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Reporting on the convergence of Gaming, Online Lottery, Scratch-Offs, Internet, Mobile, Video and Casino Gaming.



FEATURE INTERVIEWS

Bill Murray NEW YORK LOTTERY

Ed Van Petten KANSAS LOTTERY

Terry Rich IOWA LOTTERY

Bill Thorburn GOLDEN GASKET LOTTERY CORP., LTD

Lorne Weil SCIENTIFIC GAMES CORPORATION

Joan Borucki CALIFORNIA LOTTERY

Jodie Winnett ILLINOIS LOTTERY





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Gavin Isaacs
Chief Operating Officer
Bally Technologies, Inc.

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PGRI Institute is much more than a news aggregator. We follow-up on the news to deliver the perspective and genuine insight you need to understand the gaming industry and how it is likely to evolve. Any questions or comments, e-mail Paul Jason at pjason@PublicGaming.com or call U.S. + 425.449.3000.

Thank you!



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PUBLIC GAMING INTERNATIONAL

PUBLISHER & PRESIDENT
Paul Jason
pjason@publicgaming.com
EXECUTIVE VICE PRESIDENT
Susan Jason
sjason@publicgaming.com

ART DIRECTOR
Lisa Robinson

HONORED FOUNDERS

Doris Burke
Duane Burke

CONTACT PUBLIC GAMING

Tel: (425) 449-3000
(800) 493-0527
Fax: (206) 374-2600
(800) 657-9340

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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

If there is one thing that our current interviews all point to, it's that government-sponsored operators will be the driving force of the next wave of expansion in the gaming industry. The "next wave" of expansion includes the widespread implementation of casino-type gaming and Internet gaming. That's pretty dramatic stuff and it won't happen without an attentive government ensuring that everyone's interests are protected and that the general public and good causes enjoy their share of the financial proceeds. There exists right now a symbiotic relationship between government lottery operators and the legislatures charged with overseeing those operations. This provides a most useful platform from which the government can manage this expansion.

This next wave of expansion is already well underway. Everyone everywhere has easy access to all forms of gaming. Market forces seem to have reached a tipping point that will push governments everywhere to recognize that the public policy question is no longer about whether the public should be allowed to gamble; it's now simply a matter of where they will gamble. As Will Rogers commented, "Why don't they pass a constitutional amendment prohibiting anybody from learning anything? If it works as well as prohibition of alcohol did, in five years Americans would be the smartest people on Earth." Even when gambling was confined to destination hubs like Las Vegas and Monte Carlo, it was not prohibited to those who wanted to make the choice to travel to those gambling centers. Now nobody has to travel far at all to gamble. Prohibition of gambling is a thing of the past and market dynamics will cause the build-out to accelerate.

That's not to say that all governments are ready to legalize all forms of gambling. A common approach, evidenced in Canada and Scandinavia and Hong Kong and many other jurisdictions, is to expand just enough to keep up with demand but not do anything proactive to stimulate demand. Yes, that does make for tricky distinctions about what kind of advertising constitutes objective information versus stimulating promotion. But it has been a serviceable concept that has enabled government lotteries to move into Internet gaming and electronic games as the demand became evident. The benefit of this approach is that it stops the underground economy from supporting illegal operators who do not pay taxes and are not regulated for consumer protection.

Governments can take positive action in smaller ways that will still have a big impact. The California legislature, for instance, has given the lottery more flexibility to manage the business. This is not as momentous as implementing electronic games and internet gaming, but it is evidence of a state legislature taking the time to update its laws and try to help its gaming operator stay competitive and grow for the benefit of the people. In that sense, I would propose that it is an extremely important bellwether of things to come, not just in California but in all other states and even all other jurisdictions around the world.

Market conditions and the existing gaming infrastructure in Kansas are quite different from California, so the strategy to manage the build-out of this industry is also going to be different. Unlike California, the Kansas Lottery has been tasked with implementing casinos. But also unlike California, Kansas is losing lots of revenue to casinos based in neighboring jurisdictions. Indian gambling has become part of the firmament of the California gambling scene and that cannot be undone at this point. Even though Indian gaming exists in most U.S. states, it has not become the jug-

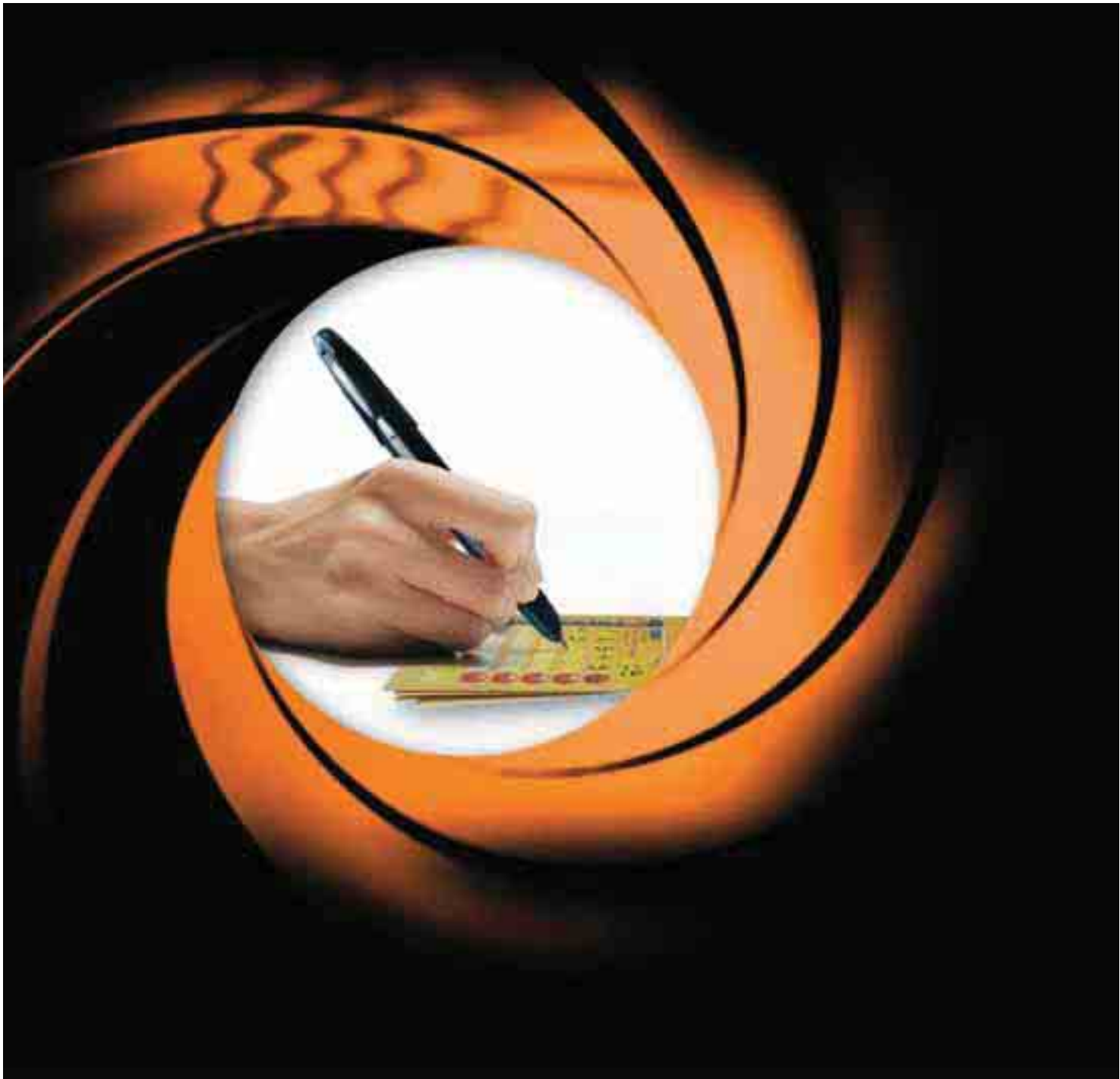
ernaut that it is in California. So, like Kansas, most other states do have a window of opportunity to implement casino gaming, and many already have. The point is that governments everywhere are assessing the current state of the industry in their unique market and devising strategies to optimize the benefits to the people. For governments and lawmakers to neglect that responsibility is to turn the markets over to neighboring jurisdictions and illegal operators.

The impending "next wave" of expansion is also causing governments to assess how the games should be implemented and how the business should be managed. Many lotteries are owned and operated by the government. The benefit of that is that the government can more directly control operations, making changes as needed to support its own set of public policy and fiscal objectives. The disadvantage is that the lottery is a dynamic profit-driven business that has different objectives than any other state agency and so perhaps should be operated in a different way. The dilemma becomes what model serves the complex variety of public policy interests that a lottery operator must serve, while operating in a highly competitive and performance-driven environment. There are many who insist that a government can simply set the rules, establish all the terms, conditions, responsible gaming requirements, etc. and require that those be met by a licensed operator; basically just apply the Las Vegas model everywhere. There are others, like myself, who contend that gaming and gambling is a business that is fundamentally different than others and that preservation of a symbiotic relationship between the government and the gaming operator should be a vital part of any regulatory framework and model.

Our interviews reveal some differences between these approaches. The California lottery operates as a part of state government with commensurately limiting constraints. Illinois is pursuing a different route, outsourcing the management of the lottery, but still retaining direct and immediate control over its lottery asset. A third route is that taken by Queensland and New South Wales. These Australian jurisdictions have entered into very long-term lease contracts with Tatts Group Limited to operate their lotteries. This model endeavors to leverage the entrepreneurial resources of a commercial operator and would appear to turn over more operational control than does the Illinois model. Yet another model can be found in the UK "pub market", where the distributed markets of the future are most evolved. I think of this as a spectrum with California on one end that is most controlled by the government, and the UK "pub market" on the other end, with a more liberal "license and regulate" approach.

Lotteries are getting creative and innovative as the next wave of expansion poses opportunities and vulnerabilities. I asked Terry Rich to talk about the efforts of U.S. lotteries to nationalize some of the advertising and market communications. There are obstacles, but there are also tremendous opportunities to strengthen each individual lottery by working together to form a more universal presence, brand, and approach to public relations.

The next wave of expansion is the theme of our next conference, to be held in Las Vegas on November 16 and 17. Specific venue, program, and other details are not determined yet. Please visit www.PublicGaming.org for updates. Too, the fantastic presentations from our SMART-Tech NYC conference have been posted and are available to view there now.



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Bill Thorburn

Chief Executive Officer, Golden Casket Lottery Corporation, Ltd.

Every other year, the World Lottery association (WLA) holds its international conference and trade show. This is the Big Kahuna of lottery industry conventions, the singular event at which industry leaders from all across the globe convene to address the most provocative issues of the day. An extra special bonus this year is that participation requires us to go to Brisbane, Australia, at the end of October, the best time of year to visit Australia. Bill Thorburn and the Golden Casket Lottery Team are excited about hosting the conference and promise a most remarkable experience for everyone. Visit www.wla2010.com for complete info and to register! Golden Casket Lottery is now part of the Tatts Lotteries division of Tatts Group Limited, which purchased (in the form of a 65-year operating licence) the lottery from the government of Queensland for AU \$542 million back in 2007. In April of this year, Tatts Group closed on the purchase of another Australian lottery, the New South Wales Lottery (which includes Sydney and is the largest of the Australian markets with annual sales of \$1.25 billion).

Public Gaming: *The theme for the WLA 2010 is A Bright Future. My question, only half-jokingly, is...what's so bright about having products, strategies, and distribution channels all disrupted and possibly rendered obsolete by new technologies, new forms of competition, and changes in player styles and preferences? And how can lotteries get on the leading edge and not be overtaken by others who are attempting to get there faster?*

Bill Thorburn: It's true that the industry is clearly facing a number of new challenges. Changes in technology, the competition that ensues from the deregulation of markets, governments re-assessing the pros and cons of different operating models...these can all be disruptive to our ways of doing business. Equally, you could say that Lotteries have been evolving for some time as they faced fresh challenges from new competition such as slot machines and casinos. I would also point out that the lottery industry is not unique - highly disruptive change is happening across all businesses and industries, so we're all in the same boat. Change and progress is disruptive, but it's what modern business is all about and it challenges us to embrace the opportunity to evolve with confidence and enthusiasm. That's why our WLA2010 focus is on the "Bright Future" that we as an industry are facing. The future will be as bright as we choose to make it!

The beauty of this biannual WLA conference is that industry leaders from all across the globe can share experiences that many of their colleagues are in the midst of experiencing or

are yet to face. Our focus is on turning those disruptive challenges into opportunity. My view is that lotteries are truly in a very bright position and have a unique and powerful platform from which to meet these challenges. If you compare our strengths and market position with those of businesses competing in the gaming and gambling industry Lotteries have by far the highest participation rate, with a majority of the population supporting us and our products. And we also have the strongest community and public support because of the tremendous funds we contribute to the various good causes and beneficiaries. Being a distributed business also means that we can more easily respond to demographic and population changes within jurisdictions. This allows us to go to the people, unlike say Casino's where the people have to come to them.

Lotteries may be well positioned but that does not make us immune from the types of market shifts buffeting other gambling industry participants. Like everyone else, Lottery operators need to be innovative. Being willing to "innovate" is just a start. We need to take ambitious steps to consolidate our position as the leaders in the broader context of the gaming and gambling industry. So, when I say we have a "Bright Future," that doesn't mean it will be easy or that leadership in this industry is for the faint of heart.

Lottery leaders all around the globe are taking bold steps to respond to changing market dynamics and growing competition. Both jointly, as evidenced by the jackpot games cross selling initiative in the U.S., or individually such as

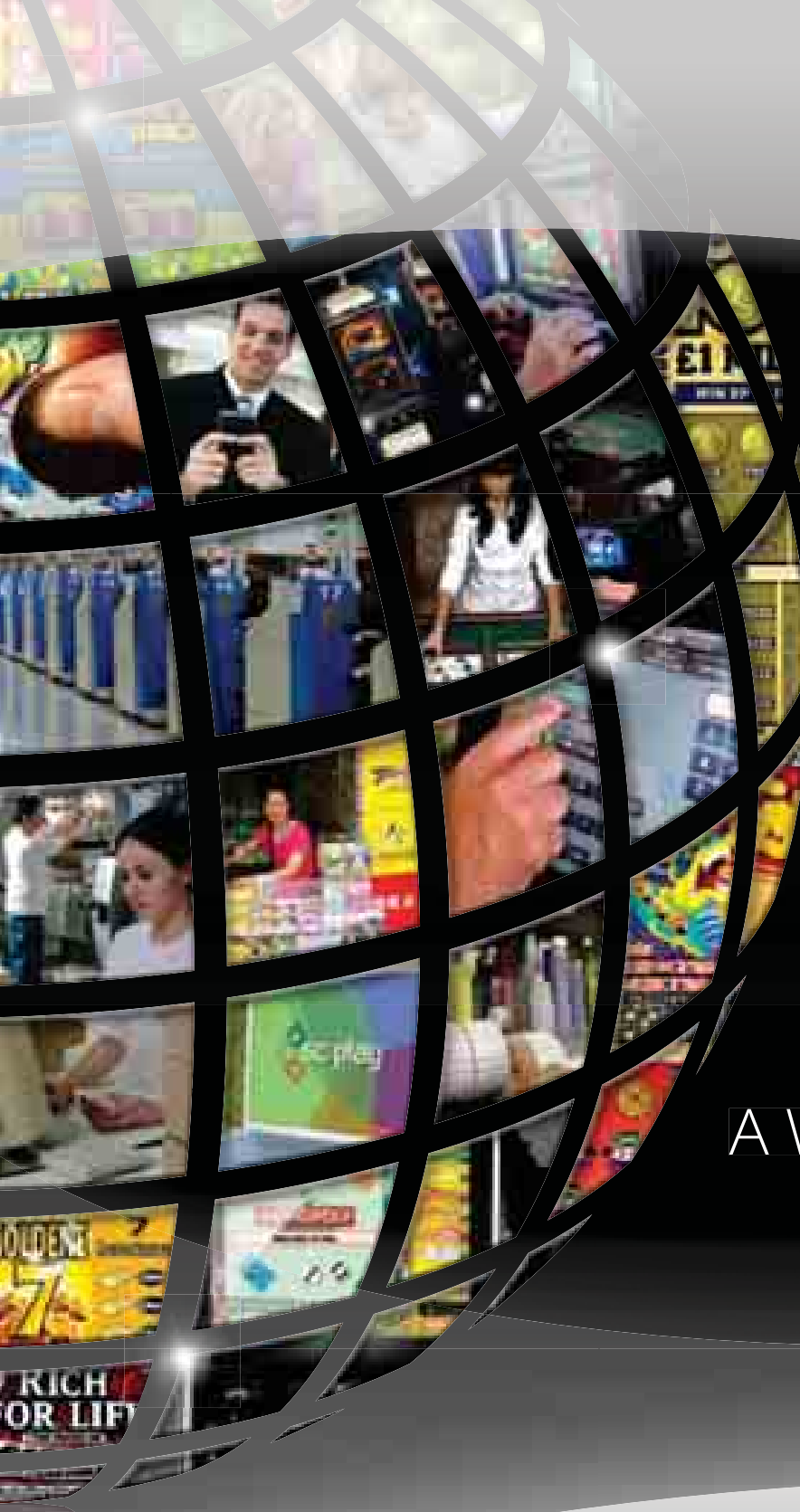
responding to market openings in Europe, lottery industry leaders are being called upon to revisit business paradigms and forge new operating structures and strategies.

That is why the WLA biannual conference is so important and lottery industry leaders consider it vital to tap into the experiences and thoughts of others. There is no other event that brings unparalleled experience and insight together like this. Additionally the trade show is by far the biggest in our industry. Nothing else like it. Our commercial partners are all here and putting on the very best show that our industry has to offer. No doubt those partners will be drawing from their development and innovation pipeline to present the latest and greatest on offer in Brisbane.

Golden Casket was purchased in the form of a long-term operating license by Tatts back in 2007. Could you tell us about how that has worked out for your different stakeholders? From everything we read, it appears to have been a win-win-win for Tatts shareholders, for the government, for the players, for the general public. Any bumps in the road or things you would have done differently?

B. Thorburn: I don't know that every single aspect has been perfect, but I think that's a reasonably accurate description of the outcome from the Golden Casket acquisition. And we're all aiming for the same outcome now with the acquisition of New South Wales Lotteries of

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Jodie Winnett

Acting Superintendent
of the Illinois Lottery

The Illinois Lottery generates over \$650 million a year in net funds for education and has recently announced that Oliver Wyman has been retained to help build a private management contract, effectively outsourcing large portions of the management of the state lottery. Following is a discussion about the purpose of this Illinois initiative, and addresses the differences between “privatization” and other forms of ownership/management structures.

Public Gaming: *Could you explain what is it that you, the state of Illinois, and the IL General Assembly hope to accomplish with the outsourcing of the management of the state lottery.*

Jodie Winnett: Our Illinois State Senate President John Cullerton has been actively studying the lottery for a number of years. He and his colleagues in the Illinois state legislature have been exploring the pros and cons of the many different ownership and management structures. This kind of initiative is driven by our state legislature, not the Illinois Lottery.

They started with the basic challenge of how to fund the huge investment required to rebuild our public infrastructure and create jobs. The capital plan is in place to accomplish these pressing objectives but the funding is not. Everyone agrees that the Illinois Lottery has the capacity to deliver more funding. The question is how to best achieve

that. The senate president communicated these thoughts to us some months ago, helping us to understand their fiscal objectives, the capital plan that would guide strategies to achieve those goals, and the funding mechanisms that would support the capital plan. We worked with his staff on some clarifying language in the bill. The governor very much signed on to the capital plan and all the proposed funding mechanisms. There were several, and this is one.

And that’s what we’re pursuing. We hired Oliver Wyman to help us analyze the options and clarify the contours of our plan to. For instance, I said that there is agreement that there is more potential in the Illinois Lottery. The first order of business is to analyze the business, assess and evaluate where that value is likely to come from. We need to get more specific on what the upside potential is. What are the mechanisms that are going to get us

there, and are the policymakers comfortable with those directions. For instance, Illinois is not a state that offers Keno. But clearly there would be revenue potential in offering that game style. Is that what the policy makers want to do?

There are going to be many complexities that need to be figured out. Framing the questions that will enable us to clarify the objectives will be the first task.

You mentioned the possibility of Keno, and there is the possibility that internet gaming could have an even bigger impact on the income generating capacity of the lottery. How can you project future profitability without knowing which games the lottery will be authorized operate? How do future earnings get factored into present value when nobody can predict what the earning potential will be? And so how can the asset be accurately valued?

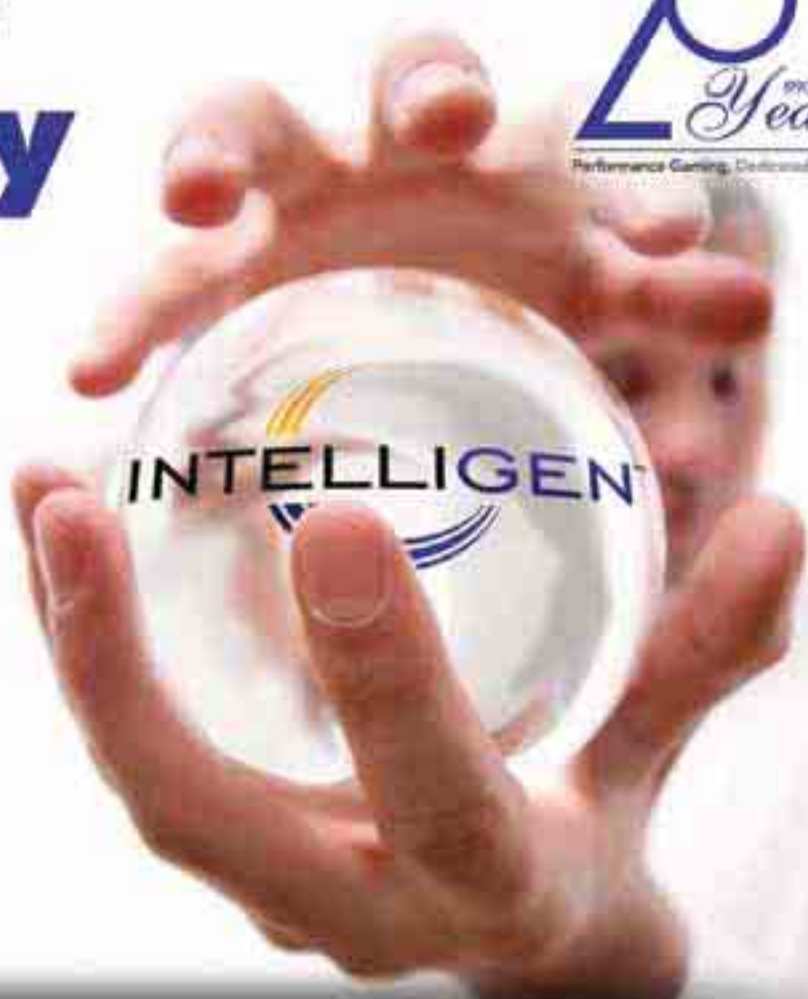
J. Winnett: First of all, Paul, there’s nothing being sold here. This is a vendor agreement. We are hiring a manager for a fee. I think that’s been one of the big misconceptions out there. This is not a privatization. It is a form of outsourcing. Lotteries already outsource many different aspects of their operation. This should more accurately be considered a new twist on an old theme. We’ll be outsourcing some functions that others are not presently outsourcing. But like all lotteries in the U.S., the state of Illinois is very much keeping control and ownership of the State Lottery.

