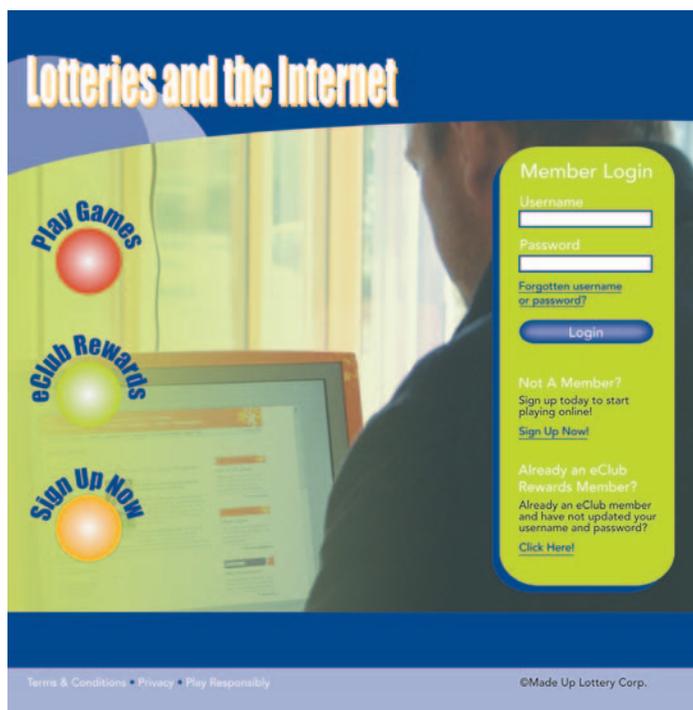


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On the Cover:
Tabcorp's Trackside, GTECH's
HotTrax.

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Industry News



Oklahoma, Kentucky Choose Scientific Games

The Oklahoma Lottery Commission selected Scientific Games to provide both online lottery and scratch-off tickets. Scratch games are scheduled to start on Oct. 12. Officials said they will run anywhere from \$1 to \$5, and later \$10 games.

Scientific Games was also awarded a four-year extension from the Kentucky Lottery Corporation worth \$20 million. The agreement commences October 1, 2005 and includes a provision to convert to a Cooperative Services model wherein Scientific Games is paid on a percent of sales basis.

WestLotto and LoRo Choose GTECH – ONCE Asks for More Handsets

GTECH has signed a five-year contract to provide ongoing software support and enhancements to Westdeutsche Lotterie GmbH & Co. OHG (WestLotto). In addition to software support and enhancements, GTECH will also act as general contractor for hardware maintenance, as well as terminal software support provided by Wincor-Nixdorf.

GTECH landed three new contracts with the Swiss lottery, Societe de la Loterie de la Suisse Romande (LoRo). One is a six year software license agreement while the other two are an integrated online and instant-ticket lottery system and the associated communications network.

Organizacion Nacional de Ciegos Espanoles (ONCE) has signed an agreement with GTECH for the provision of 5,000 additional handheld lottery terminals. GTECH will also upgrade ONCE's central system hardware. By the end of fiscal 2005, ONCE had ordered a total of 19,000 handheld terminals from GTECH. In addition, GTECH will upgrade ONCE's hardware systems, providing the organization with enhanced processing capabilities and expanded memory to support future products and services.

Spielo Launches Winwave at NASPL

Spielo®, a GTECH® Company, is launching yet another innovative solution for the lottery industry. WinWave™, the next generation video lottery terminal, will be showcased at the NASPL conference in Minneapolis, Minnesota from September 14-16, 2005. WinWave offers a sleek new design, a second LCD screen, and a smaller footprint. Developed in consultation with lotteries to meet the specific needs of venues and players, WinWave offers the same full-bodied features as Spielo's traditional terminals with ergonomic enhancements that improve the overall playing experience. Come see the future of gaming at Spielo's booth #46.

Intralot with Egypt Posts

Intralot and Egypt Posts signed an agreement concerning the development of a modern National Network for the provision of value added services

and games organization. The project concerns the development and management of an integrated system with a communications network among all branches of Egypt Posts, to conduct financial transactions, such as pay-

ment of utility, taxes and credit card bills, ticket booking, driving registration issuing, etc. INTRALOT will install the on-line central system, based on LOTOS platform, which will include the management software, the telecommunications network and the terminals, in all 3,400 (and expanding) Egypt Posts' branches.

Deutsche Entertainment Group Chooses Boss Media

Boss Media has signed an agreement with Deutsche Entertainment Group, under the terms of which Boss Media will deliver a casino system during autumn 2005. Deutsche Entertainment Group currently operates two established Internet casinos and, as a result of the agreement with Boss Media, will be launching another – www.kaisercasino.com.

British Columbia to Introduce Racetrax™ to North America

Canadians will be able to try their luck betting on animated car and horse racing following the introduction of a monitor game for lotteries called Racetrax™. BCLC will roll out Racetrax™ in a number of social venues during the next couple of months. Racetrax™, branded Trackside™ outside North America, is a product developed and operated by Tabcorp International. BCLC is the first lottery to offer car racing as part of Racetrax™.

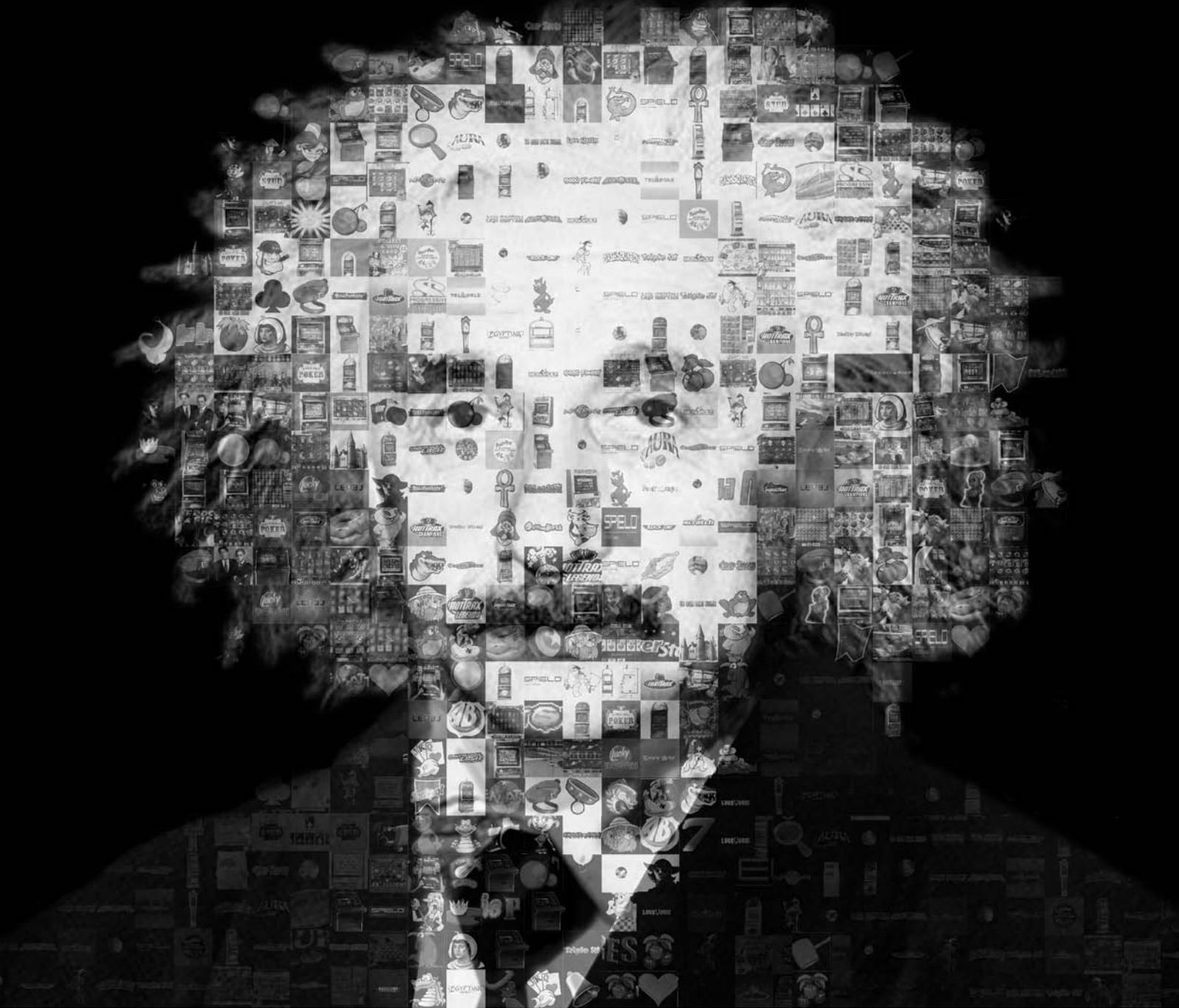
GSA Simplifies Patent Policy

The Gaming Standards Association (GSA) has simplified and updated its patent policy in an effort to bring it in line with those of other global standard-setting bodies. The policy was reviewed and updated after GSA attended a recent international roundtable of standard-setting organizations that focused on Intellectual Property policies. Among the simplifications made to GSA's policy are: removal of the need to disclose pending applications; requesting disclosure only at the end of the standards-setting process; and a general updating of the policy.

