March 2009

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Featured Interviews:

2009 Lottery Industry Lifetime Achievement Award Recipients:

Clint Harris
Executive Director of the Minnesota Lottery *(pictured, top row, center)*

James R. Maida
CEO, President, & co-founder of Gaming Laboratories International (GLI)

Clint Harris
Executive Director of the Minnesota Lottery

Jeanette Michael
Executive Director of the D.C. Lottery

Jim Kennedy
Senior Vice President, Sales & Global Marketing, Scientific Games

George Parisot
Director of the Montana Lottery

Jack Boehm
Director of the Colorado Lottery

Tom Little
CEO and President of INTRALOT USA

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

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Public Gaming International (ISSN-1042-1912) March 2009, Volume 35, No. 2. Published six times a year by the Public Gaming Research Institute, Inc., 218 Main Street, #203, Kirkland, WA 98033, (425) 935-3159. ANNUAL SUBSCRIPTION RATES: United States: $145. Canada & Mexico: $160(US). All other countries: $225(US). POSTMASTER: Send address changes to Public Gaming International, 218 Main Street, #203, Kirkland, WA 98033. SUBSCRIPTION REQUESTS: Send to same address. NOTE: Public Gaming International is distributed by airmail and other expedited delivery to readers around the world. ©2007 All rights reserved. Public Gaming Research Institute.

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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

SMART-Tech 2009 is happening just a week after this issue is mailed. See Page 34 for the agenda of topics and presenters and the sponsors, whom we want to thank for making the conference possible. Special thanks goes to GTECH for their Platinum sponsorship. INTRALOT, Scientific Games, and Multiplayer Gaming Technologies are our Gold sponsors and we are very grateful for your support. Our Silver Sponsors, all the speakers and panelists, and everyone who is attending the conference contribute to making it a rewarding experience. Attendance and participation have never been higher. Thank you all so much for participating!

So much of the creative energy that drives this industry forward comes from the commercial suppliers to the gaming and lottery operators. A mission I share with the lottery leadership and the commercial suppliers is to promote a collaborative approach to achieving the best results. The goals and objectives of operators and commercial suppliers may not coincide 100%. Operators want to maximize revenues to their beneficiaries. Suppliers want to increase their revenues and profits. (And publishers want to increase advertising sales and conference sponsorships.) But there really is no reason why these different drivers can't all be pointed in the exact same direction. The focus of the SMART-Tech conference (particularly Gordon Medenica's panel, see page 34), and interviews with James Maida and Tom Little in this issue, is on how the results that we produce can be optimized by forging a genuine partnership, working together with the confidence and understanding that it is important that each partner be meeting the needs of their stakeholders.

I don't know who said "Designing your product for profit first, and people second, will probably leave you with neither", but I'm thinking it could just as well have been James Maida of Gaming Laboratories. GLI is the object lesson in how an absolute faith that a true customer-focus produces a financially sound business model.

Likewise, Tom Little's focus on building a productive and collaborative supplier-operator relationship … As comes across loud and clear, whether it's from Tom Little, James Maida, Connie Laverty O'Connor or Paul Riley in his keynote speech on New Media Innovations, or Jim Kennedy, or TJ Matthews, Victor Duarte, Michael Koch, Gerhard Luftensteiner, Stefan Hraffnkelsson, or Franck Attal, Constantinos Antonopoulos, or Steve Saferin, Jaymin Patel, Lorne Weil … it is simply in the dna for successful enterprises to innovate and improve the product and service that they deliver to their clients. The creative resources that drive innovation are chugging away and wanting to be put to good use. All of us, commercial suppliers and operators alike, are focused on optimizing the performance of the lottery and applying all of our resources towards that end.

I was talking yesterday with a CFO who was preparing for his meeting with analysts at the Deutsche Bank Hospitality and Gaming Conference and a similar one being held by Bank of America the next day. I was pitching him, unsuccessfully, on getting me into the closed conference. Among many interesting, and perplexing, topics of discussion was the fact that these meetings are not as illuminating as one would expect. Well, I said, don't you communicate what you've got in the product pipeline and other factors that will position you for financial success over the next two years? He laughed. He said that while they in fact do try to do that, presenters are discouraged from talking about anything other than what will impact share price over the next 2 quarters, 3 quarters, one year max. I said that I would think that the expectation that financial performance would change 6 quarters out would be reflected in share price 3 quarters out. He said I should keep my day job.

I am wondering if one of the many things that can come out of the current economic travails is to break down the barriers that prevent the capital markets from coalescing around a more holistic and long-term approach to business success (I can just hear the snort from my CFO friend). Too, I would expect that the tolerance for inefficiencies and obstacles to success of all varieties will likely diminish and the mandate to optimize performance will increase. Working well together as partners clearly focused on the same agendas will be more important than ever.

The **Lottery Industry Lifetime Achievement Award** is named after Major Peter J. O'Connell, the first Lottery Director in Rhode Island whose pioneering efforts laid so much of the groundwork for the expansion of the state lottery industry in the U.S. The selection process is informal and based on nominations from and a consensus among lottery directors. This year, **Clint Harris** and **Jim Kennedy** were nominated and so a consensus was easily reached. In consultation with other recipients, it was decided that two awards should be made each year … one for a lottery executive on the government operator side of the business and one for an executive on the commercial supplier side of the business. Congratulations to Mr. Harris and Mr. Kennedy and thank you for your leadership and contributions to making this be the fabulous industry that it is!

Jeanette Michael, Jay Young, and Jack Boehm each had the challenge of completely transforming the ways their organization operates. Fascinating stuff. As Warren Buffett says, "In the business world, the rearview mirror is always clearer than the windshield". The things that seem self-evident after the fact were not always so clear when we have to make the truly tough calls. That's what I was thinking when I read these interviews and realized that to some extent, aren't we all in that position right now?

And thank you to George Parisot and Jeri Duran for sharing some quite interesting success strategies. There's an important lesson in wringing the absolute most out of every successful product or promotion

Connie Laverty O'Connor, Matt Mansfield, and Victor Duarte from Team GTECH share a vision of the future that includes change; lots of it and coming fast. Converting data and analysis into intelligent game plans for the future will not get any easier. But the payback for doing so has never been higher. We're no longer in just the 'lottery' business. Games, markets, distribution channels are merging in ways that require all operators to rethink their basic business model. ◆

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2009 Major Peter O'Connel Lottery Industry Lifetime Achievement Award

Clint Harris

Executive Director of the Minnesota Lottery; President of Multi-State Lottery Association (MUSL); Past Chairman of Powerball; Past President of the North American Association of State and Provincial Lotteries (NASPL)

When Clint Harris became Minnesota's second lottery director on October 11, 2004, he did so under circumstances faced by few others in the lottery industry. His appointment followed the death of George Andersen, the Lottery's longtime director, and the release of an audit critical of the Lottery's financial and marketing practices. While the initial response to the audit had fallen to Interim Director Mike Vekich, it was up to Harris to implement many of the recommendations, to re-energize a badly demoralized staff, and to continue the rebuilding effort.

"We are extremely fortunate to have found such an effective and responsible leader like Clint Harris to head up the Minnesota Lottery," said Minnesota Governor Tim Pawlenty when he announced his selection of Harris, and the Lottery's record bears out Governor Pawlenty's confidence. Harris' four years at the helm are the four highest for sales and revenue in the 19 year history of the Minnesota State Lottery. Yet Harris' path to the position was anything but conventional. He was born in New Jersey but spent much of his childhood in the Philippines, where his father worked as an Episcopal priest. When the family returned to the United States, he attended 8th grade in inner-city New Jersey and completed high school and his first year of college in Hazleton, a rural Pennsylvania coal mining community.

After moving to South Dakota to be closer to his family, Clint finished his remaining college education at Northern State University in Aberdeen, South Dakota, where he earned a Bachelor of Science degree. He later received a Master's degree in Business Administration from the University of South Dakota. While working on his undergraduate degree, he also began a 17 year career in the retail grocery business, working for a large independent grocery store in Aberdeen.

Harris joined the South Dakota Lottery in 1993 as a research analyst and later became director of administration. He was appointed acting executive director in 2000 and officially appointed to the executive director position in 2003. His four years at the helm in South Dakota resulted in four years of record transfers of revenue to the State.

Harris and the Minnesota State Lottery have become known as industry leaders in North America. Clint has served NASPL as President, Vice-President, Secretary, and Treasurer. He is currently President of the Multi-State Lottery Association (MUSL) Board of Directors, whom he previously served as chairman of the Powerball and Hot Lotto games. Under his direction, the Lottery hosted the 2005 NASPL annual conference and in 2007 played host to the WLA's Key Performance Indicators Academy. Harris has also been a leader in NASPL's standards initiative and continued Minnesota's leadership role in corporate social responsibility.

Along the way, Harris married his college sweetheart. Clint and Dawn (better known as Punky) have been married for 32 years and have three children: Eric, Chad, and Samantha, as well as 3 grandchildren: Katelyn, Karly, and Kelan. ◆

James C. Kennedy, Jr.

Senior Vice President, Sales & Global Marketing, Scientific Games

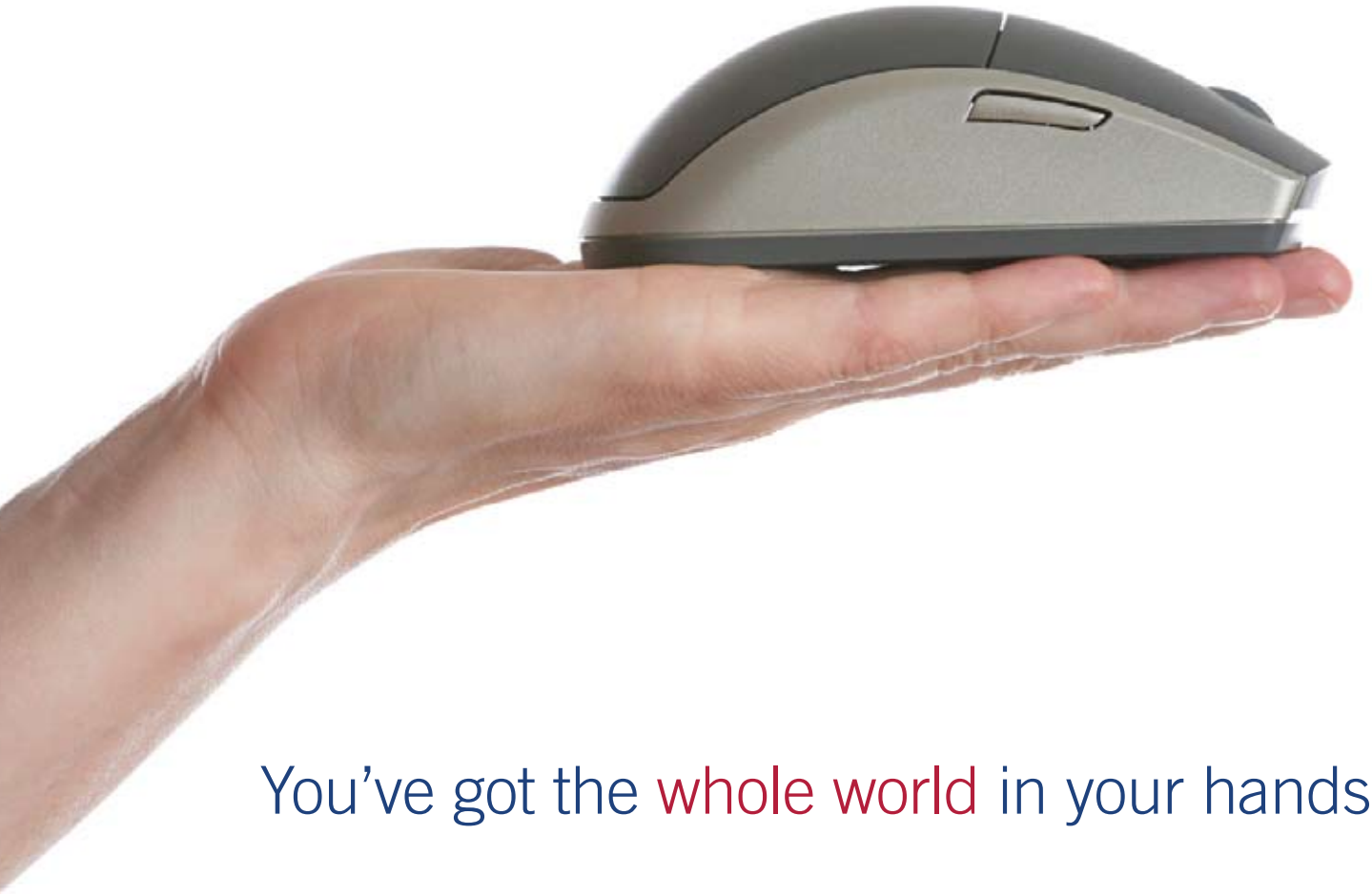
James C. Kennedy, Jr., is that rare lottery professional who is just as comfortable working together with the Vice President of Marketing on a sophisticated marketing program as he is discussing with an IT Director how the latest trends in computer technology can benefit the industry. His focused expertise and skill-set run the lottery gamut and include everything from start-up consulting and game design to marketing-plan development, policy support and implementation. Mr. Kennedy credits his career successes to having the privilege of partnering with the world's best lotteries and being afforded the opportunity to direct the powerhouse resources of Scientific Games International's sales and marketing organization.

Mr. Kennedy joined Scientific Games in 1985 as SG's on-site account manager for the Colorado Lottery. From 1985 throughout the 1990's, Mr. Kennedy worked alongside lottery professionals in states across the country designing thousands of games, and scores of marketing programs to learn the business from the giants of the industry from the ground up. In 1999, Mr. Kennedy was named President of Scientific Games International's Retail Solutions division and in 2000 Vice President of North American Sales and Marketing. In 2005, global marketing for the full-line of SG lottery products was added to his list, as well as new business development for the company's on-line, Cooperative Services and instant lottery business segments throughout North America. Under his leadership and guidance, his team developed and received a patent for the first multi-lane instant game dispensing solution. He was an early advocate of expanding distribution into big-box, large-format retailers, and is a featured speaker and acknowledged expert on this subject at gaming conferences the world over. Mr. Kennedy was an active, collaborative partner in both the start-up and current marketing initiatives of China Sports Lottery.

He has been the recipient of several lottery honors, including a NASPL Powers Award in 1993 for his contribution to the industry's first secure recyclable paper instant ticket, an environmental breakthrough technology that has long since become the industry standard for how lottery scratch-off games are manufactured. He and his team hold a patent for the invention of the SGI Marketing, Analysis and Planning System. The system now contains over 20,000 instant games and is the basis for the empirical design and selection of thousands of instant games launched each year worldwide.

Mr. Kennedy received a Bachelor of Science in Computer and Management Science from Metropolitan State College in Denver and a Master of Business Administration degree from the University of Colorado. He and his lovely wife, Gayle, have two children, Nicole, 26, and Christopher, 18.

As skilled as he is on the world lottery stage, he is equally skilled on the entertainment stage. It is customary to see him, harmonica in hand, jamming with the band at customer-appreciation events at major lottery trade shows. This simple act of passion also serves as sort of a metaphor for the company's brand personality: Work hard, play hard, and make sure each customer always knows how much Scientific Games values their business and their fundamental mission. ◆



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James R. Maida, CEO, President and co-founder of Gaming Laboratories International (GLI)

GLI is without peer in its role as tester and certifier of electronic gaming equipment, operating in nearly 450 jurisdictions all over the world. Decades of building the most sophisticated and reliable procedures for testing and certifying products for the gaming industry have given GLI an unimpeachable reputation for integrity and a most formidable market position. GLI is a leader in the movement towards open systems, supporting the standardization of protocols, and promoting a more collaborative approach to business relationships.