We are seeking to hire a private manager to oversee various aspects of our operation. They will be paid a fee, and there will be performance incentives built into the contract. There may be different tiers to the fee structure. These fees will probably take the form of percentage of proceeds. Addressing your question, we will dial into the contract the flex-

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Terry Rich

President & Chief Executive Officer
of Iowa Lottery

Public Gaming: *Short digression: Facebook. Is it being clarified what the lottery can and cannot do on Facebook?*

Terry Rich: There is a little confusion over that question. We recently noticed little-known Facebook guidelines about gaming. So we called Facebook to make sure that what we are doing on our page is compliant with their rules. We also asked about what we could do to continue to promote our products via Facebook. People at Facebook are now working on this and we should have some conclusions by the time of our regional NASPL meeting in July. It is a gray area now, and we want it the rules and guidelines be black and white as far as lotteries are concerned.

As you know, there are offshore Internet gambling ventures that would like to use the massive Facebook platform to engage new players. Those and other questionable forms of gambling are what Facebook wants to prohibit. We think that Facebook's rules are not intended to be against state lotteries, and that the outcome will be positive in allowing lotteries to reach out to our customers on Facebook. Facebook is a relationship-building platform for us. It is more about interacting with our players and not really about gaming or selling lottery tickets. But it's very impor-

The early returns indicate that the cross-selling of the multi-state jackpot games will be a resounding success. This breakthrough initiative required the participating state lotteries to collaborate in unprecedented ways, looking past all the differences that impede collaboration between states to find the common ground, to break down barriers and forge completely new strategies. One of the challenges was, and continues to be, creating a national approach to branding, marketing, and public relations.

tant that we relate to our customers in the personal way that social media platforms like Facebook allow. So we very much want to help all of our media partners know and understand lotteries and feel good about who we are and our public service mission.

Your presentation at SMART-Tech NYC focused on ways that lotteries can work together to promote a common agenda on a national scale. I would think that there would be much to gain by working together to create a truly national brand, or at least develop some national marketing campaigns.

T. Rich: There are lots of formidable obstacles to getting state lotteries to collaborate together. Obviously, lotteries are all required to comply with the will of their state lawmakers. Each state has its own rules and ways of doing things. So there are differences in approaches that affect even the smallest details. Each state has its own rules about what can be said in advertising and marketing messaging in general, and we need to respect those.

And yet, the games are a national story. It is important that we stretch to find the common ground, focus on those common interests, and create the unified approach that will make our products and brands more powerful. Think about what an incredibly exciting story we have to tell and how much more meaningful it would be if we could create a national stage to tell it. I'm not suggesting that we collaborate on everything, since that's not possible. But, we can start small and collaborate in ways that are possible.

Think of the tremendous brand that lotter-

ies have. If you add up the brand recognition of all the state lotteries along with Powerball, Mega Millions, and the regional games, you have a reach and market penetration that exceeds almost anything out there. Let's appreciate and recognize the tremendous asset we have in our brand to touch tens of millions of customers. Then let's ask ourselves how we are leveraging that asset for maximum value to our stakeholders. The revenues that the business generates are high and the job that is being done with the products we sell is certainly respectable. But our Lottery brand and our story are greatly underutilized assets. It would be like Apple or IBM stopping with just one or two products, or General Mills selling only cereal, or Proctor and Gamble selling only detergent. It's true that we do not have the flexibility to diversify and leverage our brand value in exactly the same ways those companies do. But that doesn't mean there aren't more creative ways to accomplish more than we are.

We're already collaborating with brand licensing relationships. And the breakthrough with the National Football League is also a step in the right direction. I'm thinking, though, that we can do much more. Let's look at national brands that have the potential to be distributional partners as well as just brand licensing partners. Coca-Cola, Apple Computer and Hallmark Cards are national brands but are controlled and distributed locally and are set up to conform to individual state laws. Like these iconic brands, state Lotteries have a special relationship with tens of millions of cus-

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Joan Borucki

Director of the California Lottery

State legislatures everywhere are turning to their lotteries to help solve financial deficits. The California Legislature recently approved changes that give the Lottery more flexibility to manage the business for peak performance and profitability. It's not just about increasing the prize-payout percentage. It's about setting ambitious goals, and then managing the lottery like a business to produce superior results. In an accompanying article, Director Borucki describes the impact of this new legislation. Below, the Director goes into more detail about the meaning of *Performance Management*, the *Renew Project*, the Lottery's three-year business plan, and the role that the Camelot Group plays in that plan.

Public Gaming: *Did you decide to not implement Powerball, or is it just going through an approval process?*

Joan Borucki: We are carefully analyzing it in the context of our three-year business plan, which we call the Renew Project. In that project we are also analyzing our in-state lotto game, SuperLotto Plus, because its sales have been declining. Clearly, we need to think carefully about how the jackpot games work together and how to create an approach that maximizes overall sales and profits. That could mean that we have three big jackpot games – Mega Millions, SuperLotto Plus, and Powerball – or it could mean having only two of those. We are trying to learn from our past game launches. Our introduction of Mega Millions in 2005 could probably have produced a better result if we had thought more about integrating it into the broader portfolio of our products. This time our planning process is more in-depth and is aimed at getting the most out of our entire product line.

The decision is also partly a function of our marketing budget. You need to have funds to market and promote the games. A big jackpot game like Powerball would probably generate enough profits to easily pay for marketing, but we still need to make the decision in a thoughtful way that gets the most out of our limited marketing dollar. We are pleased to be able to examine Powerball, along with a

whole host of other opportunities, in our Renew Project. One key change brought about by the Renew Project is that we now look at all of our business decisions using a rigorous economic analysis aimed at maximizing sales and contributions to education.

The introduction of Powerball could disrupt your repositioning and rejuvenating of your in-state game, SuperLotto?

J. Borucki: Yes, but the opposite could also be the case. An earlier launch of Powerball could possibly help us define the market for the in-state game. Getting clearer information on the markets and player preferences and how they segment themselves will inform the branding, and product positioning for Super Lotto Plus or whatever replaces it. Instead of three super-jackpot games, we will likely want Super Lotto Plus to target a slightly different market.

So you might want to fast-track Powerball because that will inform the process of clarifying your in-state lotto game?

J. Borucki: That's one of the alternatives we're looking at, Paul. I bring that up to let you know that we are in the process of assessing all different kinds of options. There are lots of different ways to look at the business, lots of pros and cons for many different alternatives. We are taking the time to thoroughly and systematically analyze them.



It is a big win for the state of California and the beneficiary of lottery funding, education, for the legislature to give you more flexibility to manage the business for optimal results. This must be an exciting time for you and the Lottery. You have referred to The Renew Project and your three-year business plan. What are you and your management team doing differently to leverage all of your assets to produce the best results over the next three years?

J. Borucki: That's a good question, and that is precisely the focus of the Renew Project and the 3-year business plan. We are excited but also anxious because with freedom to do more comes the responsibility to produce even better results. Last August we brought Camelot Global (operator of the UK National Lottery) on board as a consultant to help us review our various business processes.

We are looking at our short and long term plans for all of our instant and draw games – including Hot Spot – now that the Prize Payout flexibility law has passed. Working with all of our employees, retailers, and vendors like GTECH, SGI, Pollard, Camelot and our ad agencies, we are developing additional tools to help us sell more tickets. We are also looking at how to get the most out of our retail space and to use virtual media to our best advantage.

We are developing plans that will leverage technology and marketing best practices to sell to the players of today and tomorrow – not yesterday.

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Ed Van Petten

Executive Director of the Kansas Lottery

Kansas may have picked an inauspicious time to embark on an expansion of gaming casinos. But the economy is improving and things are moving forward in a positive way. The future looks bright indeed for developers hoping to participate in the growth and build-out of the Kansas casino market.

move forward now. The governor made the right call by not allowing further delays.

The \$25 million deposit made by the investors – is that refundable?

E. Van Petten: Yes. It has already been returned to them.

Were other options explored, perhaps proposing that the investors make a smaller non-refundable deposit? They're asking you to wait and wait. Seems reasonable to require a smaller non-refundable deposit to ensure their commitment to working hard to find solutions and ways to move forward?

E. Van Petten: All those kinds of terms and conditions are already set up statutorily. The governor didn't have the authority to change that, or make counter-proposals like you're suggesting.

Seems like the governor can't allow himself to be put into the position of not knowing when they'll be ready to move forward. It doesn't seem reasonable for investors to expect delays without putting at least a little skin into the game. Of course, it's their money and investors have the right to make the decision of whether and when to invest it. But what's to stop them from asking for additional delays and concessions down the road and causing delays to drag on indefinitely?

E. Van Petten: Right. That's why I do think the governor made the right call in this situation.

The perspective of your experts is that the market is good now and can be expected to improve even more with the upswing in economic recovery. How many casinos are in Kansas now?

E. Van Petten: We have one open in Dodge City now. And we have another one approved – Ground-breaking on the Kansas Speedway Casino in Kansas City was April 30th. In addition there are four Class 3 tribal facilities in the state at this time, plus a small Class 2 tribal gaming facility in Kansas City.

Are investors concerned that there could be more tribal gaming that could increase the competition in a way that could impact the profit potential of new facilities?

E. Van Petten: There is a very strong probability of one more tribal facility in the Wichita area, the Park City facility.

Can investors be confident that there won't be more tribal gaming facilities approved, in addition to the possibility of the Park City facility?

E. Van Petten: Yes, they can. That facility is part of a lawsuit settlement for a land dispute in Oklahoma. We don't have a timeline yet, but it will probably open at some point. I do not think there is any other tribal land that is eligible at this time to have casino gaming. There is talk of one possibly going into southeast Kansas. But I talked to the Department of the Interior, and I don't think that's very likely. So there are potentially two more, but it will most likely only be one.

It seems like investors do not always appreciate serendipity and surprises in life. Where's the fun and romance in that kind?

E. Van Petten: Absolutely. They're always hung up on things like demographics, market sizes and thinking about what their competition's going to be.

But the competitive landscape in Kansas is one that is somewhat predictable, and so uncertainty about that shouldn't be an obstacle to making an investment decision.

E. Van Petten: It depends a little bit on what the legislature does with that one bill. But, yes it is fairly predictable at this point.

Could you explain what exactly the issue with that one bill is? What could happen in the "veto session?"

E. Van Petten: There is a proposal to reduce

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Public Gaming: *What's being done to keep your casino program on track? What do you expect to happen, or hope will happen, over the next 18 months? What caused the investors to back out – is it a lack of capital or the possibility of competition from Indian gaming casinos, or what?*

Ed Van Petten: I should make clear that my perspective is not informed by any inside information about their reasons and motivations. But I do think that the people who withdrew had plenty of capital. They're investors who assess risk and potential return and decided that this was not where they wanted to invest right now. Investors don't typically like risk or uncertainties. My interpretation is that the possibility that electronic gaming might come back to the race track in Wichita as well as the possibility of a tribal facility opening up in Wichita posed risks that they did not want to take. When they requested the delay, it was in order to wait until the veto session of the legislature was over. That would have given them some foresight into these issues. The governor just wasn't willing to let them wait for that. Quite honestly, I supported the governor in that decision because we need somebody to partner with us who is willing to go forward. All of the expert analyses concluded that this is an excellent market with or without a tribal gaming facility. We can't allow others to call the shots for us. The state of Kansas is a great market and the people of Kansas are ready for these initiatives to



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Bill Murray

Deputy Director, General Counsel for the New York Lottery



The U.S. Department of Justice has still not made a declarative statement regarding the rights of states to implement Internet gaming. Late last year, the New York Lottery met with lawyers at the DOJ. Following is the reasoning for why the NY Lottery is confident that the DOJ will not object to its Internet gaming agendas. (Bill Murray presented on this topic at the SMART-Tech conference in NYC in March. You can view this presentation at www.PublicGaming.org.)

Public Gaming: *It seems like there are two main ideas that drive your approach to Internet gaming. One, gaming and gambling is a state's right issue. In every respect it has always been up to the states to determine policy regarding gaming and gambling and that's why it should be up to states to determine policy on Internet gaming. Second, regarding the transmission of electronic data, as long as the points of origin and termination begin and end within the borders of state, there is no violation of the laws requiring states to not engage in inter-state gambling.*

Bill Murray: Yes, that's our position. We think our position actually became clearer after the 2006 Unlawful Internet Gambling Enforcement Act (UIGEA). Prior to that, there was a general understanding of the balance between federal and state power that allowed states to determine gambling regulatory policy. In 2005, in a letter sent to the Illinois Lottery, the DOJ said that Internet lottery play would violate federal law. That called into question the traditional balance of power over who had the right to decide gambling policy, the federal government or the states. Then in 2006, the U.S. Congress enacted the Unlawful Internet Gambling Enforcement Act. The Act covers unlawful internet gaming but specifically excludes state lotteries from its coverage because U.S. state lotteries are not unlawful. We feel that the Act describes and allows what the New York Lottery and other lotteries were doing in 2005 in the form of subscription programs in which we offer a lottery subscription over the Internet. Our subscription programs comply with all of our New York state laws. We have safeguards that are quite effective at verifying that the customer is physically located in the state of New York; and that the

customer is at least 18 years of age, the legal age for playing lottery in New York. Congress included language in the Act to provide that as long as data transmissions originate in the state and end in the state, that shouldn't be considered a violation of any federal law against unlawful Internet gambling, regardless of where that data may have travelled in the process. We pointed this out to the DOJ. The UIGEA also is clearly defined only as an Enforcement Act that is not intended to alter existing law. We pointed out that the UIGEA effectively clarified what had been an implicit understanding regarding the balance of power between the federal and state governments. We think that the UIGEA makes the intention of Congress very clear in this matter, and that is that states have the right to allow their lotteries to sell lottery products and games over the internet. The DOJ lawyers that the New York Lottery talked to last year did not dispute our position. As it happens, the lawyers that we talked to in 2009 are not the same ones who were with DOJ in 2005 when they suggested that state Internet lottery programs might be illegal. A main difference is that the lawyers in 2009 had the benefit of reviewing the intent of Congress as expressed in the UIGEA. So while the traditional approach to regulatory policy was called into question back in 2005, we feel that it's been brought back into balance.

The lawyers at DOJ agreed with you that selling subscriptions and selling lottery tickets over the Internet is not in violation of federal law in general, or the Wire Act in particular?

B. Murray: To be absolutely precise, they acknowledged that they understood

our legal reasoning, they acknowledged that they understood how we came to that conclusion, and they acknowledged that we are specifically asking them for their opinion and whether they disagreed with our conclusions. We asked that they please communicate whatever opinion or disagreement they might have with our position. We would like to have a letter from the U.S. DOJ affirming their agreement with the position that states have the right to decide how their lottery can sell its products, but we did not get that.

Do you remember the old Book-of-the-Month Club negative option? You are told that if you do not explicitly request that you not be sent the book-of-the-month selection, then you will be sent that selection even though you didn't proactively order it. Your lack of objection to being sent the book-of-the-month selection in effect defaults to being an order for that B-O-M selection. Similarly, we have done everything we possibly can to communicate with the U.S. DOJ about what we are doing, the legal reasoning and basis for proceeding with internet gaming, and inviting the DOJ to give us feedback on these issues and to comment on all we have communicated about our position on these issues. We have made our actions crystal clear and indicated that if the DOJ has an objection, please say so now or we will take that as agreement that our reasoning is in fact not objectionable. Since the DOJ has not objected or given us any indication that they will object to our business methods, we are proceeding on the basis that the DOJ will not have a problem with our internet gaming agenda.

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Lorne Weil

Chairman, Scientific Games Corporation

The legacy gaming industry model had two options...travel to a resort destination for casino-type gaming or buy a lottery ticket at your local retail store. As happens in all industries, distribution is evolving to make all the different products more accessible to the customer, wherever they live (and via whatever media or channel they prefer to use). This natural process has, however, been constrained by government regulations. The result is that the gaming industry has not kept up with its customer. This has begun to change. As governments respond to the opportunity to raise funds to contribute to their fiscal objectives, and as economic recovery kicks in, the change will be big. And it will happen quickly.

How will operators adapt to this new industry model? To be sure, there's no shortage of suppliers of products and distributional technologies. There is, however, a shortage of commercial partners who can integrate this new array of products, services, and channels into a seamless, customer-facing brand and operational platform. That's the real challenge. For government-sponsored operators, it represents a unique opportunity to build a truly customer-centric business, one that enables everyone everywhere to bond with the most trusted gaming operator in the gambling industry.

Public Gaming: *There have been many quite interesting changes since we talked last year, some occurring in the past few weeks.*

Lorne Weil: It has been a year of tremendous progress in a number of key areas. Sciplay is our joint venture that bridges a critical gap, addressing the need to combine the most advanced new media technologies with the regulatory frameworks and management structures of government-sponsored gaming.

But first, in our server-based gaming business, we've significantly expanded our footprint in the UK betting shop business, adding several thousand terminals in the UK market. We have a trial going on in Ladbrokes, who up until very recently had only a single supplier. So that's a significant milestone for us. We recently announced a contract with Marstons, one of the major pub operators in the UK, and the performance of that part of the business has been excellent.

I know your readership is not so much the UK pub markets, betting shops, and private operators like Ladbrokes and Marstons. Lottery operators, though, are expanding into new gam-

ing categories and require the technologies, skill sets, products, and overall capabilities to make that happen. We started the process of reshaping Scientific Games and subsidiaries to meet that need years ago. It is coming to fruition now just as government-sponsored gaming is poised to enter the most exciting period of expansion in its history. Even though the great majority of the revenue will continue to come from traditional lotto and scratch-offs and the land-based retail channel, it is imperative that the legacy businesses be supported with the new products, media, and distribution channels that the customer is migrating towards. The exciting thing is that government lotteries have that customer connection like nobody else in the business. Recognizing the tremendous value of their own lotteries, and the potential of the gaming industry to contribute to their overall fiscal objectives, governments are doing the smart thing to manage the expansion of this industry in ways that channel the benefits back to the public.

The technologies, products, and skill sets that we have acquired in these other product



categories and in the B2B markets can now be applied to help our customers in the Government Sponsored Gaming markets. The UK is the quintessential distributed market, with small numbers of units in a large number of remote locations, a network of pubs and betting shops spread across the entire country. Other jurisdictions are adopting this distributed model because it brings the product to the customer. It is the natural evolution, it's what the consumer wants, and in the long-run, markets evolve to meet the needs of the consumer. One of those needs has always been to make products and services more accessible to the consumer. We think this simple concept applies to all products and services, including gaming, and that is what will happen in the electronic game/VLT market.

It's already happening, isn't it? Aren't you winning new contracts in Latin America, the Caribbean, and Mexico especially?

L. Weil: Yes. Mexico and Puerto Rico have become major markets in general for Scientific Games. We've had the online lottery in Puerto

Rico for several years. This year we added the gaming machines from Global Draw. Instant Ticket Cooperative Services in Puerto Rico has also taken off like a rocket. We have been working hard to develop the global draw games, media-server based gaming markets and the commercial potential of these products has begun to turn into reality. We began working on these projects over three years ago, when we bought Global Draw. It can take two or three years to lay the groundwork, develop your relationships, customize the technology, do the testing, and so on. And then by some small miracle the day comes when suddenly you have a commercially successful business. The same thing really happened for us in the UK pub market. It took a couple of years of product development, R&D, testing, and relationship-building to develop the market. And now our pub market is growing by several thousand terminals a year. So you only ever see the tip of the iceberg in this business. Most of the work that is going on to create it is down below the surface where you don't see it.

You asked about recent developments within Scientific Games and how that connects back to this idea of distributive gaming and lotteries. Lotteries, of course, have a huge distributed customer base. This customer base is used to buying the product at a local location. One could even say that this is a key attribute of the lottery player, the expectation that the product be available locally, without traveling to a resort destination. We think of this as a very good thing for lottery operators because they are best positioned to meet that need. Their branding, and their mix of marketing and distributional channels, positions them to service this distributed market in a way that nobody else can do nearly as well. So while there is a cost to meeting the needs to deliver a product to the doorstep of each of your customers, lotteries should see this as a very useful barrier to competition, a value that lotteries add that would be prohibitively expensive for a new competitor to try to replicate. This competitive advantage will be useful, though, only insofar as lotteries create a more comprehensive CRM, or customer relationship management approach, and develop and build upon the relationship they have with the millions upon millions of customers. Turn those customers into clients who think of their trusted lottery operator when they think of gaming. And then introduce the customer to new games.

A key component to the lottery's success is the branded and special relationship it has with this customer base. The logical extension to that is to enable the customer to affiliate with the protocols, marketing programs, and games that underlie everything regardless of the channel and medium. We want the customer to be able to play

VLTs in a shop, then go on the Internet and play the same games using the same electronic wallet, build points on the same rewards programs, become accustomed to the same bonusing programs and shooting for combined bonusing thresholds, and so forth. This is sort of the whole key to a good player retention strategy. Take all the distribution channels, traditional venue gaming, lotteries, Internet, mobile, VLT's, and put them all on one customer-facing platform that allows the customer to enjoy a singular interactive relationship with their trusted and branded lottery operator. And do all that through all different media and distribution channels.