MDI Acquires Space Invaders®

Space Invaders®, the early 1980's alien invasion video game that helped launch the entire video game industry, has been acquired for the lottery category by MDI Entertainment, a wholly-owned subsidiary of Scientific Games Corporation. MDI has entered into a two-year agreement with Taito Corporation of Japan to be the exclusive provider of Space Invaders lottery licenses. The popularity of vintage video games is evident in the huge success of PAC-MAN™, which is quickly becoming one of MDI's most popular games. Space Invaders is the perfect companion/follow up game to PAC-MAN or as an introduction to this type of game theme. ♣





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Don't miss the launch of WinWave...booth #46 at NASPL.

AROUND THE WORLD

China

Lottery players in Shanghai are listening for the sound of three lucky tunes, as a new musical game launched on August 1. A special computer holding 1,000 musical scores was set up at the largest lottery market in the city. For each draw, the computer will pick three pieces of music, which a specialized piece of software will convert into three winning numbers between zero and nine. Draws will be held every 30 minutes from 10am until 9:30pm. Tickets for the lottery will sell for 2 yuan each, and the biggest prize for each draw will be 1,000 yuan (US \$123).

Chechnya

Acting Chechen Prime Minister Ramzan Kadyrov has ordered all gambling outlets to shut down. The decision was made last week after Kadyrov met with Chechnya's Muslim clergy. It is estimated that more than 1,000 mini-casinos are operating unregulated, untaxed gaming machines in the country.

Czech Republic

In the first half of 2005, SAZKA generated net profit in the amount of 965.5 million CZK (EUR 32 million). The after-tax profit of the company grew by more than 60 million crowns (7%) in comparison with the first half of 2004, when the company achieved the highest profit in its history (902.4 million CZK, EUR 29.9 million). The proceeds contributed by SAZKA to good causes also grew by 15.9%.

Finland

Finns played Veikkaus games for EUR 124.7 per capita during the first half of the year. Lotto retained its position as the Finns' favorite game. It was played for EUR 40.9 per capita on the average. The second most popular game Keno was played for EUR 23.1 and the third most popular game Fixed Odds Betting was played for EUR 12.4 per capita.

Ghana

The 500 cedis denomination Lotto coupons printed by Ghana's Valued Added Tax (VAT) Service for private lotto operators will be

phased out with effect from October 1, 2005. The change will make way for the printing and circulation of higher denominations of coupons, mainly 10,000 cedis and 20,000 cedis.

Hungary

Helped by two multi-week rollovers of its pick five game, Szerencsésjáték Rt, the national lottery in Hungary, paid HUF 27.4 billion into the central budget in the first half of the year, 20% more than in the same period in 2004, and 15% more than expected.

India

The Government of Maharashtra has launched four new lottery games, Mega Lotto, Mini Lotto, Cards and Best Two, under its Meggawin online lottery brand. The lottery is being marketed through its marketing agent, Martin Lotteries, which anticipates that the weekly games, priced between Rs5 and Rs10, will garner sales of Rs2.5 billion.

Italy

Lottomatica announced that, in the period June 2004 to June 2005, the new "Scratch & Win" lottery sold more than 640 million tickets, achieving wagers exceeding 1 billion euro. The range of the games has recently been increased to 8 tickets.

Namibia

Environment and Tourism Minister Willem Konjore recently inaugurated the Lotteries Board of Namibia, which was created through the Lotteries Act of 2002. The Lotteries Board will supervise and control the National Lottery.

New Zealand

GTECH has signed an agreement with the New Zealand Lotteries Commission for a complete lottery system conversion to include a new integrated online and instant lottery system and new terminals.

In addition to Enterprise Series, GTECH will replace NZ Lotteries existing terminal base with approximately 1,450 Altura® terminals. GTECH will also provide ongoing software support to NZ Lotteries as well as terminal maintenance over nine years commencing with the implementation of the new system, which is expected in June 2006. The Company expects to generate approximately \$14 million in product sale revenue. GTECH will also receive an additional \$14 million in ongoing software support, software licensing, and terminal maintenance.

The Philippines

To help the public check past winning numbers, the Philippine Charity Sweepstakes Office has introduced the Enhanced Lottery Information Services, which allows players to check winning numbers via SMS. Those interested in checking previously drawn numbers may text 2219 for Globe, 483 for Smart and 2823 for Sun Cellular.

Thailand

Thailand's Government Lottery Office formally signed a contract with Loxley GTECH to install an online lottery system nationwide. Loxley GTECH will be installing 12,000 terminals within 18 months.

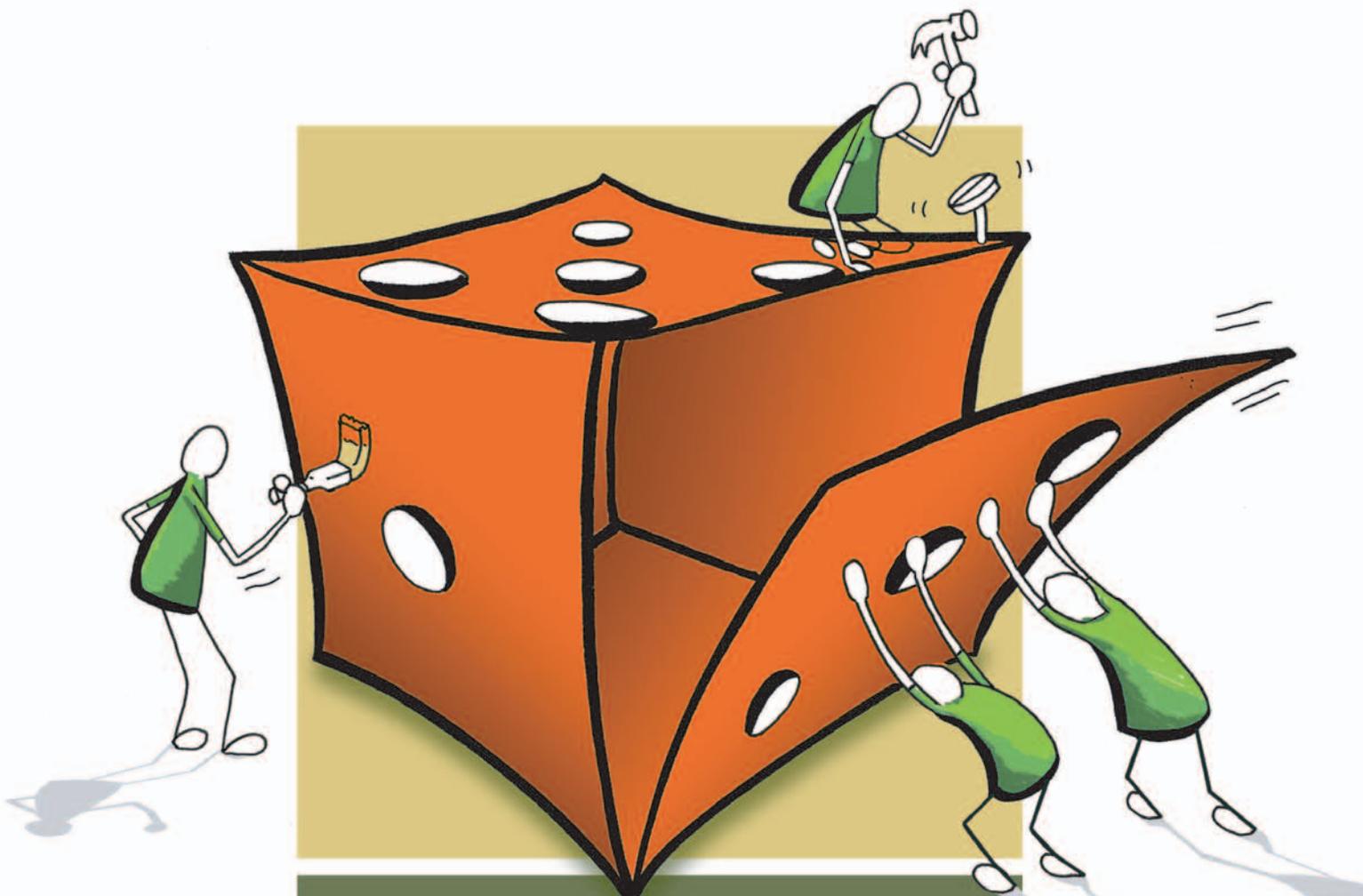
Trinidad

Trinidad's National Lotteries Control Board had record revenues of \$970 million in 2004, of which \$137 million in profits was remitted to the Consolidated Fund.

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All Promotions are Not Created Equally

Outstanding Contests Designed to Win Customers Over

By: Patrick Watson, CEO, SplashDot

Contests and sweepstakes have been around since the dawn of marketing. So it stands to reason that their results have stood the test of time. It is no secret that if the goal is to cost effectively acquire a list of people, and encourage purchase in the process, there is simply no better marketing tool.

Their ubiquity does pose some unique challenges, however. Imagine yourself as the average consumer – literally bombarded by thousands of marketing messages each day. To which promotions do you pay attention? Which ones actually manage to wrestle your attention away from all other promises of little white MP3 players, plasma TV's and trips to tropical destinations?

Traditionally, contests have been models of simplicity – entrants happily filling out ballots, dropping them inside large barrels or mailing them in – some shaping the paper in the form of an origami animal to stand apart from the crowd – and moving on. The sponsor of the contest relied on two outcomes to make it worthwhile – likelihood of a purchase, and a name that could be added to a list to which future marketing efforts could be targeted. Then the internet arrived, and everything changed.