Business models are evolving rapidly for everyone, and so too for GLI. GLI already sets the standard for superior performance in its field. So they're the only ones who can raise the bar on themselves. But that is what they continue to do, launching new initiatives like "Point-Click-Transfer" to streamline the process of tracking submissions and test results, sharing information that will help the industry come out of these challenging times healthier than ever, and relentlessly looking for opportunities to make life easier for their customers. GLI combines a most unique brand of creative and visionary thinking with a disciplined approach to business. Think equal parts Carl Sagan visionary and Vince Lombardi execution…

*(The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.)*

Public Gaming: Manufacturers are moving towards open networks, open platforms, interoperability, and to some extent giving up proprietary control of their customer relationships. Standardizing protocols gives the operator more flexibility to choose "best-of-breed" component parts to their system and to implement content and software from a variety of suppliers and not just the manufacturer of the hardware. What are the benefits of standardization of protocols to the industry, to manufacturers, to operators, and to GLI?

James Maida: I think the protocol issue has probably been misunderstood in some ways. Protocols today are more open then they've ever been, and that trend will continue. But we need to emphasize that GLI neither sets the protocol nor makes protocol recommendations. We believe that it is up to our clients, including our video lottery clients, lotteries that have networks that monitor games, and the marketplace to determine which protocols they want to survive. The good news is that we've had a great run with SAS and now we're moving to G2S, which is an XML and more open protocol. And our Lab is certified to test both SAS and G2S. But again, those decisions are made by those that are making the products and systems, and the operators and the lotteries that are purchasing those products and systems. I think openness is good, and it's going to continue, and we stand behind it 100%. We see that the industry will spend less time figuring out how to integrate protocols which should be fairly plug-and-play, and spend their resources on game development, new technology development and creativity rather than on things that aren't benefiting the players, or the states, or the casinos. The cost savings from standardizing protocols and eliminating inefficiencies caused by incompatible systems is significant and could be channeled to customer-focused benefits. Additionally, open protocols do not mean that the underlying intellectual property is not protected, that companies need to give up any portion of their IP. That is not the case at all. It just means that people can implement the protocol more easily. I think that's a confusing point, and I think GSA (Gaming Standards Association, www.gamingstandards.com), and others have gone to great lengths to clarify that. But the movement towards open-ness is not being driven by GLI. We take direction from our clients,

> We make it our business to understand these technologies literally years before they deploy to real-world applications…

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Clint Harris

Executive Director of the Minnesota Lottery;
President of Multi-State Lottery Association (MUSL);
Past President of the North American Association of State & Provincial Lotteries (NASPL)

Public Gaming: How much of your increase in scratch-offs (25% increase in 2008 over 2007!) is due to higher price point?

Clint Harris: Much of our sales increase is associated with the introduction of our $20 price point last February. However, we are still seeing increases in our $2 tickets and $3 extended play tickets. Even if we take out the $20 ticket sales, we are still running ahead of last year. Given the conditions with the economy, it'll be a challenge to maintain that. Realistically, while we'd like to maintain the 25% increase, we'll likely settle for lower numbers but are still hoping to maintain that within the double digit increases.

Will you be testing an even higher price point soon?

C. Harris: Minnesota will be introducing Scratch Game Books (a booklet containing 6 scratch tickets) at a $25 price point. It's a different and exciting product for our players and we believe it will do well. While some states have offered these game books at a lower price point, we want to position this product as something different and ideally not compete against games within our existing price points ($1, $2, $5, $10, $20). We're looking forward to launching this product in the fall!

How much of that increase is due to getting new players to play?

C. Harris: The amount of increases due to new players is difficult to isolate. While it appears that we have gained players, I think the growth can be attributed to the expanded Scratch portfolio, promotional elements and other initiatives we've taken. We've expanded the portfolio of games so we are appealing to our different segments of players. MN has done some in-depth research to better understand our players and offer games and promotions that will appeal to them. We've been very aggressive with our initiatives in both the Scratch and Online product line as well as our media campaigns with the last year. I feel that we are seeing the results of this both in sales and building our relationships with our players.

How important is brand licensing to getting the attention and interest of new players?

C. Harris: Getting new players to play the Lottery is the toughest job we have. Players that don't buy Scratch tickets don't notice our tickets or our POS in the store, so basically our only opportunity for a sale is to catch their eyes and ears through advertising, at an event or through word of mouth chatter. Licensed properties, such as a Twins ticket or a Betty Boop ticket give us something to talk about, a means to get PR mentions and a way to gain their attention, since licensed properties have an appeal or a cachet that our regular tickets seldom have. So brand licensing is a very important part of our ticket mix.

For instance, do you feel that the Hold-Em scratch ticket is drawing interest from card players who might not otherwise play lottery?

C. Harris: Yes, we do believe that this game is doing this. We've been fortunate to run Hold-em as a base game for several years now. We launch a new game every six month in an effort to keep it fresh. Players who purchase this ticket are very loyal. We don't see the same trend with Hold-em games as we do with some other $5 price point games. With Hold-em, we see the typical increase in sales at the launch of the game, but it tends to maintain sales at a higher level than other $5 price point games. There's no assurance that we'll be able to maintain this so it's evaluated every six months. Thus far, players haven't gotten tired of playing it and we're thrilled with the success of this game style.

Any new game or promotional concepts that will be important for 2009?

C. Harris: Because we always try to assess how we can bring better entertainment to our players, Fiscal Year 2009 could be very exciting for Minnesotans. We're currently planning on converting our instant-online Print-N-Play ticket line to a unique "progressive jackpot" type of ticket line; working on scheduling the introduction of a new $25 Scratch Game Book category; discussing how best to release Electronic Game Cards; working on enhancing our successful holiday Raffle Game by adding bonus merchandise and experiential prizes; and hope to add a "Little Gopher" game for an extra dollar to our Gopher 5 cash lotto game. Wow! We'll be busy.

Other lotteries have massaged the manner in which they deal with retailers, their 'retailer packages,' to accommodate big box needs. Has there been any discussion in this regard for Target or others in your market?

C. Harris: Because Target's headquarters are located in Minneapolis, we have been in to see them. At this point, because they have a relatively new CEO, they still don't have Lottery on their radar. But we did explain how flexible we could be in terms of dispensing equipment, rules regarding selling and redeeming, and the possibility of a Target Scratch game, and their management was very pleased to hear that. While no timetable for a next meeting or any decision was agreed upon, we intend to "nicely" pursue them in the upcoming months. Hopefully, we'll crack this big retailer in the near future!

Do you think there are ways to increase sales by changing the traditional retail distribution model?

C. Harris: We do think there are some models that could work better than what we have in place now for some bigger or non-traditional accounts. The stumbling block is

...continued on page 32

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Jeanette Michael Executive Director, D.C. Lottery
Jeffrey (Jay) Young Chief Operating Officer, D.C. Lottery

Director Michael and Mr. Young describe the process of restructuring the lottery. Actually, the process involved completely reinventing the entire enterprise, tearing it down and rebuilding from scratch.

*(The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.)*

Mark Jason, Public Gaming Magazine: Jeanette, your very impressive background includes extensive legal and managerial experience. What motivated the changeover to the Lottery?

Jeanette Michael: I was the DC Lottery's first general counsel back in the early 1980s. During the creation of the new government agency, I provided legal and administrative advice to five board members and professional staff. Since there were so few employees at the start up of the agency, I was intricately involved with all aspects of the lottery operation, such as marketing and sales, procurement, finance and IT. After five years at the DC Lottery, I was selected as a deputy director to DC government's largest agency, the Department of Human Services.

Before returning to the DC Lottery in 2001, I took advantage of different types of jobs including Chief of Staff to Mayor Marion Barry and training opportunities by being selected for the first class of the Center for Excellence in Municipal Management, a one year training course for top level DC government employees. I also worked for a brief time with the local Greater Washington Urban League. All of these experiences helped me get the job I have today, director of the DC Lottery.

My second day on the job was September 11, 2001. I watched the smoke billow over the Pentagon from my office window. It was a day that I was truly tested. After calming down most of the staff I had to decide how the draws for the day would be conducted and how long the system would operate. Fortunately, I had a great staff and a supportive vendor who all worked together.

I note that in your tenure you've significantly reduced staff and administrative expenses. Can you give me some detail on how you accomplished this?

J. Michael: The Chief Financial Officer for the District of Columbia, who has oversight of the DC Lottery, requested that we decrease administrative costs at the agency. To meet this mandate, it was decided that the DC Lottery would be restructured. Evaluating efficiency resulted in a look at the organization. We realized that we didn't need as many people or positions. Jay had just been hired at the time. His skills were invaluable to the restructuring effort. We also hired a consulting firm that provided us with an assessment of the organization. Based on the consultant's report, it was clear that we had to 'blow up' the organization and start from scratch. We created a whole new agency, new departments, positions and types of employees we needed to fill those positions.

This reorganization effort was consistent with our strategic planning approach. In order to ensure that the DC Lottery sends the maximum amount of money to the City's General Fund, we focus on two things: sales and efficiencies. Both are necessary to increase transfer to the General Fund.

So you really mean that literally. You discharged the entire organization, starting from scratch to create a brand new organization chart, employee job descriptions, flow charts for work flow.

J. Michael: Exactly. We wanted to arrive at an organization operating at maximum efficiency, and that was the best way to do it.

Jay Young: The restructuring took place in 2004. We had 110 employees allocated to us. Now we have 77 allocated, and 70 actually working for the Lottery. We reduced staffing by about 30%. It was a soup-to-nuts restructuring, wherein we completely redid the entire agency. That included interviewing roughly 700 people for the 77 positions that we now have. That means rewriting every job description, evaluating every aspect of what we do and why we do it. In conjunction with the restructuring, we also launched a number of structural initiatives to remove redundancies, refine all of our internal processing, reduce warehouse space, and eliminate unnecessary documentation. Everything from how we managed accounts to our sales and marketing initiatives were evaluated from the perspective of efficiency with effectiveness.

We also created process maps for all procedures, and produced Standard Operating Procedures (SOPs) for everything we do. Some of the biggest cost savings that we achieved were from improved document management and handling, elimination of processing steps and outsourcing of our instant ticket management process. We constructed what would be called a 'joint-service' processing system with Scientific Games. In the former Lottery structure, we had approximately eight employees involved in the instant ticket process, which was producing $27 to $30 million. Currently, we have three people involved in the instant ticket process, which today produces about $42 million.

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Jack Boehm Director of the Colorado Lottery

Jack Boehm officially became the director of the Colorado Lottery on July 1, 2008, after serving for 6 months as COO. Lottery operations have since been revamped from top to bottom. Director Boehm credits his entire team for taking control of the process from the beginning, for re-thinking and then rebuilding all aspects of lottery operations.

Mark Jason, Public Gaming: Your lottery experience is extensive. How many years have you been in the industry?

Jack Boehm: I started seriously in the business around 1983.

In that time, you've served in many capacities, from Deputy Director and managerial consultant to Director of Operations for a branch of GTECH. What do you regard as your most significant accomplishment in the industry?

J. Boehm: I think the most significant accomplishment was in launching the Minnesota Lottery in 1989, and doing something no other lottery had done at that time. We launched with a full capability to validate instant tickets at the retailer level from the start. We used an automated system with bar codes. We were the first state to come up with fully functioning systems through which retailer could validate through the use of bar codes and a dial-up terminal feed that came into our central system in Minneapolis.

How were tickets validated prior to that time?

J. Boehm: Primarily on the basis of a visual examination and inspection of the ticket by retailers. That's why there are retailer codes printed on the ticket. Those continue to be printed on the ticket today, even though it's not used in validation anymore.

Security is becoming an increasingly important issue. Is there a way, today, to automatically validate instant tickets and online games, and show the amount won, without involving the retailer?

J. Boehm: You'd have to modify the terminal extensively to display that information. It would probably be very similar to the way Grocery Store cash registers display the information. That type of capability would have to be built into the gaming terminal. Right now it's not there. The display is a fairly simplistic one. In Colorado, the display does tell if the ticket is a winner, but does not display the amount. We also have an audio statement made by the terminal, one that retailers cannot turn off.

In the press release announcing the change in logo, you say the new logo represents "a new era that will herald in new technology, new games and a new approach to branding." Each of these areas is worth exploring. Let's start with new technology.

J. Boehm: When I came in here a little over a year ago, the Lottery back-office was operating their system on a Wang computer platform. That technology was the same technology the Lottery started with 25 years ago. It was a decent platform back in the 1970s. The software is dated, the operating system is dated. Just the physical aspects of the system are dated. It's larger than it has to be, we're running out of capacities in the system. The Lottery could not launch a new online game, because the system didn't have the capacity to handle it. So, while our online vendor, Scientific Games, could provide us with a three-digit game, the back-office system couldn't handle it.

All the information from the central system feeds back to the back-office system, which validates all the data. This ensures that we're in balance, the right number of tickets have been accounted for, the liabilities for the game have been properly accounted for.

We're in the process of upgrading the system. The Lottery had been working on this for six years. They had estimated that it would take roughly 80,000 hours to replace the Wang, re-write the programs and so forth. They hadn't really gotten anything accomplished in the six years. The other problem that they had was a very contentious situation with the online vendor.

When I came in, I began the process by telling everyone that we were going to pretend that this was a new lottery. You can't spend the amount of money that we're talking about, close to $8 million, to rewrite programs with the Wang system as a base. We were better off completely overhauling the entire system.

I got a consulting company to review the entire back office system, with an eye toward finding best practices from an overall business perspective. They reviewed what other lotteries were doing as well as what other similar business were doing. That study took 8 to 10 weeks. One of the products from that was a document we could use to develop an RFP for the back office system. That was finished on June 30 of 2008. We put the RFP out in August, selected the winning vendor in September, and contracted with them in October for a full replacement of the back-office system. They're using a system called 'Class.' It's marketed by a company out of Arizona called PB Consulting, which was formed by a group of ex-Andersen Consulting partners. This is an upgraded version of the system I used in Minnesota.

> I told them to think of each process, each job, as their own… that it's not about me and what I'm doing, it's about them and what they are doing…We have since cut literally thousands of hours from the time needed to get things done…

Don't the vendors' central systems perform a lot of the functions you're referring to with the 'back-office system?'

J. Boehm: They do, but the problem is that it costs too much. They take a percentage of sales. This was one of the areas that they consultants identified for us. We asked them to review the costs of outsourcing versus in-house. What they came back with was that it could be done for about half the amount internally, by the lottery itself.

So your internal system will, when up and running, perform many of the functions that vendors' central systems perform in other lotteries?

J. Boehm: Yes it will. The target date for operation is May of this year. The Scientific Games contract will still be on a percentage-of-sale basis, but it will be a smaller percentage. We're in the process of negotiating a new contract now.

Do you see technology changes out in the field as well, at retail locations?

J. Boehm: From the perspective of the industry as a whole, suppliers are going to have to come up with a better terminal. The focus is going to have to be making the product available at a check-out station rather than at a customer-service station. The industry has tried several different devices. I know there are some out there being marketed today. There needs to be a marriage between the cash register and the lottery terminal. When that happens, it will make handling the product much easier.

What exact needs would you see that technology addressing? Possibly removing the clerk from the process?

J. Boehm: That's one possibility. The player-activated terminal has been on the market for a number of years, and has never really been well accepted in the customer environment. While some locations do extremely well with it, most locations average $1200 to $1500 a week in sales. That's not enough to support the cost of the terminal with that functionality. Sales have to be up in the $2000 to $2500 area to pay for the cost of the machine.

Now I'm not talking about ITVMs. Most of those don't sell the online games, just the instants. There are a few that sell both. What's happening is that instant ticket vendors are coming up with ways to integrate regular retail terminals that sell online games to their ITVM. Both INTRALOT and GTECH have machines that are married in that fashion. But those are expensive machines, anywhere from $18,000 to $25,000 per unit.

How many retailers have you got in Colorado?

J. Boehm: About 2,900. Now, you wouldn't put these machines in all retail locations. You wouldn't put one into a convenience store, the counter of which is already set up to distribute lottery games. There would be locations that would do well with player-activated terminals, though.