Which brings us to Sciplay, the joint venture partnership you entered into with Playtech.

L. Weil: The Playtech partnership is part of our strategy to provide the lottery operators with the most comprehensive suite of gaming products and capabilities, enabling them to truly become the 'full-service provider' to their customer, the player. We are taking a 'best-of-breed' approach and through extensive research determined that Playtech has by far the most advanced platforms and capabilities in the internet space. That is especially true if what you want is to marry a virtual-based platform with a land-based channel. The lotteries' retail distribution network is one of their most uniquely valuable assets and will continue to be its most vital POS contact with the player. Lottery operators need to integrate this land-based network into their internet strategy and this is exactly what Sciplay is most able to provide. Through its Videobet subsidiary, Playtech has successfully pioneered the adoption of internet-style technology to land-based venues and provides operators with access to Playtech's leading internet gaming products and content. The technology also provides operators with a highly cost-effective way of delivering gaming content to land-based venues, while providing deep venue management capabilities. This strategic partnership enables Scientific Games to provide its lottery and government-sponsored gaming customers with the most advanced Videobet technology for its gaming terminal business.

As part of the new partnership, Playtech will also lead the development of Scientific Games' next generation systems technology, delivering a strong competitive advantage. These will offer comprehensive gaming systems that provide governments and commercial operators significantly greater functionality at lower cost, while meeting emerging industry standards and protocols. Functionality that was once confined to standalone systems will be merged into a single platform, both enhancing performance and reducing cost for the operator.

Gaming operators and their players will en-

joy a new level of flexibility and convenience by providing them with a technology platform that is seamless, integrated, and adaptable to multiple delivery channels. Where permitted by law, operators will have the ability to integrate their instant ticket, traditional lottery, internet, and brick-and-mortar systems, which allows for better player tracking and cross-promotional opportunities across all platforms.

The main idea is that lotteries have three main assets. Their brand, their retail distribution network, and their massive customer base. These assets are tremendously powerful but can be put to more effective use to increase funds for good causes. That is the primary mission of Scientific Games and the objective of our partnership with Sciplay.

Speaking of primary missions, you just divested most of your position in your Horse Racing and Venue Management business. Does that signal an important change in your mission, an increased concentration on the core lottery and gaming businesses?

L. Weil: Lottery and gaming have always been and continue to be our core business, central to our mission and every single one of our strategies. It's just that the business has evolved in ways that we no longer see venue management of horse racing as being core to our service to lotteries and government-sponsored gaming. So we are focusing our resources on those areas that are more key to lottery success, like our cooperative services programs for Instants, server-based gaming platforms with Global Draw, and now Sciplay for internet and technology development.

B to C. B to B, and now B to G? I think Business to Government, B2G is actually a very useful new category classification.

L. Weil: With the many changes we have initiated over the past couple of years, it would be important to note that we have no interest in the business to consumer space, B2C. We have no consumer-facing websites or businesses. Our primary focus has always been Business to Government, but it is vital for a supplier in our industry to acquire the technologies, the skill sets and competencies that meet the broader business to business space. The main reason for that is the long lead times required to develop new products, technologies, and platforms. It takes years to acquire the capabilities to support these new games and channels. We need to be ready when the enabling legislation passes that allows lotteries to expand into new games and channels. So we need to develop those capabilities in the business to business space. Too, the challenge to meet the expectations and standards of a completely different market segment results in more

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The regulatory future of remote gambling in the UK:

Is the UK joining the continental EU Member States after Liga Portuguesa de Futebol?

By Philippe Vlaeminck



I. Introduction

On 22 March 2010, the UK Department for Culture, Media and Sport launched a consultation on the Regulatory Future of Remote Gambling in Great Britain which sets out the Departments' justifications for changing the current regulatory system, the options it considered, and its proposals for extending the current framework to include overseas operators offering their

services to British consumers.

This consultation follows the request in April 2009 from Minister for Sport, Gerry Sutcliffe, to look at the aspects of the system of remote gambling regulation in Britain, including the existing regulatory controls that apply to operators licensed overseas as well as mechanisms to secure fair contributions from all operators towards research, education and treatment for problem gambling in the UK and the Horserace Betting Levy.

In the light of that study, the Department has started a consultation to examine the feasibility of extending the existing licensing system for remote gambling to overseas-based operators that offer services to or advertise in the UK.

The Department seeks to collect the views from remote gambling operators, based both inside and outside of Great Britain, regulatory bodies and Governments in other jurisdictions that regulate remote gambling, faith and community groups, and sports bodies. The consul-

tation period runs for 12 weeks from 22 March to 18 May/June 2010.

II. Items on the table

The Consultation document highlights the reasons why the Government believes that an amendment to the framework has become necessary, namely in order to ensure that British consumers receive the same level of protection irrespective of where a gambling operator is based. The following items are being discussed in the consultative document:

- The current system in force established by the 2005 Gambling Act (the licensing system and objectives, the creation of the Gambling Commission as a new independent regulator, remote gambling licences, the "white list" of jurisdictions who can advertise remote gambling services in the UK, the framework of Licence Conditions and Codes of Practice (LCCP), etc.).
- The need to reexamine the system of remote gambling regulation due to significant changes over the last years in the international remote gambling landscape and the accompanying issues, in particular the increasing number of gambling operators who are currently regulated offshore, outside the scope of the Act and the Commission's regulation. Currently, operators based in any EEA member state, Gibraltar or white listed state are free to advertise and provide their services in the UK without needing a Commission licence or complying with Commission requirements. As such, the specific provisions of the 2005 Act may not necessarily be enforceable requirements for the majority of the remote operators with whom British consumers gamble.

The government considers it necessary to adapt the current system to the significantly changed landscape of remote gambling by pursuing the consistency of regulatory standards for all licensed operators, fairness (in that all operators active in the British gambling market should be required to adhere to the same standards, requirements and obligations in respect of social responsibility and proper cost recovery).

The government discusses the possible options to move forward and links them to these criteria to see what the best solution would be (In respect of EEA member states and Gibraltar: (i) do nothing, (ii) introduce non-statutory changes to the system, such as Memoranda of Understanding (MOUs) with other regulators, and increased regulatory co-operation, (iii) introduce the need for such operators to obtain a licence to enable them to advertise in the UK and (iv) introduce the need for such operators to obtain a licence to enable them to transact with British consumers and advertise in the UK; Options for non-EEA jurisdictions: (i) improve the white listing system for non-EEA jurisdictions, (ii) develop a more streamlined white listing process as well as introduce licensing for operators in white listed jurisdictions and (iii) abolish the white

Philippe Vlaeminck is the managing partner of Vlaeminck & Partners, a Belgian law firm specializing in EU and WTO law with more than 20 years experience defending the cause of lotteries at all levels...i.e. Internet gaming, privatizations, regulatory approaches, etc. e-mail: Ph.Vlaeminck@Vlaeminck.com

list and introduce a licensing system for operators in all non-EEA jurisdictions). The government asks the views from the participants to the consultation as regards to these models.

The UK government comes to the conclusion that the preferred solution would be to introduce the requirement for operators licensed in EEA member states, Gibraltar and white listed jurisdictions to obtain a Gambling Commission licence to transact with British consumers and advertise in the UK and to develop a more streamlined white listing process for non-EEA jurisdictions.

The government also comes up with a set of proposals for extending the current regulatory system for remote gambling to include operators based overseas but that offer services to British consumers or advertise in the UK and asks the participants to share their views.

III. Preferred solution

As stated above, the UK government considers the preferred solution to be to introduce the need for operators licensed in EEA member states, Gibraltar and white listed jurisdictions to obtain a Gambling Commission licence to transact with British consumers and advertise in the UK and to develop a more streamlined white listing process for non-EEA jurisdictions.

By proposing this solution the UK government follows actually the ruling of the ECJ in *Liga Portuguesa* as outlined in §67. Indeed the Court did consider that the EU Member States were entitled to deny a license granted by another state and request any operator to obtain a license in the so-called country of destination, the country where the consumer has his residence. It is clear that , as other Member States are saying, that the impact of the ECJ ruling in *Liga Portuguesa* goes much further than only Portugal. In different cases following *Liga Portuguesa* this issue was extensively discussed in Court. All Member States present during the most recent hearing, did indeed insist that *Liga Portuguesa* actually provides a generic answer to gambling services. The principle of mutual recognition,

meaning that a EU Member States, needs to accept the license issued by another state, is hereby totally put aside in the gambling sector.

If the ECJ follows now also the opinions of the different Advocate generals also on the abuse of the Internal market rules by operators established in off shore jurisdictions, the end of remote gambling hubs in the EU is coming nearby. The fact that now the UK joins the approach of the continental states leaves Gibraltar and Malta without any alliance.

The discussions taken place in the Council Working Group prove that there is a growing consensus to resolve legal and enforcement problems surrounding gambling services. The fact that there is or the first time consensus in ,the EU on the issue of illegal gambling is an important step forward. In the Spanish Presidency progress report the following conclusion is provided: Illegal gambling may be defined as gambling in which operators do not comply with the national law of the country where services are offered provided those national laws are in compliance with EU Treaty principles.

As a result the Spanish Presidency progress report states that: the Spanish Presidency invites the Competitiveness Council to take into consideration this progress report. It recommends the continuation of the discussions in the preparatory bodies of the Council on the basis of this common understanding on the issue of illegal gambling and encourages the Commission to start consultations with Member States and stakeholders in the context of the awaited Green Paper, and to follow-up with specific proposals, as appropriate.

The fact that all states are now requesting the EU Commission to come up with a Green Paper to initiate a broad stake holder consultation and debate proves that the Member States are finally taking their role in resolving the ongoing legal disputes serious. The fact that the UK is now also on board is a very important step towards proper rules. ♦

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creating a truly entertaining lottery playing experience

By Marc McDermott, Technical Director, Gaming Standards Association (GSA)

Games should be fun to play. People go to casinos to play games with the hope of winning money but also to be entertained and have fun. Likewise for most games of chance, like lottery. Casino operators and manufacturers of electronic games know this as well as anyone. Slot machines are developed to be fun, exciting, and interesting to a player. From the physical cabinet to the sound system to the massive video display with outstanding graphics, the slot machine is built to stimulate excitement and a positive player response. And it doesn't stop with the cabinet. The game theme and the play of the game are designed to appeal to a player's sense of imagination and to provide entertainment value above and beyond the actual winning and losing of a particular wager. On the other hand, virtually all traditional lottery screens show the standard lottery number grid pattern. I think it's time for the lottery to take some lessons from the slot machine and VLT market to create more and better entertainment value. This will change its relationship with its customers, reinvigorating it with the excitement that was there when you first met. Let's think about ways to deliver true entertainment value for the lottery customer.

Imagine a lottery terminal. But instead of a lottery grid on the screen, the view is of looking out of a semi truck going down the highway; cars and scenery going by as you peer over the dashboard of the truck you're driving. Once a quick pick is initiated, a see-through lottery grid is placed over the windshield so the view out of the truck is now through the lottery grid. As the truck continues down the highway, the inevitable collisions between the windshield and the various insects flying across the highway occur. The lottery numbers are selected by where the bugs splat on the lottery grid. Disgusting? Perhaps, particularly if there is good audio for the bug splats! But maybe some completely random ideas are what will get the attention of a certain player profile that is no longer engaged with the process of going into a convenience store and buying lottery tickets. They want to be entertained. Perhaps their idea of fun includes experiencing something different and unusual, something they can tell their friends about, texting "OMG U hav to C this;" perhaps describing their experience on their Facebook page, "splattering bugs – what's that about? It's disgusting!" Maybe it is a little over-the-top, but if it gets their attention, is fun and funny, is different enough so that they'll tell their friends, then we will have succeeded at making our customer happy, providing entertainment value and maybe a playing experience that will create buzz and viral marketing momentum by recruiting the customer to advertise the new theme. All this can happen without regard to whether the player actually wins or not, without increasing the prize payout percentage or waiting for a jackpot roll-up. At that point, the motivation for playing the lottery has shifted from winning money (which does happen, but not

all the time!) over to having fun. We now have customers who pay for an entertaining lottery playing experience. The potential to win money becomes ancillary to the objective of being entertained.

This same example would also work for players that selected their own numbers. The player could select, by touch screen, the number on the lottery grid on the windshield of the truck. Once touched, a bug would splat on the chosen number. The same process would work for numbers selected via a filled out lottery card. When the player was done, the truck's windshield wipers would wipe away the numbers for the next selection. The actual game may only last a matter of seconds but the player may be talking about it for some time afterwards.

The touch screen also opens the possibility of a skill feature on the lottery. Games like darts or archery are possible as the touch screen can indicate direction, speed, and acceleration of the player input. Of course, the lottery numbers would not be affected by player skill but the entertainment portion of the game could be. In a game of darts, for example, players could get points based on their "throws". Each throw would choose a lottery number and would award the player points based on their result of their throw. The best players could be allowed to enter their initials which would be displayed on the lottery terminal and, possibly on other terminals across the jurisdiction. (There would be no material reward, just the publicity and recognition.) This element of competition could open up the lottery to a completely different type of clientele. People would be playing to have the high score in the lottery venue, the region or the entire jurisdiction. Maybe we could create community-based games and jurisdiction-wide contests with the actual lottery tickets and the prospect of winning money being an ancillary benefit. At this point we have changed the thinking about the lottery.

Of course, there are any number of interesting themes that can be used to select the numbers. Multiple themes could reside on a single terminal with the players able to select their favorite. An option to skip the entertainment game can be available for people that just want their numbers. The statistics on the player choices would provide valuable information to the lottery about what their players want. The marketing department can test different themes to see which are successful. At this point the lottery is able to fine-tune its offerings to reflect what the players want to play.

We talk about competing for the "entertainment dollar". The amazing and wonderful thing about lottery is that the prospect of winning money is a powerful attention-getter that most forms of entertainment don't have. That's a huge competitive advantage. Let's use that advantage to really capture the imagination of the lottery customer with a truly fun and entertaining playing experience. ♦

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Illinois takes first step towards outsourcing the management of the state lottery

By Elizabeth Corey, Partner with Law Firm of Foley & Lardner, LLP

Cash strapped states with and without state lotteries have their eyes on Illinois as it moves toward the nation's first third party state lottery management. Steps like last month's hiring of a financial advisor will be evaluated and likely imitated if other states decide to explore ways to innovate lottery management by a third party.

While "privatization" has been used to describe a variety of proposals in the industry, the Illinois version calls for naming an experienced manager who can increase lottery revenues to fund important Illinois construction and educational projects. The concept of "privatization" as it is being applied in Illinois is to outsource the management of the lottery. The State of Illinois retains ownership, and certainly continues to exercise regulatory control, but will appoint a lottery manager with the expectation that private management, with expertise and competencies acquired from experience in the competitive commercial environment as opposed to the state government environment, will result in increased revenue to fund important Illinois construction and education objectives.

Under Illinois' process (as adopted in July 2009 and amended last December), an early step requires the Illinois Department of Revenue to name a financial advisor to manage the bid process for the selection of the lottery manager. The result was the Department's appointment in April, 2010 of the Oliver Wyman Group, a unit of New York's Marsh & McLennan Companies, to the position. The Oliver Wyman contract runs from April 5, 2010 to October 14, 2011.

Consistent with Illinois' cautious approach to the process for engaging a third party manager, candidates for the financial advisor were restricted to those who had no material business or financial relationships with any potential management offeror within the last three years. Any entity which provides equipment to support the lottery was also prohibited from acting as financial advisor.

By barring these and other conflicts of interest, the legislation sought an advisor who could maintain clear objectivity in evaluating management candidates. In fact, the legislation limited the advisor's ability to enter into any business relationship with a potential offeror for one year following the engagement by the Illinois Department of Revenue.

These strict requirements meant that most or all financial service advisors normally identified with the lottery and gaming industry were excluded from consideration. The Illinois legislative requirements specifically addressed the need for a short list of consultants outside the industry. This should bring clear vision – with new insight – on how the lottery should be managed, distribution issues, technology issues, flexibility for new games and expansion opportunities within existing



demographic categories and global lottery relationships.

The role of Oliver Wyman is expected to focus on analyzing the existing lottery, recommending areas for expansion and growth, and, most importantly, shaping the request for qualifications prepared by the Illinois Department of Revenue (pursuant to the amended July legislation and the requirement of the Department of Justice) for a lottery manager that will survive, political and social objection. Oliver Wyman will also have the opportunity to structure the fee payable to the potential lottery manager in order to attract experienced global lottery managers and persuade them an investment in Illinois would be worthwhile. Oliver Wyman will also help determine which responsibilities will remain with the State and

which should be delegated to the lottery manager, balancing the need to attract qualified offers, the Department of Justice limitations, and the need for increased growth and revenue.

Oliver Wyman is an experienced and respected financial services advisor. Even though – by design – the state has chosen an advisor that has limited contact with the lottery and gaming industry, Oliver Wyman's knowledge in evaluating other retail services is expected to bring an objective review of the lottery program. Its global presence should significantly enhance the qualifications presented for the management bid.

Under the current schedule, the Illinois Department of Revenue is to select at least two offerors to potentially serve as the private manager by August 9, 2010. The Governor (or designee) is to choose the lottery manager by September 15, 2010, based on the Department of Revenue's recommendation. The legislation specifically places the selection process outside the state's normal procurement code.

The choice of lottery manager was to have taken place earlier, but Illinois politics and other factors have delayed the process. Provisions that increased the number of video lottery terminals and authorizing a pilot internet gaming program have created additional controversy and delays.

Further delays might be possible. The timing for producing the report of the financial advisor and its recommendation for a bid package (coupled with its engagement until October, 2011) may anticipate a further delay in circulating the bid package and, eventually, appointment of the lottery manager. Such a cautious approach probably is inevitable for any state selecting a lottery service provider and wanting to avoid any appearance of "pay to play" and insider favoritism.

Illinois' approach will be watched carefully by other states that may have an interest in privatizing lotteries. If the use of an independent financial consultant is successful in Illinois, it most likely will become part of standard practices elsewhere, along with any other features of the Illinois system that appear to enhance profitable and responsible management. ♦

2ND CHANCE GAMES that are 2ND TO NONE



By Roy Weiss,
Executive Vice-President, MGT Lottery

Always-on digital games are becoming wildly popular, and not just with the younger gamers. The retired set is waking up to the fun and excitement that these games deliver. Combine action-packed graphics, head-on player-to-player competition, deliver surprise outcomes along with the thrill of victory and, well, what's not to like about them? And we're just talking about entertainment-only gaming. Think about the explosive potential of online gaming when you combine the possibility of winning prizes or money.

Lottery professionals are not the only ones who recognize the potential to engage the recreational gamer in online games. It is becoming clear to everyone that the entertainment preferences of the younger generation will soon merge with the universe of online gambling. Somebody is going to grab the leadership position in this emergent online gaming market, and lottery operators are in the ideal position to accomplish just that. There's never been a better time to meet the demand of your customer for online games. Your customers are ready for it, and your commercial partners have the products and platforms to make it happen.

It is clear that lotteries must embrace a digital presentation to remain competitive and gain popularity with an entire generation that relates to interactive games. The challenge is how to combine the key competitive advantage of lottery games (the ability to offer real cash prizes) with a digital platform in a way that is both socially responsible and in compliance with legal/regulatory guidelines.

Lotteries can start down the path towards creating an online relationship with their customers much more quickly and easily than ever before. There may appear to be obstacles, but nothing that can't be overcome with a shift in perception, thinking of the Internet as a distribution channel, which is all it really is. The most realistic and timely solution available today involves the creation of 2nd chance online lottery promotions, where non-winning lottery tickets are used (by registered

lottery players), to gain entry into an online game, sweepstakes or multi-player raffle which is hosted directly on the lottery website. These are all perfectly legal games and game concepts in almost all lottery jurisdictions.

Second-Chance Lottery Games Designed for Success

For a second chance game to really take off, it must have both a compelling instant ticket game and an equally fun web-based game. The consumer wants and expects both components to be there. It's like the old Reese Peanut Butter Cup commercials where one kid gets their chocolate mixed up with another kid's peanut butter. The individual components were good on their own, but it's the combination that is truly dynamite (i.e., 1+1=3).

Second-chance lottery promotions also MUST support retail-based lottery ticket sales by adding additional value to every ticket purchased, while eliminating the need to process Internet-based ticket sales. This type of approach to second-chance web-based promotional games allows lotteries to offer all the fun, interactive, social components and cool graphics that make digital games so popular, while simultaneously staying in compliance with local, state and federal laws related to online gaming. Ingenio (via Loto Clic) was the first generation of this type of promotion. The 2nd chance games that will debut this summer (like Minnesota's Texas Hold'em Second Chance Games) will, however, elevate the concept to an entirely new level.

Second-generation 2nd chance lottery software (like MGT's award winning multi-player Texas Hold'em game) allows players to use their already-purchased (non-winning) lottery tickets as tokens to enter raffles, drawings, and to play other second-chance online games right on the lottery organization website. This software connects a fully interactive digital game to the traditional instant-ticket games (like Texas Hold'em) to provide just the kind of winning combination that today's consumer is looking for. MGT software streamlines the entire process for the lottery organization, from initial player registration to management of the

web-based games and promotions, all of which take place directly on the lottery website.

Keep it Simple and Have Fun...

Software platforms like the MGT Second-Chance Lottery Game Software, which was selected as the winner of the 2010 PRGI Lottery Product of the Year Award, allows lottery organizations to jump into the game today in a simple way, while providing all the digital bells & whistles that make existing digital/online and multi-player games extremely popular. Lotteries can initialize a program with one game, for example, and add on more from there as the idea of digital lottery games is embraced by its players and the community.

To be truly successful, Second-Chance Games need to deliver the fun, engaging, multi-player interactivity of the most popular online games, in a way that turns a traditional lottery ticket into a social event that attracts a whole new generation of game players (and their friends!). Second-chance multi-player games like Texas Hold'em Poker, Bingo, Crossword or Trivia based games can effectively turn a single player lottery ticket into a social experience where individuals play with friends and compete against other players for second-chance lottery prizes and awards.

Today's digital gaming consumer was raised on video games, and spends countless hours playing these games with their friends. Lottery organizations that are dedicated to attracting the attention of the new age consumer need to offer them the type of fun and entertainment they expect from their games.