Suddenly, contests did not have to be static acquisition vehicles. While they continued to encourage purchase and acquire prospects, contests could now take the form of interactive relationship-building tools. Customer education, significant branding opportunities, customer research, viral marketing, repeat purchase encouragement, even purchase modelling have recently become reasonable expectations of a well designed promotional strategy. Those that choose to invest time and attention towards designing outstanding promotions are rewarded with results never thought possible through relationship marketing.

Outstanding contests

Most lottery organizations have operated contests in the form of second chance draws, ballot promotions, collection programs, etc. Many have even ventured onto the internet, offering similar promotions to those accessible through traditional channels. Some others have gone much further and operated extremely sophisticated promotions for their consumer base, thereby competing for highly sought after consumer attention.

One organization fitting the latter profile is the Atlantic Lottery Corporation (ALC). With approximately sixty internet-based promotions under its belt in a relatively short two-year period, ALC continues to tap into the power of internet-based promotions in its eClub Rewards Loyalty environment. Operated in partnership with SplashDot, eClub Rewards offers consumers with a breadth of interactivity available on few other websites. Having begun with modest "click to win" promotions, ALC has honed their approach to provide highly interactive and focused contests. Beyond any doubt, the advanced internet promotions operated by ALC and other pioneering lottery corporations allow these organizations to truly win customers over.

Basic "second chance draws"

In virtually all industries, proof-of-purchase entry contests have been

used to encourage direct purchase of an item. A consumer is encouraged to purchase the product and enter a code either traditionally through mail or via the internet. The lottery industry has made extensive use of this type of promotion to help reduce non-winning dissonance and encourage further purchase in both traditional channels as well as on the internet.

Effective at branding and at rewarding multiple purchases, the basic second chance draw is particularly useful at increasing sales among the established lottery crowd. Its success, however, tends to be limited in encouraging new players or straying outside the typical demographic of the product with which it is associated.

Advanced second chance draws

By using the code that would normally be entered to prove purchase to instead unlock an interactive game, or provide some form of immediate gratification, the apparent value obtained by the consumer increases. The unlocked game or activity can be complementary to the product being supported. This leads to a variety of benefits, including consumer awareness, education and significantly higher repeat sales, often representing increases upwards of 300%. This type of second chance draw can evoke interest difficult to generate through a more traditional promotion.

Instant Win

With instant win products comprising a significant part of the entertainment value offered by lotteries, the instant win internet contest holds a special place in the lottery contest portfolio. This type of contest can be combined with a very engaging game or activity that reinforces key branding messages. Very immersive, the instant win internet contest is an excellent tool to encourage return visits and help brand products.

This type of promotion must be treated with the same care and attention as any other instant win products offered by a lottery. Security, reliability and mission critical attention to detail are a must with any contest, but especially so when prizes are awarded immediately on the internet.

Interactive viral game

A major objective of any successful online contest is to create something that is so interesting, so memorable that entrants communicate it to friends, family and acquaintances and become evangelists for the product. With proven viral marketing rates as high as 440%, viral games consistently demonstrate excellent results. Friends emailing friends, entrants learning key reasons why they should buy the product and remembering the experience months after offer sales and loyalty opportunities difficult to achieve through any other medium. These contests do require great care and attention to ensure that they are relevant to the target demographic. However, as organizations such as ALC have discovered, they are well worth the effort.

Although opportunities abound for lottery organizations to develop profitable relationships with consumers using advanced promotions and loyalty environments, attention to detail and mission critical quality are vital. Successful relationship marketing involves clearly identifying strategy, deploying a well thought out plan and learning from each ...continued on page 20.



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Beyond Keno

Lotteries and Vendors are Taking Monitor Games to New Levels

The bell rings.

"And they're off!"

"Twelve is showing speed on the outside... Eight is there, five, six, one, followed by numbers two, four, nine and eleven on the outside... followed by three, ten... and number seven tails at the open as they settle for their long journey up the back stretch."

"One scoots along the rail... eight is there... eleven... twelve to the middle of the track. Now they swing around the far turn. From the outside Eleven has a short lead. Nine joins the fray... Twelve – another move – and along the rail number One."

"Here they come, spinning out of the turn... Eleven under a full head of steam. Nine moves right with him... Two... Twelve... One drops back along the rail, and Ten. Up front it is Nine, Eleven... One is coming back and to the outside number Two."

"Here comes the wire! Number Nine runs for daylight followed by One and Two!"



Popular Drivers to be Featured in HotTrax

GTECH recently made its HotTrax game more attractive by obtaining a five-year exclusive licensing agreement giving GTECH rights to utilize the names, likenesses, and signatures of premier race car drivers in the social space environment. The game developers at GTECH easily incorporated custom-designed cars for the drivers into the 3D model for HotTrax. *"In order to be successful, lotteries and vendors must continually offer dynamic, rich content experiences that attract and retain the player,"* said GTECH Vice President of Corporate Marketing Chris Lyons. *"Popular drivers of the premier series in stock car racing such as Jeff Gordon, Dale Earnhardt, Jr., and Jimmie Johnson will add the visceral excitement of stock-car racing to our HotTrax game."* The HotTrax engine serves as the foundation of GTECH's racing suite of games that includes horses, street racing, and race car style games. ♦

Sure, it sounds like a horse race, and if you were watching the monitor you would think it looks like a horse race, but it's more like a three of twelve keno draw.

A handful of vendors are offering a new type of monitor game. While each vendor's games feature the same type of exciting draw narrated above, each vendor's offerings also have unique characteristics. Scientific Games and Telecom Game Factory jointly offer a horseracing-styled game called The Daily Race Game/Run for the Money™ that operates on the same principles as keno, with winners being chosen by a random number generator. Scientific Games, in conjunction with Telecom, recently submitted a bid for this game in Massachusetts and was selected as the winner. GTECH offers the stock car-styled HotTrax™, which also operates like keno and includes a progressive feature offering players a shot at starting jackpots of \$5,000. HotTrax can also, through a licensing deal, feature the names and likenesses of famous NASCAR drivers (see sidebar). Tabcorp International offers multiple versions: Thoroughbred racing, trotting and stock cars. Tabcorp's games, known as Racetrax™ in North America and Trackside™ in other parts of the world, are similar to keno in some respects, but the games have weighted odds for each horse, dog or car, allowing for a longshot, a favorite and everything in between. While the odds and prize payouts for each racer are different in Racetrax, they don't change from race to race, allowing players to both bet on multiple future races and study the past race statistics (Tabcorp provides stats on the last twenty races run). Scientific Games also offers a car race game, has developed a Texas Hold 'Em™ poker monitor game, and is working on the development of games featuring other brands such as Yahtzee and Scrabble. Texas Hold 'Em™ unfolds just like the real poker game in that it deals the "Flop," the "River" and the "Turn" cards (which are terms used in the table game), and these five communi-



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ty cards are used with each hand's 2 dealt cards to determine the winning hand.

If it's Not Broken...

Why do we need new monitor games? Keno really needs no fixing – it's been a tremendous success in nearly every jurisdiction that has implemented it.

Vendors involved in creating the new monitor games are quick to point out that they aren't trying to market a "better" version of keno. The games are, in reality a supplement to keno – a new way to play that appeals to veteran and novice lottery players alike without cannibalizing current keno offerings.

"Our research shows us that the monitor/social gaming market can support multiple games," said Budd Libby, president of Telecom Game Factory. "Keno players consistently tell us that they want more action. Keno, while it is a good revenue producer, is not a terribly exciting game."



"The object here is to bring entertainment to the industry – to truly have it be fun to find out if you have won or lost," continued Libby. "That's why we put this together. It's an exciting, entertaining game and it's designed specifically for lottery players."

"What the experience of Tabcorp and our partners in other jurisdictions have had is that monitor games give traditional lotteries a chance to access new customers in different venues in a different environment and with different transaction styles," added Michael Ilczynski, Strategy Manager, Tabcorp International. "What that means is that you can talk to new customers and generate revenues that are completely incremental to your traditional lottery offerings."

What it really boils down to is adding entertainment value. Most monitor games are going to feature multiple lead changes, which means that most players will feel that their horse, dog or car will at least have a chance of winning up until the end. That brings play value – the feeling of having come close. That's the whole object – to let people enjoy their experience win or lose.

Tailored Games

The possibilities for monitor game themes are endless, yet with the exception of Scientific Games' poker game and other new developments the repertoire of the genre is mostly limited to racing themes. The good news is that there are multiple racing themes to choose from: Thoroughbred racing, trotting or harness racing, greyhounds and stock cars.

It's also important to note that the technology behind monitor games allows them to be tailored to fit the needs of any jurisdiction. Different tracks can be added, different backgrounds, different names of horses – whatever is required to suit the local conditions. Also, if a lottery wants to play audio along with the game, an announcer with the local accent can easily be added.

One thing is certain, whatever options lotteries choose to have added, these games are captivating. They suck viewers in and they don't let go. The horses look and act like real horses. The jockeys move like they're supposed to move (they even have multiple whipping styles), the race cars behave like race cars. And, multiple camera angles are utilized ensuring that each game behaves like a network broadcast of a race. The games are very realistic – to a point.

"We could have made it look photo-realistic," said Libby. "We could have tricked you into thinking you were at a racetrack, but that wasn't best, and that's what research told us. We wanted it to look as much like horse racing as it could but have it be with animation."