Any other types of technology changes on the horizon that you believe will make a big impact?

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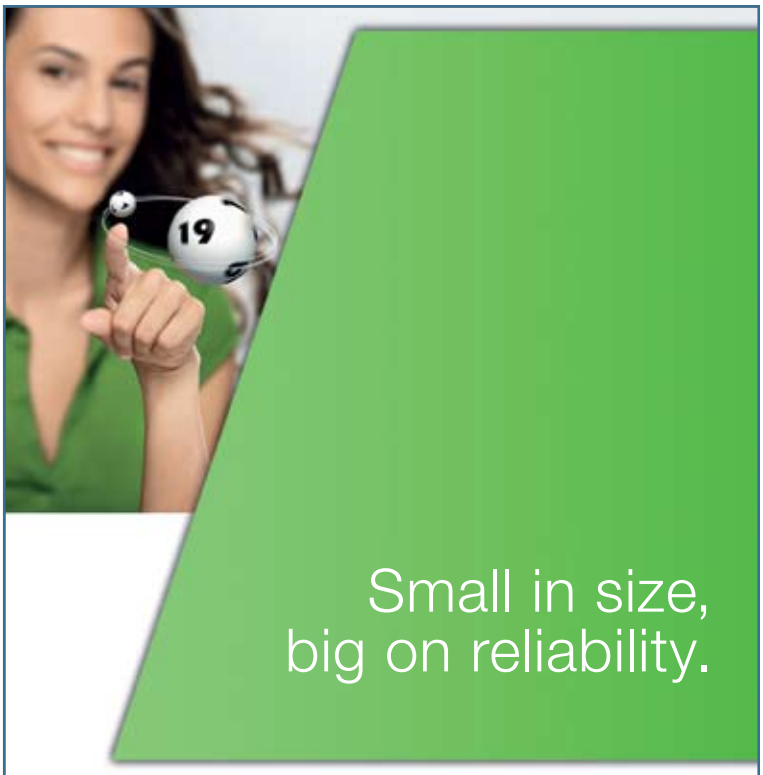

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George Parisot & Jeri Duran

George Parisot, Director & Jeri Duran, Director of Sales & Marketing of the Montana Lottery

With limited opportunities to expand the types of games and distribution channels, where's the growth going to come from? Montana Lottery gets creative at leveraging each and every success into as much residual impact as possible. Fantasy Sports ropes in a whole new category of retailers to the expanded portfolio of lottery products. World Poker Tour bumps sales for the entire Scratch line. Every small jackpot winner is an important public relations opportunity. Facebook and text-messaging become low-cost ways of reaching new demographic targets.

*(The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.)*

Paul Jason, Public Gaming: Let's just start with a description of the games that you offer and the channels that you distribute through.

George Parisot: The lottery offers both lotto and scratch games in Montana. We have Powerball, Wild Card, Hot Lotto, and our own in-state game, Montana Cash. We also offer a variety of scratch tickets from the $1 to the $10 prize point. We just completed our Montana Millionaire raffle game, which ended December 31st. We felt like it was pretty successful, since we sold 97% of the 150,000 tickets, and that was a $20 game. I think just under 150,000 tickets for a population of 945,000 is a pretty good amount of tickets to be sold. So we're pretty happy with our Montana Millionaire game.

You said that the price point on Scratch games range from $1 to $10?

G. Parisot: Yes. The raffle was $20. And that was the highest price point ticket lottery game we've sold.

Are you thinking you might want to test a $20 scratch ticket?

Jeri Duran: Absolutely. But we really just launched our ten dollar price point last year. So we're really trying to work on getting that a little more accepted in the market place before we do a $20. But we're definitely looking at that within the next year.

It seems like a little more than a year ago there was kind of a rediscovery of the potential of raffles. Then the enthusiasm on the part of the marketplace seemed to change so that the initial great performance diminished with each subsequent raffle game. Is there a life cycle to the game? Do you have to "rest" the market for a period before running too many raffle games?

G. Parisot: You know, I think in Montana the game has been very well received. We've only done it for two years, and in these two years we've sold 97% of the tickets on both occasions. So we feel that there's significant interest in the game in Montana, and we plan to continue it in the future. In fact, I think we're going to run it again basically in the same version as we have this year, starting in November of '09. From our perspective it's a very effective game for Montana. I know other states have seen a decrease, and I think that may be just overuse of the game in some markets, running too many raffles or having too many tickets available for sale may be the issue. But Montana is kind of a different state. Folks like the kind of raffle type game that we have and find it fun. In Montana, clubs and organizations do games called 50/50 Raffles. The raffle benefits an athletic association for the university or other organizations and the pot is basically split 50/50. I think our Montana Millionaire has even better odds than that, better pay off than that, but Montanans are used to those kind of raffle games.

> By adding 175 new retailers for Fantasy Sports, we've added 175 new retailers for all of our other products, too. It was about a 30% increase in retail locations for us, so that was important.

Is there anything that you're planning to give special attention to in the next 12 months?

J. Duran: There are a couple of things. One, we were a bit concerned about doing the raffle style game with a $20 price point in this kind of economic environment. We found that just keeping people informed about the great odds of the game, making it a well-run advertising campaign and doing more promotion with the winner, than what we've done before, made the game really successful. It was equally successful last year in spite of the economic challenges which we thought might make a bigger difference than they did, so that was really positive.

Another thing most lotteries are looking at is that younger demographic. We are working on a program with the World

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Brand Value = Integrity + Transparency + CSR

By John Luff, Founder of Sustainable Marketing (www.Sustainablemarketing.co.uk) and a founding member of the World Lottery Association (WLA) Panel on Responsible Gaming

*(The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.)*

Mr. Luff is part of the WLA panel assembled by Mike Randall (formerly head of Corporate Communications for Atlantic Lottery Corp. e-mail mike.randall@rogers.com) that is tasked with evaluating responsible gambling framework submissions from lottery operators from all around the world. This panel includes 4 others who come from outside the lottery and gaming industry. The hope is that this "best practices" approach to integrating the perspectives and methodologies employed in other fields and industries will augment the ones we are steeped in our own gaming industry. The end result should be a WLA membership that excels in this space, that sets the highest standards to which all operators in the gaming industry will be held. This is consistent with a theme that comes across in virtually all of my interviews with leaders everywhere. That is that it is shrewd business strategy to be the ones to proactively raise the bar on yourself. The paradoxical aspect to that concept is that the time to genuinely raise the bar on yourself, pushing to set for yourself a higher standard of performance to adhere to, is when you don't have to do it, when you're already ahead of your peers and competitors. The reason is simple. That's when you are in the ideal position to put so much space between yourself and your competitors that they'll never catch up. Or, in the case of government sponsored gaming operators like lottery organizations, that the shapers of public policy will easily see how and why the public is best served by implementing expansion of gaming through their own "lottery" organizations. CSR and sustainability in this context is much more about economic, political, and cultural considerations than environmental ones.

Please feel free to contact Mr. Luff or Mr. Randall for more information on the WLA Responsible Gaming Framework and certification procedures. Over to you, Mr. Luff:

My focus is on building and retaining brand value. We live in an age when universally distributed communications reveals our strengths and weaknesses in bold relief. And it does that instantly. Any professional marketer knows that a brand not built on ethical marketing principles is living

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Tom Little President and CEO, INTRALOT USA

Trying to connect the dots…There are no easy answers, but we talk about RFP's, the importance of forging better working relationships between lotteries and their commercial suppliers, the need to create alignment between state legislators, lottery organizations, their commercial suppliers, and how all these things relate to creating a cultural climate that supports change and innovation.

Public Gaming: Let's just start with RFPs. There seems to be a number of problems with the way that RFP's are constructed. One problem would seem to be that the online lottery implementations require a large capital investment to install terminals, servers, communications networks, etc. The only way for the lottery to minimize the annual cost is to allow the supplier to amortize that large capital investment over a long period of time, typically 7 to 10 years. That would seem to impinge on the ability to upgrade and improve on the system as new and better technology and products become available. How can you have a long-term RFP and contract that allows the supplier the flexibility to upgrade parts of the system as new and better technology becomes available?

Tom Little: In a word, you can't. But we can and should be doing more than we are to rationalize the RFP process. I think almost everyone would agree that the RFP process has not changed much over the last 30 years. I've been in the lottery business for 35 years, and from my perspective it literally hasn't changed in all that time. Think about that. The RFP process is ruled by laws and procedures that were established more than three decades ago. As a result, we see RFP's that can be hundreds of pages long. I suppose these incredibly long manuscripts are intended to address every question that may arise and guarantee that there are no misunderstandings. But of course, they do just the opposite, creating far more confusion and ambiguities than a simple, straightforward request to describe what you can provide, how much it costs, and how it will help to accomplish the objectives. It could be stated in a few pages. In my opinion, a more straightforward and simple RFP has fewer inconsistencies and would also decrease the number of protests. The really unfortunate thing is that in spite of their length, they don't provide the clearest picture of the bidders' capabilities. Five or six years ago, Georgia came out with an RFP that I believe was less than 40 pages long. It allowed the vendor to really tell the story of what they wanted to provide and how they wanted to do it. That type of RFP make a lot more sense.

So, why aren't RFP's done that way instead?

T. Little: I don't know that I have all the answers, Paul. First, thirty years ago the life cycles of technologies and products in general were much longer than they are today. So the need to adapt to a changing marketplace and new technologies was not as much of an issue as it is now. Today's RFP process should encourage the bidders to propose new technologies and new products. As it is, we'll sometimes receive an RFP that is timed such that the resulting contract doesn't materialize into an actual conversion for up to two years. With today's rapidly advancing technological landscape, Lotteries will loose the benefits of potential improvements and innovations if the RFP specifications are too narrowly drawn and deny the operator (and the Lottery) the option of assessing and utilizing the benefits of new products that might deliver a superior result. Consequently, there will be new products and technologies that could deliver superior value but will not be considered because they cost more or do not meet the original RFP specifications in some way. But this is all part of a bigger problem in how decisions are made.

How so?

T. Little: I would call it a problem with alignment. You have the state, the lottery operator, and the commercial supplier all pursuing separate agendas. It seems to me that this situation is seen as just being a part of doing business and just accepted as the way things must be. It's as if we all have our individual roles to play, and more often than not, those agendas are competing with one other. I would be the first to admit that some aspects of the negotiation process can be adversarial, but that shouldn't mean we can't work together to find the most efficient and effective ways to operate and accomplish the objectives. In many ways, our interests are the same. The state, the lottery operator, and the vendor…we all want the business to operate as a good corporate citizen, to comply with all state regulations and directives, to provide entertainment to players in a socially responsible manner and to deliver maximum funds to good causes. Operating efficiently and effectively would be an important part of achieving those goals, and that's where there is a disconnect. If a business process,

The RFP process is ruled by laws and procedures that were established more than three decades ago…a more straightforward and simple RFP has fewer inconsistencies and would also decrease the number of protests. The really unfortunate thing is that in spite of their length, they don't provide the clearest picture of the bidders' capabilities.

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The Spirit of Adventure

"End of the Trail" photo courtesy of the National Cowboy and Western Heritage Museum®.

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Player Socialization and Community-Based Gaming in Video Lottery

By Victor Duarte, Chief Operating Officer, Spielo, a GTECH company

As players' backgrounds and attitudes are changing, manufacturers need to cultivate value-driven, revenue-generating products for all player demographics, particularly new and growing segments.

The players who are driving new trends in the industry are people who've been exposed to more media and entertainment choices than any other generation before them. As a result, they have higher expectations for content, often shorter attention spans, and are more comfortable incorporating technology as part of their social dynamic; this is the generation of instant messaging and Facebook. That's why community-based gaming, as an example, is so attractive—it responds to player needs to interact and enjoy gaming as a social experience.

With that in mind, we're seeing an increase in demand for social gaming experiences, especially with enhanced entertainment. Lotteries want to add value to the gaming experience beyond the traditional VLT environment. Spielo has established a multitude of products and content to appeal to these players. Our technology and systems are responding to that with new features that draw multiple players together as a group. These are the same players who like relaxing around a table at a bar or restaurant with friends—they also want to enjoy vivid, compelling games together.

The concept of community gaming has been around for a long time—think wide-area progressives or slot tournaments, for example. But there are exciting new ways to add diversity to community gaming content. For instance, some of our European clients are requesting multi-play options, where two players compete and/or cooperate on a single game on a single machine. We could soon see this approach in the North American market, too.

In some markets where regulations don't permit a live dealer, electronic table games can conform to existing laws while responding to previously unsatisfied player demand and to players' desire for a group gaming experience. As a result, many markets are showing great potential for electronic table games. For instance, Spielo and Atronic are introducing Alfastreet to the Rhode Island and Delaware jurisdictions, where table games with virtual dealers fit into their lottery legislation.

In terms of hardware, our WinWave=2 0Vu™ cabinets boast value-added features that will attract the newest generation of players and allow them to experience the games in a more social way. For instance, dual play buttons offer flexibility and the potential for two-player games. Also, the remote play button means as many as three people can participate on a single game.

In addition, players are coming to expect a wide-screen image like the ones that are standard in television and film. The WinWave Vu cabinet features dual wide screen 19-inch LCD's—big enough for a player and friends to gather around and watch together.

Comfort is another key feature. Ergonomically, the WinWave Vu's remote button allows players to relax and sit in whatever position is more comfortable for them. They're able to enjoy the game more fully as a result.

We're also bolstering entertainment value through downloading and dynamic game content. There was a time when operators refreshed games once every few months. Now, that can happen multiple times per day. The WinWave Vu is a completely downloadable VLT, including the digital glass and digital button boards. Being nimble when it comes to content helps respond to these players' desire for the latest and the best, and the WinWave Vu allows that without requiring servicing or downtime on the operators' part. Lotteries need strong-performing, well-built machines, and that's why we built the WinWave Vu.

Our new prodiGi Vu™ cabinet is aimed at venue-based markets, but can be used in some distributed jurisdictions. The prodiGi Vu responds to players' entertainment expectations with dual 22" LCD screens, enhanced multi-channel sound, remote button, and multiple button board options, so more than one person can comfortably use one machine. And it's fully upgradeable to server-assisted gaming.

The powerful sensys™ platform gives both cabinets remarkable horsepower. Sensys has the memory and capability to provide the sophisticated game content players expect.

GTECH's expertise in central systems is also helping us respond to the need for heightened entertainment value and multiple-player participation. We expect the Intelligen™ central video system to be the leader in its class. It's the industry's first wide area GSA standards-based product, which leverages the functionality of the G2S-distributed and S2S protocols. For distributed markets, its application software and control enables new gaming solutions in social, tournament, and community gaming, as well as a linked progressive capability.

Finally, it's important to note that players might find the latest bells and whistles interesting, but technology won't keep them at a machine if the content is lacking. Our developers know that enhanced features only work if there's a solid bedrock of proven content underneath it all. No matter how much players change over time, Spielo will always put its emphasis on great games. ◆

Victor Duarte at the IGE Gaming Show in London

*(The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.)*

Paul Jason, Public Gaming: We're here at the IGE Trade Show in London, January 2009. The SPIELO—ATRONIC booth is buzzing with activity, so it's hard to get the attention of Victor Duarte but he agreed so we're holding him to it. Robin can do the selling for a few minutes. Victor, SPIELO is working on a lot of new things, some really interesting breakthroughs for new technology in server based gaming…

Victor Duarte: We expect 2009 to be one of the most exciting years ever for SPIELO. We have a lot of new products that we're releasing into the market. It usually takes a little time to create momentum for something new, but we're jumping right in with substantial initial sales volumes.For example, we have the prodiGi Vu™ cabinet, which we've just released, and we already have an agreement to install 2,500 units in Oregon this year. That is important, because the prodiGi Vu will become the baseline product for us in the commercial business in North America. We expect to ship a good number of those into commercial casinos around the United States and Canada this year.

When you say for the commercial side, is it branded under SPIELO or ATRONIC?