Multi-player games are the most popular games played on networks like Facebook, on computers, handheld internet connected mobile devices and in-home game consoles. Tens of millions of players revisit their favorite games every day to play. Second-chance lottery game software can be implemented now to create a dramatic increase in the fun factor of existing ticket games while staying compliant with existing laws and regulations. The impact on current year sales will be dramatic, and you'll be in the leadership positioned to serve your customer as the online gaming sector transforms our industry. ♦





Lottery Growth: Seeing and Adapting to Change in the Retail Markets

By Matt Mansfield, GTECH Professional Services

For many people the “face of the lottery” is reflective of where they buy and see lottery products on sale.

During 2009, in the U.S., these impressions continued to be shaped predominantly by three types of retail trade class accounting for almost 73% of the outlets selling lottery products and over 75% of the \$47.3 billion annual lottery sales reported by retail class: grocery, convenience and gas/convenience. (Figure 1)



These impressions are likely to vary widely since for many jurisdictions the majority of outlets are independent or “Mom and Pop” local operators compared to multi-state chain operators with reasonably uniform branding and presentation.

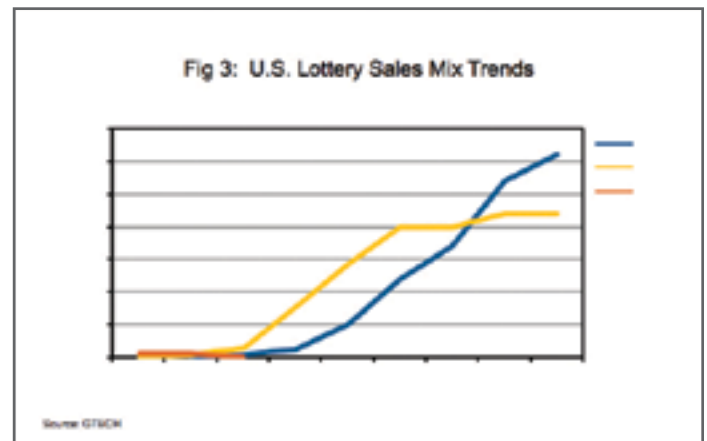
Yet, opportunities to enhance the lottery shopping experience while reaching a broad player and prospect audience through expanded distribution very much exist. As recently pointed out by Don Stanford, GTECH Acting Chief Technology Officer, within the Top 100 U.S. retailers there are at least ten with over 45,000 stores representing over \$854 billion annual sales — and do not offer lottery products. (Figure 2)

The challenge is: how do lotteries realize these opportunities to grow sales?



A Brief History of Change

During the late 1960's when modern U.S. lotteries came into being, independent stores with personal relationships between the owners and customers were prevalent. Lottery equipment, systems and programs were accepted as necessarily “outside” the individual store accounting and management system for various reasons, not the least basic cash drawer management of high volume lottery product sales. This assumption continued with the growth of Instant Games and their more complex inventory and labor requirements. (Figure 3)



However, as personal lifestyles changed with dual-income families and more mobility, customer shopping needs have focused on speed, convenience and ease. The retail direction shifted and continues to focus on one-stop shopping. Chain operators have taken this response several steps further.

The Three C's

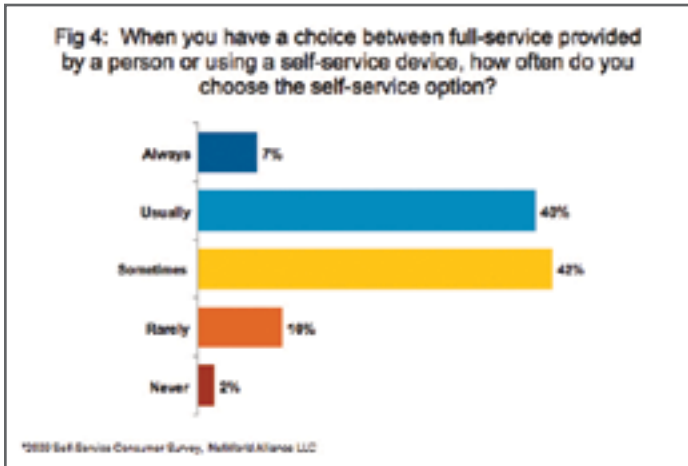
Motivated by competition, cost-efficiency and customer service (the three C's), chain store groups have been updating and streamlining the customer shopping experience for not only merchandise, pricing, promotion, loyalty programs but also its management. As multi-state operators, their efforts have led to:

- More uniform branding and store presentation
- Store automation
- Supply chain management
- Inventory management at the SKU level
- Right-sizing store formats for different local situation
- Adoption of industry-wide operating standards through associations such as PCATS (Petroleum Convenience Alliance for Technology Standards) and ARTS (Association for Retailing Technology Standards – at the National Retail Federation).

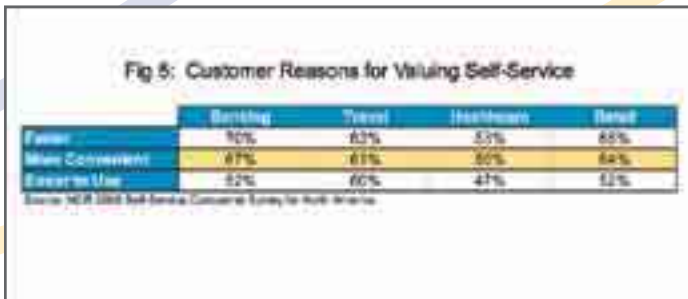
During recent years with rapid consumer technology adoption and severe economic stress the chains have offered more options to help customers “shop smart:”

- More self service
- Branded gift cards that have become an \$87 billion industry almost overnight
- More personal service through improved staff knowledge (an attitude shift from “Do-It-Yourself” to “Do-It-With-You”)

Customer preference for self service has been expanding with almost 90% of people opting for a self-service solution at some point in a 2009 survey. (Figure 4)



Across several different industry segments the values customers seek in self service are the familiar ones: speed, convenience and ease. (Figure 5)



The impact of self service in the lottery industry is showing up. Even with only partial results reported, at least 5% – 6% of sales — and probably as high as 10% — are originating from Instant Ticket Vending Machines (ITVMs) and other self service machines, including both Instant and Online Games. (Figure 6)



The Three L's

While some chain store groups have been willing to have lottery equipment and systems outside of their systems, other major players noted above have continued to resist. Their concerns are that lottery products, especially Instant Games, do not fit their operating models and will contribute to inefficiencies they have worked to overcome: lines, labor and loss, or shrinkage (the three L's).

They are looking to lotteries to work inside their systems so they can sell, manage and account for lottery products like any other product or SKU within their stores.

Of course, not all chain store groups are the same and may require different approaches to accommodate their management approaches.

That's why GTECH has been devoting time, money and resources to developing suites of solutions to help lotteries achieve this potential growth:

- Lottery Inside integrates Online Game Quick Pick sales into multi-lane third-party POS equipment with options for using the store printer and paper and enables accounting into the retailer system.
- Gemini Family of Self-Service Terminals sells Instant and Online Games, of Instant Games only, with push-button ease with configurable peripheral options in the industry's narrowest footprint.
- DASH Store Services (Display and Service Handlers) offers a store-within-a-store concept for retailers seeking route service, manned kiosk and merchandising management.
- ES Lottery Services Portal can provide web-based lottery reporting for Instant and Online Games that can be downloaded into back office systems and allow chain managers to see reports for all stores, including those across state lines.

The company is also going beyond its patented Smartcount Instant Games inventory management system for individual retailers to find answers for ticket accounting and management that meet chain store requirements.

The end goal is to achieve a win-win plan of flexible retail solutions that benefit lotteries and address chain store group concerns with the three L's plus back-end accounting.

A Final Thought

Individual lotteries may have been at a disadvantage dealing with some of these chain store groups. After all, they are multi-state marketers and operators and used to working with similar organizations. With the recent collaboration between the MUSL, Powerball and MegaMillions groups to cross sell the two largest U.S. jackpot games perhaps there is now a way to offer broad lottery retail management solutions, still adaptable to local business requirements, at the multi-state level.

The potential for increased distribution and sales within contemporary customer-friendly environments for most, if not all, lotteries should provide plenty of incentive to consider this approach. ♦

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Companies with business models as divergent as Starbucks and CVS Pharmacy also offer it. In fact, its popularity with consumers is so statistically compelling, more and more progressive companies with household names have begun rolling out their own customized versions of these programs.

You can now add the Arkansas Scholarship Lottery and Minnesota State Lottery to this list.

"It" – by the way – is a loyalty-marketing program that rewards customers for purchases. Such programs are popping up, seemingly, every day. Rewards are very often given in the form of "virtual points" which members can collect and redeem for various prizes, entries into drawings, or, in the case of the two supermarket chains mentioned above, for per-gallon discounts on gasoline.

"The downturn in the economy has created a shift in shopping behavior, with consumers becoming noticeably more value conscious," says Kyle Rogers, MDI Executive Vice President. "Today's leading business-to-consumer companies have taken note of this practical consumerism and, accordingly, are making adjustments to adapt to this new marketplace reality."

Which brings us to Arkansas. In early 2010, Scientific Games' Points for Prizes™ program made its worldwide debut in America's newest lottery. The second component of the Arkansas Scholarship Lottery's The Club website, Points for Prizes is a complementary piece to Play It Again™, which launched at start-up on September 28, 2009. Play It Again allows members to enter any non-winning instant ticket on the Internet and qualify for a second chance to win the top cash prize for that game.

Points for Prizes allows members to earn points from non-winning instant tickets and redeem those points from an extensive online catalog of merchandise. The program was announced in mid-January, and, on February 8th, the merchandise store opened for business on the Internet at <https://pfp.aslplayerservices.com/>.

"The Points for Prizes program is unprecedented in the lottery industry in terms of the redemption options being made available to participants" says Rob Arnold, Vice President Creative and Client Services, MDI. "And having Points for Prizes integrated with the Play it Again last top prize program makes the value proposition very attractive for players. When we first announced the Points for Prizes program, we saw a rather significant bump up in the number of tickets being entered each

week, in the neighborhood of 45 percent. Members certainly like the Play it Again feature, but it's been clear from day one that they really appreciate the extra value they get from Points for Prizes."

Non-merchandise items are also available from the Points for Prizes menu. This includes, for example, discount certificates to restaurants and discount coupons for hotels. According to Arnold, "we're now very close to adding music downloads and magazine subscriptions to this menu. And as time goes on, the Lottery and MDI will continue to look to add more of these types of prizes so we can keep the prize offerings fresh and exciting for members."

In the six months since inception, more than 125,000 Arkansans have become members of Play it Again and Points for Prizes. Particularly encouraging to lottery officials is that more than 4 in every 10 registered members also have opted-in to receive emails about new games, special promotions and other lottery information. The number of registered members, to date, equates to about 5.9 percent of the state's total adult population (18+). Participation has been strong among most all age groups, with younger adults accounting for a significant portion of all registered players. "The overall level of participation has been very encouraging and it appears to be coming from a wide spectrum of age groups," says Arnold.

Other statistics from the first six months of the program's availability in Arkansas worth noting, including:

Members have entered over 12 million tickets in total, which approximates to roughly 2 million a month; Members have accumulated more than 161 million points in their accounts. What has also been especially pleasing to lottery officials is that the percentage of tickets entered has been higher with higher price-point games. Points awarded on each ticket on average increase with ticket price. Arkansas currently offers five price points: \$1, \$2, \$3, \$5 and \$10. The percentage of eligible tickets entered for some higher price point games have approached 30 percent in recent weeks. "These numbers tell us that our members recognize and appreciate the fact they earn more points for purchasing higher priced games than they earn for \$1 games," says David Barden, Vice President, Gaming Operations for the Arkansas Scholarship Lottery.

The Minnesota State Lottery also recently introduced a points-for-loyalty component as part of its Lucky MN players club (<http://www.luckymn.com/>). In Minnesota, members receive points on one special game, whereas, in Arkansas, Points for Prizes members can get points on all scratch-off tickets. MDI recently assumed management responsibilities for the Lucky MN players club, of which there are now more than 72,000 registered members.

"These and other components of our new Properties Plus program are really stage one of the bigger picture of Internet products that will be available through our Sciplay joint venture," says Rogers. "Lotteries historically have been a step removed from their players. These programs are designed to help a lottery bridge this gap, build up and refine their database, establish a one-to-one relationship with their players and get them accustomed to lottery activities on the Internet. All of which helps lay the foundation and pave the way for whatever the future may hold in terms of Internet play. "By investing now in their promotional infrastructure, lotteries will be creating broader awareness of their offerings by leveraging into new, non-traditional channels. In the process, they'll also be collecting real-world information on the best ways to promote their products via web technologies, as well as understanding how to use this medium in the most socially responsible manner possible." ♦





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The Michigan Lottery will be hosting this year's conference in beautiful downtown Grand Rapids, Michigan. NASPL attendees will be staying at the historic Amway Grand Plaza Hotel, with the conference being held at the adjacent DeVos Convention Center. With so much to do surrounded by so much natural beauty, Grand Rapids and Michigan's west coast is truly a grand place. Come see it first-hand!

For your travel convenience, this year's award reception will be held Thursday night, with the conference officially ending in the early afternoon on Friday, September 24.

All Photos courtesy of the Grand Rapids/Kent County Convention & Visitors Bureau





SPELO celebrates two decades of performance gaming and dedicated service

In the history of the world, 20 years is a fleeting moment. But in the brief history of gaming, 20 years is an epoch.

SPELO's epoch began humbly in Moncton, New Brunswick, in May/June 1990, with a small group of innovators who witnessed public policy moving toward carefully managed, legal, and fair gaming programs. They responded to those needs with the agility that only a small startup can offer. Realizing the value of that responsiveness, over the last two decades SPELO's leaders have worked to maintain that agility, even as the company has grown into a leading international design, manufacturing, and distribution company. SPELO continues to keep its main focus on the government-sponsored gaming market, and serves that market with an entrepreneurial drive. "From Day One, we've been committed to the VLT business, as opposed to other companies who began in the commercial casino sector and then tried to enter the VLT market," said Don Doucet, SPELO's Vice-President of Business Strategy, Products, and Marketing, and who was among SPELO's earliest employees. "We have a full two decades of experience in government-sponsored VLT gaming, and no other company can make that claim."

New Brunswick is a picturesque, densely-forested Canadian province once known for its wealth of natural resources more than its technology expertise. But that's changing, thanks in part to SPELO and its 420-plus workforce. Today, Moncton is a community that rivals Las Vegas, Reno or Atlantic City in terms of its advanced information technology workforce devoted to the gaming business. In fact, in 2009, SPELO's home base was shortlisted as one of the world's seven Most Intelligent Communities.

Today, SPELO combines its talented local workforce – employees who bring a powerful work ethic and a passion for innovation – with the international clout of its parent company, Lottomatica S.p.A. These forces have merged to create products that perform with unparalleled service. "We've been fortunate to be able to maintain complete control over our direction and our ability to address our clients' needs, but with the strength of multi-billion dollar company behind us," said Robin Drummond, SPELO's Vice-President of Sales. "So even during the down cycle, we continue to invest in R&D and in our people. This allows us to consistently respond to our customers' needs with state-of-the-art products and solutions."

SPELO now has more than 30,000 gaming machines in 36 jurisdictions across North America and Western Europe. Since SPELO's inception, it's gained market share in the vast majority of Government Sponsored jurisdictions, and it's the pre-eminent supplier to distributed gaming markets. Among SPELO's many milestones, its earliest partnerships with its Canadian customers built the foundation for SPELO's success. SPELO's first customer was Atlantic Lottery, and it quickly became Atlantic Lottery's leading supplier of VLTs. By 1994, SPELO had also forged the beginning of a successful and ongoing partnership with Loto-Québec.

But 1996 marked the beginning of SPELO's international leadership, when it began providing solutions to Svenska Spel, the Swedish national lottery. Today, 100 per cent of all Svenska Spel VLTs are SPELO cabinets. Thanks to the expertise SPELO gained from its early foray into Canadian and European VLT markets, partnerships with Alberta, Saskatchewan, and Oregon soon followed. That success prompted SPELO to expand and enter the Gaming Operations market in the mid-1990s. Today, SPELO also operates thousands of gaming machines in the states of New York, Delaware, and Rhode Island.

A banner year for the company, 2004 marked GTECH's purchase of SPELO, as well as its entry into the Native American and Commercial Casino market. Soon thereafter, GTECH purchased the ATRONIC Group, creating a Gaming Solutions division unrivalled for its vertical integration across gaming markets and its full end-to-end solutions, including central systems. Today, SPELO counts Kansas and Pennsylvania among the jurisdictions where its latest central system solution, INTELLIGEN™, controls and monitors complex gaming programs. This year, Maryland and Italy's nascent gaming programs will join that list.

Recently, ATRONIC Americas took responsibility for all North American Casino sales and service, and is now distributing SPELO gaming machines in the commercial casino market. SPELO's recently-approved Nevada manufacturer and distributor licenses are the latest step in its expansion into the commercial casino sector.

In 2006, Lottomatica Group, a market leader in the Italian gaming industry and one of the largest Lottery operators in the world based on total wagers, purchased GTECH. Last year, SPELO became a direct subsidiary of Lottomatica, counting GTECH, ATRONIC International, and ATRONIC Americas as affiliates under their powerful parent company. Meanwhile, SPELO's roots in government-sponsored gaming remain as deep and firm as ever, and it continues to be the supplier of choice for jurisdictions and operators launching new gaming programs.

In late 2009, SPELO signed agreements to provide its full end-to-end solution, including multiple INTELLIGEN Central Systems, VLTs, and game content, to Lottomatica Videolot Rete and Gamenet, two of the top three concessionaires in the new VLT market in Italy. SPELO also expects to develop additional partnerships with other concessionaires. This year, SPELO will deliver several thousand VLTs to Italy, and these agreements will put SPELO among the country's top VLT vendors. "We know that our clients are making investment decisions, not just purchasing decisions. We understand that their investment has to translate into performance and longevity," said SPELO President and CEO Victor Duarte. "We're here for the duration – we support our customers for the full term of the contract. We continue to push to make sure we're delivering highest service and the best games, and that our customers get the investment value that they deserve." ♦

WHAT'S NEXT ?

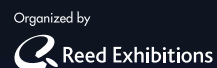
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GTECH PRINTING CELEBRATES 1ST ANNIVERSARY BY REFLECTING ON CORE VALUES



When GTECH Printing Corporation (GTECH Printing) opened its doors for business in 2007 in Plant City, Florida, its President Ross Dalton approached the market place with one goal in mind, to become the industry's premiere provider of high quality Instant Ticket products while providing exceptional customer service. In its first year, GTECH Printing secured over 10 contracts, partnering with lotteries from across the world to deliver the highest quality instant tickets and forming the foundation of what was to come. Since then, it has continued to grow its client base to over 45 customers worldwide, while investing in industry-best technologies, product and service innovation, and a new physical plant to support the industry's growth potential. If the past three years is a reflection of the future, GTECH Printing is well on its way to realizing its vision.

In May of 2009, GTECH Printing celebrated another milestone, the opening of its state-of-the-art printing facility in Lakeland, Florida. At that moment, the instant ticket marketplace reached a new level of quality and customer service. For customers who visited the facility during the open houses that GTECH Printing hosted last summer, it was easy to understand why GTECH Printing is so proud of their new home. For months the team worked tirelessly to move the entire operation to Lakeland. Throughout the transition, Dalton continuously reiterated during meetings: "We do no ordinary things." This phrase has become a creed among the entire staff and was even painted on the press room wall to remind all employees that each new

customer is more than just another account, it's an opportunity to provide exceptional customer service, surpass expectations and become the lottery's premier partner. This May, as the first anniversary of the opening of the Lakeland facility is celebrated, any visitor standing in the press-room looking up at the 45 customer flags will agree, GTECH Printing is doing extraordinary things.

When GTECH Printing commissioned another industry leader, Gallus, to develop and deliver what was to become the nucleus of their business they had laser focus. The primary objective was to be able to provide superior customer service to lotteries by offering customers unprecedented access to flexibility, on-demand production planning, the industry's highest quality graphics and bullet proof security. Gallus responded by building an immensely powerful 22-station flexographic printing press, capable of printing 48,000 tickets per minute and packaging 90 million tickets per day. For lotteries this means that every game will be a top priority and graphics will consistently be elevated to an electrifying level.

While the press itself is paramount in helping GTECH Printing attain the title of the fastest growing and most technologically advanced instant game supplier, a fundamental component of the past year's successes has been the dedication of its experienced staff to its customers. In just three years, GTECH Printing has hired many industry veterans including Will Higlin, Kathy Matson, Jean Turgeon, Todd Bauman and Jacqueline Deragon. Moreover, GTECH Printing's Account Executives, Yvonne Rendon, Ted Manno, Walter Gaddy, Art Kiuttu, Gary Smith, Diane Connell, Jennifer Kempker and Nate Breighner are all seasoned lottery professionals who have spent years building solid,

trustworthy relationships with lotteries all over the world. Pat Schmidt, GTECH Printing's Director of Licensed Content has over a decade of recruiting giant global brands, providing customers access to big names like Aerosmith, The Three Stooges®, World Series of Poker®, Billboard® and many more. Combined, the team has over 700+ years of industry experience, and an unwavering passion for delivering exactly what customers want.

In parallel, while GTECH Printing is attaining loyalty and respect from its customers by placing a pivotal focus on customer service and providing the highest quality instant games, another effort underway is to become the premier partner to lotteries across the world. GTECH Printing takes this responsibility very seriously, understanding that true creative genius is born out of collaboration. Throughout the entire production, sales, and marketing lifecycles, GTECH Printing's Account Executives partner with lotteries to ensure full alignment on all phases. With the dedication, drive, and enthusiasm that the team brings to the marketplace, there is no doubt that together, lotteries and GTECH Printing create an extremely powerful alliance.

To learn more about GTECH Printing, logon to www.gtechprinting.com ♦





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course. There is a lot of effort that goes into these transactions to ensure that the key stakeholders (Community, Government, Retailers) respond positively and are pleased with the results. In the model adopted state government retained the right to tax the lottery sales revenues going forward, at around 30% in Queensland, so they enjoy an ongoing income stream from the business while we figure out how to increase that revenue. They therefore remain a key stakeholder as well as the regulator. What was "sold" to Tatts Group were the rights to operate the Golden Casket Lottery for a 65-year period. The length of the license gives Tatts the security that enables us to invest in the long-term health and prosperity of the business. The sales growth rate since 2007 has exceeded projections, above the historical average, so there's been no loss of momentum in the business during the transition from government operations to private operation. As part of the deal, we also agreed to do some very specific community contributions. There's been \$10 million donated to specific charities over the first three years. And the shareholders of Tatts are very happy since the contribution from the Tatts Lotteries division to the overall Tatts Group business has grown three-fold in that three year period. These benefits have been delivered through the efficiencies of the combining two lottery businesses together and removing duplication of systems and processes as well as enhancing revenue growth.