Who's Playing?

A handful of lotteries around the world are currently offering monitor games in various types of social venues such as bars, clubs, licensed outlets – anywhere people gather and spend some period of time.

Tabcorp International offers monitor games in roughly 300 venues in Victoria and is in the process of expanding into other states in Australia. They are also operating it in conjunction with lotteries in Denmark, where it's in 50 Pit Stop Cafes; in Croatia; and in the U.K. where it's offered over Sky Digital Interactive allowing people to bet on the draws via their remote control and via SMS on mobile phones.

Tabcorp has also piloted its brand in conjunction with Scientific

Tabcorp International to Showcase Full Monitor Games Suite at NASPL – Announces 60,000 Terminal Keno Deal in China

Tabcorp International, a subsidiary of Tabcorp, Australia's premier entertainment, gambling and leisure group, will showcase its full suite of Monitor games at the NASPL conference in Minneapolis in September.

Tabcorp's Racetrax™ racing game (branded Tracside™ outside North America) features a variety of exciting 3D animations of horse, harness, greyhound and motor car races, and is currently being rolled out with satellite delivery to 500 hospitality venues by the British Columbia Lottery Corporation.

This is the first full installation of Racetrax™ in North America (although the Maryland Lottery has just completed a successful Pilot) and the first time that the Racetrax™ car races have been run anywhere.

Also on show will be Tabcorp's Keno, a highly sophisticated and visually exciting on-line rapid-draw Keno system that is both developed and operated by the company.

Tabcorp recently announced a significant deal to provide Keno systems and support services for the China lottery market.

Tabcorp International and Hong Kong-based China LotSynergy have formed a joint venture, Tabcorp International Hong Kong (TIHK). TIHK has now entered into a Technical Cooperation Agreement with Beijing Lottery Online Technology Co. ("CLO"), an entity based in China and partly owned by the Ministry of Welfare.

The agreement is a framework for TIHK to provide equipment, including 60,000 Keno terminals, software, and technical services to CLO over a 10-year term, and the commercialisation of Keno and subsequent products in China.

Based on the expected terminal rollout timetable for Keno, revenue for TIHK is projected to rise to an estimated \$100 million per annum from year 5 onwards.

This is the first time that a foreign company has been invited to participate at nationwide level in the China lottery market. ♦

Games in Maryland for some time and recently launched in British Columbia where it is planned to be in 500 venues this year.

Scientific Games' car race game tested as Track Action in Atlantic Canada, and Telecom's horse race game tested there as well.



GTECH has been running its HotTrax stock-car style game at 90 locations in Rhode Island (with plans for expansion) since May of 2004. GTECH's ongoing research with players and retailers shows the game has hit its target audience. GTECH has invested heavily in the same tools and design elements that make the top performing video games for PC and console platforms. HotTrax has very strong player awareness due to the eye-catching graphics that brings an exciting element of realism to the auto racing game. In addition to the cutting edge graphics, GTECH designed the game with real-time racing events that are randomly selected and displayed to ensure no race ever displays the same activity twice, no matter what the finishing order may be.

Player Response

Players have responded well to monitor games. In Victoria alone, a state with approximately 4.5 million people, Tabcorp's monitor games generate approximately US\$80 million in sales per year.

While HotTrax was only offered in Rhode Island for a little over a month in fiscal year 2004, it still took in \$235,570 in sales. Not a bad first month's haul for a completely new game concept with limited distribution.

While The Daily Race Game/Run for the Money is not yet implemented, research results show a lot of promise.

"We have outstanding research results from players," said Libby. "It's been the most positive research ever. The keno players love it, the regular player loves it. It has very broad appeal. The animation provides a special appeal to young affluent adults and to women. That's key in this monitor social setting environment. That's who's in bars and taverns."

The new monitor games not only look different, they also have a social interaction facet that makes them unique.

"We view it as a game that really creates an interaction between players," said Ilczynski. "That's why we see it as a real enhancement. It's incremental to traditional lotteries which are very much a personal experience – they aren't played much among friends or discussed amongst friends – other than when there's a major win. With these types of games, experience adds something to the social interaction."

As wonderful as monitor games sound, it's important to discuss one more upside. It's already been made clear that the games can be customized to any jurisdiction. This kind of flexibility also means that the games hold the capability to offer public service announcements and significant marketing capability and real time ad insertions to their keno monitoring system.

Libby asks, "Now is that more exciting than watching balls being drawn?"

You bet it is. ♣

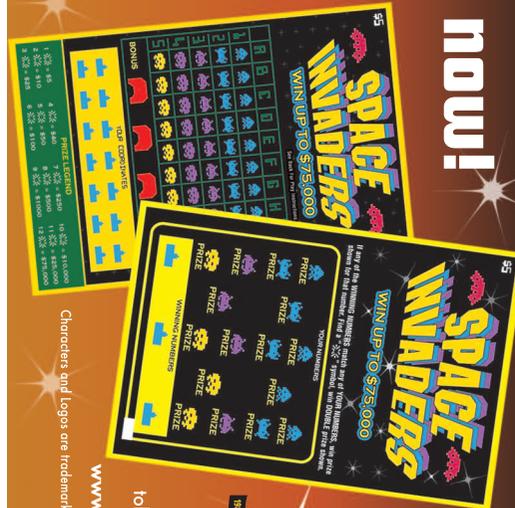


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U.S. Lotteries, the Internet and the WTO

By Edward J. Stanek, President and CEO, Iowa Lottery Authority

A lot has happened in our industry since Al Gore invented the Internet. Our world has become more technologically sophisticated and more complex legally as a result. Lotteries in Austria, Finland, and Hong Kong have been selling products on the Internet for years. More recently the British Columbia Lottery Corporation and the Atlantic Lottery Corporation have been new entrants to Internet sales. The first lottery in the US to use the Internet for product delivery is the New Jersey lottery with its Slingo and Tetris games. The Kansas Lottery has been selling e-scratch tickets. But in these cases the American lotteries sell what amounts to a voucher in a conventional retail outlet and the interactive products are delivered at the consumer's convenience for their entertainment value.

For the last five years or so we have seen proposed legislation in the US with varying attempts to criminalize the sale of lottery tickets over the Internet. A mild form of prohibitive legislation was introduced by Congressman Leach. His bill would have made it illegal to use any banking instruments such as credit cards, checks, or wire transfers for any form of illegal gambling. Therefore, his proposal would not have applied to our legal state lotteries but could have been used to prevent money laundering, which could have Homeland Security implications. Senator Kyl from Arizona introduced legislation to prohibit sales of any gaming instruments over the Internet with the exception of betting on horse races. Because the power to regulate gaming is not specifically given to Congress under the Constitution, under the tenth and eleventh amendments the right to regulate intrastate gaming is reserved to the states. Therefore an argument could be made that legislation like the Kyl bill could prevent Internet gaming that crosses state or national boundaries but that application of an Internet prohibition for purely intrastate gaming would be unconstitutional. The Kyl Bill if passed would impose criminal sanctions on lottery directors who could be fined or forced to serve time in prison for violations. These kinds of discussions distinctly slow down the enthusiasm by US lottery directors to channel time and financial resources into the development of Internet lottery products.

The specific objections from a societal viewpoint with regard to Internet gaming involve the avant-garde use of credit and age verification. I suggested in conferences five or six years ago that these objections could be satisfied by prohibiting the use of credit cards, using conventional lottery retailers to perform cash transactions and doing age verification while providing an instant or on-line ticket to utilize for accessing Internet games after the purchase. If the product delivery was done fully intrastate, federal laws and societal norms might both be satisfied. This appears to have been the approach used by the New Jersey and Kansas lotteries. Other methods have since been suggested by suppliers, involving such things as account play where money is put into an account and then drawn down over the Internet in order to play games. All the while, each US state has wanted to protect its state operated lottery monopoly and avoid interstate lottery transactions unless fully agreed to by the state on both ends of the transaction. This states' rights approach has been the official position of NASPL with regard to federal Internet gaming legislation.

Although the US Government Accounting Office estimates that there are about 1,800 Internet gaming sites, mostly operated by offshore entities, little has been done in the way of enforcement to stop those entities from selling gaming products in the United States. Unless this enforcement occurs, state lotteries are not protected. Some of the federal legislation introduced would have been powerless to enforce against foreign interests selling Internet based tickets in our jurisdictions, while the US lotteries would have been criminalized for doing the same. Without the enforcement, US lotteries' only defense mechanism would be direct competition via Internet sales. Although there have been relatively few instances of effective federal enforcement there have been several which have resulted in fines and prison sentences imposed only on Internet gaming operators who have set foot on US soil. And now the picture is getting much more complicated. Let me quickly review for you the most salient federal laws involving gaming in the US.

U.S. Gaming Law

Wire Act: Congress enacted the Wire Act in 1961 as one in a series of laws set out to combat racketeering. Then Attorney General, Robert F. Kennedy asked Congress for a number of enforcement mechanisms to battle organized crime. The Wire Act was intended to assist states, territories, and possessions of the US to enforce their own laws on bookmaking and gambling. The law stipulates "*whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers shall be fined under this title or imprisoned not more than two years, or both.*"

To obtain a conviction, the government has to establish that a person was engaged in the business of betting or wagering and not simply a casual bettor. The person had to transmit bets or information assisting in the placement of bets or information involving the transfer of money or credit for placing bets, in interstate or foreign commerce. The person also had to have used a wire communications facility and to have done so knowingly.