V. Duarte: As of now, the prodiGi Vu cabinet is branded under SPIELO. However, we are having discussions internally on whether or not we would also brand it under ATRONIC. Frankly, we prefer to focus on the brand of the machine, as opposed to the company. So prodiGi Vu is the brand, and that's what we try to emphasize, rather than whether or not it comes from SPIELO or ATRONIC. Similarly, we have another new cabinet called the WinWave Vu™. We're working with one of our signature customers, Svenska Spel, to release the WinWave Vu in significant volumes throughout this year. It's important to note that the two brand-new cabinet options have different focuses: the WinWave Vu is aimed at the traditional distributed VLT market, while the prodiGi Vu is aimed at the venue or casino-style market. So far, we're pleased and excited to see our customers respond so positively to these two new cabinet styles.

So the prodiGi Vu is more for the commercial casino?

V. Duarte: Yes, more for the commercial casino market. However, some customers—Oregon is one—feel that it fits their distributed VLT model as well.

And how or what are some of the ways that the WinWave Vu is different than the prodiGi Vu?

V. Duarte: Inside, there's very little difference between the WinWave Vu and prodiGi Vu cabinets in terms of the platform. The difference is in terms of esthetics and shape. The WinWave Vu is not intended to look like a traditional slot machine, with chrome and frame lights, for instance. It's designed primarily to fit into the distributed market. Typically, that market is characterized by small venues where gaming is an ancillary activity. A typical distributed environment is a bar, tavern, or restaurant, for example, with a limited number of machines and gaming is another activity offered there. That's in contrast to a casino, where generally speaking the primary focus is the gaming experience, and the larger venues have a much greater number of machines. So the product is designed differently, especially the look and feel. The difference is actually quite obvious when you look at them side-by-side.

Continued online. The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.

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not vice-versa. We are a test lab, not a policy-making body, so we will test what our clients ask us to test.

Is there an aspect in which manufacturers or suppliers in general can talk the talk but not walk the talk, comply with G2S and other protocol standards while not genuinely making it as easy as they could for the operators to implement content or software provided by competitors?

J. Maida: I think it's increasingly difficult to do that today. Because of the GSA organization and all of the major manufacturers becoming member companies and working together to move the industry forward towards openness…whether it be AGEM (the Association of Gaming Equipment Manufactures, www.agem.org) or GSA, we have seen unparalleled cooperation among the suppliers. Again, as the Laboratory, we are a bit removed from that. That is a commercial issue between competitors or between groups of people that, for our clients' sake, the Lab must remove ourselves and just test against specifications that our clients want to test against without being a part of the system that we're trying to independently verify and certify for our clients.

On behalf of Peter DeRaedt and Marcus Prater, I thank you for that plug.

J. Maida: And I would encourage you to speak with both of them and ask them that very question.

Point-Click-Transfer is a great example of the initiative that GLI takes to make things more efficient and cost effective for your customers, but doesn't necessarily increase income for GLI. Explain how Point-Click-Transfer works, how it helps your customers but also how it contributes to the evolution of GLI's business model and profit structure.

J. Maida: This year we worked with over 330 different suppliers. And one of the things that we saw was that people were spending money overnighting submission letters to us. They then waited for the approval to be overnighted back to them. We wanted to facilitate the process for our clients, we wanted to help our customer get in line as quickly as possible so that we could start working on their item. Then we wanted to get their results back to them as quickly as possible. So we created things like GLI Access®, which allows them to log on to our system via their computer and see every product that they have in the lab, where it is, what office it's at, and when it will be approved. Much like you might track a package. That was the first thing that we did.

The second solution we created was the GLI Verify® product. The customer used to have to download long lists, 200 or 300 pages long. Now there's a software program that we're going to be distributing next month that will update their computers every night much like McAfee virus scan does on your personal computer. So now the customer can easily check every day to see what's approved, all the data on their computer is updated on demand and updated every night whether requested or not.

The third creation was Point-Click-Transfer, which greatly expedites and simplifies much of the submission and paperwork processes. The benefits to the customer are really quite significant. For example: Say you're in South Africa, and you realize that for some reason you didn't submit for a South African approval. But it's approved in Illinois, or maybe it's approved on a California Indian nation, and you need it for South Africa on Thursday and it's Saturday night, who do you call? You can log on to our system and post your request. You put your paperwork transfer in, you get a receipt and notification that the paperwork is in the system, and when we come in on Monday morning we know to look at that and to start working on it. No overnighting, no having to call our office, everything is streamlined to be easier and more efficient for the customer and for us, and the customer gets the results much faster. So we call it Point-Click-Transfer because you find what you already had certified at GLI, you point at it, then you pull down a drop down menu box and you have all the jurisdictions that you haven't had approved yet and you pick whatever you need and then you hit "Transfer." It's all done electronically. We still do the testing and we still do the paperwork and get the results to the jurisdiction that you want to receive it, but you don't have to worry about typing a letter up, put it in an overnight envelope and shipping it to the nearest office. We also can take that same transfer and do it locally. So if you're in the U.S. and you need to get the information to Europe, Africa, or anywhere, you don't have to spend the time and money and paperwork doing your shipments. But even better, it gives our clients' peace of mind to see instantly that everything is in progress. So they can go about their business and not have to think about and worry about whether things are getting done. They immediately know it's in our database, and they can just check in online with us whenever they want to. In 2008 our average turnaround time for submissions was somewhere in the 30 day range, now it's less than 20. That is good for us but it's great for our customer. We can also tell you that in 2008 we pushed more products through the pipeline for the same amount of cost for the supplier. We are getting more efficient, and what we do, frankly, is pass that efficiency savings along to our customers… lotteries and video lottery, casinos, gaming regulators around the world, and the suppliers.

How do you determine what to change? Does the impetus to improve come from employees pushing for change, from customers asking for improvements…

J. Maida: We have a supplier development team that goes out and meets with our clients and asks them what they would like to see from us. As in, fill in the sentence, "I only wish GLI would do…" Every week we have a meeting to discuss this input about what the suppliers want us to do. We also have a team of people internally that think about themselves as if they were a supplier, or a lottery, or one of our clients, and not as someone who works at GLI. Really putting themselves in the shoes of the customer, ask themselves how they feel about the GLI experience, what could GLI do that would make their job easier.

The senior management team gets those ideas together and we figure out how to implement them. We spend hundreds of thousands of dollars a year in R&D to find ways to provide excellent customer service, create a more efficient and rewarding experience for the clients. We know that the more that we put through our pipeline, the more that will continue to come at us. The interesting thing, Paul, is that the things we do to improve efficiency actually result in residual, sometimes unexpected, improvements in quality, consistency, and performance. We have found that improving efficiency for the purpose of reducing costs has resulted in improvement and consistency of the

> We work for regulators and governments at their request, and we know our place. Our place is as a provider of advice and technical support to regulators. It's their jurisdiction, and our role is to help them.

quality of the service. We track every quality issue that we have, and in 2008 our quality has been 99.9% or better in terms of after market problems that might come in. We certified over 180,000 pieces of software in 2008. To maintain the highest quality standards at that volume requires a commitment to quality and a commitment to customer service.

So the focus on efficiency enables you to grow quickly and maintain the highest QC standards at the same time.

J. Maida: We were the first Lab to operate internationally and continue to operate in far more jurisdictions than any other lab. We were the first lab that opened an interoperability center, first opened in 1999. We actually coined the phrase 'interoperability center' to describe what we were doing. We're the first lab with Point-Click-Transfer, we're the first lab of any lab in the world, public or private, government or not, where you can go onto a website and see where your submissions are. And we're the first lab to create an in-house tool to signaturize software. Why? Not because we needed to do it, not because clients called up and said "I've got this software and I can't signaturize it online". It's up to us to take the initiative and change proactively, thinking constantly about how we can improve the customer experience, anticipating their needs…we created those tools for our government clients free of charge because we realized that if we approved something that they can't test on the floor, how do they get it in on the floor? They can't. So almost all the new technologies we create are tools to enable our regulatory clients to track the status of everything. Point-Click-Transfer is the latest and most important initiative to do that, but we have been consistently doing that for over 20 years.

How do you forecast where the industry's going in terms of software in order to stay ahead and create the software and procedures that can test it?

J. Maida: We have development supplier teams based in Las Vegas, but also in the U.K., mainland Europe, in Africa and Australia. We have a supplier visitation program, visiting each of the suppliers anywhere from one to six times a year depending on what their needs are and what makes most sense for both of us. And because we are viewed as quasi-regulatory, we aren't allowed to have any financial interest. We're not allowed to buy stock, we're not allowed to have any interest on what goes on in the industry. So we can ask the supplier what technologies they're working on, what is their roll-out schedule for 2009 and 2010. And frankly, we collect that from each and every suppler that's submitted equipment to us from the smallest to the largest. And then we come back in our meetings with HR and the directors of engineering and the development staff and we forecast the number of employees we will need to hire. In the last 12 or 15 months we've hired more than 100 employees at GLI, and we're still hiring. I think our goal is 42 more employees for 2009. So we know what's coming, and our commitment is no denigration in efficiency or time to market. That's why it is to everyone's benefit to tell us ahead of time what their projections are. That way we can, at our cost and our risk, prepare our business six months, nine months, a year in advance. So we take actions now to prepare us for the changes that take place and always be ahead of the curve, prepared to deliver superior service even when the needs are changing quickly. Right now we're preparing for the G2E show next November, and we are already talking about what products are going to need to be approved for that show. And it's only January as we sit here today.

We freely transfer knowledge to them because our best clients are the most educated clients. We promote transparency, helping the client understand as much about what happens and how it all works as they are willing to learn.

Along the same lines, how do you stay ahead of all things cellular, Internet, network communications, etc.?

J. Maida: We invest heavily to do just that. We have incredibly talented teams of researchers and engineers whose job it is to understand the technology and how it's evolving better than anyone else in the world. We make it our business to understand these technologies literally years before they deploy to real-world applications. In fact, our research gets so far outfront that we are forced to develop standards to enable the regulatory process to work. Regulators ask us to come up with standards for them to implement new technologies. GLI was the first lab to build its own set of standards, which is the GLI Standard Series. As new technology comes out, like class 2 gaming, electronic bingo, electronic lottery…we develop standards for our regulatory process to adopt them. And we think about how a certain technology that is currently not in the gaming industry will be applied when it does get to the gaming industry…what it will look like, what type of engineers and skill sets will be needed? Today it's Java and XML. Five years ago it was C++. We've always stayed way ahead of the curve.

A variation on a question that I've asked Roger Farrell and Kevin Mullally: It sounds like your regulatory clients would like to depend more and more on GLI to help them from the beginning stages to formulate their strategic approaches. As opposed to having GLI focus solely on the testing and analyzing, They would like to engage you earlier in the process.

J. Maida: I know you spoke with Kevin about this previously, and I think it's really important that we remain objective consultants to our government clients. We may give advice, but the policy and the direction of gaming is a state by state question. And it is those parties (legislators, gaming regulators, lottery directors, etc.) who set and implement policy, not us. We do get involved early on, and we do assist with advice. But our advice is always confidential, our advice is not on behalf of the industry but on behalf of what our clients are asking us for and trying to give them the best practices. The advice we give is based on those considerations and only on skill sets that we understand. The final decisions may include those considerations, but ultimately are driven by many other factors, political and otherwise, and we fully understand and support that fact and serve totally at our clients' direction. So we do get involved early on in helping to draft legislation, helping to draft rules and regulations, helping with drafting documents that are going to be needed for the gaming regulation. But always at their request and for them to use and do with as they wish. We work for regulators and governments at their request, and we know our place. Our place is as a provider of advice and technical support to regulators. It's their jurisdiction, and our role is to help them.

Continued online. The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.

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So in that case you are drawing on Scientific Games' central system to do a lot of the processing, gain all data needed with minimal labor time for lottery personnel.

J. Young: Yes. Of course, we still project manage, construct and implement the marketplace strategies. In fact, since we're freed from the processing, we're able to concentrate more effort towards the marketing and advertising; action steps that specifically help drive the sales. The win-win is that we were able to reduce our expenses at the same time as increasing our sales and profit in instants.

The restructuring sounds like an enormous amount of work.

J. Michael: It was difficult. It is not easy to inform your employees that things will change and you might lose your job. The process took about a year. During that time I had to keep the organization running, meet with each employee, and inform most of them that they had not been selected to remain.

J. Young: It actually wasn't that bad. We convened a benchmarking study in late 2003, prior to the beginning of the restructuring. In that process, I led a group of internal people who visited a number of lotteries that we used to benchmark in our particular areas. We went to look at Maryland, Virginia, Rhode Island, and New York…all lotteries that derived significant revenues from major metropolitan areas. We looked at everything they did, the number of people they had, the processes they used, what their annual budgets were for advertising as a percentage of sales, and other operational issues. After gathering all that data, we were able to make assessments about our own organization. For example, one easily identified component was that we needed a research unit to spend more time with promotional assessment, trying to get us better real time information regarding market-based ascertainment.

J. Michael: We also employed a cross-training program that has really helped to improve efficiency.

J. Young: That's consistent with the SOPs we've adopted. Within that concept, we trained staff in critical functionality in each area. That way, when employees are out or unavailable, we always have trained personnel to backstop their job functions. That's allowed us to fully function with fewer people. The draw process, the field promotion process, auditing, and procurement: we have a number of employees capable of performing these functions through cross-training.

That enables you to eliminate duplication as the backstop.

J. Young: Exactly. And, in conjunction with that process, many processes such as procurement, legal and HR support, were centralized. We no longer have or need direct control over that, but instead have a sort of matrix, dotted-line reporting system for our essential services. We still manage these processes and have staff responsible for monitoring and dealing with any situations that arise, but direct reporting and head count reside in a central structure.

How long did the rebuilding take?

J. Young: The rebuilding took about 18 months. It takes awhile to recruit new employees and go through the process of synthesizing the jobs. We actually had about 85% of the personnel on board. The actual announcement happened in August or September of 2004. We had 80% of the staff in by the following April.

But changing the personnel was just the first part of it. Next was getting staff trained, getting everybody on board with the same mission, doing strategic planning, and then working through the new metrics necessary to show the impact of the improvement. Consistent with that, for example, we launched a business case analysis program. For all new initiatives, we set a new internal guideline of a 20% rate of return. And we established a formalized process for analyzing new opportunities. We put together a new analytic platform, a new data warehouse, and an information portal that helps us track and share information.

Another critical aspect of this process was to identify operations we were handling internally that could be better accomplished externally through vendor support or other external processes. For instance, no we now conduct 'post-mortems' on all promotions, analyzing what worked and what didn't. In one of those post-mortems we created a program for outsourcing our field promotion support. As a result, we now have a field promotion team for events and promotions. We have also transferred a significant amount of functionality to our advertising firms and ad agencies through our new contract. We entered into a new agreement with Scientific Games that allows us to both push some responsibility over and to improve some operations. There have been a number of opportunities like these in which we've taken advantage of what's available in the marketplace to help us be better and more efficient at what we need to accomplish.

Do you think you could have accomplished all these positive results without the extreme measure of 'blowing up' the entire organization, or would the existing corporate culture have held you back?

J. Michael: We had to blow it up and start again. Most of the Lottery's employees just prior to the restructuring had been here for 15 or 20 years. We needed people with different skill sets, people who could look at things differently. That simply wasn't possible with the current employee group. Not that they weren't all good hardworking employees, but in order to accomplish all that we set out to do we needed people who could bring new ideas to the operation of the agency. Change is hard. However, it is easier when you change most of the employees who come to the agency with different skills and attitudes. Consequently, we start from scratch.

Changing job structures can be difficult with long-term employees who have been doing things in certain ways for years.