Outwardly we aimed for a seamless transition. As the players and the retail agent network are major stakeholders we aimed for there to be limited change in the service delivery model and operation of the games. The players and agents really just enjoy the same service and products that they experienced before. As we have taken over the existing long running brands and products the branding and products have not really shifted in any significant way. I think overall it is a situation where all stakeholders have come out with a very positive result.

We will be applying our experience and learnings from the Golden Casket acquisition to the New South Wales Lotteries' integration. Our experience will enable us to move ahead reasonably quickly in New South Wales. During the Casket integration we established combined operating model that we can now apply to New South Wales Lotteries. This model allows us to also pick up the best of their operations as well. It is not a cookie cutter approach because we recognize unique jurisdictional factors during our operational assessments. We expect this operating model to translate very well to the New South Wales Lottery and serve the government

and people of NSW and all our stakeholders just as well as it did in Queensland.

It seems no small feat to create alignment among all those different constituencies.

B. Thorburn: Exactly. I think the alignment comes from the recognition of unique interactivity of each of the stakeholders and the clear purpose of the operator. The length of the licenses also helps because you are not only building off a business today, but you are developing a longer term business into the future. Contrast this model with some of the earlier models that were promoted for the U.S. market. They were attempting to monetize the lottery including the future duties streams, to turn an ongoing duty stream into cash in the form of a large upfront payment. We think there are definitely problems with that approach. It is vital that all of our interests stay aligned so that the regulatory process continues to evolve and not fall out of step with community values. Whilst all operators want operational and regulatory clarity and stability, the certainty required to fund the future tax stream is so large that requirements to impinge future politicians make such privatization models difficult to gain bipartisan support.

The governments have turned over operational responsibilities and the associated risks to Tatts but they still hold the key responsibility for regulating, taxing, and setting the social policy agenda. The government establishes regulatory parameters that protect the players and create alignment with all other public policy concerns. Of course, the government is also interested in our success because we're the ones charged with driving the taxable revenues. It is in essence a symbiotic relationship. It definitely works best in longer term licenses (Queensland is 65 years and NSW is 40 years versus Victoria 10 years) because you can build long term momentum and evolve the business through technology cycles, but also be able to deal with unexpected shocks. It also allows the operator to work effectively with Governments on fundamental regulatory reforms as they arise

Tatts Group CEO Dick McIlwain said, "The consolidation of state-owned and Tatts lottery operations will drive significant operating efficiencies and offers considerable benefits from moving to a single operating system." Tatts chief financial officer Ray Gunston added, "the purchase of New South Wales gives us the scale to enable us to achieve the sort of things that we want to achieve not just in NSW but across all our jurisdictions." What kinds of economies of scale or benefits accrue from adding NSW to your businesses?

B. Thorburn: There's two parts to that. One is the efficiencies that can be gained by operating an integrated approach to the business across the various jurisdictions. Tatts has spent the last few years integrating Golden Casket into its operations and building a lottery operating model that allows us to support a far bigger and more complex business that stretches across multiple jurisdictions. For instance, marketing campaigns can be integrated across all of our jurisdictions. Differences between jurisdictions do exist. Regulatory requirements may be different, local branding requirements certainly differ; cultural preferences may dictate different approaches in some ways. We also acknowledge and want to preserve the local brand values and player attachment to those brands. However we can also leverage the network to develop new brands and products that previously may not have been available. We can leverage successful campaigns across jurisdictions; and sitting behind all that is an integrated approach to all of the back office operating infrastructure and corporate services. Lotteries operate very similarly around the world and there are obvious commonalities and overlaps which can generate efficiencies without interrupting the service delivery. The key is identifying those overlaps and how to manage them. On the revenue side, larger market populations give us more flexibility to offer prize structures and pools that are attractive to players. We continue to benefit from the scale that's created by the Bloc here in Australia for a number of Bloc games; and the additional scale that we can bring across jurisdictions will benefit some of the local state based games as well. These games can retain their local focus but can be extended across a wider player base enabling new game features and more attractive prize offers to players.

So even though products and strategies aren't necessarily replicated in each jurisdiction, the success that you have in one jurisdiction can inform the product development and marketing strategies in other jurisdictions. So there would be efficiencies and savings by being able to leverage product development, R&D and the production of advertising, etc to support a much larger revenue stream.

B. Thorburn: Not just cost savings but, just as importantly, it will result in enhanced products and service that will benefit the players and increase revenues in all of the jurisdictions we service. We have a wider pool of experiences with product development and also can learn from what others have tried and failed or succeeded with in the past. We also appreciate that not all games translate to different markets.

You've been the CEO of Golden Casket for many years before it was purchased by Tatts. How have operations changed? What things can you do organizationally, operationally, and strategically now, working under Tatts, that were perhaps more difficult to do when you were a government-owned operation?

B. Thorburn: There's no doubt that we certainly have achieved a higher level of operational flexibility under the private model. So we still adhere to appropriate levels of regulatory compliance and responsible play, but I think strategically we can now operate with a higher risk appetite. I think it's fair to say that a government as owner of an operating business will never have quite the same tolerance for risk as a private operator. Risk management is a highly developed competency of all private operators in any competitive market. That enables us to invest in new ideas and test strategies and product concepts and basically manage the business for optimal long-term profitability.

In many ways, though, the fundamentals of the business have not changed. Our focus has changed because we now are able to run the business across multiple jurisdictions. We've been able to build a highly efficient integrated operating model which we can adapt into new jurisdictions. But those are primarily back-office operational functions. The basic business of producing a great product, promoting and marketing and distributing it have not changed significantly under private management.

Do you anticipate the possibility of trying to carry this business model to jurisdictions outside of Australia?

B. Thorburn: The business model that we've created contains all the essential elements required to operate a lottery efficiently and effectively and we think it is transferable to other markets. It has at its core the mechanisms and business processes that integrate the resources of a centralized system with a lottery operation that remains fundamentally local. In the absence of clarity on the models being adopted elsewhere and our attraction to them, we haven't got any specific plans to go after contracts outside of Australia at this stage. The successful integration of NSW Lotteries is our primary goal in the short term. Applying our capabilities and business model to jurisdictions outside of Australia is something for consideration a little further down the track.

Are there any particularly interesting differences between the New South Wales transaction versus the Golden Casket transaction?

B. Thorburn: They're actually quite similar. Both are based on single long-term operating licenses. The longevity of the lease term provides the foundation to support thoughtful, forward-looking investment decisions. A number of the other elements of the models are also similar. The New South Wales government is currently establishing a formal regulatory structure independent of NSW Lotteries to oversee the business similar to the model previously established in Queensland. Overall social policy and responsible gaming standards are set by the government. The lottery staff and agents in both cases were offered some job security and retail network protections as key stakeholders and as part of the transition of the business to ensure it proceeded smoothly. One difference with the New South Wales transaction of course was that it was put out to competitive sales process, which elicited multiple bidders.

Would it be fair to say that the similarities are not really accidental? Did the political powers in New South Wales observe how it worked in Queensland and set out to replicate some of the positive results that were achieved in Queensland?

B. Thorburn: I'm not sure how the New South Wales government determined their final structure, but clearly they would have been aware of the key elements in the structure that was adopted in Queensland. I think they also would have been aware that it achieved many positive results. Before the tender and bidding process commenced the NSW government put out a regulatory discussion paper for general consultation. They set out the general framework of what they intended to put in place from a licensing and regulatory framework point of view and then invited comments and feedback from interested parties. I think this was a smart thing to do, enlisting all the best thinking to contribute to the process of establishing the legislation for the transaction in advance of the bid process. That input would likely have been partly based on the strengths and weaknesses observed in models operating elsewhere in Australia.

Could you comment on the trade-off between managing the long-tail revenue of maturing products and whether or when to be shifting resources over to the development of new and untested products?

B. Thorburn: In the end the players decide what the longevity of the game is. So we will continue to provide support to games that the player base finds attractive. We might enhance and update the games from time-to-time, but in the end it's the players who decide. We always

try and maintain a portfolio balance, providing ongoing support for the established and successful games that resonate with our players. We certainly want to balance that support with the development of new games that might attract new players, or even appeal to existing players.

We always carefully consider how new product opportunities will impact the existing portfolio. Our object is to achieve growth in the overall portfolio of our products. You have to avoid the temptation of throwing a whole lot of new games at a market place – new games do not always mean incremental sales and can result in overall player confusion and detachment if they get too bombarded with product. As I said before games that work in some jurisdictions just do not translate into others. But we're not about just allowing mature products to drift slowly away and end up with a benign growth portfolio. Growing the overall market requires us to maintain a portfolio balance between the loyal players who are attached to the existing games and those players that are looking for something new and different.

It seems you're saying the conservative bias of the lottery business is based on economic drivers. The revenue stream is so large for the traditional products that have the loyalty of the core player that you would never, ever allow the need to innovate to cut short the life cycle of a product that still might have some legs on it?

B. Thorburn: Yes. I think that has merit. I think a big driver though is the intangible nature of lottery products. Our customers have established rituals such as playing their lucky numbers and become emotionally connected to the game and its heritage. So they do become very attached to the brand and loyal to games. Our experience has been that players in general don't like change. Even when we undertake game enhancements we're very careful in the way we do that to ensure that it doesn't change that game too significantly for the players. There have been one or two cases where we have made changes that we expected to be easily assimilated and accepted by the core players but have had to restore the game to its original form. For example, if people are used to and happen to love the product, you don't want to force them to move on, but you would like them to buy another product as well. You've simply got to find different ways to attract new players, and maintain the participation of existing players. And in doing that, you really need to be cautious not to throw too many new products into the market and cause player confusion and dislocation.

...continued on page 47

ibility to base the fees on the degree of value added activity that a particular initiative or part of the business requires. For instance, if Internet gaming were to come to fruition, it will likely entail lower costs than the maintenance of the land-based retail network and so might command a lower percentage as a fee. The main idea, though, is that the state retains ownership and control over the lottery. If enabling legislation creates new sources of income, that does not become a windfall for the manager any more than it does for an executive in a corporation. We negotiate a fee that incentivizes the manager to optimize performance and the state of Illinois continues to enjoy the benefit of the profits that rightly belongs to the owner of the capital asset. So thank you for allowing me to clarify that this is not a privatization. The U.S. Department of Justice has made clear that states cannot privatize their lotteries, and we're not seeking to do that at all.

It's a management contract that gives both parties, you and the manager, the ability to evolve the terms of the contract in a way that incentivizes the manager to increase profits and rewards the manager for good performance, but the state retains ownership and control over the lottery.

J. Winnett: Right. We'll be looking for a management team, most likely a management consortium, to bring forward a business plan. We'll ask them to evaluate our position in the marketplace, assess strengths and weaknesses, identify opportunities to increase revenues and profits, propose the strategies to optimize the potential, and how corporate social responsibility and responsible gaming in particular will be integrated into their business plans. It is really not so much different from an RFP for an online vendor. Obviously it is more comprehensive than that, but it really is a matter of degree, not of kind.

So the first step is for Oliver Wyman to give you an overview of different ways to go about structuring an RFP and RFQ. The next stage will likely be more of an open-ended type RFP where you're going to look at a wide variety of proposals as opposed to a more tightly drawn RFQ that would stipulate terms, conditions, and expectations.

J. Winnett: We are evaluating that question right now. How much specificity should be written into the RFP versus freedom and flexibility to propose creative solutions. We will be directing the private manager to get creative and figure out exciting new ways to increase sales and profits. But we are also

imposing caveats and requirements that are probably more exacting than most corporations are used to. They'll be required to comply with the highest levels of social responsibility. Transparency in all aspects of management and operations and various fiduciary responsibilities will be stipulated in the contract. Oliver Wyman will help us to clarify that balance between the freedom of the manager to pursue better results and the need for the state to retain control.

Will you expect a large upfront payment or will compensation be mostly in the form of fees on operating income and other ongoing performance indices?

J. Winnett: Not determined yet. But a large upfront payment is not likely.

If there's not a large upfront payment providing an infusion of cash into the state coffers, then the concept would seem to be that a private manager can improve performance and profitability over the way the lottery is being operated now?

J. Winnett: Right, exactly. The Illinois Lottery operates as a division of a state agency in a very large government. As a profit generating business, it functions quite unlike anything else in state government. In some ways, it is required to conform to ways of thinking and operating that are not always conducive to peak performance in a business sense. A private manager will be expected to inject some private sector entrepreneurialism. Combining the public service focus of state government with the energy and entrepreneurialism of private industry is our strategy and will, we hope, deliver the best of both worlds.

I think the record clearly shows that the performance of the Illinois lottery while under your direction as been excellent. What do you think a management group will bring to bear that the lottery as it is operated now hasn't shown itself perfectly capable of accomplishing?

J. Winnett: Thank you for that. Yes, we have had a great few years amidst some very rough times here in Illinois. We are pleased with our performance. We are not in a position to introduce dramatically new games or play styles. So we focus on the fundamentals, on execution in every detail of the business. Our team has done extremely well. We've got a great team that has been really pulling together. They're professionals who know this business from years of experience and we are very proud of their accomplishments.

But the answer is that a private manager has

more flexibility than a state agency to manage a business for peak performance. And while I am proud of our accomplishments over the past few years, I would also like to think that a private manager will bring to the table some skill sets and competencies that are at least different from what you typically find in a state agency. Again, I am proud of the accomplishments of the entire Illinois Lottery team. It's not about someone or some management team being better or worse. It is about integrating the very best of all the resources we can to truly optimize the performance of the lottery. And creating an ownership and management structure that is most supportive of producing the best results.

The U.S. Department of justice issued a statement some 18 months ago indicating that it is their opinion that federal law prohibits the sale or privatization of a state lottery. They did not make clear what exactly is meant by "Privatization." Presumably, a long-term lease with a large upfront payment would be considered a "privatization." And that's not what you are doing with this private management contract. But U.S. DOJ did not specifically spell out the terms and conditions that constitute "privatization." Did the Illinois General Assembly give much consideration to that when writing the legislation for this private management contract?

J. Winnett: Yes. The DOJ did issue a statement expressing that opinion. We need to respect that. Our legislation was written in a way that is compliant with the directives of the DOJ.

Many people think that the DOJ over-reached and would not likely take action to interfere with a state's right to manage its assets in whatever way it chooses, so long as the lottery operated within the borders of the state.

J. Winnett: That may or may not be the case. It has become somewhat of a moot point now that the capital markets are much leaner than they were 18 months ago. At this point, I don't think there is a queue of bidders prepared to put up hundreds of millions of dollars for that kind of transaction anyway. But the fact is that we are very respectful and mindful of what the DOJ said. This management contract is constructed so that we do not turn over control of the lottery. The state of Illinois retains control and is outsourcing strictly some management functions. We are confident that this approach is in full accordance with the opinions and guidance of the DOJ.

Is the contract with Oliver Wyman with the Lottery or with the Department of Revenue?

J. Winnett: They're dealing with both of us, really. The contract has not actually been executed yet. We're in the process.

But part of the answer is that the Lottery is integrally involved in this whole process, it's not something that's been taken over completely by the Department of Revenue and the IL state legislature.

J. Winnett: The lottery is not only very involved; I would say we are the lead in the implementation of this private management contract.

Excellent. It will serve the stakeholders well to have the process executed by the people who understand the business. How would you describe the difference between what you're doing and the 10 year lease of the UK National Lottery to the Camelot Group?

J. Winnett: It will definitely be different but we can't say exactly how it will be at this point. I will say, though, that I do not think this is nearly the dramatic change that you may be thinking it is. Look at how the Texas Lottery outsources huge sections of its business, or how most of the modern lotteries are being set up as public corporations. And these public corporations tend to be the top performing lotteries. We think we are just doing a variation on the things that are being done very successfully already. We feel that engaging a private manager will introduce many positive changes to our operation. With the lottery still being owned by the state of Illinois, the stakeholders get the benefit of new and hopefully innovative operating perspectives from private management. And at the end of the contract term, the state gets back a healthy and valuable asset and can decide to move in a different direction if they choose.

It occurs to me that the next few years will likely see some major changes in the gaming industry. Changes in technology, distribution channels, demography and player preferences, enabling legislation...all these changes pose some element of risk when it comes to strategically managing capital investment in technology and the business in general. To some extent, you are outsourcing that risk, or at least enlisting a fully vested partner to help you make the right capital investment decisions.

J. Winnett: Exactly. Positioning ourselves to meet the challenge of a changing mar-

ketplace and the need to make continuous investment to keep up with those changes is very much a part of this agenda and why we are proceeding the way we are. I can't say we are outsourcing the risk, but our plan is to share that risk with a management partner who is just as focused as we are on making the right investment decisions.

We should also point out another element of risk. There is also the risk of not taking full advantage of the tremendous opportunities that lie ahead. One of the drivers is to position us to pursue those opportunities with as much vigor, creative energy and focus as possible, and that is where we expect the private manager to contribute. State government is more risk averse, which is not a bad thing as long as you clearly recognize and value the risk of missed opportunity as well as the risk of making a mistake. A private manager will be expected to bring something to the table in this area of prudent and shrewd risk assessment. A private manager will be expected to operate a more nimble organization that can bring on partners, perhaps bring on project-focused staff which is disbanded upon completion, and move in different directions as the business and markets require.

It seems like the incentive to innovate can be different in the private sector than in state government. In the private sector, it is understood that if you create something really great that produces great results, the return for that isn't just great; it can often be fabulously great. Outsized results yield outsized bonuses. State government doesn't always operate that way, does it?

J. Winnett: That is definitely a part of the purpose of the private management contract. We want to create the structure that supports that private sector approach to innovation and the cultural attitude that is comfortable with higher pay for producing really great results. A private manager should have the flexibility to invest more in R & D and enjoy a return on that investment that is not based on costs but based on the results. The reward needs to be results driven. If the manager is smart and efficient and succeeds at producing great results at a low cost, then they will make a big profit. Of course, the state of Illinois will appreciate it because they will also make more money. But nobody will object to the idea that a big profit went to the private manager. That's capitalism. That is a critical component to the drive to innovate and that is something that a private management contract enables. A state government agency is

just not set up to operate that way. Designing the contract and incentives to accomplish all of our objectives, which include operating in ways that state policymakers are comfortable with as well as exceeding financial targets and fulfilling all corporate social responsibility expectations, is a complex task. This is the main reason we have enlisted Oliver Wyman to help us. The business of assessing the business and projecting all the ROI's and designing an incentive contract based on those analyses involves heavy-duty analytics. Too, we are all very interested to see what this kind of highly sophisticated analysis will yield in terms of understanding this business. One of our objectives is simply to set in motion the mechanisms that will cause us to get a deeper insight into this business that produces hundreds of millions of dollars a year in net profit.

I think about my own reaction when reading about the private manager initiative and wonder how you feel about the reaction of the media in general. All of us need to have a more enlightened and open-minded perspective on the various ways that a state might explore its options. Different states will have different fiscal objectives and legislators should make it their business to analyze the various ownership/management structures and how to optimize the tremendous asset that is their state lottery.

There was a reference in one of the news items about how this private management contract is expected to return a billion dollars over ten years. That does not seem like very much, considering the lottery produced \$650 million in just last year alone.

J. Winnett: That's a mis-quote. What the \$ billion refers to is the goods and services the lottery currently pays for what would be perhaps under the purview of this private manager. So this private manager would be in a position to allocate about \$100 million in goods and services. That is approximately the amount we pay for our central gaming vendor, our advertising spend, promotions, instant tickets, and other operating expenses. In other words, it costs about \$100 million a year to run the lottery and that could possibly approximate what the private manager would be paid to cover all those operating costs. Over ten years, that's \$1 billion.

Facts can easily get mis-stated, especially as the story gets picked up by one and then another reporter. So hopefully we have set at least part of the record straight! ♦

tomers and also have the distributional infrastructure to reach these customers in ways that nobody else has. Why can't we explore ways to collaborate on special promotional campaigns that leverage not just our brand recognition but also the distributional power of lotteries, which rivals that of those corporate powerhouses?

We've done that to a limited extent with Universal Studios from the Powerball side. But I think that collaboration on Powerball, Mega Millions, and other lotto brands will most likely begin not on the paid advertising side, but on the public relations side. There are two reasons for that. First, it is hard to get all the states to agree to contribute financially to a national advertising campaign. So we need to find ways to accomplish these goals that do not require much funding. That's not necessarily as hard as it might seem. We have something of value in our brand and distributional infrastructure that can be traded for like value from the corporate side. For example, a national promotion where you could buy a twelve pack of Coke for \$2.99 by using your non-winning Powerball ticket adds value, branding and third-party endorsement of our product.

Most importantly to recognize, we hit critical mass with the cross-selling initiative. And when you hit critical mass, other name brands will stand up and pay attention. The value of what we have is recognized now more than ever. So let's look at the PR angle.

Creating a bigger, more national story out of all multi-state jackpot winners would seem to be a "low-hanging fruit" opportunity.

T. Rich: Bingo. Each state gets a nice bump after one of its own wins a big jackpot, right? Why should it be localized like that? Why can't we do more to create that same positive feeling across the entire country? The story of that winner really belongs to all of us, not just the one state where the winner resides. Obviously, the potential to win a lotto jackpot is equal for everyone and promoting the national angle helps all lotteries, including the state where the last lottery winner resides. So why can't we spread the good news in ways that engage everyone everywhere instead of only benefiting the one state where the winner happens to live? The story of lottery and lottery winners should really be a national story.

We can do much more to gain national PR attention. Our product is unique for its ability to generate interest and excitement from a purely public interest point of view. We are all keenly aware of how a story can

go national and affect us in negative ways. How often do questions or controversy percolate up from the local level to the national media and affect all of us? We can use that same dynamic to affect the national consciousness in a positive way. Let's look for, or create, the story angles that are interesting and bring them to the attention of those who can help us forge a national sense of who and what state lotteries are all about. Any time that Good Morning America or David Letterman mentions Powerball, any time we can get just the mention itself in the national media, it is worth millions of dollars to all of us.