There have been a number of legal challenges centered around the Wire Act. Please note that the language in the act making it illegal to place bets or wagers applies to "any sporting event or contest." One federal court has ruled that the intent of the legislation was to prevent wagering on any sporting event or any contest. Another federal court has ruled that the intent was to prevent wagering on any sporting event or sporting contest. So, is sporting an adjective that modifies only "event," or does sporting modify "event" and "contest"? The scope of the law is greatly different depending on the interpretation. There has also been debate over the meaning of a "wire communications facility." Some interpretations suggest that actual wires must be used and the facility must be some kind of service provider. Other interpretations suggest that the word "wire" predated many new forms of commercial communications introduced since 1961 and the intent of Congress was to apply the prohibition to any form of remote transmission.

Travel Act: Also in 1961 Congress passed the Travel Act, which pro-

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hibited interstate travel or use of interstate facilities to aid in an unlawful business enterprise. It became illegal to travel in interstate or foreign commerce or use the mails across state lines to distribute profits of an unlawful activity, commit any crime to further any unlawful activity, or otherwise promote or manage unlawful activity. "Unlawful activity" included any business enterprise involving gambling, liquor on which federal excise tax was not paid, drugs or controlled substances, and prostitution.

Wagering Paraphernalia Act: In the same year, 1961, Congress enacted the Interstate Transportation of Wagering Paraphernalia Act. The act criminalized interstate transportation except by common carrier of any record, ticket, certificate, slip, paper, writing or other device for use in bookmaking, wagering pools in respect to sporting events, or a numbers game or similar games. Lotteries would have been considered a similar game. State lotteries were later exempted.

Illegal Gambling Business Act: Congress enacted the Illegal Gambling Business Act in 1970. It targeted syndicated gambling. In order to get a conviction under this federal statute the government had to prove that a gambling operation is in violation of a state or local law, that it involved five or more persons that somehow are involved in the business, and that it remains in substantially continuous operation for more than 30 days or has gross revenue of \$2,000 in any given day.

Indian Gaming Regulatory Act: In 1988 Congress passed the Indian Gaming Regulatory Act. It provided that it was legal to operate any kind of gambling on Indian lands that was otherwise legal in the state surrounding those lands. Social and traditional games were allowed, bingo and related games were allowed, and all other forms of gaming were allowed provided a compact was negotiated with the relevant state. Congress recognized that the sovereignty of Indian nations would remain intact with certain conditions imposed.

Interstate Horse Racing Act: Congress passed the Interstate Horse Racing Act of 1978 and prohibited interstate off-track wagering. But, against Justice Department opposition, in 2000 Congress amended the act to permit off-track para-mutuel wagering provided that off-track wagering was lawful in each state involved. This exemption applied whether the bet was placed via telephone or other electronic media, which would therefore apply to the Internet.

World Trade Organization

Meanwhile, the US had been negotiating agreements with the World Trade Organization in what was termed the Uruguay round of negotiations. The resultant General Agreement on Trade in Services, otherwise known as GATS, was signed in 1994. The US agreed that it would not enact any laws nor take any actions which would be counter to open trade among nations signing the agreement. The services subject to the negotiations had to be specified by each of the treaty participants. The language could have been either boilerplate language or paraphrased in each participant's own words. The US agreed that entertainment and recreational services would be covered by its agreement. Participants were allowed to make commitments, with certain reservations. The US did not make any reservations. The US later maintained that it did not intend to include gaming as an entertainment or recreational service.

What meager enforcement has been done relative to the US laws that I mentioned earlier as they pertain to known US interests gave rise to concern among other signers of the GATS treaty. The nation of Antigua-Barbuda derives most of its economy from tourism and gaming enterprises. With enforcement of interstate or international prohibitions by the US, the number of Internet gaming operations in Antigua-Barbuda was reduced by about 60%. Bookmaking operations in the UK financed a legal challenge to such US enforcement by the island nation on March 27, 2003. In March of 2004 an interim report in favor of Antigua's complaint was provided to the litigants. It found that the US was in violation of its GATS agreement, meaning that the US had to appeal the ruling or amend its laws and open its borders to Internet gaming. From May to October the US and Antigua negotiated toward a settlement, but none was found. In November of 2004 the final report was published, which meant that the US had to treat members of the World Trade Organization no less favorably than it treats its own domestic suppliers of like services. Antigua claimed that the US was committed to GATS and that gambling and betting services were included. There is a provision in GATS that allows certain exemptions of the treaty from applying if a country restricts certain services to protect morality or the public order. The US claimed that gambling services should be

...continued on page 28.



“A Nickel Isn’t Worth a Dime Anymore”

Applying the Wit and Wisdom of Yogi Berra to the Marketing of On-line Games

By Michael D. Frick, Vice President of Marketing – North America, Lottery Dynamics LLC

Called third strike. Caught flat-footed on a full count with the bases loaded. Looking for nothing but a fastball in that situation. Frozen by a knuckle curve! Game over.

There’s always next season, right?

Sort of analogous to the tale of on-line game sales over the past decade. Didn’t see it coming.

So what can we do to be better prepared for next season? In keeping with the baseball metaphor, let’s look for some clues to be found in the sage advice given by baseball legend – and guru – *Yogi Berra*.

“A Nickel Isn’t Worth a Dime Anymore.”

Our industry began selling on-line games for 50 cents or a dollar. With very few exceptions, ticket prices for on-line games haven’t changed in 30 years! Applying the Time Value of Money theory, we’re actually selling tickets for the present day equivalent (net present value) of 15 to 30 cents! Consider the words of best-selling business author, Seth Godin, who offered the following observation in *Purple Cow; Transform Your Business by Being Remarkable*. “*Cheap is the last refuge of a product developer or marketer who is out of great ideas.*”

“We might be lost, but we’re making great time.”

In our industry that might translate into something like: “*Okay, so annual government transfers have been flat and profit margins are down again, but we had a record sales year!*”

“The future ain’t what it used to be!”

Want to create sustainable long-term revenue growth in your highest margin product segment? If so, look beyond the “conventional wisdom” that led us here and consider what I believe are the three most promising (and, ironically, perhaps the most overlooked) strategies for rescuing the on-line segment. All three strategies are interrelated, although not necessarily inter-dependent. Focus on these three fundamentals to improve your on-line batting average:

- Pricing
- Vertical Growth in Existing Markets
- Creating New Value Propositions

Let’s look at PRICING. In my opinion, new pricing is the best strategy for bringing long-term growth to the on-line segment. Raising the average ticket price above one dollar offers more potential in meeting ROI and profit objectives than bringing new game concepts or product extensions to market. As an industry, we cannot expect on-line sales to keep pace with the dramatic growth experienced in other product segments by simply increasing output (volume of units sold) at the current one dollar price point.

I have written at length about the importance of pricing strategy in two earlier articles, one published in 2002 and the other published in 2004. Copies of both articles can be found by visiting our website at www.lotterydynamics.com and clicking on “NEWS.”

VERTICAL GROWTH is all about the treasure sitting on our floors. Sure, on-line players tend to be more mature in chronological terms. But it is also true that they have comparatively lower debt-to-income ratios, higher levels of discretionary or disposable income, and they already enjoy playing lotto and numbers games.

Consider that if only 3-4 out of every 20 current players were willing to increase their level of participation, in exchange for greater value, the revenue impacts would be incredible. Would you believe that it is possible to achieve a 25% increase in sales and net income, with no increase in the number of units sold, even if 17 out of every 20 players made no changes whatsoever in their current purchase patterns? Believe it!

It’s okay to look for new sources of revenue, but there’s nothing wrong about picking up the fortune that is right under our feet! To maximize revenues over the long-term, we need to create both horizontal and vertical growth.

VALUE is what keeps fans coming to the ballpark. Value is not built on making games harder to win and charging the same price! It means giving players better prize structures for the same odds or even better odds. That’s how we can begin building excitement back into our games.

“You better cut that pizza into four pieces, because I’m not hungry enough to eat six.”

Don’t assume that every player wants the same thing. There is plenty of evidence to suggest that there are different consumer or market segments among even “regular” players. Yet when we talk about “what our players want,” we make it sound as if they are a homogeneous lot.

When I worked for the Florida Lottery, we learned that there are clearly distinguishable segments of players. One segment is drawn to games in the \$5 to \$20 price range and a different segment tends to favor the lower-priced \$1 and \$2 games.

Think about pizza. The world is full of people who love pizza! But not everyone who loves pizza gets thrilled about a medium cheese and pepperoni. Some people prefer a 12-inch, thin crust pie with veggie toppings and extra cheese. Some want a deep dish, 16-inch, deluxe pizza with the works! So why do we assume that everyone who likes to play lotto, for instance, will always be satisfied with “one kind of pizza”?

“90% of the putts you leave short don’t go in.”

And in my case, the percentage has usually been even higher. The point here is to make the most of the opportunities you have.

Hardly an industry conference goes by that we aren’t told about the need to attract new players. And there’s certainly an element of truth in that viewpoint. But is that the only way to increase on-line game sales? And is it even the most cost-efficient or cost-effective option for revenue growth?