J. Young: I don't think that's necessarily true, though it is often what is found. I think you really have to get down to identifying the work needed to be done, and find people who are most capable of doing that. One of the basic steps in any organizational restructuring is to institute real employee evaluations. That's very difficult in an organization where employees have grown very accustomed to being where they are and doing what they do. There must be strict guidelines on performance, on service delivery, on expectations, and a management structure that constantly reinforces that, not just periodically or on annual reviews, but daily, weekly, and quarterly. That's the transformation process that takes a fair amount of work. And that's why I gave you the 18 month window. Changing the environment and imposing the discipline is what takes a fair amount of time.

People resist change and transformation. It's not just that people fear it, but they have their own comfort zone, their own experience and expertise. The trouble comes when you want to change that, because you cause people to reach down into their core skill sets and what they are able to deliver on a daily basis. Make no mistake: culture stretches to every

aspect of an organization. It goes to manner of speaking, it goes to dress code expectations, meeting attendance, promptness, execution time frames, and follow-up. These items all seem basic, but without the highest level of expectation and execution in all aspects of the corporation, it results in not manifesting itself properly.

J. Michael: And it has to come from the top. My job is to make sure everyone in the organization is clear about my global expectations for the agency. I try to create an environment where employees can do their best work. I meet with every one of my employees each quarter, to guarantee that each is clear about our goals and our responsibilities.

We are very supportive of employees with the appropriate attitude toward their jobs. Jay puts it very simply: you come to work, you do your job very well, and you go home. We definitely have a requirement for excellence. For both Jay and I, 'good enough' is not a term we ever want to hear. The expectations have to come from the top. Employees have to be clear about why they come to work every day, and what's expected when they do. What I communicate to my staff is that it's not about me, not about the mayor. It's about the people of the District of Columbia. That's why we come to work every day, to do the best possible job for them, return as much as possible to them. Money that comes from this agency is used to support programs that benefit the people of the District of Columbia.

We also make certain everyone understands that we all, every employee of the Lottery, is responsible for creating sales and increasing the return. We distribute sales data every day. Every employee knows each day where we are relative to our targets. I think that's important. If you are looking for an entire organization to support the ultimate goals, you need to both emphasize what those goals are, and then keep everyone informed on the progress compared to those goals. We are truly public servants here.

J. Young: As an example of that, we launched an internal scorecard process that we produce quarterly. Each department receives one, and these 'roll up' into each department. These scorecards track important metrics relative to our goals. Some of the components of a scorecard are average sales per employee, returns on marketing and advertising dollars, how some of the core metrics compare to others against whom we want to benchmark ourselves. So we're paying strict attention to all of that on a regular basis. Early on, we launched a process in which we were doing competitive analysis every month. We had a group of people looking at all the literature in the lottery industry, to discern what constituted best practices, and try to align some of those with what we were doing.

We began an overall selling strategy, with new promotions, new games, new venues. So we're always trying to gain information from the literature to see what we may be able to implement here.

Has the delay of the contract award affected you much?

J. Young: We began a three to five year plan for the future of the agency. That starts at the doorway, when you enter the lobby and how we are first introduced to all. We've built a resource center for meeting space, web access for multi-dimensional meeting spaces at several points in the building. We have changed the look, feel, and character of the building in many respects. We've upgraded all the desktops with the most current technology. This was not just a one-time overhaul. There's a road map that has been put in place, touching and concerning just about every aspect of what has been done within the organization and literally in this building.

Part and parcel of that is that we had designed an internal system to meld up with and mirror the external technology, so that we would go from worst to first in the industry. That was our stated goal three or four years ago. For example, to address an audit concern has gone from weeks to days, and sometimes hours, because of the ready availability of information. We've gone from using rooms full of people to address problems to one person, one manager, who has access to all information and can address what needs may exist.

Last year, we launched pretty revolutionary research designed to provide great new levels of information regarding our customers. Who our core customers are, who the lapsed customers are, what turns them on, what turns them off; all of this information is now readily available. The point to having a new gaming architecture is to allow us to launch games that we believe would help us expand our core player base. That expansion of the core player base is really where the revenue is, and what allows the lottery to build an ever-increasing solid foundation of revenue and return.

So, we've put a lot of work into preparing for a new gaming system that would help us accelerate extensively where we were from our baseline. Without the new gaming system, that acceleration is not possible. We can only do so much with a system that dates back at least ten years. Many of the new games require extensive memory and are not products we can offer with the current system, which hurts our revenue. The short answer is that we've done a lot of work in preparation for that last mile: the new gaming system. Without that last mile, we are losing near-term revenue opportunities. What we have to do now is extend the timeline from the time in which the new feature functionalities will be brought to the agency.

What needs to be understood is that we have a core group of lottery experts available. We started in 2004 and 2005 to design what we wanted to do with the gaming system, how we wanted all the architecture to match up. That process was completed in 2007. Then we were in limbo for a year awaiting the conclusion of the political process. At the end of that time frame, we received a non-decision, and so we have to restart the clock with another solution that we think will help us go that last mile.

> It was clear that we had to 'blow up' the organization and start from scratch. We created a whole new agency, new departments, positions and types of employees we needed to fill those positions…we focus on two things: sales and efficiencies"

What you're focusing on is that internal and external mechanisms need to mesh seamlessly for maximum efficiency, and the delay in decision-making has halted the Lottery's ability to move forward with plans that are already in place and ready to go.

J. Michael & J. Young (at the same time): Absolutely.

Continued online. The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.

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J. Boehm: Certainly the use of the Internet and associated devices has yet to be fully explored. I think both the law and technology have to progress some before we as an industry can really explore this, though.

Colorado had a subscription program at one time, but has since dropped it. I think that is another opportunity to provide incremental sales.

But we are looking at another process, which is having players join together in pools.

Would that be Internet-based?

J. Boehm: It could be, but it could also be initiated at the retail level. For instance, when a player purchases a ticket, the clerk could ask if the player would like to get into a pool. For an extra dollar, you can join an anonymous pool of, say, ten players. The clerk would then print ten quick-picks. If one of those hits, you get 1/10 of that pool.

Is this Pooling Plus?

J. Boehm: It's that concept, yes. The reason that hasn't been successful so far is that the online vendors will have nightmares trying to keep track of that. Their systems are set up on a one-to-one, one wager equals one win basis. This would actually show a win to multiple tickets. It would cause confusion regarding how to program and keep track of it. It certainly can be done, with fairly minimal overhead.

Technological changes just touch the surface of what I've tried to do here in Colorado, though. I found moral down somewhat, no five-year plan existed, and some other aspects that I believe are important aspects of lottery weren't here. I've initiated various plans and programs over the last year to address the many changes I believe needed to be made. So, when I talk about changing the brand and starting out anew, I really view this as starting the lottery all over again. The Lottery has done well, creating over $2 billion in its 25 years. But there are other lotteries that generate that amount in a couple of years. We need to look at what other lotteries are doing and aggressively improve what we are doing.

I had three or four meetings with all the employees. In these meetings I stressed the way in which all employees viewed both the lottery in general and their jobs in particular.

So your approach with the back-office system stretched to all aspects of the lottery, starting fresh with the question of what a lottery should be, questioning all aspects of the Lottery's operation?

J. Boehm: Absolutely. We went through every one of our business functions, identifying 94 of them. These went from cashing and claiming a ticket to the pick-and-pack at the warehouse. Every process that we identified we then sent to the staff, communicating to them that they own the process. It is up to them to figure out how to make the process more efficient and more effective, to reduce the number of steps, to simplify. All of this is with a specific goal of automating wherever possible. We have cut literally thousands of hours needed to get things done from the processes that were in place. That's the focus we're in right now. We've just completed the review and rework of the last five processes. Now we're going into the automation and implementation of the Class system armed with these simplified processes.

How did you identify these 94 processes?

J. Boehm: We began with the consultant's study, which identified 25 application areas. We then identified all the processes within those application areas. I can tell you right now that the Lottery's employees have done an absolutely marvelous job of both identifying and simplifying the processes. The reaction of the people to the expectation of that they review the processes has been amazing. The excitement that they feel in owning and feeling a sense of both responsibility and authority over the processes has been critical in the success that we've had. They came up with idea after idea. We just turned them loose, and you could almost see them growing in place, in terms of their attitudes, their morale, and their leadership.

How many people have you got working at the Lottery?

J. Boehm: We have 120.

And I'm willing to bet many are long-term employees. Despite that, it doesn't sound like you had much of a fight over revamping, radically changing the process?

J. Boehm: Many have been here since day one. And they completely embraced they entire process. It's important to look at why that is. They had never been asked for their ideas. They had always been told what to do and how to do it. I threw all that out. I told them to think of each process, each job, as their own. I asked that they think of it as a business process. If it were your business, how would you do it? And make sure you have controls.

Let me guess: You had people flowcharting every step they took.

J. Boehm: You got it. Writing procedures and flowcharting. I can't tell you how many grease board processes I saw them conducting in the conference room. They went threw everything on the board, this step and that, lines going everywhere. I thought: "This is great. This is what changing an organization is all about."

That must have been exciting for you, to see your team motivated to work hard to improve their own efficiency.

J. Boehm: Absolutely. I told them it's not about me and what I'm doing, it's about them and what they are doing. It's just exciting to be a part of that, see how that's come together. We took time in August and went to all the groups. We asked each of the managers to pull their groups together and tell us what they believe our strategic plans should be over the next five years. They sat down and wrote so much stuff, provided so much input, that we then had to go into three sessions during August and September to break these down into workable groups. In October we took a two-day offsite, got a facilitator involved, and built this input into four major goals. Within those goals, we set objectives. Within the objectives, we set strategies. Within the strategies we set action items. We put people's names and dates on these action items. We sent that back out to the staff during an all-employee meeting in the first part of November as our strategic plan. The comments we got back all related to excitement at the vision of the future.

So you've been there a year, the first half of which as the COO was spent immersed in the technology and the second half as the Director immersed in people and processes.

J. Boehm: When I first came in a said we could do all of this in a year. Everyone looked at me and laughed. I was told there was far too much bureaucracy, and no money. We got the money, we wrote new contracts, and we got it all done.

So when you refer to a 'new approach to branding' you're really talking about overhauling the entire internal structure of the Lottery?

J. Boehm: The Colorado Lottery has a

strong brand, a very positive image. Now we're saying that we're giving it a new look, that we're going to accomplish a whole lot over the next couple of years. New games, increasing aggressiveness, recruiting retailers. There are, for instance, 700 plus retail liquor establishments in Colorado. Roughly 25 sell lottery.

There has been a lot of discussion about adjusting the retail model in order to have access beyond C-stores. Is there any of that going on in Colorado?

J. Boehm: It's in the strategic plan to review the retail model and see what improvements we can make. We will certainly carefully evaluate what other lotteries are doing in this regard. We are trying to do more work with both the Denver and the Colorado Springs airports. We're looking right now at the way in which the Georgia Lottery has constructed an owned kiosk in the Atlanta Airport. We're working with our retailer in the Denver Airport, the World Money Exchange. The owner really wants to expand. We're trying to get her to expand the storefront so we can increase our presence there. We're even thinking of rewrapping our ITVM to make it look like an airplane.

There's a lot of talk about how to engage the 'Millenial' generation. What new games do you see on the horizon?

J. Boehm: I don't see a lot of change in the traditional games. I think every lottery should have a three, four and five digit game, as well as an internal Lotto game. Going beyond that, we're looking at a game called Match Play, which involves matching symbols and numbers on multiple lines. We've done enough study groups and research on it to know that players like the concept.

The central idea there would be to provide more play, more options?

J. Boehm: Yes. One of the other things we're looking at is a Texas Hold-Em type game. The ticket would have two cards on it. The Lottery would draw three cards, and the player would have the option of bringing back his card and playing again, buying a second ticket which would effectively be the 'turn card'. That would be drawn that night. This game would be played over a number of nights, in a series of draws. This would be an online game.

We don't have any restrictions in terms of doing a Keno game, monitor games. But, in order to do that we're going to have to get political approval.

You've talked about things the Lottery could do but hasn't yet, for instance with retailer expansion and Keno, or monitor games. It seems as though you're looking at many opportunities that arise because of what the Lottery hasn't done in the past.

J. Boehm: We haven't had a new online game in almost ten years. And we just began to offer twenty-four games to the market at one time. Prior to this point we've never offered more than eighteen at any one time.

We instituted an incentive program for our field reps to recruit liquor stores.

Is the Colorado Lottery a state agency?

J. Boehm: We are a division of the Department of Revenue.

Any final comments?

J. Boehm: We've covered a lot of ground here. But then again there's been a lot going on in the last year. I'm kind of a no-nonsense kind of guy. Part of that goes back to my work in the industry, seeing different states, but that attitude also goes back to my work with American Express. That's a no-nonsense organization. They expect you to build a strategic plan. They expect you can continually ask what you'd do if you owned the business. That's the type of attitude I've been trying to build into the staff here. If you stop and ask that question, when you look at these processes with that viewpoint, that's going to provide a strong indication of what you want to do. What will make things better, reduce costs? Pushing that attitude, which the people here at the Lottery have wholeheartedly embraced, is what makes this both fun and very successful.

One thing I should note is that I hired my replacement Chief Operating Officer from outside the industry. I wanted someone with a knowledge of best practices in business generally, a broad base of business experience outside of the lottery industry. The gentleman I found, JE Lewellen, has experience with General Motors, Big Eight accounting firms, and a history of technology projects in Asia and all over the world. He's a guy who's going to bring a fresh look at the business, without the baggage of expectations and assumptions regarding how things have been done in the lottery industry. ◆

Brand Value = Integrity + Transparency + CSR ...continued from page 17

on borrowed time. That has always been the case but today's communications are such that the borrowed time would be short indeed. The World Wide Web, satellite channels, SMS and the rest mean that geography is history and transparency in business happens at the speed of light. The growth of social networks means that word of mouth, i.e. getting information from those you trust or at least from those whose likes/dislikes, prejudices etc. you think you can predict, is a 24/7, global phenomenon and not something that applies to a small group of friends and colleagues. These changes in communications apply to all businesses but they are particularly true of the gaming sector where media and societal interest is intense.

This leads to a curious outcome. Because of technological changes, we have, in many curious ways, returned to the marketing ethics of an earlier age. In the tight-knit communities of pre industrial Europe of 400 to 500 years ago everyone engaging in commerce was known to everyone else. Everyone was consuming much the same products as their friends and neighbours. All traded in the same market places. A result of this is that anyone identified as employing unethical trading or marketing practices would be very exposed, their actions known to all and the consequences very public. It was a small world. Something happening in the market place in the morning was known all over the city by the afternoon. Well, the digitization of today's communications has turned the entire world into this small village where everyone knows what's going on immediately. The web, satellite, social networks etc. means there's no filters, no time delays, and no time for 'spin doctors to manage the message.'

Continued online. The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.

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Poker Tour scratch ticket and really trying to take advantage of a lot of new media, more technology-based advertising like Facebook. We're starting to do text-messaging that includes advertising messages and winner alerts. We are really trying to reach that market through the channels where they get their information. That has been a really fun thing to do because we haven't really explored those media channels and venues up till now. It's really changed how we do business in a lot of ways. We're starting to look at doing more retailer training via the Internet. Things like that require us to really look at and understand our retailers and players and how they use technology. We're finding new ways to make it more convenient for our players to interact with us. So that has been a really exciting initiative and has really opened doors and created new ideas and impacted us more than as just another advertising campaign. We're really looking at a lot of things that we could do better or differently to reach these new markets and demographic profiles.

We all seem to be searching for the ways to update traditional games and distribution to get the attention of the younger demographic. Your website invites the player to sign up for text-messaging.

J. Duran: We actually just started it two weeks ago, so it is a little too soon to comment on the results.

As just mentioned, we also advertise via Facebook, promoting the Montana Millionaire raffle game. Facebook is targeted to geo-locations so that the ad only shows up to people who are in the Montana area network, so that works especially well.

G. Parisot: I think Facebook is going to be an effective tool for us, too, especially when it's a $20 purchase and it's kind of a special purchase. Facebook is an interesting place to build awareness for our brand with younger people and remind them that it's time to go out and buy a ticket.