Any examples of how this has worked in the past?

T. Rich: Sure. Remember the South Dakota cowboy, just 23 years old and of modest means, who won the lottery last year? Granted, this story did have lots of material to make it fun and interesting. Anyway, the story went national, global really, and everyone got to enjoy the image of this young man in the big black cowboy hat whose life was transformed in the most amazing way. He even bought the winning ticket in a town called "Winner!" Some stories are just made to go national no matter what you do, or don't do, to make it happen. What we need to do, though, is look for the story angles of all events and winners, reframe them for national consumption, and then get them into the hands of the right people to make it happen. We can't just sit and hope that the national media picks up on something. We can and should take responsibility ourselves for making it happen, just like any business our size would do.

As soon as we saw the story of the South Dakota cowboy, the Iowa Lottery bought cowboy hats for everybody in the office, went out to the State Fair to sell tickets and used the positive imaging created in South Dakota to help us sell tickets in Iowa. It cost us very little and yet we all remember it. So if we have a national firm look for the angle, look for the media hook that will get people's attention, and then promote that positive message ourselves, we can help to direct how our lotteries and our businesses are being covered by the national media. Let's be proactive at shaping the media messaging in a positive way rather than waiting to react to whatever the media thinks is newsworthy.

Would the obstacle be allocating funds to pro-

mote the product outside the borders of the state?

T. Rich: Yes. But we have the ability to accomplish a lot through simple stunts and promotions and perhaps spending a small amount for a professional PR firm to bring our story to the national media, to find better ways of just elbowing our way into a place at the table of national news. We just need to find or create PR opportunities to touch national media outlets. It does require some funding. GTECH stepped up to help by funding a PR agency for the launch of the cross-selling. We had great success with that. It's a start, but we would be so far ahead if we had started 10 or 15 years ago to do this. But it was a breakthrough step in that it provided a common messaging that local states could use as they wished. Most did use it because we tried to create the messaging in ways that effectively addressed the questions most likely to be asked by the local media. That's often what great PR and messaging is all about... just having it available to use as you need it. Obviously, everyone could modify it to be consistent with their own agenda and messaging objectives. This applies to damage control as well – being prepared with the most effective messaging to respond quickly to crises and the public's need to know what we have to say. Half the battle in good messaging for a brand is being prepared with articulate and knowledgeable answers rather than trying to respond off the cuff to reporters' questions. And, in our state lottery business, when one of us responds to queries from national media, we are speaking for the entire community of state lotteries, whether we think we are or intend to or not. It would be far better for us to have a system for managing those media relations from a national perspective, managing for the purpose of optimizing the upside value of positive news like a jackpot winner and minimizing the downside impact of negative stories.

It would seem like the benefits to coordinating a more national approach to brand management and at least some aspects of messaging and PR are compelling. Obstacles to this include the availability of resources to fund this kind of thing.

T. Rich: Yes. In the short term, our commercial partners have helped and are probably the most expedient venue to move this effort forward. But even when the states do not pay for something like this directly, some states have rules against a supplier to whom they have paid money in turn paying for something that has not been approved by

the state. That can get a little messy, unfortunately. But I think the door is now open because the success of cross-selling reveals to everyone just what a tremendous opportunity we have if we could be open to working together. We all appreciate the need to respect the rights of each state to protect its interests in everything it does. But we also hope that everyone sees the tremendous potential to deliver so much more to our beneficiaries if we work hard to break down the barriers that separate us, find ways to resolve differences, work together, and create a unified approach to advancing our agendas on a national stage. I'd like to think the opportunity to do this is better now than ever and we should act boldly to take advantage of it.

Why couldn't the cost for PR and national marketing be built into the overall deal for a lottery to sell the multi-state game? There are other costs involved with operating the game that need to be paid, and each licensee pays its share. Why not just build in a budget for national PR and marketing and require each participant to pitch in as part of the overall operational expenses? It doesn't seem like a solid game plan to wait for somebody like the New York Lottery to pay for a Super Bowl ad or a commercial partner like GTECH to donate the money. That process almost incentivizes states to not contribute since others might end up paying for it anyway. Why not just make participation a business expense and have the licensing deal include a budget for national advertising and PR? You're either in or out.

T. Rich: That is certainly one approach and may be a good one. It would be tough to rewrite the terms of existing games. But maybe that could be considered for new games, like the new premium game that U.S. lotteries are currently discussing. The agreement to sell the game requires that each participating lottery agree to terms and conditions of all different kinds. One of those could be that a specified fraction of a percentage of revenues be allocated towards a national advertising and PR campaign. There will be many people who read this and see red because there are lots of complications to the idea. As we've just discussed, the messaging rules differ from state to state, and some states may have rules that would appear to prohibit marketing expenditures that go outside of the state. But I would suggest that we should be looking for solutions, looking for ways to break through the obstacles and find ways to progress. We're all well aware that each state has rules that

command respect. But hopefully everyone is also keen on overcoming obstacles that prevent us from truly maximizing the benefits we produce for our stakeholders and good causes. It's easy to point out obstacles to doing what we know is right. What we need is the desire and integrity to push hard, find solutions, communicate with our political constituents and get the support we need. A vital part of our story is the tremendous public service function that lotteries perform. Our pride in that should inform and drive our ability to share our convictions with our political constituents.

You launched Mega Millions in January. With Powerball, that makes two big multi-state jackpot games, plus the regional Hot Lotto, plus your own in-state lotto game, Iowa's \$100,000 Cash Game. What are the results so far this year?

T. Rich: I think that almost all lottery directors concur that the results so far are excellent. It has only been a couple months, so we do need to be cautious about extrapolating those short-term numbers into a 12- or 18-month projection. But most of us seem to have enjoyed the best of both worlds. The Mega Millions group got an exciting introduction to Powerball because two or three really good runs attracted some new players to try Powerball early on. And everyone, including the Powerball states, has generally seen a total lotto increase. Nobody was quite sure how this would impact the rest of the portfolio and whether there would be much cannibalization with players just shifting their spending from one product over to the new jackpot game. We are very pleased to see that phenomenon does not seem to be occurring to any great extent. The situation has been helped by having high Powerball jackpots to keep the regular core player engaged. We expect the next big bump to come as Mega Millions takes a run at a big jackpot and gets the attention of new players. It's worked out well for the smaller states that were concerned about Powerball being cannibalized to have Powerball getting attention with its big jackpot runs soon after cross-selling began. Now we're ready for Mega Millions to take a run and are confident that it will contribute incrementally to sales with minimal cannibalization.

There would seem to be a lot of similarities between these two multi-state super-jackpot games. But it does not seem like much attention was given to differentiate the products.

T. Rich: There are a couple reasons for that. First and foremost, both the players and the operators have some history with this basic business model. Let's look back to the era when only one scratch ticket was sold and there was concern about saturating the market if a second was launched. Of course, it didn't happen that way. There is plenty of room for more than one product, even without market segmentation and pronounced product differentiation. The sales of the first scratch ticket may well have dipped a little back then, but together the two tickets sold a lot more. And that's exactly what the business model for these two jackpot games is progressing towards. Two jackpot games simply means more chances to win and that will incline the player to spend a little more and make the entire tide rise. Following along with this same business model, we didn't stop at just two scratch games and likewise the market could easily absorb another big jackpot game. The next step will likely be what we call a 'premium game,' which will have a higher price point, likely a \$5 ticket. Some people will like the \$5 ticket and some will prefer the \$1 ticket, so we need to give them a choice. We don't feel the need to differentiate in major ways. To some extent, the brand and different price points may provide adequate product differentiation.

Another reason why we may not want to go for bold product differentiation is that we want to use price points to distinguish between the games. Again, we're following the model of the scratch tickets. We want the brands to be distinct but not really competitive with each other. Instead, we want the player to affiliate with differing price points more than other attributes which perhaps could have been integrated into the games. We need to have higher price points for lotto like we do for scratch-offs.

You seem to be saying that innovation is not necessarily always a good thing; that there are lots of things to consider and change of any kind has lots of unintended consequences.

T. Rich: We talk about how important innovation is, and how lotteries need to evolve to keep up with the times, etcetera. But it is also important to recognize that the objectives of innovation can be quite different depending on the product life-cycle stage. In the launch or entrepreneurial stage, innovation is

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The Renew Project set up a variety of teams of our employees to look at our business practices and policies. One team is focused on growing the draw-based lotto games. Another is working on our Scratchers. They're reviewing everything from design development, printing, distribution, how they're placed in the market, number of games. They've just gone over that entire work effort from top to bottom, and have already produced some changes that will contribute to our current fiscal year results.

At the start of the fiscal year we were projecting that we would be \$200 million below our sales goals for Scratchers. As a result of the Renew Project we were able to make changes, and meet the sales goal for the year for Scratchers. The changes were not dramatic, just basic changes to our field operation, such as improving how we interact with retailers and communicate what we expect from them, limiting the number of Scratchers we have on the market at one time and changing how we define the life cycle of our games. It was very gratifying to see such a quick return on the efforts of the Renew Project.

We're also looking at changing the way we invest our marketing dollars. The last couple of months we've only been advertising Mega Millions in San Francisco and Los Angeles. The L.A. market has over 50% of the state's population. Focusing our advertising in this way has produced excellent results. We have already seen a 25% increase in Mega Million sales since we started this campaign.

And then we've got a real push to create a performance management culture within the organization. What that means is to focus on results instead of process, and to get everyone in the organization to think that way. To support that change in culture, we are helping our workforce acquire the skills and the tools that they need to produce the results. One of those skills is project management. We have been training many of our employees on how to manage projects in an efficient and effective way that helps our organization.

So there's lots to do and everybody is quite busy making it all happen. But it's paying off already. We can see the results and clearly see where these initiatives are taking us, so we're very optimistic about the future. This was all done, Paul, on the premise that we were going to do everything we could to make the California Lottery be a truly great business, to optimize performance with or without the additional tool of prize payout flexibility. That's what the Renew Project effort is all about.

Camelot Group brings in a different perspective, operating in a different part of the world, different gaming culture, different regulatory and competitive environments, etc. How will the relationship with Camelot be evolving over the next three to five years?

J. Borucki: The first part of the work effort was all about preparing an assessment that showed how sales would decline if the Lottery took no action. Next we worked very hard on our business plan and identified quick changes that we could make to bump up our sales right away. The advantage of enlisting Camelot's support is that they have deep experience and knowledge about lotteries because they manage the National Lottery of the United Kingdom.. So they understand the industry – its needs, wants, challenges and opportunities.

Being a privately held company that is responsible to shareholders as well as the government of the UK has caused Camelot to become very adept at running the lottery like a business. One of their skill sets is the ability to convert business analytics and data into effective decision-making and planning processes. That's one of the things that I was really after. We didn't hire someone to come in to run the business for us. The California Lottery management team controls the business. And we also didn't want someone to come in and drop a set of 300-page binders on our desk. We needed a higher level of engagement, someone to be a partner in implementation as well as planning. Camelot has trained our team to employ a much more sophisticated approach to analyzing the business and focusing all of our business processes on maximizing the return on investment. Our staffs work well together and we are both pleased with the results. By the way, the learning experience goes both ways because politics, the media, our retailers, our business in California operates differently from the way Camelot operates in the UK.

The business plan is expected to be approved on May 20 by the California Lottery Commission. Then we'll start the next phase which is execution and implementation. We have Camelot on board for the next three years to help us with that execution. That will be the most critical part. A lot of people can come in and help you put together a plan. What's unique about this relationship is that Camelot is a partner who will stay onboard to help us fully execute the plan. They get paid on performance. Their compensation is based on our incremental growth.

Some of the incremental growth would accrue from the changes in the law that was just effected by the state legislature. Like prize-payout flexibility.

J. Borucki: Camelot does not get credit or get paid for that. They get paid for the sales increases that are impacted by them and their contributions.

How do you differentiate between the two?

J. Borucki: That is all spelled out in our contract. We actually agreed upfront as to how to adjust their compensation for things like increases caused by changes in prize-payouts. We have tried to structure the Camelot's compensation so that they get paid for their contributions and not for sales increases that would have happened without their support. That's not to say it is an exact science, but we have taken that into consideration and done our best to account for that.

Excellent. The performance management culture...the notion of focusing on results more than process. Those of us in the commercial world would translate that into things like incentive-based compensation, i.e. commission, for salespeople. Did the law enable more flexibility to adjust compensation for your own salespeople to drive performance?

J. Borucki: No. The law was very limited. In our last business plan we had talked about a whole laundry list of things that we had wanted to change, that being one of them. But this particular bill really only addresses the prize-payout flexibility that we've received. Plus it reduced the percentage of sales that I can use on administrative and operating costs from 16% down to 13%. But this current law really only dealt with giving us the prize-payoff flexibility.

Tough customers. The legislature said...okay, you're telling us you're going to do better, so put your money where your mouth is. You'll be increasing total funding for education, but you'll also be increasing operational efficiency. So we'll take some of those cost savings and add that to the funding, thank you very much.

J. Borucki: Yes, exactly. It was hard to argue with their logic! It was appropriate and quite honestly we're excited about the challenge.

It certainly does sound that way. One of the objectives in the Renew Project is to terminate or modify activities that do not add value. That seems a very sensible thing. But where the rubber hits the road is deciding which activities to

cut. The impulse is always to try to resurrect something that once had value and not to cut bait. Isn't it hard to have the discipline to take resources away from the lesser productive, lower ROI cost centers? Any examples of where you've done that?

J. Borucki: I have a very recent example: the "Make Me a Millionaire" TV show. The California Lottery has had a TV show on the air since day one. It used to be the Big Spin. When I came onboard, that show had very, very low viewership. The ticket sales were okay, but nobody had ever really looked at it to see what the show was contributing and whether we could be getting more out of it. So we revamped the show, tried to refresh it and reach out to new or lapsed consumers through a more up-to-date TV show. We developed this new concept with Three Ball Productions called "Make Me a Millionaire" TV show. We put out a new ticket that did very, very well during the first six months after it launched. The TV show looked better than anything you see on national networks. We gave away more money than any national network game show. We had allocated about \$19 million to the prize fund for the show and the ticket. We were tracking the sales and taking a hard look at the viewership and all the different agreements we had with the TV stations to run the show. We ran these numbers and came to the conclusion that the show was simply not adding enough value to our overall scratcher sales.

And now we have the flexibility to channel that \$19 million into other things like higher payout for scratcher tickets. The bottom line is that we determined that the show was not producing the same return on investment as other activities. As a result, we announced earlier this month that we would be cancelling that contract and the last show will air July 3rd. Now that's a hard thing to do. The California Lottery has always had a T.V. show. Like you say, it takes discipline to just walk away from something that has always been a part of who we are. But that's an example of how we are determined to run the Lottery like a very effective business. We are moving to operate more aggressively to ensure that every dollar is spent in the best possible way, maximizing ROI and ultimately funding for education in California.

Great example. The law that explains the changes in payout percentages...Is it too complicated to explain exactly what the constraints are and how they've been changed?

J. Borucki: Not at all. It states that no more than 13% of sales can be expended on operating expenses. That leaves 87% of sales for the Lottery Commission to decide how the prize-payout structure, i.e. what percentage goes to prizes versus the percentage that goes to education. The idea, of course, is that strategic changes in prize-payouts can increase gross sales and net profits that go to education. The caveat is that we must always

produce a year-over-year increase in funds delivered to education, which we intend to do..

There was much discussion just a couple of years ago about "monetizing" or selling the state lottery. It seems like a better approach might be to "modernize" the lottery, to transform it from a state government agency into a performance-driven business. It sounds like that is what you're doing.

J. Borucki: Policy makers have the responsibility of determining if they want to securitize the Lottery by getting an upfront payment for future sales. But the focus of our organization is to make the lottery the most successful it can be in terms of maximizing the dollars we earn for education.

We can and will deliver the results. We are giving our staff the tools to achieve superior results. Our focus on performance management, emphasizing results more than process, brings that entrepreneurial energy and culture to the California Lottery. Our legislature is giving us the support we need and we are going to deliver.

It's exciting that state legislatures are recognizing the potential of the state lottery and appreciating the tremendous asset they have in their own lottery staff and management team. Perhaps all that discussion about "privatization" served a good purpose if it piqued the interest and imagination of the state legislatures to re-evaluate how they thought about their state lottery. ♦

Terry Rich Interview ...continued from page 43

a core attribute that will drive growth. The business model can be based on high product development and marketing costs that produce dramatic innovation because you're banking on high growth. You hope that it is profitable and it better be profitable because it includes uncertainties and higher risk. That's not the product life-cycle stage that lotto is in. We don't necessarily want to reinvent our super-jackpot products. They may be in the mature stage of the life cycle, but the way to manage them for maximum profitability is to innovate them back into the late-growth stage and not to try to recapture that early high-growth stage by reinventing the product, or by introducing dramatic changes to differentiate the products. We know we need to innovate to keep the products exciting and relevant to the player, but we do not want to go the high-risk, high-return route of completely changing our core products.

You want to appreciate that lotto is a very successful and profitable franchise. Our primary obligation is to protect the security and integrity of that franchise for the good causes that are our beneficiaries. The launch of both super-jackpot games is a hugely exciting innovation and we'll be very pleased and proud to see double-digit increases in sales. That in itself is pretty darn good. But it's not our mission to take high risks and gun for outsized results. So I would say that we are just as pleased and proud of the measures we take to minimize downside risks for all our stakeholders. We were confident that this would be successful, and our commercial partners have done an excellent job at executing. But again, the operative term regarding the cross-selling initiative continues to be 'cautiously optimistic.'

Short-term results would seem to indicate that can be upgraded to "quite confidently optimistic."

How exciting it must be to deliver sales and profit increases in an economic climate that is so challenging. Do you think the success of the cross-selling might cause state legislators to look more favorably on allowing lotteries to have more flexibility in the ways they manage the business and perhaps authorize more games and otherwise support your ability to increase funding for good causes?

T. Rich: Not in quite the way you are thinking about it. Of course, everyone loves the revenues. But I don't think it will cause legislators to change the conservative approach they have towards the lottery. In fact, we all need to continue to emphasize that our job is not just about promoting the games and increasing revenues. It is about managing a great business that balances social responsibility along with the entertainment desires of the public and the much-needed revenues that states desire in these economic times. ♦

the tax rate at the racetrack facilities, and to allow another vote on approval of electronic gaming in Sedgwick County, which is the county Wichita is in, and where one of our three racetracks is located. This could, of course, increase competition for the casinos, especially the one in our South Central Gaming Zone.

The Kansas Speedway Casino broke ground on April 30th. What else is supposed to happen over the next 18 months with respect to approving additional sites to open?

E. Van Petten: We anticipate that there will be more interest at least in South Central Kansas. That is what we have heard from supporters and lobbyists. We don't have any names yet, but we think there are at least two viable contenders for the south central area, where Chisholm Creek withdrew. And we should be able to process all that within the next fiscal year, I hope. And then the Kansas City Speedway Casino has a timeline of 24 months from groundbreaking. However, they hope to be open sooner than that. If things go well, I think they can open in 18 to 20 months. So that would be basically April-May of 2012 when they open, or perhaps a few months earlier.

The initiative for Kansas to expand into electronic games began a couple years ago, coincident with the downturn in the economy. Major casino operators like Harrah's have teetered on the edge of bankruptcy, and capital markets in general dried up. Can we expect that while there will be challenges going forward, the economic recovery really should smooth the way for implementation and that your timelines and agendas will be met?

E. Van Petten: We hope so. And, yes, we do expect better participation from investors and developers in the coming months.

The concept of a gaming facility has traditionally included amenities like lodging and restaurants. What about broadening the appeal with a larger variety of creative entertainment concepts?

E. Van Petten: They're looking at shopping, bowling, theaters, those types of things. Even the smaller facility out in Dodge City that's already open is exploring ways to take advantage of its rich history and integrating that into the overall mix of tourist attractions.

Are there any misconceptions in your mind that others might have about what's happened in the Kansas gaming market, and what's going to happen, that you might be able to clarify?

E. Van Petten: We have found that no mat-

ter how much we try to clarify how the process works; there are some people that just don't seem to want to listen. The Lottery, the Racing and Gaming Commission, and the Lottery Facility Review Board have all been criticized for decisions that are totally outside of our responsibility. The Kansas state legislature set things up in the best possible way, delineating specific duties and responsibilities to each of us. And now we are each implementing those in the best way we can, leveraging all the tools we have but also working within a system of guidelines and objectives. Our job description is to write a contract based on the terms and conditions of a developer's best proposal. The Review Board determines whether the contract is good enough, whether it serves the best interests of the state of Kansas. Things like specific locations and many aspects of the total build-out are outside the purview of the Lottery's responsibility. So I suppose I would like to clarify that we are all working within constraints. The constraints are necessary, an important and useful part of a complex process that must meet a variety of objectives and stay consistent with the needs of different interest groups. Anyone who is interested in truly understanding how and why things happen, or fail to happen, needs to understand the way this system and process works.

Going into negotiations, it sounds like some of the terms and conditions are negotiated by you, but that there are also many statutory requirements and terms and conditions that are predetermined by the Kansas state legislature.

E. Van Petten: Sure. That's correct.

What are some of those statutory requirements?

E. Van Petten: The investment and taxation amounts are predetermined in the Lottery Act itself. If there's only one developer sitting, then that developer could just read the statutes and offer to meet only the minimum requirements. There is nothing to motivate the one bidder from offering more than the minimum. Our ability to negotiate only comes into play when there are multiple proposals. Multiple proposals are needed for us to engage the bidders in a collaborative process of making a deal that works for them and meets the needs of the state of Kansas. We lost that ability in the last round of central Kansas because there was only one proposal.

Do you expect multiple bidders going forward?

E. Van Petten: We have been told there are at least two companies interested. I can't comment on that exactly, but we do believe there will be more interest and more than one propos-

al. The economy is coming around, slowly, and we see the financial markets starting to loosen up. So we are quite optimistic that this will enable multiple proposals and more options.

It would seem like whatever could be done to make the process simpler would contribute to attracting more bids.

E. Van Petten: That's true. At least I hope it's true because we're developing somewhat of a template contract for future bidders, clarifying those areas where there is room for negotiation.

How are, or were, the investment amounts and taxation rates determined?