The answer to those last two questions might best be summed up in another rhetorical question. How much of the annual double-digit

growth that has occurred in the scratch-off segment during the past five years is the result of attracting “new” players? Okay, then why are we so obsessed with finding new sources of revenue when there’s a treasure trove right under our feet? Which brings us to our next point...

“You can observe a lot by just watching.”

What works and what doesn’t? The answers are right in front of us. How can we raise the average purchase price of an on-line ticket above a dollar? Offer more value than a player gets for a dollar today! Experience tells us that will work.

We also know what doesn’t work, although we often find creative ways to rationalize around those issues. We come up with terms of art like “jackpot fatigue” and use focus group responses to convince ourselves that lotto players don’t really care about odds of winning the big prize. History suggests otherwise. While players might not be able to recite the actual odds of winning a jackpot prize, they do have a cognitive awareness or a sense that no one in their state has won a jackpot prize in three years. That matters to players and it should also matter to us!

“Nobody goes there anymore because it’s too crowded.”

Sounds paradoxical, doesn’t it? Like “jackpot fatigue.” Players aren’t “tired” of \$10 - \$99 million dollar jackpots. But they’re growing tired of losing propositions!

Matrix changes that constantly make it harder for players to win a jackpot prize, while the ticket price remains constant, do not increase perceived value (even when the annuity value of a starting jackpot is bumped up a few million dollars). Per capita “bloc lotto” sales since 2002 prove this point.)

Key Lesson: If we hold the ticket price constant and reduce the perceived benefits of given game, then we have diminished consumer value!!! When that happens, the result is not “jackpot fatigue,” it’s buyer’s remorse! And that leads into our next lesson about creating new sources of consumer value...

“You should always go to other people’s funerals; otherwise they won’t come to yours.”

The “take-away” here is that the marketing decisions we make today have long-term consequences. Building value is the only path to sustained revenue growth. Gimmicks and slick advertising can certainly help to sell just about any product – once! Repeat sales require value. In the case of on-line games, particularly lotto games, we must accept the importance of creating new sources of value. And in doing so, we must also begin to recognize and accept that the frequency of jackpots won in a particular jurisdiction over time do most assuredly affect consumer perceptions about value!

“Baseball is 90% mental. The other half is physical.”

It used to be that marketing in the lottery industry was 90% advertising and promoting a product after it had been developed. That approach is no longer effective.

The consumer marketplace has changed dramatically over the past 20-30 years. Mass market advertising is almost an exercise in futility. The number of “brands” and “messages” are staggering. Consumers are inundated, if not completely overwhelmed, with all sorts of advertising messages from TV, radio, Internet, print, outdoor & billboards, direct mail, spam, telemarketers, and the list goes on. Effective marketing today means looking beyond promotional elements. Godin describes the new role of marketing in Purple Cow: “Marketing is the act of inventing the product. The effort of designing it. The craft of producing it. The art of pricing it. The technique of selling it.”

“When you come to a fork in the road, take it.”

We know what lies ahead on the road we’ve been traveling. We can ride it out or make a course correction. Ideally, reason will prevail and we will opt to make a course adjustment. Necessity would almost seem to dictate that outcome. And I am excited to be part of a new team that is positioned to help the industry make that turn.

The team is Lottery Dynamics, LLC. We’re still a bit of a newcomer compared to some other teams in the vendor league, but remember the name. We want to help you knock that knuckle curve out of the park next time. ♣

...continued on page 26.



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Progress in Pennsylvania: State Moving Forward on Plans for Slots

The Pennsylvania Gaming Control Board has been making steps towards implementing the state's slot machine program. The Board recently hammered out regulations for licensing suppliers for slots. Shortly thereafter the Board approved a competitive bidding process to hire firms to conduct background checks of gambling industry employees and forensic accounting investigations of gambling-related companies wanting to do business in Pennsylvania.

A number of factors have slowed the regulation approval process, and in an attempt to make up for lost time the PGCB implemented the state's emergency procurement code to begin doing background checks for applicants for licenses to supply and manufacture slot machines. The Board awarded three emergency contracts to firms that conduct background checks.

The Board's own investigation and enforcement bureau, headed by former FBI agent David Kwiat, will manage the information and split background checking duties between the state police and the three firms hired by the board to conduct the checks: Manuel Daniels Burke International LLC of Alexandria, Va.; Omnisec International Investigations Inc. of Chantilly, Va.; and Corporate Investigations Inc. of Pittsburgh. All three firms have experience working with gambling states and are staffed by former federal agents.

In all, the number of background checks could venture into the realm of 30,000 companies, executives and employees. The majority of the checks will be low-level employees, but approximately 20 percent of the checks, those concerning companies and executives, will require intense, in-depth work.

Venue Regulations

The Board has also approved regulations governing casinos at horseracing tracks and regulations for the other two categories of casino – stand-alone parlors and resorts – are expected to be completed

Gambling and the Economy

Pennsylvania expects big things from its slots plan. Annual revenue estimates range between \$1 billion and \$3 billion. A Philadelphia task force recently found that with two strategically placed casinos the city alone could reap as much as \$700 million in annual revenues, attract up to 13 million visitors a year, and create as many as 12,000 new jobs.

Still, the economical ripple caused by rising gas prices could cause some to question whether such lofty revenue figures could really be attained in a struggling economy.

It may be too soon to get a long-term read on the economical question, but a short term answer can be attained by looking at Atlantic City's July 2005 figures. The rising price of gas has yet to affect Atlantic City revenues. The east coast gambling Mecca's 12 casinos pulled in a reported \$505 million in revenue for July, 2005, and five of its casinos had their best months ever. Furthermore, the city's casino industry is on pace to generate revenues as high as \$5 billion for the year. ♦

shortly and adopted as early as September.

Applications for all three types of casinos must be accepted at the same time, but there is an exception for temporary licenses that allow tracks to begin operating earlier. While the Board is anticipating operator licenses to be issued at the front end of 2006, applications for temporary licenses could be taken as early as September.

Once the board determines that all applications are complete, it has 12 months to award non-conditional licenses.

Municipalities

There has been a lot of movement in regards to slots on the city and county level. What follows is a short synopsis on what is happening in various regions of Pennsylvania.

Philadelphia: Philadelphia's Gaming Advisory Task Force has considered 11 possible sites for two slot parlors and has concluded that the most profitable scenario would be for one parlor to be located on the Delaware River waterfront and the other to be near the intersection of the Schuylkill Expressway and Roosevelt Boulevard.

The task force believes that the wide range of Philadelphia tourist attractions will enable the city's two casinos to compete with Atlantic City's 12 casinos and estimates that nearly two-thirds of the gaming revenue would come from outside the city, capturing \$300 million to \$400 million from wagers that would have otherwise gone to out-of-state casinos.

Pittsburgh: While many Pittsburgh politicians are eyeing the casino process as a means to help fund a new arena for the Pittsburgh Penguins, the Pittsburgh Gaming Task Force has yet to make it a requirement for consideration. The Penguins report that their current facility doesn't allow them to compete with other teams, and if they don't get a new arena they will be forced to leave the city.

Interestingly enough, the Penguins have announced their intent to seek the Pittsburgh casino license. Other potential suitors include the likes of Harrah's Entertainment and MTR Gaming.

The task force is planning five community question and answer meetings in October, and is also planning an October trip to Detroit to discuss the impact of Motor City casino's impact on residents..

Gettysburg: A proposed casino on the Gettysburg battlefield is causing a bit of an uproar. David LeVan has proposed building the Gettysburg Gaming Resort & Spa at the base of Culp's Hill, where Union soldiers stood their ground all night against superior Confederate numbers. The 200-room hotel, spa and slots parlor would be located within two miles of Gettysburg National Military Park.

Northampton County: By a 5-3-1 count, the Northampton County Council voted in favor of the belief that gambling would be an inappropriate part of the county's future. While the council has no authority over whether an entity within the county actually gets a slot parlor license, municipal leaders will have a say as to where the parlor can be built. ♦

People



Joseph C. Sullivan, Executive Director of the Massachusetts State Lottery, was recently elected vice-president of the Mega Millions game by fellow members of the consortium. As vice-president of the organization, Sullivan will be responsible for offering game administration and financial direction for the multi-state game.

Scientific Games has retained a new chief technology officer. **Steven Beason** will join Scientific Games as of August 8, 2005 and report to Michael Chambrello, president and COO. Beason will be responsible for developing Scientific Games' overall technology strategy. Prior to joining Scientific Games, Beason spent seven years at the Hong Kong Jockey Club as their Executive Director, Information Technology. Before the HKJC, he was at GTECH Corporation for twelve years in several senior technology-related capacities, including vice president of software engineering and director of product development.

Wyevale Garden Centres PLC has appointed **Dianne Thompson**, the chief executive of U.K. National Lottery operator Camelot Group PLC, as a non-executive director. Ms Thompson has been Chief Executive of Camelot since December 2000.

For family reasons, **Peter Bertilsson** has announced his resignation as president of Boss Media AB, a position he has held since October 2001. Peter Bertilsson will remain company president until such time as a successor has been appointed, which is expected to be during the autumn.

The Manukau Institute of Technology Rookie Marketer of the Year for 2005 is **Rosa Jacobsen**, assistant product manager – Lotto Suite and Keno – at New Zealand Lotteries.

Governor Perdue has reportedly appointed **Tony Campbell**, founder of the Broad Street Group LLC, to serve on the board of directors for the Georgia Lottery Corporation. Campbell, 53, worked at Flowers Industries for 20 years, serving as chief legal officer, general counsel and secretary. Three years ago, he retired from Flowers to establish the Broad Street Group, a local private equity investment firm.