Facebook would seem to be a really powerful selling tool, a low cost target market approach that's more relevant since you're reaching the exact player profile you want.

J. Duran: A lot of technology-based services are like that. It gives people much more of an opportunity to opt-in to your method, so they have more buy-in when they do accept it, and it's really quite affordable so you can try more things. So that's been really, really fun to explore. We just started Facebook advertising in November so we'll have more to report in a few months.

What do you have planned for 2009?

J. Duran: We have started doing some web advertising, like banner ads on some of the major daily newspapers in our state, and with that there's a new opportunity now to do something called Spongecell on those. With Spongecell, if you click on the banner ad, it gives you an opportunity to email a friend with it or put a reminder on your Outlook calendar to check your winning numbers. Right now we're using Spongecell to talk about the new Powerball with Power Play, so when players read that message can say, 'oh, yeah, Powerball, I want to remember to check my ticket' or tell my mom to buy one. So there is new technology available which is creating a whole lot of new potential for banner advertising and text-messaging, much more exciting and innovative ways to use those channels.

These are some very interesting strides towards adapting new channels and new media to the younger demographics.

J. Duran: It's working out for us. Some of our campaigns are really geared towards everyone, like Powerball, so they can continue to use traditional media like being in a place in the paper where anybody reading the paper could see it. But we could also target: for instance, for our Montana Sports Action game, we can do things directly on the sports page. It really allows you to be more specific to the audience you're trying to reach. It would be a great place to advertise anyway, but you could take it a little bit farther and let customers get a little more information than what they could get from just the regular ad.

Anything interesting or important in terms of important product initiatives going forward?

G. Parisot: Well, obviously for us, the Powerball matrix change. The game change and the addition of Florida is very important and critical to seeing those increased jackpot sizes and increased interest in the Powerball game. That's our bread-and-butter game, and we're very excited about the addition of Florida to Powerball and the positive changes that will create. Now folks buying Power Play will be guaranteed to win a million dollars if they match five white balls. That'll create a lot more winners and a much higher likelihood that some of them will be in Montana. Our sales are doing better, plus we're in a big jackpot run right now so we're excited about that. Beyond that we also have the addition of our new fantasy sports games, called Fantasy Racing. That starts February 8th and is a follow up and an improvement on our first game which was Fantasy Football. At some point in the fall both auto racing and the football games will be running at the same time, and we expect to see interest from new players who are playing this game. This game is designed more for fantasy sports players, but anybody can play the game, and we think that's going to be a good move for us as well. This game opens up new markets, new retailer groups. Our other products were not in retail locations such as bars and casinos in Montana. We've added 175 retail locations since the startup of the first fantasy sports game in locations that we had not been in before. This is a very important aspect of the Fantasy Sports initiative. And sales of our other products in addition to the fantasy sports game in these locations have been pretty significant as well. So we think it's an important move for us, and I think the players are learning more about the game and are interested in what we have to offer. I expect to see the fantasy racing game do pretty well.

Describe Fantasy Sports, how it works etc.

G. Parisot: Legislation was passed in 2007 to allow the Board of Horse Racing to run a game based on fantasy sports. The game concept is very similar to what's played in bars and casinos right now. Folks get together for weekly picks, pick their teams and they compete on a weekly or season-long basis. This is just an electronic version of that kind of concept, so it's very focused on fantasy sports. Our first game was Fantasy Football, in which a player would select a number of fantasy team members from the official roster from professional football and would wager on a weekly basis to see how their players performed based on statistics from the end of each football game.

Auto racing is similar in that a player will select a team of drivers. The list is a roster of drivers each week. A player can select one driver from the top tier of drivers from the list, three drivers from the mid tier of drivers from the list, and one more driver from bottom tier of the list. So you have this very diverse selection of drivers with all sorts of abilities. Then your team, your fantasy driver and fantasy racing team would compete against others in the pool on a weekly basis. There is a selection of number of yellow flag cautions per race that you pick. You can wager from five to

100 dollars. And at the end of the week after each race we calculate statistics of the drivers, how everyone placed and the number of cautions and other factors, and then we award prizes for first, second, and third place for folks whose teams come first, second or third.

It can also go pari-mutuel as well. Basically, 74% of the prize pool gets distributed to players.

All this information is on our web site, Montanasportsaction.com.

The start of the season is the beginning of February, and we're going to implement the game February 8th, starting sales on that date. We've adapted what we've learned from our first version of the game, the first football game, into a new version for fantasy auto racing. We have made some changes such as the roster being updated on a weekly basis. With our previous football game version we did not update on a weekly basis, so you had the roster from the beginning of the season and it never changed. This roster will update on a weekly basis and I think that's going to be more interesting for our players.

Some folks may follow football and some may follow auto racing. So what we're trying to do is create a whole mix of different fantasy games available in these bars and casinos in Montana so that we have a game out there for everyone. Our first one is football, our second one is auto racing, and there are of course many other options. The only limit is it has to be within a professional sport and that's what we're focusing on right now. But having both, starting up in February with auto racing and then in September with football, will provide a nice mix of products available in these retail locations. Our traditional products will be there as well, so we'll have Powerball sales, scratch sales, and other products. It gives these bar/casino/retailer owners just a whole different product mix to have available for their clients.

Q To what extent did Fantasy Sports contribute to the sale of other products?

G. Parisot: We always felt that it was important to have our traditional products in these locations in addition to the fantasy sports game because we've seen a decline in other retail locations. Convenience stores and gas stations have been declining in numbers across the state, so I think it was important to have another avenue or outlet for players to find our products. And I think it was folks who are interested in fantasy sports who may not necessarily be heavy lottery players, but now that the different games co-exist in the same location at these bars and casinos, we have people who are interested in Fantasy Sports, but then see the Powerball ticket and buy that as well.

Q Did your other products even have a presence in those age restricted places?

G. Parisot: For the most part, no. By adding 175 new retailers for Fantasy Sports, we've added 175 new retailers for our other products, too. It was about a 30% increase in retail locations for us, so that was important. And Jeri may have some other comments as well.

J. Duran: The whole concept of the fantasy sports program was a very quick turnaround. We didn't really have the opportunity to plan the whole implementation and how the products would work together as much as anybody would like to.

There are certain things that are very different about the bar/tavern environment, especially with scratch tickets. There are definitely different kinds of space issues, and the way that a bartender interacts with patrons is very different than a clerk at a convenience store does. So really taking a look at how we can make that the most appropriate use of space and integrate into that environment has been something that we've really looked at, trying different kinds of dispensers and different game strategies than what we use in a typical retailer. We are engaging the bar/tavern people in the process of figuring out what works best, how to optimize business in this new retail space.

Q When presenting Fantasy Sports to the bars and taverns, did you basically make it a package deal, insisting that they allocate floor space and sell a certain volume of traditional lottery games in order to have Fantasy Sports?

G. Parisot: It was a little more collaborative than that. The big selling point was the fantasy sports game because then the retailer has a terminal in place. This terminal produces the other products such as Powerball, Montana Cash, Wild Card and Hot Lotto, and you can also sell scratch products at these locations. Then we show retailers how easy it is. A ticket checker is available so players can check their own tickets and not have to bother the bartender or the cage cashier person. We've set in place concepts to make it easier for the retailer to sell our products. There are no minimum sales requirements placed on the retailer. Just put in the terminal and see how it works for you. We're going to come in and train your staff. We'll do some promotions in your retail location and we'll provide point of sale material. The fact that one terminal carries all the products is a benefit to the retailer. We didn't have to twist any arms to sell the other products because they're all distributed from the same terminal, making it easy and cost effective for the retailer to sell more products.

So it was really a matter of explaining that and coming to an agreement with each individual retail location, bar, or casino.

Q To what extent was the main obstacle to the launch just getting the retailers to carry the product or creating awareness and understanding on the part of the player? Does it take awhile for the consumer to respond to a new game concept?

G. Parisot: I think there were several things we had to tackle. First was that the fantasy sports game is really to benefit horse racing in Montana through the Board of Horse Racing. And we had to create an interagency agreement with the Board of Horse Racing to assist them in doing that and then allow us to carry the game on their behalf. Then we obviously have game design, implementation of the game design, and as Jeri mentioned, we had a very short timeline to get this all completed. From start to finish we did it in about four months, and we had zero retail locations. Basically a mini start-up of another kind of lottery system. Because we used a different terminal, we used INTRALOT's MicroLot terminal for these fantasy sports locations because it's a smaller terminal and it takes up less space in the retail location. We thought that might be a good selling point for bars and casinos in Montana. And so we had to design and develop software, deploy terminals and satellite communication systems. INTRALOT really stepped up to help us complete that task, and we've been appreciative of their work in getting all those things done in a very short period of time. At start up we had 120 new retail locations, and by the time the game ended in the end of December in 2008 we added another 60 more so we're about 175 retail locations.

…the change in Powerball is very good for us and we're leveraging it to increase sales.

Continued online. The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety.

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activity or policy benefits one of us but costs the other far more than the benefit received, we will not achieve the maximum results. We should be able to work together to find a more mutually agreeable approach. Here's a simple example. Let's say the contract calls for the vendor to implement 2,000 terminals in 2,000 locations and each location costs $150 per week to maintain. Let's say the bottom 10% are producing $50 in profits versus $200 for the average retailer. The logical thing would be to give those retailers a reason to improve their sales or terminate that installation, right? Why pay $150 to produce $50 in profit? The problem is that the $150 does not come out of the lottery's pocket. The lottery gets the $50 and the vendor pays the $150. It's not so much that I want to save myself that $150. I would just rather see it spent on other retailers that would achieve higher sales levels or even on advertising or something else that would contribute to improving bottom-line results instead of being wasted. In reality, it's not just $150 that the vendor looses. The bottom line is, if we used this example, it would cost $30,000 to generate $10,000 and that doesn't make sense because the Lottery loses the benefits of that $30,000 vendor investment that could have been spent more effectively elsewhere. That's why I call it a problem with alignment. All stakeholders need to work together and be more open-minded to find new ways to initially optimize the operation. In the end, we would all benefit by building more collaborative relationships. In order to move our business forward and become more innovative, it will be imperative for us to find ways to align our agendas so that we are all going in the same direction.

I do see what you're saying, but to some extent the discord results from the fact that your interests conflict in some ways. Negotiations over terms, conditions, payment structures and such have an adversarial component but that is just part of business and commerce and isn't necessarily unhealthy, is it?

T. Little: But the entire business, and each of our own interests, would be far better served if we could find areas where our interests coincide, so that we can focus on improving the business. Our first priority should be finding ways to optimize the business in the spirit of genuine partnership and collaboration. Both will benefit by the improvements. I can assure you that the biggest beneficiary of a more genuinely collaborative partnership will be the states and the good causes supported by lotteries. There is a wealth of creative intelligence that is locked up and not being used because we are all forced to operate within this constrictive box that stifles creative problem-solving. I guarantee you that all vendors, not just INTRALOT, would be excited to build a more open and collaborative approach to just making the business be more productive and effective and getting rid of inefficiencies. You refer to negotiations as being adversarial. Even there, don't you try to think about what you can do to reduce costs for the other party? You do that for the simple reason that to some extent you can expect that in the end, you will "split the difference" or share some portion of the benefits produced, whether those benefits accrue to you directly, or not. It is in all of our interests to embrace the opportunity to do whatever we can to improve the business. It's like when you sell advertising or conference sponsorships, Paul. You have your business model and need to charge for the value you provide. But you focus on how you can help your customer first, then on how to make money from it. And you're not concerned with whether you give more than you take in the process, just whether it adds value and contributes to long-term profitability of each party, right? Likewise, vendors should want to do more than they are doing but need a little more flexibility from the state and lottery to tackle problems and opportunities in ways that were not built into the RFP process 30 years ago.

Thirty years ago, the life cycles of technologies and products in general were much longer than they are today. So the need to adapt to a changing marketplace and new technologies was not as much of an issue as it is now.

Does the current RFP process invite innovation and new technology that will improve performance?

T. Little: The typical RFP doesn't even allow you to propose a product that does not already have a proven track record of use in another lottery. That obviously creates a major barrier to innovation. It basically institutionalizes a mindset that resists change and progress. And that's what this is all about. Do we want a climate of hopeful enthusiasm for the positive benefits that change and innovation can create, or do we want a climate of cautious conservatism that focuses on not making mistakes and making sure the state can make maximum liquidated damages claims? Since liquidated damages can be a far larger source of income than the actual costs incurred by the infraction, it almost seems like some lotteries look at liquidated damages as an income source. The very idea of that is so contrary to channeling all of our energies in a way that will produce breakthrough results. There is a lot of room for improvement, but all of us need to find those points where our interests converge and focus on those to drive a new and far more productive relationship. Change and innovation is not something that happens naturally. Someone has to push hard to make it happen; and it requires investment in R & D. The vendors will do all that. It's just that there needs to be a clearer path towards adaptation of new products and technology. The current RFP process literally discourages it. You're better off focusing on cost reduction. But progress and breakthrough products never happen with a focus solely on cost reduction. Progress of any kind requires a hopeful optimism that we can work together to create a better lottery.

Progress also requires a willingness to test products and ideas. Vendors, all of us, have lots of ideas to improve performance that are not given a chance to succeed. And as everyone has talked about, the next generation of players is moving on to entirely new entertainment platforms. Their lives are based in large part on new ways of getting information, buying products, interacting and communicating with each other, so everything is different. When we talk about change and innovation, it's not just to improve sales, it's about survival. It's about evolving our business to be where our customer is now and will be three years

The reality is that the technological infrastructure of the lottery is extremely sophisticated and very much on the cutting edge. Just look at the communications networks or the terminals and compare them to what they were like just a few years ago. It's an incredible difference.

from now and about recognizing trends in retail store traffic, Internet and mobile channels, self-service economies, and acting on them. There are some lotteries that are working hard to develop Internet and mobile initiatives, develop new games, forge relationships with large chain stores, develop ITVM's and self-service technologies, but not nearly enough is being done. We should all be 110% committed to integrating the content, channels, and platforms that our players will be basing their lives upon; again, because it's not just a matter of increasing sales, it's a matter of survival.

For that matter, don't you continually change even the basic products? How is that factored in to the RFP's?

T. Little: Absolutely we do. But frankly, that's in spite of the system, not because of it. We are continually improving our products even though the penalty for making a mistake far exceeds any reward for making it better. But, yes, innovations and improvements do happen on a continual basis. It's just that these would be brought to market faster, run through betas and the whole cycle of development through implementation through redesigns and further improvements…all of that would be greatly accelerated if we could all get into alignment on the simple proposition that improvement is good and that means that change is good. Nobody stops innovation. We all innovate and try to make things better and cheaper, sounder and more reliable. The reality is that the technological infrastructure of the lottery is extremely sophisticated and very much on the cutting edge. Just look at the communications networks or the terminals and compare them to what they were like just a few years ago. It's an incredible difference.

How has the technology changed and improved over the past decade?

T. Little: Oh, where do we begin…Basically, the cost of running a lottery has decreased significantly. When I started in this industry, a terminal cost between $15,000 and $17,000. Now they cost approximately $1,000. Communications was $120 to $150 for each drop and now it's down to around $20. In addition, we've become much more efficient in the printing of instant tickets. Instant tickets used to cost over $30 per thousand, now they're under $9 a thousand. We've managed to lower our costs, but those cost savings haven't been channeled into new game development and technology like they should be. All of the savings have gone to increase reliability, increase security, and reduce administrative cost.

Back to the question of alignment. Any thoughts on how we can create this alignment?

T. Little: First, we would need to de-politicize the operation of the lottery. Management by committee with the whole portfolio of political factors infringing on every operational decision results in inertia. We need to clarify the objectives and constraints and empower one office to implement them. It could be the lottery CEO or a commercial CEO like the Camelot Group has, to operate the business. Instead of onerous liquidated damages that penalizes mistakes, have performance-based compensation that rewards results. That's what I mean by forming a genuinely collaborative partnership.