E. Van Petten: All that's spelled out in the Lottery Bill. The casino and ancillary facilities with it, which they anticipate including a hotel as well as shopping, have to have a minimum investment of \$225 million. The Kansas City bid came in well above that. I think it's about \$350 million right now, and the south facility proposed was right at the \$250 million range. And we anticipate an even larger investment in the future.

Now, the Dodge City facility is smaller, of course, requiring a minimum investment of \$55 million. With the hotel they will be well above that, somewhere in the \$80 to \$85 million range.

So the bill takes a common-sensical approach to having different requirements for different market and profit potentials. Change of subject...has the launch of Mega Millions met expectations?

E. Van Petten: I thought sales would be a little stronger than they are, but they're still good and we're confident that this will be a tremendously positive thing for the Lottery and the state of Kansas. Last week sales were about \$168,000, and I anticipated more like \$200,000. We're a small state. An important part of this initiative was to maintain our Powerball sales, and it's showing an increase, which is excellent since we were concerned that it might be cannibalized by Mega Millions. So that's especially encouraging.

Can you shift some marketing resources over to Mega Millions, since it appears that your Powerball base is not likely to erode?

E. Van Petten: That's another reason for the slightly slower start of Mega Millions. Our budget constraints have prevented us from advertising Mega Millions as much as we would have liked. We've done a little bit of radio. We anticipate that we can push harder after the start of the fiscal year in July. Mega Millions is grow-

ing every week and there's no doubt that the addition of Mega Millions will be a very positive and impactful addition to our product mix.

How about the other lotto games? Hot Lotto and Super Kansas Cash?

E. Van Petten: Hot Lotto is up slightly and our in-state lotto game, Super Kansas Cash, is staying steady. And we feel really good about that. We are very pleased to have integrated Mega Millions into the mix without negatively impacting our other lotto games. So Mega Millions is incremental and now we can focus on growing all of the different games. However, we are showing some

decrease on our keno game, and our monitor poker game. Our instant games are steady but actually off a half of a percent. Overall we are showing a gain of about 2% right now. Of course, we'd like more and expect to finish the year at a higher growth point than that. But 2% year-to-date is still a net gain, and that's not bad in this economy.

What do you think is causing the softness in the keno and scratch-offs?

E. Van Petten: I think people aren't patronizing social environments quite as much. And that's where people play those games. And the smoking bans have somewhat hurt

bars and other social environments. Attendance at these venues has gone down. Retailers do tell us they do not have the patronage they used to have. But I'm just speculating and can't say for sure what exactly causes the softness in those product categories.

You're saying that the down economy would especially impact products sold in social venues because there it's not just about the few bucks for a lottery ticket, it's also about the money it takes to buy drinks and other consumables?

E. Van Petten: Absolutely. Both are factors. Smoking ban and less discretionary funds to spend. ♦

Lorne Weil Interview ...continued from page 21

innovation, better products and business processes, improving our capabilities for the benefit of our lottery customers.

That actually works in reverse too. Our core competencies in B2G have served us well in the B2B markets. B2G requires a higher degree of regulatory compliance, higher standards in most aspects of security, reporting, and other regula-

tory issues. The capabilities that we are required to have for the B2G space make us better suppliers in the B2B space. Consumer-facing operators in the B2B space like working with us because they know we are most able to support their ability to meet the highest regulatory and licensing standards. Governments that are beginning to license non-government operators will require

those operators to comply with standards equal to those of the government operators. This especially applies to internet gaming which is being brought under more regulatory control and why our Scisplay joint venture is so synergistic. Scientific Games' abilities, acquired from decades in the B2G markets, enables Scisplay to meet the most exacting regulatory standards. ♦

Bill Thorburn Interview ...continued from page 39

So we can talk all we want about the need to innovate, but the overriding priority is to not mess up the giant revenue stream provided by the traditional products and core player.

B. Thorburn: I think that oversimplifies it. We are not about withering the vine here – we have a dynamic market place and we must actively manage it. We just have to be aware of players' attachments to our existing products. There have been a lot of years of investment in those products and that has generated tremendous value for the lottery. This is not to say that they don't need to be enhanced from time-to-time. Our biggest success as an Australian Bloc in the last few years has been a re-launch of the Oz Lotto game, which was originally launched in 1994, and was significantly restructured about three years ago that culminated in last year's record Australian jackpot of just over A\$100 million. So there is actually room to maneuver and innovate while preserving the original character of the game that appeals to the core player.

So you'll do something different once every 13 years whether you need to or not?

B. Thorburn: Since you put it that way we actually constantly review our games and test

things all the time. We actively manage our portfolio of games – but in a balanced way. We only do something when we think it is right for the lottery and players, always ensuring that players perceive that they have received a benefit from the change. Within the portfolio we look at things like product positioning, price, prize structures and retailer commissions to ensure we maintain player engagement and support. New products are treated the same way.

The Australian Productivity Commission issued a report on Australia's gambling industries some 10 years ago and is preparing an update now that is supposed to be released in the next few months. You contributed to the draft that was released last year. Can you tell us some highlights?

B. Thorburn: The landmark study conducted in 1999 led to quite a big industry shift, particularly in relation to how problem gambling was dealt with, and particularly in the area of poker machines or VLTs. The Federal Government has asked the Productivity Commission to come back a decade later and do a second review to see what's changed and also to identify what are the current issues for the gambling industry. One very interesting aspect to the report is that it will have little or no impact on the traditional lotter-

ies directly. The Commission gave every other form of gambling a chapter or chapters but lotteries barely rated a mention in the draft report. I think that's because the assessment confirmed findings in the 1999 report that there was a net community benefit attaching to lotteries and that problem gaming is not the issue with traditional lotteries as it is with some other forms of gaming. The final recommendations are likely to focus on further limits to VLT play or poker machine play and the potential introduction of card based pre-commitment systems. And they're making recommendations on the national market for wagering and sports betting, the deregulation of that market and how to handle that from a regulatory and taxation point of view. And they've also called for a possible relaxation of the federal internet gambling laws which currently prevent Australian operators from providing interactive gambling services with a few exceptions, including lotteries and wagering. The report is not binding on the government, but the recommendations will likely be very influential to our industry.

Excellent. Susan and I can't wait to see you in November. I know everyone is looking forward to visiting Australia and being a part of WLA Brisbane. ♦

Is there any track record or precedence of how that plays out in real life? If the DOJ were to decide six months from now that they wanted to backtrack and object to the way the NY Lottery sells internet subscriptions or sue the Lottery to force you to change your policy in some way, to what extent would the paper trail you've created augment your ability to defend your actions? Is the paper trail, the record of full disclosure and transparency and beseeching the DOJ to clarify their position on internet gaming, is all that legally relevant if the DOJ turns around and sues the NY Lottery?

B. Murray: Good question because yes, it is relevant. The process through which we came to the conclusions that states have the right to determine regulatory policy relating to their own state lottery, the process through which we exhausted all manner and methods of communication with the DOJ to discuss any concerns they may have with our actions, the fact that the DOJ has been asked repeatedly for a reasoned opinion on this issue and our actions, the fact that we told the DOJ explicitly that we will take their lack of objection as an implicit agreement with our position...yes, these facts are all quite relevant to an understanding of our actions and to a recognition that if there was a logical, reasonable basis for objecting to our position on these issues, then the DOJ could have and should have objected at an earlier date. The parties reviewing a case like this would most definitely be interested in the events and circumstances that led up to the controversy.

You ask about precedent for the negative assumption theory, the notion that the lack of objection can be interpreted as agreement. First, let's clarify that I am not saying that lack of objection must be interpreted as agreement, only that it is a relevant factor when considered in context with everything else that has happened. We don't pretend that lack of objection is binding. But precedent is very relevant. Consider the fact that state lotteries have been operating under a form of negative option for over 40 years. The Wire Act that the DOJ brought up in 2005 has been in effect for more than 40 years, dating back to before the beginning of the modern state lottery. The 1961 Wire Act was clearly aimed at sports betting and illegal bookmakers using telephones to send and receive information about sports bets. In our 2009 meeting with DOJ, the New York Lottery showed the DOJ lawyers a map describ-

ing the networks carrying electronic data for U.S. state lotteries. This map shows how the purchase of a lottery ticket at a retail store sets off a chain of events that includes the electronic transmission of data from retailers to various data processing centers located all around the country. The simple act of purchasing a lottery ticket in a retail store, just as it has been done for decades, results in electronic data leaving the boundaries of the state before it returns to the termination point back within the boundaries of the state. Millions upon millions of electronic transactions travel all over the country in the process of operating a state lottery. The processing of gaming transactions already involves sending electronic transmissions across state borders. It is legal, though, because the transmission begins and ends within the borders of the state. The same thing applies to Internet gaming.

The Federal Justice Department has not objected to the manner in which states have operated their state lotteries for the past 40+ years and I can't imagine that they would object now. So why would they object to internet transactions that both originate and terminate in the same state? That would make no sense. Notice, too, that the legal basis for the legitimacy of the way lotteries have been doing business over the past 40+ years uses that negative option reasoning. It never occurred to anyone when, in the course of building out this business, that routing lottery transactions electronically through a server hub based in a city outside of the borders of the state would violate the 1961 Wire Act. Can you imagine the U.S. DOJ challenging the states' rights to do business that way now? Of course not. First, it is not a reasonable interpretation to think that the 1961 Wire Act was intended to prohibit state lotteries from operating that way. Second, if the DOJ wanted to object, they could have and should have done it a long time ago. We contend that the same reasoning on both counts applies equally to internet gaming. The transaction is intra-state as long as the points of origin and termination of the electronic transmission are both within the borders of the state. The fact that the transmission may have travelled outside of the state in the process does not constitute an inter-state transaction or violate federal laws against inter-state gaming.

Why doesn't the DOJ come right out and affirm that?

B. Murray: The mission of the DOJ is to implement and enforce the law as it is legislated by Congress. It would appear to us that the DOJ does not now disagree with our position on these matters but that back in 2005 DOJ was not entirely clear on the intention of Congress. That is where our position is strengthened even more. Clearly, Congress never intended and would not now intend to make the kind of interstate electronic communications used by state lotteries illegal. The 200 year history of the accommodation between the federal government and the state governments has been that states decide on the gambling policies and the federal government will enact only laws that support and complement the state laws. The federal government has never made laws that interfere with the rights of states to determine their own gambling policy. In the early 1970's, shortly after the beginning of the modern state lottery era, U.S. Attorney General William Saxbe asked that the states, the Department of Justice, and Congress work together to define more clearly the interplay between state and federal lottery laws. It was clear at that time that there would have to be revisions to the federal anti-lottery law that had been in effect since the 1880's, but nobody at that point even looked at the Wire Act. Instead, Congress adopted the necessary exceptions to the federal anti-lottery law to make it clear that a state could, without violating federal law, use interstate commerce to send and receive information and materials needed to operate a lottery inside the borders of the state where the lottery was authorized by state law. It was not until 2005, when the DOJ put forth that novel interpretation of the Wire Act, that it occurred to anyone that intra-state electronic transmissions might be classified as interstate because they leave and then re-enter the state in the virtual world while making their way to their final destination. Fortunately, Congress corrected that misconception with the Unlawful Internet Gaming Enforcement Act, stating that they are referring only to unlawful Internet gaming and that does not include gaming implemented by state lotteries.

Theoretically, does this mean that states could implement internet poker?

B. Murray: I think that's right, as long as it's allowed by state law. And I think that's what Congress meant by including those

provisions in the Unlawful Internet Gambling Enforcement Act of 2006.

The e-wallet system, which you have not implemented yet, will be sort of a small step forward in the sense of the player putting funds on deposit in a similar way as a subscription, only they don't predetermine their purchases but instead play games and purchase lottery products at whatever time they want, with more flexibility over changing the dollar amount of the purchases?

B. Murray: Right. It would not be dedicated to a particular game. Whatever games the Lottery makes available on the menu for play with e-wallet deposits can be played. The players can choose from that menu while sitting at their computer or using their handheld iPhone, iPad, Blackberry, or whatever other form of walking computers.

What is the next step?

B. Murray: The Full Service Lottery System contract the New York Lottery awarded to GTECH last year includes a requirement that GTECH take over the operation of the subscription program, which New York has always operated in-house. Additionally, they will build out a website that enables New York Lottery players to access and play other lottery games. We didn't spell out in the RFP exactly how it is all going to work. E-wallet right now seems like the most promising idea. But we still haven't settled on that. The Lottery and GTECH have been focused on getting all the new terminals installed in 17,000 locations and replacing the central system. That's the priority now and will not be completed until August of this year. As we near the end of that process, we'll begin the dialogue with GTECH about how to move forward with an internet gaming agenda.

What does NY state law allow with respect to internet gaming?

B. Murray: The jackpot games like Mega Millions, Powerball, Lotto, Sweet Million, Take 5 and the other traditional drawing games do not have restrictive language in the statute, and we think under current law can be offered over the internet.

It would be easy enough to design instant lottery games for internet play. The game is designed before the ticket is printed. Once you have a game design, you can execute it without printed tickets as long as you have the appropriate security safeguards. But New York law requires preprinted tickets. So the law needs to be clarified or modified to allow

for internet instant games.

Current state law is not clear on some of the other games, like the Quick Draw keno game. Like all other states, the New York legislature is presently dealing with the fiscal crisis. There are proposals in front of the state legislature right now that would clear the way for more internet lottery play.

How about new types of games, perhaps games that would appeal to the video-gaming generation? Not skill games, but perhaps creating a more stimulating playing experience.

B. Murray: We have the law that allows for Aqueduct and the other race tracks to implement video lottery. The law is clear that the New York legislature intended to allow video lottery gaming only at the racetracks. So we probably can't create a similar playing experience over the internet.

The other problem is that video lottery games, like all casino games, are designed with payout structures that are much higher than lottery. They're designed to pay out 90% or more to enable players to play them over and over again. Any lottery game that does not qualify as a video lottery game defaults into the lower prize payout structure that will not likely appeal to the video-lottery player.

Some U.S. lottery directors and state legislators are concerned that they would be sued by the DOJ if they implemented internet gaming.

B. Murray: I understand the concern but I think the risk is minimal. The federal government rarely seeks a legal conflict with a state government. And I have detailed everything we have done to minimize that possibility. The New York Lottery has communicated to the DOJ that we don't think this is something that belongs in court, we think we're right on the law, we think you can recognize that and agree with it, and if you don't think we're right, then please tell us and explain to us why you think we're not right. That would enable us to decide whether it's such a serious objection that we should both go to Congress and ask Congress to change the federal laws to make them more clear, as Congress did back in 1975 after U.S. Attorney General Saxbe brought up the issue; and as Congress did in 2006 when legislating in the area of internet gaming. The DOJ has the authority to prosecute what DOJ thinks are crimes. That would require them to get an indictment from a Grand Jury which would force them to articulate their position, at which

point we will be able to prove that we're right and they're wrong. A friend and colleague suggested to me at your NYC conference that we initiate legal action and sue the DOJ for a declaratory judgment. But why should we do that? We know we are right. We think the DOJ knows that we are right and that's why they haven't objected to anything we have done and that's why I do not think they will object in the future. Based on all that has transpired, I'm convinced that the DOJ implicitly agrees with our position that intra-state internet gaming that is legal under state law is not prohibited by federal law.

Won't states need a form of UIGEA to force foreign corporations to comply with state gaming laws and regulations? Why shouldn't the UIGEA be thought of as strictly an Enforcement Act intended to support state law?

B. Murray: I think that is the way that UIGEA was intended by Congress to be interpreted and implemented. That is the division of labor that has traditionally existed between the states and the federal government. The U.S. Constitution clearly intends that states should have a large measure of sovereignty and flexibility in the formation of public policy. And gaming policy has always been determined at the state level. In those areas that are beyond the power of individual states to effectively control, the federal government and the law enforcement faculties of the federal government should be brought to bear. That's exactly what the role of the federal government is intended to be. That role would include many aspects of foreign affairs, foreign commerce, helping states to enforce the laws of the land against foreign corporations, and helping states to enforce their own gaming laws. Ironically, towards the end of our discussion last December with the DOJ, we actually asked them to enforce the Wire Act in the way we think it was intended. Sports betting is prohibited by both New York State and the federal government so please ramp up your efforts to enforce the Wire Act. Likewise, please implement the UIGEA and force all operators of internet gaming to comply with New York state law. That's where we think federal efforts should be directed, and we strongly encourage DOJ to use the power of the federal government in the traditional way to back up and support the gambling policies adopted by state governments. ♦

PGRI 2010 LOTTERY PRODUCTS OF THE YEAR



2010

Public Gaming Research Institute is pleased to announce the winners of the 2010 Lottery Product of the Year. Presentations were made at the SMART-Tech 2010 Conference held at the Sheraton Hotel & Towers in New York City on March 28. This conference was attended by industry professionals from almost every lottery state in the U.S.

The PGRI Lottery Product of the Year Award has acquired a status that is important to lottery operators from all around the world. Conceived as a way to recognize the most innovative products and concepts impacting lottery performance and results, the Award has evolved into a reference guide for lottery operators to quickly discern the most reputable and accomplished commercial suppliers in each product category. Congratulations go to the 2010 winners for creating products that meet those high standards and for winning the 2010 Lottery Product of the Year Award. For more information on the Lottery Product of the Year Award, see www.PublicGaming.com.



Bally Technologies Cash Spin www.Ballytech.com

Bally Technologies continues to innovate in its system and game products. One of the largest venues for product comparisons is the annual G2E gaming exposition held each Fall in Las Vegas. Awards are given for the top products. In 2009 Bally won 6 awards, more than any other manufacturer, led by a first place prize for "Best Slot Product." Of the hundreds of new games introduced by Bally and many other suppliers, the winner at G2E was Cash Spin.

Cash-Spin is an innovative game presented on the large vertical screen of the Bally V32 gaming platform. The game features dynamic presentations and a new level of player interaction. A base game is played on mechanical reels. The reel presentation itself uses a transparent video and touch-screen technology to enhance player entertainment and interactivity during bonus play. But the most exciting interaction is generated when a player qualifies for the video wheel bonus, because this video wheel uses Bally U-Spin technology. It has the ability to detect both pressure and movement on the touch-screen, allowing the player to move and spin the wheel. It even enables the player to back up the wheel and "wind-up" before initiating the actual spin. When it spins it has the sound and appearance of a mechanical wheel, and the player experiences a heightened sense of interactivity.

Now being installed in both casino and VLT environments, the per-

formance of the game and the excitement it generates are consistent with the high expectations that have been generated.

Cash-Spin joins Bally's family of system and game products for the lottery industry. Products include Bally Multi-Connect for management of distributed VLT networks, Player Loyalty Systems, Business Intelligence, all types of video lottery terminals, and a robust and growing selection of industry-leading games.



Carmanah Signs Wireless Jackpot Signs

www.Carmanahsigns.com

Cross selling Mega Millions and Powerball represents the most significant opportunity for U.S. lotteries to increase revenue for "good causes" in many years. However lotteries will need to increase jackpot awareness for both games as well as in-state lotto games to truly capitalize on this development. ROI for Carmanah Jackpot Signs is typically measured in "days" on incremental sales!

Carmanah Signs Inc has 17 years experience in corporate identity and brand visibility at retail. Our award winning signs are used by global brands, retailers and lotteries.

Our wireless jackpot signs are updated wirelessly via existing online lottery terminals using our SmartCom transceiver. Accurate, Reliable and Secure – the right jackpot is always displayed with no monthly update fees. With over 40,000 jackpots currently deployed, Carmanah Signs is the trusted choice for lotteries around the globe.

- Single or Multiple jackpot formats
- Update jackpots from up to 100 feet away (30 meters)
- Compatible with all major online vendors
- Permanent or replaceable graphics
- Over a 10 year lifespan

Contemporary ultra slim design is complimented by our flexible mounting system for ease of installation at retail.

Changeability: Signs feature changeable graphic front plates to allow for easy introduction of new games and refreshing of graphics

Modularity: Add a jackpot to an existing Carmanah sign utilizing the existing hardware and lottery terminal. This feature is in anticipation of a new "National Game."

Flexibility: Optimize the retail footprint by incorporating a graphic on the reverse side of your Carmanah jackpot sign to ensure available real-estate is optimized.

Options for bright sun environments: When stores windows are chosen for sign placements Carmanah offers several options to maximize visibility in bright sun. High impact discreet digits are available as are anti-glare filter graphic front plates.

Installation: Carmanah Signs are designed for quick and easy installation using the height adjustment with our slide and lock mounting system – no tools required.

Carmanah is committed to ensuring the success of our customers and stakeholders by investing in product development and providing the highest level of customer service. Signs by Carmanah have become the de facto industry standard for good reason.



Diamond Game Video – ITVM
www.Diamondgame.com

The Diamond Game Video-ITVM brings instant ticket vending into the 21st century and is an alternative to VLTs. The Video-ITVM looks, plays and earns like a VLT, yet usually requires no law change for a state lottery to operate. The patented Video-ITVM dispenses a pre-printed instant ticket on each play, reads the ticket and displays the result on a video monitor in an entertaining manner, such as with spinning reels. The Video-ITVM is the only product of its kind and has been repeatedly affirmed as a legal ticket dispenser by state and federal courts, up to the U.S. Supreme Court. A Video-ITVM pilot program can be set up quickly without many of the legal and political hurdles that accompany VLTs.



The eLottery, Inc. e-Commerce Service
www.eLottery.com

The eLottery e-Commerce Service applies the power of the Internet to offer state-of-the-art and patent protected functionality for processing and managing direct sales and subscription services. The eLOTTERY e-Commerce service enables you to quickly, easily and safely open the internet channel for the intra-state sales of your state's lottery tickets.

Easy to Implement, no cost to the state and no RFP – How does it work? eLOTTERY becomes a non exclusive sales agent by signing your standard agent agreement with some minor modifications to account for certain unique aspects of the internet channel. eLOTTERY is responsible for marketing the states' lot-

tery games to residents of its state and earns a regular agent fee. **Secure system and operation** – Our retail ticket ordering system connects to your 'online' game through a secure interface. This interface is built by your 'online' game provider (i.e. GTECH, SGMS or Intralot) and paid for by eLOTTERY. Simultaneous with entering into our agent agreement with you we enter into a technology cooperation agreement with your 'online' provider. This agreement effectively maintains the same operating functions as your land based sales channels (i.e. the 'on-line' provider is the wholesaler and eLOTTERY is the 'retailer'.) In addition, it specifies development of the interface and the certification of our 'e-retailing services..