Michael Capen joins Gaming Laboratories International's development team and will be based in GLI's Las Vegas Service Center. Capen's history in charitable gaming dates back to 1999, when he began working for the Virginia Department of Charitable Gaming. Among his notable accomplishments was a 100 percent increase in training sessions provided to charitable organizations in one year alone.

WMS Gaming announced that effective August 22, **Patricia C. Barten** has been named Senior VP of Manufacturing. Ms. Barten will oversee the Company's manufacturing, procurement, warehousing, regional operations, customer service, shipping and quality functions and will report directly to **Brian R. Gamache**, President and CEO of WMS.

Youbet.com, Inc. announced that **Gary W. Sproule**, 55, the Company's Chief Operating Officer, has been appointed to the position and title of CFO. Mr. Sproule, who joined Youbet.com as CFO in May 2002 and has served as COO since May 2004, is replacing Charles Bearchell, who served as CFO since May 2004. ♣

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International Lottery Player's Survey Lottery Players Clubs

By Phil Kopel, President Kopel Research Group, Inc.

On rare occasions revolutionary technology comes along that transforms how we do things. It is rather hard to believe that the first automobiles were invented only about 100 years ago. In fact, very few people even owned one prior to World War I and they really did not reach the mass market until after WWII. The automobile changed where we could live and provided us with incredible freedom to travel.

The telephone provided us with the ability for two way communication without the need to travel. Television and radio brought people into our lives from all over the world. We now often know more about public figures halfway around the world than we know about our neighbors. About 20 years ago, the personal computer, with its raw word processing and mathematical computing power, tantalized us with a new sense of control over one's desktop. It gave us glimpses of what could be.

However, the true communication revolution started within the past 10 years with the development of the Internet; and with the move toward high speed broadband "always on" connections and WIFI wireless its usage has become part of most consumers' day-to-day routine. In many ways, the magnitude of the Internet rivals all of the great innovations that preceded it.

One can now travel instantly through a virtual world, using multiple browser windows to perform two-way communication with websites and locations around the world at the same time. I don't think the great science fiction writers of the 20th century like Isaac Asimov, Ray Bradbury and George Orwell ever saw that coming.

Virtually all Lotteries now have websites, where they provide information about games, provide winning numbers and promote where the revenues are used. Some lotteries also have taken the next step of providing lottery players with the opportunity to join a Lottery VIP Players Club.

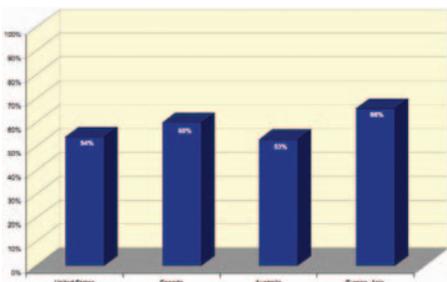


Chart 1: Percent Ever Visited their Lottery's Website

have ever played their government's sponsored Lottery. Just over one-half of survey panelists have visited their Lottery's website. Chart 1 shows the breakdown across countries.

- Statistically, the panel from Europe and Asia had a slightly higher percent that have visited their Lottery's website.

Reasons Visited Lottery's Website

As Lotteries design their websites they should understand what drives

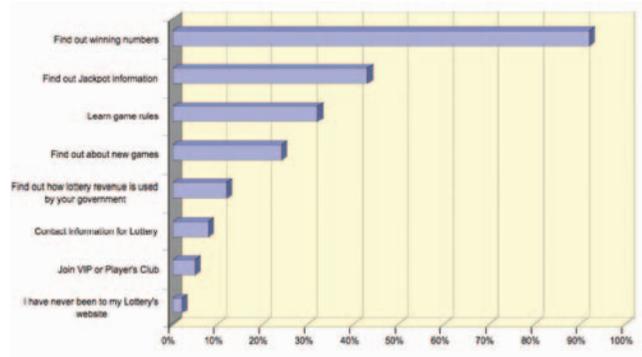


Chart 2: Reasons Visited Lottery's Website

people to the site and make it easier for them to access that information. Chart 2 shows in descending order, the reasons respondents say they visit their Lottery website.

- The two most popular reasons to visit the website are to find out winning numbers and jackpot amounts. This is important because this information changes daily, giving reasons for lottery players to access the sites regularly. The takeaway knowledge for Lotteries is that the website should not be designed as a static electronic document. The website needs to be dynamic, information needs to be current and an opportunity exists to creatively communicate with regular players frequently through the website.

Check Winning Numbers

Respondents were asked where the top two places are that they look for winning numbers. Chart 3 shows these locations in descending order.

- Since this survey was performed on the Web, the sample population is likely biased. Yet, even so, if we analyze the descending order, it demonstrates that players choose locations where they can get easy access to check the numbers on their own time.
- It is logical to expect that a Lottery's website will continue to grow as a resource for Lottery players at the expense of the other media.

Lottery VIP or Players Club Membership

As the lead-in suggested, the Internet provides an entirely new way to communicate with Lottery Players. Players VIP Clubs create the opportunity for Lotteries to personally communicate with their players. Database marketing from the Players VIP Clubs provide Lottery players with exactly the information they sign up to receive, at a frequency they choose.

Chart 4 shows that this new direction has yet to catch on with the

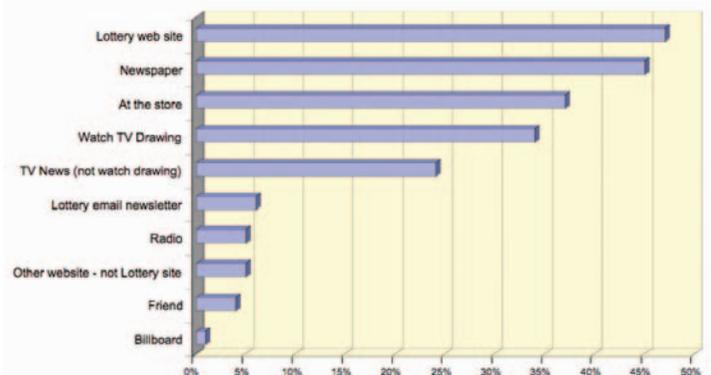


Chart 3: Top Two Places to Learn about Winning Numbers

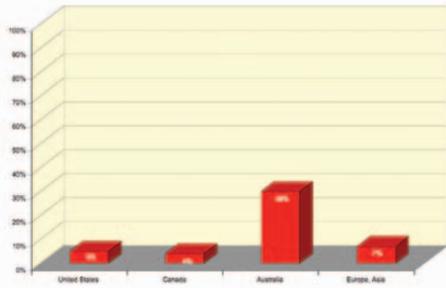


Chart 4: Member of Lottery's Players Club

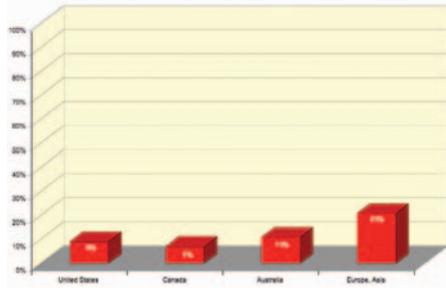


Chart 5: Percent that Learn about Winning Numbers by Email

Lotteries since the overall percent of Lottery players registered in Players Clubs is currently quite small. Therefore, the potential to benefit from this great resource has yet to be realized.

- Currently only about 1/3 of Lotteries offer a Players VIP Club.

Chart 5 shows that lottery players that receive winning numbers via email is still at a very low percentage of Lottery players. Lotteries have yet to fully embrace this medium.

- Some Lotteries, while not having full Players Clubs, do offer lottery players the opportunity to receive winning number information via email. However, this is still quite low.

- Given that all methods scored relatively well, they all could be useful as incentive programs and it may be wise to interchange them over time.

Summary

The traditional methods of mass media advertising coupled with point-of-sale marketing materials are still vitally important, however, there is now an opportunity for Lotteries to develop a more personal relationship with their Lottery players. A Lottery VIP Players Club and Online Research Panel offer a dramatic change with respect to how Lotteries and their Lottery players can interact with each other.

A marketing program from the Lottery Players Club builds player interest and loyalty. In addition, a marketing research program integrated with a Lottery Players Club provides the Lottery with the ability to qualitatively and quantitatively evaluate concepts. Research can be conducted on an ongoing basis with a large, willing and ready panel, providing an excellent recruitment database for focus groups, minimizing survey interviewing costs and maximizing decision making knowledge. ♦

The Author: Philip Kopel, President, founded Kopel Research Group, Inc. www.kopel.com in 1989. Phil has managed a diverse variety of research projects for many lotteries throughout the United States and Internationally. The company provides comprehensive lottery market research solutions including; benchmark studies, research panel management, game design concept analysis, player segmentation analysis, game mix optimization, sales forecasting and retail agent feedback and satisfaction analysis.

Interest in Various Players Club Programs

Respondents were presented with a list of potential Players Club offerings and they were asked how much interest they had in each of them. Chart 6 presents these findings in descending order of overall interest.

- Somewhat surprising, leading the list is an interest in participating in surveys to evaluate proposed games for opportunities to win prizes. Given that this survey was taken by people that did sign up to take surveys for money and prizes, it perhaps is somewhat biased. Nevertheless, it is a very positive finding.
- Overall, all of the features offered showed significant interest.