The ownership and financial structure would need to be changed to accomplish this. For instance, the state could buy the system; buy the terminals, server, communications network, or perhaps pay the supplier a consulting fee. But then the supplier goes away and the state would run the operation. Or the other way around…award a license to operate the lottery, like the U.K. does with their national lottery. Some states have a quasi-government corporation that would possibly be a good system if it was allowed to function like a real corporation. But a real corporation is performance-based, charged with achieving a set of objectives and rewarded accordingly. But in the quasi-government corporations you always see them encountering resistance on specific operational initiatives, and when they exceed their goals, and the management is compensated according to the agreed upon performance-based plan, the public complains that they are paid too much.

If you look around the world, you will find all varieties of ownership, operational structures and different business models those lottery operations are based upon. State legislators and lottery directors should examine those various methods and evaluate the strengths and weaknesses of each different model to see how we could create a more rational system here in the U.S. I have to be honest and say that I doubt that will ever be done because U.S. lawmakers seem to think that because our regulations and laws are different than other places, we don't have anything to learn from them.

Comments on the issue of retailer security/customer for checking a winning ticket?

T. Little: Yes. Our Check-a-Ticket solves a number of issues surrounding the validation and payment of winning tickets. It also increases retailer efficiency by not having to check all tickets—both winners and losers.

> We all want the business to operate as a good corporate citizen, to comply with all state regulations and directives, to provide entertainment to players in a socially responsible manner and to deliver maximum funds to good causes. Operating efficiently and effectively would be an important part of achieving those goals, and that's where there is a disconnect.

Does it indicate the amount that's won, or just whether they won?

T. Little: It depends on the lottery. Sometimes people don't want other people to know that they're holding onto a $500 ticket just for security reasons, so a lot of times lotteries will just want us to indicate that it is a winning ticket without stating the amount won. Or if it's a big winner, it'll just say, "Winner, file a claim form." Or it will say, "Winner, see the local agent." It can also be set to indicate the amount won, or you could have it set to be scanned twice. Scan it the first time and it says you're a winner, if you want to know the amount, scan it again and it could display the amount won.

Anything on the Internet 2 or the Grid, or the manner in which increased capacity will be impacting our business?

T. Little: I'm not a technology futurist. I just try to emphasize that there is so much that is happening, so much being developed and already being implemented. We all want our businesses to be leaders in the industry, and our sector to be leaders in the larger industry. It's just critically important that we move faster, much faster really, to integrate these new technologies into our businesses. We have the potential to consolidate the strong position that lotteries have in our industry. The potential is huge and achievable. But the future is coming at us more quickly than we realize, more quickly than we can imagine. ◆

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in the return on investment. It doesn't seem appropriate for us to install a new system to gain extra distribution when we only break-even or make just a marginal profit amount. That destroys the integrity of how we market to our existing accounts for very little visibility gain. But we think as long as we're willing to aggressively explore new methods, we'll find ways to increase our retailer network and make our distribution a "win-win" for everybody.

What can be done to improve on the traditional model?

C. Harris: We think most lotteries will not be able to utilize their own staff to handle ITVM replenishment in these non-traditional fee arrangements. We think exploring 3rd party involvement, much like hiring a broker that merchandises many different companies, may prove to be a cost-effective alternative.

Are you increasing your retailer base at this time?

C. Harris: We are actively trying to recruit additional on-premise accounts, an area where we have limited distribution because these retailers all sell pull-tabs. Pull-tab sales in Minnesota are higher than any other US state, and in fact, pull-tabs outsell our Lottery by about 3 to 1. So it's been difficult to bring in what on-premise owners see as a competing product. But with a statewide smoking ban impacting bar patronage, we are seeing some recruitment success. In addition, we are obtaining a quantity of GamePoints, or vending machines that sell both Scratch and Online and can include a driver's license reader, and are targeting a variety of non-traditional accounts like malls, big box retailers, large entertainment venues, regional airport, etc.

Simplistic question, but is it more effective to focus resources on increasing the number of retailers or on increasing the sales per retailer?

C. Harris: I definitely feel it's far more cost-effective to increase the sales per retailer. We know none of our current retailers are "maxed out" and Sales Reps with good marketing programs can make a difference in growing the business. That being said, we can't ignore trying to recruit new retailers. We just have to be smart in how much time we invest. While we would never go to a strategy of moving our sales force to a "recruitment-only" workday, we still need to devote quality time in recruiting local retailers in our state, plus helping NASPL recruit national accounts.

Your online Hold-Em offering and mnlottery.com website is quite an interesting and progressive initiative. Tell us how that works.

C. Harris: Thanks to Pollard, we have a Scratch game enhancement that is quite innovative. On each of our new Minnesota Hold 'em Championship Poker tickets, we direct players to go to our Lucky, MN Players Club website to play a virtual game of Hold 'em poker. You will be pitted against 5 other virtual reality characters, and it does feel like you're playing for real. Once a player begins the game, they are entered into a contest to win a trip to Las Vegas or can win Poker Table and Chip sets. And we have daily chip count winners that can win a small Lottery prize pack. It's been pretty incredible to see some players spend up to 15 hours a day playing our game! The advantages for us include 1) players get to understand how to play Hold 'em poker better, which gives them more reason to buy the Scratch ticket; 2) players have to join our Lucky, MN Players Club, so we increase membership by thousands; 3) the prizes give the Hold 'em ticket more perceived value but at a relatively low cost, and 4) it activates our current Lucky, MN members and gives them a special offering.

How does the lottery profit from this?

C. Harris: Adding this online game feature to our Hold 'em ticket can deliver four, very important elements to our Lottery:

1. It will educate players on how to play the Hold 'em ticket and help them determine if they are a cash winner. We have found that, while popular, this type of ticket can intimidate players, since you must have some knowledge of cards, top hands and Hold 'em rules. So we have created a fun way to learn about poker, which we believe will lead to an expanded player base for our Hold 'em ticket and improved ticket sales.

2. We will gain new Lucky, MN players club members (perhaps 5,000 or more). Our social players club activates players and keeps them more involved with the Lottery. By signing up new members we enhance this pool of dedicated players, once again giving us another means to grow our business by targeting communication messages to them.

3. We are able to include a value-added feature to our ticket at very low cost. The extra prizes we negotiated from our vendor and the trip to Las Vegas give us a very cost-effective way to stimulate extra sales. It makes the Hold 'em ticket more valuable.

4. We are able to give our current Lucky, MN members another reason to enjoy our players club. This enhances their perception of the Lottery, keeps them interested in Lottery news, and hopefully gives us additional impulse sales.

What is your online gaming strategic game plan?

C. Harris: The majority of sales for our online product come from our jackpot driven games. This, as we've seen this fiscal year, can really impact sales goals and objectives if we don't achieve the jackpot levels projected. We also see that there's a limit to what you can do to enhance your games. We're reaching that point with our existing online games. We've added an additional draw to our Gopher 5, offer Sizzler with Hot Lotto and Powerplay with Powerball.

We are looking forward to future enhancements next fiscal year that include offering a Little Gopher to the Gopher 5, and continue to work on repositioning our Instant/Online product line (Print-N-Play) by offering a progressive feature and better odds in winning. Further, we hope to build our Instant/Online category by adding a multi-state linked Instant/Online game (Wheel of Fortune). We are also considering a new type of online game called Vegas Reel. This offers high graphics and has a different play style than other online games.

Subscription services is a short- and long-term initiative that we hope will grow our online sales.

What's permissible with respect to players being able to buy a lottery product, place a wager, win a prize, or win actual money?

C. Harris: As far as online (Internet wagering) is concerned, the only restriction is that a player cannot purchase a lottery ticket on credit - so they cannot use a credit card. So if we allowed purchase of lottery tickets through the Internet, the purchase would have to be conducted through an ACH transfer or by use of a debit card.

How do you deal with the trade-off between investing in the initiatives that have maximum short-term profit potential and those that are important for long-term positioning but don't have as positive a short-term ROI?

C. Harris: Good question and very im-

portant considering the economic conditions and requirements to return as much revenue to the state and those that benefit from Lottery sales. It requires a lot of creativity and planning to achieve both. States need to find ways to achieve both short- and long-term goals simultaneously.

One way of doing this is looking for added features within a game that will tie to longer term planning. An example for MN includes building our player's club and offering online (internet) interactive features to position ourselves when we offer subscription services. We launched a new Hold-em game in December that had an interactive feature. This feature was available to our player's club members. It provided something exclusive to our members and also provided a means to continue to build membership. We opted to do this with a base/core game as there was minimal risk while still working towards long-term objectives.

If a state knows that they will be launching a Keno style game, they may launch some instant/online Keno games or a Scratch Keno game to start to get players familiar with the game. It helps educate those players not familiar with it before actually launching the full online program.

How will in-store monitors (TV monitors that broadcasts promotional material on an endless loop) and the GamePoint vending machines change play or increase revenue for the Lottery?

C. Harris: It's all about selling more tickets. Monitors capture attention, can showcase new and exciting bits of information, and increase the likelihood that players will make an impulse purchase. We start to breathe more life into our products. Initial sales results in our test stores here in Minnesota, plus data from other states that have introduced them, see a noticeable sales bump. So if we can afford them, they're going in. GamePoints can also help our bottom line. We're planning on putting GamePoints into accounts that currently don't sell Lottery tickets, so our sales gains can be totally incremental. We're excited to go down this technology route, since it really energizes the potential of our product mix.

Are there other technology changes you are looking at, such as in-lane offerings for grocery stores?

C. Harris: Minnesota is looking to offer subscription services in FY10. Texting and mobile services are some other initiatives that we focusing on longer term planning. We will also look at in-lane terminals in FY10 although the number of grocery stores are lower in MN than other jurisdictions. So, careful analysis to determine the ROI will be conducted before proceeding.

Is MUSL considering introducing any kind of second chance drawing potential?

C. Harris: Right now, I don't see a second chance drawing showing up in the near future. However, we have developed a partnership with Universal Studios that goes beyond just the drawing show move from Des Moines. With this in place, we see the opportunity going forward to work with Universal Studios to capitalize on the power of our respective brands on promotions and other opportunities the benefit both organizations.

Florida just joined Powerball. Who's next? New York?

C. Harris: NY is prohibited from joining more that one game group association. However, we would welcome NY should they find a way to join the Powerball group to sell tickets. And to go one step further, I would expect that Powerball group member players would enjoy having a chance to play both Powerball and Mega Millions games. I certainly would be happy to sell both games in Minnesota.

Ever hear of Pulse Printing? A technique to extend the high impact of the initial game launch by turning a single game launch into 3 additional launches with 3 different print runs of the same game that look completely different so the player would think they are buying a completely different game.

C. Harris: Yes, Minnesota has already used pulse printing with some of our extended play games including Moneybag Crossword and Wild Cherries Crossword which we see as a core game in MN. We do see sales increase slightly when the new color hits the market. We have not done a special launch for the new color with the Crossword games. Also, we are planning on doing this with a $2 licensed property in FY10. We'll pulse Betty Boop quarterly using new scenes and colors appropriate to that period although it will actually be one game. I feel that this strategy is most effective with a well established base/core game.

Comments as to how important is this initiative to increase or extend the boost of the initial game launch?

C. Harris: Certainly, we are always looking at ways to increase and boost the initial game launch. The sales at the beginning of the game are always the highest. As we know, what works well in one jurisdiction may not in another. It's important to find the best practice for your state. We have tried various things to find what works for Minnesota and continue to do so. We do however have to balance the risk of doing this with the potential sales impact. For some games, having a promotional element or second chance drawing does this. But here again, that appeals to specific player segments and would not be recommended for all games or play styles. It's a selective approach. Having a good balance of prize distribution is also important. For some games, churn will be important (holiday periods). You'll also want strong chatter prizes (mid-tier). And finally, an attractive top prize is important for other games especially your higher price point games. Offering a variety to target different segments is key to increasing sales.

Any other ideas on how to increase or better leverage the high impact that accrues with the initial launch of a new game?

C. Harris: In Minnesota, we typically offer three new games every three weeks. This allows us to offer different price points and different game styles to appeal to different segments. We like to keep our games fresh as this has greater appeal to many of our segments. In some analysis we conducted, we found that are overall sales are higher when offering three games at launch verses two.

Indian Gaming in Minnesota generates huge dollars, and yet I don't believe that any of those proceeds is returned to the state. Is there any discussion in the legislature of increasing the types of games the lottery can offer (e.g. a VLT program), to enable the lottery to channel more gaming profits back to the citizens of the state?

C. Harris: Over the past 8 to 10 years, there has been a bill to introduce a VLT program just about every year. Given the almost $5 billion deficit Minnesota is facing, I expect that we will see another VLT program introduced along with other gaming ideas. The $100 dollar question – will any of these bills get passed? It remains to be seen. ◆

PGRI SMART-Tech 2009

Conference Agenda & Sponsors

March 23 – 24, 2009

Dover Downs Hotel, Dover, Delaware

Co-Hosted by PGRI and the Delaware Lottery

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States want to increase revenue sources and state-owned Lotteries are the ideal vehicle to execute an expansion of gaming. Seizing the opportunities, really maximizing the funds that can be generated for the lottery beneficiaries, and negotiating an ever more complex business environment is the focus of SMART-TECH 2009. This year's theme is "Seize the Moment."

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SMART-TECH Conference Agenda

Monday March 23

9:00 a.m. Paul Jason (Public Gaming Magazine), Wayne Lemons (Director DE Lottery), and Delaware Governor Jack Markell (tentative) **Open Conference**

- Wayne Lemons (Director, Delaware Lottery), Tacy Donovan (Deputy Director Video Operations, West Virginia Lottery), and others on **Building & Administrating a VLT Program**
- Ed Sutor (CEO, Dover Downs Hotel & Casino) on the **Six Stages to creating a full-fledged Destination Resort-Racino**
- Jim Logue (Deputy Director, Video Lottery) & Barbara Hutchins (Sales/Retail Development Mgr.) from the Delaware Lottery on **Developing and Leveraging the Synergies between VLT's and Traditional Games**
- Buddy Roogow (Executive Director, Maryland Lottery) on **Innovations in Monitor Games**
- **Lifetime Achievement Award: Clint Harris**, Director Minnesota Lottery
- Gordon Medenica (Director, New York State Lottery) moderates panel discussion: **"Forging a more collaborative relationship between lottery operator and commercial supplier."** Panelists: Jim Kennedy (Scientific Games), Leo Mamorsky (DDB Worldwide Communications), Connie Laverty O'Connor (GTECH), Director SC Ernie Passailaigue, and John Pittman (INTRALOT)
- Bill Hertoghe (Deputy Director Security, California Lottery) on **Protecting the player and the California Sting Operation**
- **Keynote Speech:** Paul Riley, Vice-President Product Development, GTECH: **New Media Innovations**
- Bill Murray (Deputy Director, General Counsel NY Lottery) on **Federal Law as it relates to the use of Internet intra-state distribution of lottery products;** and **The Use of Lottery Law in Creating a VLT Program**
- Ernie Passailaigue (Executive Director, South Carolina Lottery) on **Powerball and Jackpot Games**
- **Q & A Sessions** as time permits.

4:00 p.m. "Night at the Races"
Opening Night Reception.