Revenue model – Depending on the state, 80-85% of your majority aged population has access to the internet. Our marketing efforts are targeted to achieve a 5% penetration for accretive sales within 24 months and 15% over five fiscal years; this means more than \$1 million in ticket sales per 100,000 of majority aged population.

Compliance with federal and state laws and regulations – The key applicable Federal laws are the 'Anti-Lottery' statutes, the 'Wire Act' and the Unlawful Internet Gaming Enforcement Act' ("UIGEA.") Since we will be an authorized lottery sales agent in your state and will be selling tickets exclusively on an intra-state basis, our process complies with all state and federal regulations.

Patents – eLOTTERY has the intellectual property and patents that are addressable to both on-line and off line processing for governmental lottery sales of 'numbers' and instant tickets.

Conclusion – This program has the potential to provide double digit increases in your ticket sales. For a presentation of revenue potential and implementation guidelines for your state, contact Ed Mc Guinn, CEO at 203-388-1808 (emcguinn@elottery.com)



International Game Technology (IGT) Sex and the City™ Multi-Level Progressives
www.igt.com

The well-known HBO® television series now wears the MegaJackpots® label. Sex and the City™ Multi-Level Progressives is the first MegaJackpots® product to offer MultiPLAY – a game brand exclusive to IGT. It's also the first game to feature IGT's new sound chair with award-winning, high-performance sound that creates a rich, immersive game experience.

Sex and the City™ MLP has strong brand recognition, and players will love watching their favorite moments from the shows play out in video clips during the bonus features. Five character-specific, progressive-level pick bonus games allow players to choose one to three boxes that reveal credits or the progressive award. There are also four themed bonus games that provide fun player interaction and fabulous awards. Mr. Big talks players through the bonus play steps and congratulates players on their wins. Bonus play is initiated when three Sex and the City™ scatter symbols appear in any location on the reels in any of the four base games. The 12-stop virtual wheel appears in the top box, and Mr. Big tells players to spin the wheel. When the wheel stops, the bonus game launches and plays out on the base game screen.

With MultiPLAY, players get four times the base game action. Each game features five reels and 30 paylines, plus a 20-credit side bet. Players determine how many games they want to play at once by the amount

they wager. To play all four games, players wager 200 credits with a bet multiplier of 1X. Players can wager up to three credits per line on all four games for a max bet of 600 credits. When all four games are in play, bonus play hits frequently – every 25 games on average.

With all the fun, interactive bonuses and iconic Sex and the City™ show scenes and graphics, winning never looked so good!



The WinStation by INTRALOT Self-Service Lottery Vending Solutions

www.Intralot.com

In today's fast paced economy, retailers are demanding new, timesaving and innovative methods to increase sales of their products. This is evident by the steadily increasing population of self-service POS devices throughout the retail industry – i.e., DVD vending machines, audio/video vending machines in airports and other public spaces, and self-service check-out lanes to name a few. Lottery retailers are no exception. INTRALOT recognized this trend, along with the impulse nature of lottery purchases, and responded by developing the first full service, push button lottery vending machine. Our state-of-the-art lottery vending machine, the WINSTATION, is capable of selling and validating all instant and online Lottery products. INTRALOT further recognized that the self-service vending process must be quick, easy and intuitive. This led to the push button functionality of the WINSTATION and the philosophy, "Push a Button, Get a Ticket" that creates a quick and user-friendly purchasing process.

In addition to the easy, intuitive push button functionality, the WINSTATION incorporates other features to optimize product marketing, delivery and security, along with functions to further assist the player, the retailer and the lottery, including but not limited to:

Brightly illuminated LED instant ticket and online game windows; Built-in BetaBrite® scrolling display that instantly updates jackpot amounts remotely; 2D Barcode scanner – for ticket checking, validations, repeat play for future drawings, age verification and easy ticket loading for retailers; State-of-the-Art Burster, the Easy-Five Perf-o-cator.

Playslip scanner; High-speed thermal printer for online tickets, receipts and reports; Highest level security features – steel cabinet with internal hinges, separate Medeco® locks for exterior door and bill acceptor vault, alarm for tilt and unauthorized access and wireless remote deactivation; Central System downloads for software upgrades and new instant ticket game data (eliminates manual entry errors) and Easily readable customer display; The notification screen also functions as a touch screen for retailers, lottery and service personnel needs; Wireless TCP/IP network communication, not only for online purchases, but also to provide – Sales data by retailer, by machine, by game, by bin, etc.; Bin low/bin out alarms, paper low/out alarms, remote diagnostics, instant pack activation and settlement; Customized exterior wrap graphics.

By integrating the newest, most reliable vending technologies with well-designed marketing features and easy-to-use functions; INTRALOT'S WINSTATION takes full advantage of its POS opportunity, thus maximizing the lottery's investment. The WINSTATION is living up to its name. Simply stated, the WINSTATION is a win-win. Retailers in every jurisdiction where WINSTATIONS have been deployed have achieved an overall increase in sales of both instant and online products. In ad-

dition, WINSTATION sales of instant products have been significantly higher than those achieved by legacy Instant Ticket Vending Machines (ITVMs) provided by other vendors.

Lottery partners currently utilizing WINSTATIONS include Idaho, New Mexico and Ohio. WINSTATIONS will soon be deployed by INTRALOT in Montana, Arkansas, New Hampshire, Louisiana and D.C.



MDI Properties Plus™ Overview

www.ScientificGames.com

Properties Plus offers lotteries a means to dramatically enhance their presence on the internet while addressing several other key marketing opportunities. Bundled together with use of MDI's traditional licensed properties, the components of the Properties Plus package will build a direct, one-to-one relationship between the lottery and its players, reach out to potential new players and position the lottery well for the future.

The specific components included in Properties Plus are as follows:

- Unlimited use of MDI licensed properties for instant games*
- Access to 2nd Chance Promotional Games
- An internet-based Players Club that engages players with a variety of information and entertainment features
- A rewards program, *Points for Prizes™*, that enables players to earn points based on their lottery purchases and redeem points for merchandise and drawing entries
- A turnkey program that solves the "last top prize issue" – *Play It Again™*

Perhaps the most unique feature of the Properties Plus program relates to how the program is packaged. Through the Points for Prizes rewards program, **SGI will provide players with merchandise/prizes equal in value to the fee the Lottery has agreed to fund the entire program.**

Properties Plus is currently being implemented by two SGI customers, the Arkansas Scholarship Lottery and the Minnesota State Lottery. Each lottery has adapted the features in the package to address its particular marketing needs. Minnesota is using the program more for limited time promotions and to promote specific tickets while Arkansas has the full program available on an ongoing basis with all tickets eligible for participation. Some top line statistics from the first six months of the program in Arkansas are as follows:

- Over 125,000 players have registered to participate in the program
- Nearly 13 million tickets have been entered
- Players have accumulated 116 million points in their accounts

Further enhancements and updates to the program are in development to continue the positive momentum achieved to date and keep the program fresh and exciting for players.

The rich database of information that is being generated as a by-product of these programs will also be a valuable resource for analysis and development of strategic marketing initiatives.

**Note: A few select properties (e.g., MLB, linked games, etc.) will require supplemental funding by the lottery. In addition, high value non-cash prizes that a lottery decides to include in its game prize structure (for example, Harley-Davidson motorcycles or experiential prizes) would not be covered by the fee.*



MGT Lottery Second-Chance Online Games Platform

www.Mgtlottery.com

The MGT Second-Chance Online Games Platform allows a registered lottery player to electronically enter into lottery sweepstakes and raffles, or to play a unique single/multi-player game on a state lottery website, by providing the verification number-codes printed on existing non-winning paper lottery tickets.

"The second-chance online lottery game platform enables state lotteries to easily offer a wide range of fun, interactive second-chance games like virtual poker and Texas Hold'em as well as other extremely popular tournament-style trivia games," says Roy Weiss Executive Vice President of <http://www.MGTLottery.com>. *"With the second-chance online game platform every lottery ticket has additional value, as non-winning tickets are used to gain entry into web-based lottery promotions and lottery games that are hosted online."*

"Virtually any kind of game from single, multi-player or tournament style cards/poker, spin-the-reel, bingo, crossword, trivia and original games can be hosted on the second chance lottery ticket platform. The system supports retail ticket sales, improves player loyalty, and will generate interest from a whole new generation of online/video game fans by connecting prizes and opportunities to win with fun interactive digital games," Mr Weiss added.

The announcement and presentation of the prestigious award to MGT Lottery Technologies was made during the Lottery industry's pre-eminent SMART-Tech 2010 annual conference and industry summit for State and Provincial lottery executives held in New York City NY, on March 22 – 25, 2010.

Since the introduction of this award nearly a decade ago, the PGRI Lottery Product of the Year Award has been used to identify the most important contributions to the changing nature of the lottery business in the U.S. and international markets. The Lottery Product of the Year Awards from Public Research Gaming Institute provides a year-to-year benchmark of the most important contributions and innovations made by companies helping move the lottery industry, organizations and operators forward.

This is the second year in a row that a MGT Lottery product has been selected as the recipient of a Lottery Product of the Year Award. The company won the 2009 award for its Touch2Win retail lottery ticket terminals.

About MGT Lottery Technologies

MGT Lottery Technologies develops fun, interactive, networked lottery games and entertainment solutions for lottery organizations that fit within the legal definition of local, state and federal lotteries. MGT is the leader in the development, delivery and integration of innovative electronic game platforms and develops custom solutions, offers off-the-shelf products and provides game and accounting system technologies to State and Provincial Lotteries. MGT products can be delivered quickly and implemented easily. For information about MGT Lottery Technologies please visit www.MGTLottery.com and <http://www.mgtgamezone.com>.



Mobile Lottery LLC, Mobile Gaming Technology

www.MobileLottery.com

Addressing what is considered the steepest decline in state tax receipts caused by the worst recession since the 1930s, Mobile Lottery LLC was formed in November 2009. By adding a mobile component

to the traditional state lotteries, over an estimated \$ 6.5 billion – \$ 9 billion in lottery revenues will be generated in the 42 states permit the lottery.

With 4 billion mobile subscribers worldwide and 290 million U.S. cellular subscribers (210 million eligible to play the lottery), a mobile lottery will reach most of the world and America's population respectively. Mobile technology is now a way of life with 1/3 of U.S. residents using cellular devices as their only way of communication with text messaging now exceeding traditional voice communication for cellular subscribers.

Mobile Lottery's exciting new games are developed in-house and in cooperation with its development partners. These games will exceed regulatory guidelines for verifying age and location while better addressing problem gaming.

The Mobile Lottery game pack will include traditional lottery games such as the Pick 3/5 and mobile scratch (instant win games).

The mobile scratch card (instant win) game represents one of the greenest applications ever created. This will eliminate the need for card production, storage, security and distribution of the physical cards. As the easiest and most cost effective and convenient method for playing the lottery, patrons would no longer have to travel to physical locations to purchase tickets. A player's winnings can be deposited directly into their account eliminating the risk of lost or stolen winning lottery tickets.

The Pick 3/5 and even Powerball/Mega millions lottery games are easily adaptable to mobile devices. Users can pick their own numbers, have numbers randomly generated for use and buy lottery tickets.

Mobile Lottery LLC's instant win scratch games have many advantages over current paper scratch games including:

- Graphically exciting games that will bring in a new generation of lottery players
- Sound emulates the scratching sound and also allows company brands to have jingles or advertisements associated with the game
- Location based technology can now direct consumers to an advertiser's restaurant, retail store (including lottery retailers) or web sites
- New games can automatically be added each time the player logs on to his/her account
- A mobile delivery system is the lowest cost method for playing the lottery which will translate into a much greater return on investment (ROI) to the states that participate



OrderPad Software, Inc. OrderPad for Lotteries

www.Orderpadsoftware.com

OrderPad Software, Inc. serves one-third of the U.S. lottery market by providing technology solutions to lottery sales teams, inside management and support staff that allows them to operate more efficiently, reduce their costs, and increase their impact. Its flagship product and SmartTech Product of the Year, *OrderPad for Lotteries*, empowers all lottery team members that interact with the lottery's retailer network to collaborate with each other for more streamlined operations.

OrderPad for Lotteries allows lotteries to increase their operational efficiency. For example, several lotteries have dramatically increased the amount of time that their sales reps spend in the field working with retailers, in some cases by as much as 25%, translating to hundreds of more retailer visits per rep each year! This is accomplished by providing the

reps with the tools they need to do their jobs in the field thereby reducing the amount of time they need to spend in the office pushing papers, gathering information, and filing reports.

Efficiency gains expand well beyond the sales department. OrderPad for Lotteries provides all users with a great deal of insight into the retailer network with detailed information about individual retailers. Cross-departmental information requests are reduced as users can quickly and easily find the information they are looking for. For example, fleet managers can view vehicle mileage and expense entries directly within OrderPad without having to track down the driver or their manager; marketers can discover the number of retailers that have a specific POS item without asking for a field survey to be performed; executive management can find out how many dispensers there are per region in seconds rather than weeks; and corporate account managers can view sales and inventory data of stores within a chain without requiring heroics to gather this information.

The volume of phone calls between headquarters and the field staff is also greatly reduced. In some cases the time savings achieved equates to two to three full time equivalents spread across headquarters staff and the field staff. Imagine gaining the productivity of three new full time lottery employees without creating a single new position!



**Pollard Banknote's
Scratch FX®**
www.Pollardbanknote.com

INVESTING IN PRECIOUS METALS

The use of metallics has become more pervasive in consumer goods marketing especially in the current economy – from gold foil on premium wine labels, to holographics on toothpaste packaging, and everything in between. Metallic packaging effects attract consumers and create differentiation at retail.

Pollard Banknote's Scratch FX®, a patented industry first, is an instant ticket innovation based on the same principles. Scratch FX® instant tickets help lotteries draw attention in the crowded retail world and present a fresh, energetic, and cutting-edge product.

It's About Getting Noticed

Research shows the average supermarket offers 30,000 items that fight for shoppers' attention. Two-thirds of items go unnoticed, and only one-sixth of those noticed get a second opportunity for a closer look. Consumers' selection decisions often come down to split-second choices, with eye-catching appeal being the deciding factor.

Lottery tickets must make an impression, and it's difficult for consumers to ignore the sparkling diamonds or glittering casino lights brought to life with Scratch FX®.

The dazzling allure of Scratch FX® can be applied to both base graphic and overprint areas of a ticket, facilitating untold customization to achieve maximum impact at retail. Silver and holographic hues allow lotteries to cater to preferences of discerning players, while replicating the look of both foil and holographic foil using recyclable paper stock.

Return on Investment

Many companies confirm that special effects work. They could save money by resorting to standard packaging for their products, but don't. Colgate-Palmolive, for example, has used holographics since the introduction of Total toothpaste – the best selling toothpaste in the US. As Colgate-Palmolive's market share in that category has nearly doubled, added packaging costs are justified by a maximized retail presence.

The Minnesota Lottery's recent instant sales growth is a Scratch FX® success story. Sales increased over 14% from FY07 to FY08, and an additional 9% from FY08 to FY09 with the introduction of the \$20 category – provided exclusively by Pollard Banknote and employing Scratch FX®. These premium games represented 18% of Minnesota's FY 2009 instant sales. The low breakeven points for Scratch FX® games makes them an easy bet. A \$20 game requires a 2% increase in sales to pay for the material, a \$10 game requires a 3% increase, and a \$5 game requires a 4% increase in sales.

Does the extra cost of Scratch FX® provide a positive ROI? YES! Many success stories from numerous lotteries prove it.



**Tournament One
BroadcastR™**

www.Tournament1.com

Tournament One's BroadcastR™ solution enables State Lotteries with live TV or animated draw games to automatically distribute that content to all their players who are using: PDA's, smart phones, iPhones, Desktop or Laptop PC's and Apple computers...automatically or "on demand." BroadcastR™ is a proprietary hardware and software solution that automatically starts recording draw game graphics or animations as selected by the lottery.

Once the graphic or animated draw display is automatically recorded, it is compressed and converted into the most popular file formats used by PDA's, smart phones, iPhones, Desktop or laptop PC's and Apple computers. Completed BroadcastR™ file formats are automatically uploaded to the state lottery website database for retrieval by the player. BroadcastR™ can also be set up as service for automatic "push" distribution. The Lottery creates the appropriate pages so that each portable remote device can receive the correct file format automatically. Tournament One can also provide Web page design and integration service. BroadcastR™ is available as a fully redundant system, with hot fail over capability.

In addition to BroadcastR™, Tournament One's DynAdMedia™ automatically inserts advertising into the recorded draw games. DynAdMedia™ enables Lotteries to promote other games, current jackpots or other important lottery information to anyone who asks for a BroadcastR™ download. DynAdMedia™ is available as an additional option.

BroadCastR™ and DynAdMedia are proven, robust commercial broadcast solutions that are designed for 24/7 operation, 365 days a year. BroadcastR™ is currently running at the Massachusetts State Lottery (MSLC). The BroadcastR™ system there produces 4 different compressed file formats within 1-2 minutes following each draw event. BroadcastR™ is a proven system with over 300,000 videos served to Massachusetts Lottery Players to date and counting.

The key benefits of BroadcastR™ are focused on providing the player convenience and instant gratification. For Lotteries, it expands the audience for draw games by making them available "on demand." Lotteries can now distribute their animated or live TV draw games to their players on any device that the player is using. There's no need for additional or special equipment. All the player needs is a standard browser.

Tournament One™ markets BroadcastR™ to State Lotteries as a licensed turnkey solution that is customized for the lottery and integrated with the lottery's existing draw number servers and web site. It is also available through an Application Service (ASP) model. It's a perfect solution for Lotteries who want to reach their rapidly growing "iGeneration" player population. For Further information call: Rick Perrone, CEO, Tournament One at (203) 504-8832. ♦

New Legislation and Business Plan

Usher In a New Era at the California Lottery

By Joan Borucki, Director, California Lottery

“More winners, more prizes, and more money for education.”

That’s what the California Lottery expects as we celebrate our 25th anniversary with new legislation that will help sales soar and a new business plan that will save money, improve operations and help us deliver fun and entertaining products to our customers in an efficient manner.

The new law will trim administrative costs and give Lottery commissioners the flexibility to pay out more money to players. Assembly Bill 142, authored by Assemblywoman Mary Hayashi (D-Hayward) and signed into law by Governor Arnold Schwarzenegger on April 8, allows the California Lottery to adopt best practices that have helped other lotteries around the country steadily increase their sales and earn more money for their beneficiaries. Now retailers, working with our experienced team of sales representatives, will have the exciting opportunity to inform existing, lapsed and new players that the California Lottery will be more exciting than ever before.

The legislation has long been sought by the California Lottery, which has had to operate for years under restrictions that have held back sales – restrictions that don’t exist in other states. Until now, the California Lottery has had the lowest per capita sales and the lowest prize percentage payout of any of the 10 most populous Lottery states. Under this legislation, which has taken effect with the governor’s signature, administrative expenses have been limited to 13 percent of sales, while 87 percent of the money generated from sales has to go back to the public either in the form of prizes or payments to education.

The law gives the Lottery Commission the ability to determine the percentage of money that goes into prizes, but they have to do so in a way that maximizes funding to education. And as we have seen in other states, when lotteries increase the percentage of money going into prizes, players notice. They win more often and, in turn, help earn more money for the California Lottery’s beneficiary – education. This scenario has played out in every state that has given its Lottery flexibility to adjust the percentage of money going to prizes. California plans to use the experience of other states to implement the new legislation gradually.

Last year, we paid out about 57.5 percent of sales in prizes on average and during the next fiscal year we plan to increase that to about 61.25 percent. That small percentage increase translates into millions of additional winners. If Scratchers sales hit \$2 billion during the next fiscal year, the Lottery will pay out \$75 million extra in Scratchers prizes than it would have last year. That could mean 7.5 million more \$10 winners or 3 million more \$25 winners. The first high payout game,

a \$5 Scratcher, will have 25 \$1 million winners, which is 15 more than the previous \$5 Scratcher. Many of the games will give players better odds of winning. The odds of winning a cash prize from a new high payout \$2 game, called Red, White and Blue 7’s, are 1 in 5.75, compared with the 1 in 9.33 odds of winning an existing \$2 game, Lucky Tripler.

The Lottery has already estimated that during the last two months of this fiscal year, the new law will help it earn \$15 million more for education. For nine years in a row, the Lottery has contributed more than \$1 billion to schools and this year we are on target to contribute more than \$1 billion for the 10th year in a row. Within four years, sales are expected to rise so much that the Lottery will contribute an additional \$400 million to California’s public schools and colleges.

At the same time that the new law is helping us improve our Scratchers products, the California Lottery is releasing a new three-year business plan that will help us improve our internal business practices and operations. The ambitious plan, which will be released in May, is revolutionary in one way. It is intended to help us apply rigorous economic analysis to all of our business practices and products so that we can be assured of doing our best to earn money for education. The plan is helping us to adjust our big draw games, improve our distribution and sales of Scratchers tickets and to deal with our retailers in a more effective manner.

One new program that came out of our business plan is already in operation. It’s called “Retailer Makeover.” Here’s how it works: Lottery district offices select a retailer with a positive attitude toward Lottery products, but also a need for improvement. A team of Lottery employees and contractors then goes into the selected store and gives them a makeover, helping them to spruce up their display area and improve their product displays. Sometimes it can be something as simple as a shiny new countertop. The retailer also gets some custom point of sale materials.

The plan also provides guidance on how to improve our brand image and how to develop product plans that meet the needs of our players, while also keeping them engaged. In addition, the business plan is helping us to better focus and target our advertising. More than 70 of our employees helped devise the plan with the help of consultants from Camelot, which operates the National Lottery in the United Kingdom. But all 600 employees will play a major role in carrying it out.

So, we at the California Lottery have much to celebrate this year. During 25 years, we have earned more than \$22 billion for California’s public schools and colleges and contributed \$3.8 billion to our 21,000 retailers across the state in bonuses and commissions. But here’s one thing we are really going to celebrate. With a new law giving us flexibility in how we pay out prizes and a new business plan filled with practical improvements, the next 25 years is going to be even brighter for our players, our retailers and our beneficiaries. ♦

Get ALL SHOOK UP...™



...all over again!

**NOW YOU CAN ADD THE EXCITEMENT
OF VEGAS WITH A TRIP TO THE
ALL NEW "VIVA ELVIS" IN LAS VEGAS!**

