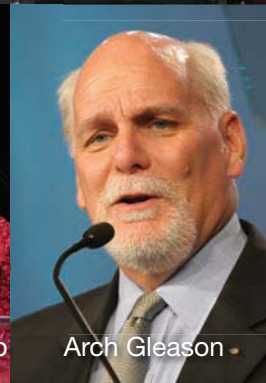
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Rick Wisler



Margaret DeFrancisco



Arch Gleason



John Musgrave



Ernie Passailaigue



Linda Saferin
and
Patty Little



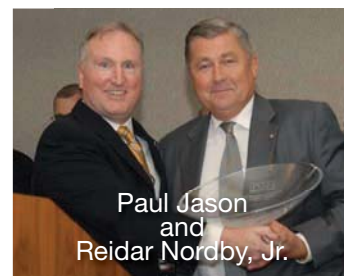
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