Tuesday, March 24

- Product of the Year Awards Presentations
- Mark Hichar, (Partner with Law Firm Edwards Angell Palmer & Dodge LLP) on **Supreme Court Decisions on Indian Gaming: Where's this headed?**
- **TBA:** Speakers on The impact of the economic downturn on capital formation and the expansion of Electronic Gaming Machines, the Distributed versus Destination Venue
- **Lifetime Achievement Award: Jim Kennedy**, Senior V.P. Sales and Global Marketing, Scientific Games
- JE Lewellen (Chief Operating Officer, Colorado Lottery) and Jay Young, (Chief Operating Officer D.C. Lottery): **Transforming the Organizational, Cultural, and Technological Foundation of the Lottery**
- Nathalie Rajotte (Director General, Ingenio) on **Innovations in Video 'Lottery' Games**
- Rebecca Hargrove, (CEO, Tennesee Lottery): **TBA**
- Gold Sponsor Presentations: **INTRALOT, MultiPlayer Gaming Technologies, and Scientific Games**
- Paul Mathews (Sr. V.P. IGT and President of Wagerworks Inc.) on **Future of Internet Gaming**
- Clint Harris (Director, Minnesota Lottery) on **Minnesota Lottery's "Texas Hold 'em" Internet Initiative**
- George Parisot (Director, Montana Lottery) on **Leveraging the Social Networking Phenomenon through Facebook**
- **Q & A Sessions** as time permits

5:00 p.m. "Fire & Ice"
Closing Night Reception. Everyone will be here, discussing the days events and working on the success strategies we'll be taking home with us! ◆

EVOLUTION in Public Gaming

The Ascent of the Full Gaming Service Provider

By Connie Laverty O'Connor and Matt Mansfield, GTECH Corporation

Just when it seemed that nothing was changing in public gaming, the more it changes.

As might be expected, the technological drives toward instant communication and instant transportation have opened new markets of opportunities. Yet, even within the traditional retail world, shifts are taking place at very basic levels. Adaptation to these disparate forces of change requires a more complex and complete solution for survival.

The Dynamic Environment

A quick look at a recent analysis by GBGC for expected growth trends in gross gambling yields (GGY — revenue generated after prizes are paid to players) for global markets during 2007-2010 compared to 2003-2006 illustrates the shifts among major segments in the big picture *(Table 1)*.

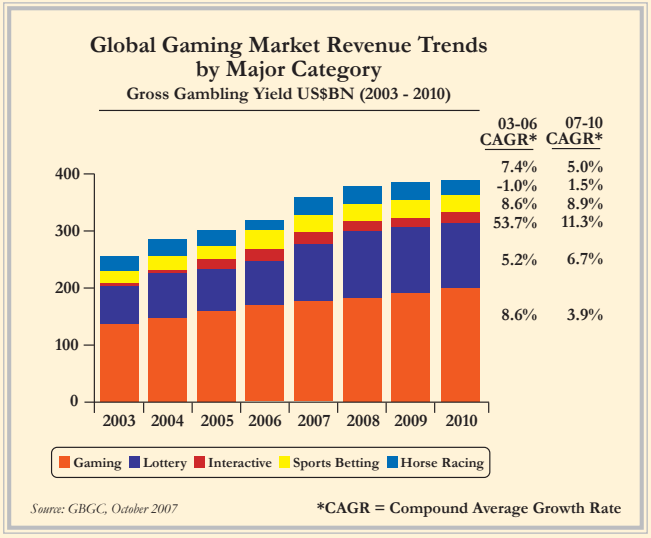

Table 1

While growth in the global gaming market is expected to slow from 7.4% to 5.0%, lotteries are still expected to perform slightly above average at 6.7%, driven by instant and social games. The overall growth drivers are interactive gaming and sports betting.

The aggressive expansion of the interactive sector arises from its diverse portfolio: lottery wagering, bingo, poker, casino-style games and skill gaming appealing to different player bases. Sports betting will be driven by both retail locations and a slightly faster pace for the new online (internet) sales segment.

Player Selection

These gross gambling yield projections are grounded in what players are saying and doing with their lottery and non-lottery gambling preferences. A GTECH 2008 World Player Survey conducted with 8,000 lottery players in ten countries (three North American, four European and three Far Eastern) provides a clear snapshot of two and potentially three segments driving gaming sales, especially for lotteries:

- A broad player group of all ages, including "casual" impulse players and dedicated "core" frequent players, who like big game concepts
- A smaller player group of the "core" frequent players, generally older, who also like more specific games
- A younger group, from all different parts of the world and especially the Far East, attracted to gaming through new technologies

A comparison of "Total" (within past year) and "Past Four Week" playership immediately shows that the large player base games are consistently the Multi-state/National, In-state Lotto and Instant Scratch Games while all the other games have much smaller monthly participation *(Tables 2 & 3)*.

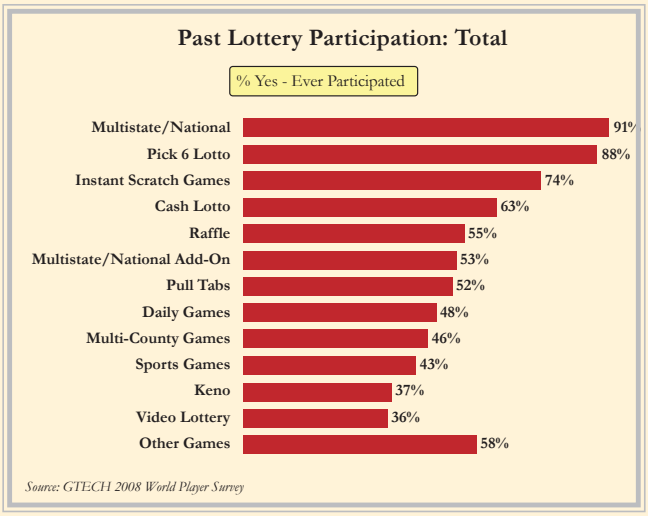

Table 2

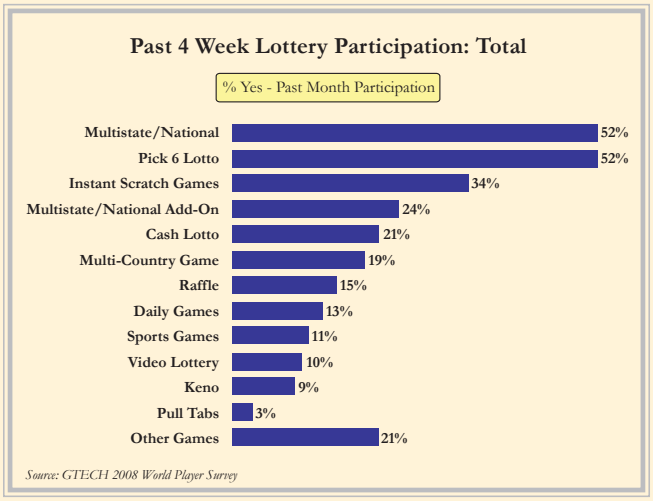

Table 3

However, the frequency of weekly playership is just as high for the smaller player base games as the large player base ones indicating a very dedicated playing group, hence, consistent sales performances *(Table 4)*.

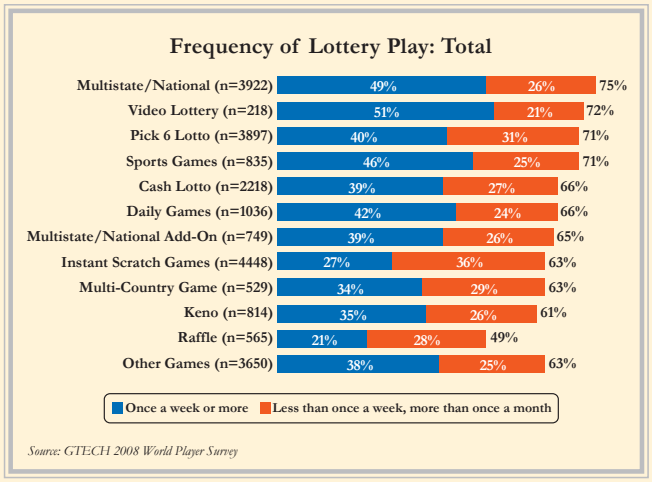

Table 4

Regarding participation in non-Lottery games that people attend "in person," raffles have a very high level while other forms such as betting on sports events, visiting casinos, playing video lottery machines are at levels similar to those for the lottery games with more dedicated player bases *(Table 5)*. This survey also indicates that one of the chief motivations for playing these games was "you know immediately if you've won."

Participation in gaming through the internet is relatively low compared to in person participation and lottery playership. The motivation of immediately knowing if you have won has equal importance *(Table 6)*.

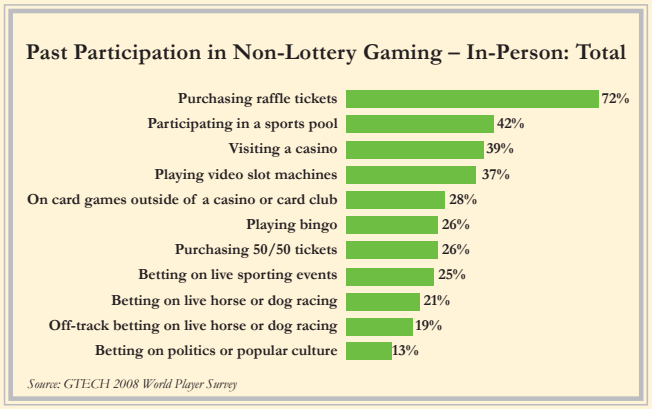

Table 5

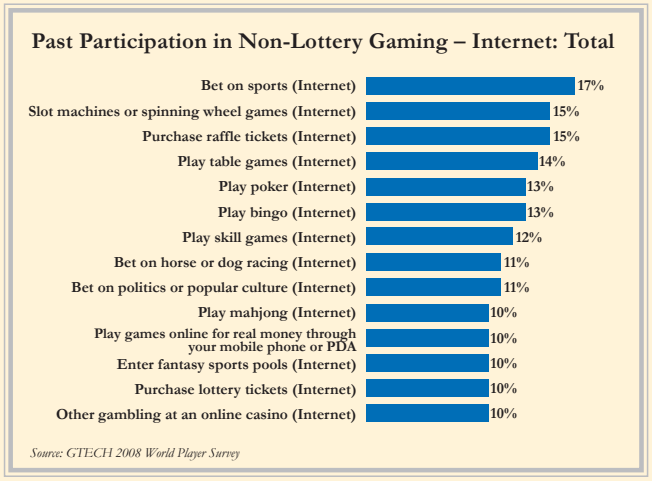

Table 6

Despite low current participation, interest in lottery gaming through new technologies is high, especially among Far Eastern, Mexican and younger players, suggesting future, if not immediate, sales potential *(Table 7)*.

This observation is further reinforced by median spending on lottery and non-lottery (in person and internet) gaming during the past four weeks among younger and middle-age demographic groups *(Table 8)*.

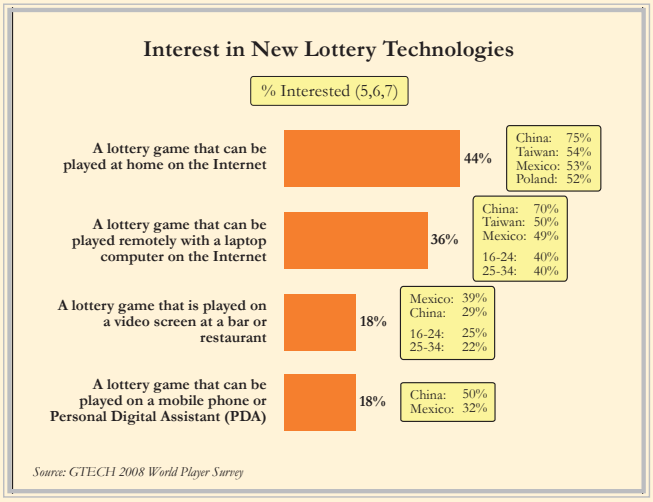

Table 7

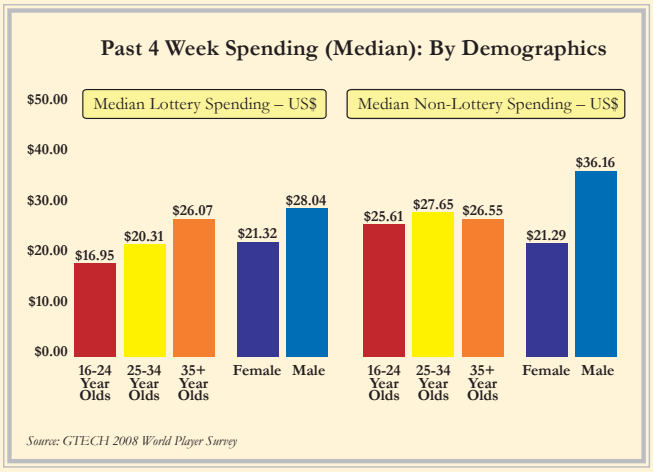

Table 8

Shifting Lottery Traits

While the development of new markets is evident in the global gaming projections and player attitudes, traditional lottery gaming built on *retail convenience* is undergoing its own evolution. Over the past forty years lottery games have become much more familiar, hence, understood and accepted by the public, including large player and retailer groups.

While the retail lottery model of separate clerk-activated terminals is still the industry standard, there is growing reliance on player self-education, self-service and expectations that lottery transactions should be integrated into the retail mainstream. Some of the real and potential impacts are:

- Self-service equipment with instant and online game offerings as well as other services such as ticket validation
- Integration of lottery transactions into retail point-of-access (POA) systems at checkouts
- Digital lottery promotional displays at retail for more cost efficient and timely marketing communication
- Player card services for managing transactions, promotion and money

Coincidentally, the traditional game portfolio is being pressured by player demand, through their actions or inactions, for new gaming formats and winning experiences. Depending on the legislative constraints on prize payouts, these conditions are leading to:

- Diversification of online, instant and monitor portfolios to add promotional and long-term games and add-on features
- Collaboration with third-party developers within the industry and from other non-lottery groups to create games and promotions
- Need for "on demand" systems with turn-on turn-off flexibility for game and promotion management

Yet, these developments may not satisfy all "gamers," especially those who are the "core" players and those interested in gaming delivered through new channels. With the technology revolution, the progression of lottery gaming has branched into two divergent lines:

- *Anywhere, anytime gaming* delivered through the internet
- *Destination gaming* with enriched video on dedicated machines

While the player bases for these markets may be numerically smaller, as seen above, they are expected to produce high revenues, or gross gaming yields, over the next few years.

The first group is already participating in gaming networks for bingo, poker, casino-style and skill games as well as sports betting through PCs or mobile devices. Traditional lottery games such as eScratch are also part of the portfolio mix. As implied by the descriptor, the "destination" group is brick-and-mortar commercial locations for sports betting, casinos and video gaming.

These new worlds have pushed development of solutions taking advantage of the latest technology to deliver fast, accurate and complete results:

- High speed information and transaction management for sports betting, internet and on premise gaming networks
- High quality browser-based game and transaction execution
- Immediate payment methods with eMarketing and CRM features
- Proven, reliable security support for these systems

Adapting to Change

To meet the challenges of evolution for the traditional and new lottery markets has required adaptation within the lottery and commercial gaming support businesses. An example of this process at work is how GTECH is making changes, organically and through acquisitions.

The company continues to develop solutions in equipment, central systems and communication networks for traditional lottery models with an intense focus on integrating lottery transactions and marketing into the retail mainstream.

At the same time, recognizing that lotteries have pressing needs for immediate sales results for which typical procurements may take too long, it has expanded its marketing capabilities with a Lottery Sales Solutions team drawing from best practices, sales databases and game design to advise customers.

While known for its online game development, management and support capabilities, GTECH has expanded into the instant game design and printing as well as licensed properties segment with the formation of GTECH Printing Corporation (GPC) and the addition of the IGI promotional game design group.

To keep pace with the new growing market segments, GTECH has created a Video Gaming Solutions unit and a New Media & Sports Betting unit. With the acquisition of Spielo and Atronic the company provides video lottery and commercial games, equipment and central systems through Video Gaming Solutions.

The recently formed New Media & Sports Betting unit following the acquisitions of Finsoft, Boss Media, Dynamite Idea and St Minver offers customers the ability to realize income from the creation, marketing and management of internet-delivered gaming in the form of game networks and operations as well as sports betting.

As public gaming progresses, the pressure on lottery gaming is to not only get more from but also go beyond the traditional portfolio. The opportunities for sales and revenue will require both detailed and expansive solutions, hence, the evolution of and reliance on the full gaming service provider to maximize legislatively enabled gaming potential. ◆

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