Players Club Used As On-line Research Panel

One of the strengths of a Players Club is the ability to build a large Online Marketing Research Panel that provides regular access to lottery players of diverse demographics and lottery play behaviors from around a Lottery's jurisdiction.

Respondents were asked to rate their level of interest in four different incentive programs for participating in marketing research. The results are in Chart 7.

- The most preferred incentive was for the survey participant to be entered into a simple drawing, from those that took the survey, for 5 chances to win \$100.
- The second most preferred incentive was a coupon that could be placed in their Player's Club account that they can print out and take to a retailer for a free lottery game. The retailer can swipe the unique bar code so it can only be used once.
- The third choice was a point accounting system that would allocate points as they take surveys that can be redeemed later for merchandise.
- The least preferred was giving away many small lottery branded merchandise items.

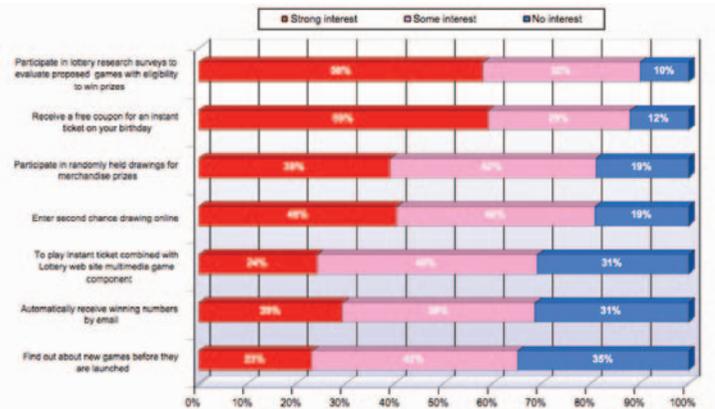


Chart 6: Level of Interest

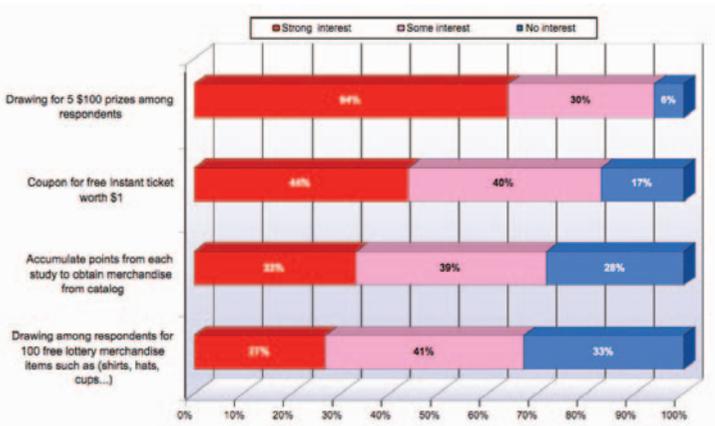


Chart 7: Preferred Research Incentive

¹For information about the demographic and lottery play distribution of the International Lottery Research Panel please see the April edition of Public Gaming.

Video

News

IGT Celebrates 100th Advantage™

The Palace Casino Resort in Biloxi, Miss., became the 100th casino property worldwide to install IGT's Advantage™ Casino System. Two components of the system were introduced to Palace Casino Resort players during August – Power Play and Power Point Play. Both features give the power and convenience of controlling their players' club account right to the player.

AGI to Move Plant to Hungary

Austrian Gaming Industries (AGI) is spending EUR 3.5 million to move its entire production of electronic slot machine innards to its unit in Hungary. AGI will complete a 2,000-square-metre production hall in Veszkeny (NW Hungary) in November, and a warehouse and an office building will be finished in February of next year. AGI will hire 70 more workers at its Hungarian unit to staff the plant, bringing its total number of employees to 150. AGI will also move its headquarters in Hungary from Sopron (NW Hungary) to Veszkeny, and move a good part of its sales and development activities to the site as well. AGI also recently moved production of the bodies and metal parts for its slot machines to its unit in the Czech Republic.

Aristocrat's Oasis Approved in Nevada, GLI Approves PersonalBanker

Aristocrat's OASIS™ Casino Management System is the first online slot monitoring and cashless wagering system to be approved by the Nevada Gaming Control Board for meeting Nevada Regulation 14, Technical Standards for Gaming Devices and Technical Standard 3: Integrity of and Proper Accounting for On-Line Slot Systems. The new standard, which mandates compliance by May 2006, was implemented by the Gaming Control Board to address updated technology in the gaming industry.

Aristocrat also announced that GLI has approved its new OASIS™ PersonalBanker® AFT cashless solution that allows players to download promotional credits, convert points to cash, and upload and download cashable credits to their PersonalBanker account at the gaming machine, significantly expanding casinos' ability to implement high impact marketing and promotions programs.

Wheel of Gold in New York

Ten of IGT's Wheel of Gold® video games were installed at Finger Lakes Gaming & Racetrack, and eight were installed at Saratoga Gaming & Raceway. The two Video Gaming Facilities are operated under the direction of the New York Lottery. The Wheel of Gold® video game is a 9-line, 45-coin game with a wheel that spins during the bonus round.

Virgin Islands VLTs Paying Off

VLTs have reportedly been responsible for helping the Virgin Islands Lottery into the black. Southland Gaming operates 330 machines on the islands, kicking a 33.25% commission back to the Lottery. Since August 2003 the machines have sent \$5.9 million in payments to the Lottery; \$4.1 million in payments to VLT retailers; \$82,000 in charitable contributions such as children's scholarships; \$349,000 in salaries; and \$1.7 million in local goods and services bought, including rent, consultant fees and vehicles. Since December, the lottery has paid \$700,000 to the Virgin Islands Educational Initiative Fund and \$345,724 to the Pharmaceutical Assistance to the Aged Fund, and \$242,000 into the Virgin Islands General Fund.

IGT and GSA to Combine Efforts

The GSA and IGT will work together to combine the GSA's successful Best of Breed (BOB) Version 1.1 and IGT's SuperSAS™ protocols that will lead to an open global industry standard and continue to drive innovation. As part of the agreement, IGT will re-establish its status as a full member of GSA and will work with the group to further the shared goals of creating one standard that will be the cornerstone for new gaming technologies including server-based applications.

Aristocrat Launches Zorro Hyperlink Progressive

Aristocrat Technologies continues to expand its Hyperlink® progressive slots portfolio with this summer's widespread introduction of a Zorro™-themed local-area penny progressive offering a \$50,000 top jackpot award. The linked progressive was recently approved by Gaming Laboratories International, Inc. for introduction into most river, land-based, and tribal gaming jurisdictions nationwide. Aristocrat's Zorro linked progressive combines two highly successful Aristocrat game concepts – Hyperlink and the Bonus Bank. ♣

All Promotions are Not Created Equally ...continued from page 6

are vital. Successful relationship marketing involves clearly identifying strategy, deploying a well thought out plan and learning from each implementation. However, consumers today are more fastidious than ever. So a lottery organization must ensure that it operates outstanding promotions in such a way that consumer expectations are always met, and ideally exceeded. Although basic promotions can still convince some to become paying customers, outstanding promotions often move consumers to become loyal advocates of your brands and corresponding lottery products. ♣

The Author: Patrick Watson is Chief Executive Officer of SplashDot, the leading provider of interactive relationship marketing solutions to the Canadian lottery industry. The company provides software and services to operate contest/ sweepstakes, loyalty environments, VIP clubs and permission marketing. The goal in each of SplashDot's engagements is to attract and engage consumers so as to ultimately convert them to loyal, long-term customers.

nCentive Suite 2005 Lottery Edition™, SplashDot's proprietary online software suite, was recently recognized as 2005 Product of the Year by the Public Gaming Research Institute.

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RACINO NEWS

New York's First VGM Tournament Held at Mighty M

On July 27, 2005, Mighty M Gaming and Spielo hosted the first video gaming tournament held in the state of New York at Mighty M Gaming in Monticello, New York.

Modeled after tournaments held in Atlantic City and Las Vegas, Mighty M Gaming gave away over \$5,400 in cash prizes. The tournament featured Spielo's ever popular Vegas 5-Line game. Mighty M Gaming is located in Monticello, New York.

ALC Announces Opening of CDPEC

The Atlantic Lottery Corporation announced the grand opening of the highly anticipated Charlottetown Driving Park Entertainment Centre (CDPEC) on August 11 at 11:00 a.m. The \$25-million, 50,000-sq. ft. state-of-the-art facility is among the most sophisticated in Canada. It offers a wide array of entertainment and gaming, a newly restored three-tier dining facility, a new grandstand, a gaming area with electronic gaming machines, a showcase of P.E.I.'s harness racing history, and a teletheatre featuring parimutuel betting and enhanced simulcast racing.

More than revitalizing the Island's harness racing industry, the CDPEC is expected to generate new employment and revenue for both the city and the province, while providing a significant boost to the province's agricultural and tourism industries.

Jeremy Pierce, General Manager, Harness Racing P.E.I. Inc., said the investment has already resulted in significant benefits for both the industry and fans.

"We're already seeing improved racing speeds, which have helped raise the excitement and quality levels of the races here at the CDPEC. In the first 11 races completed, there were 39 races under two minutes, 24 races under 1:59 and achieved a new Maritime record for a regionally-bred horse at 1:54 flat. This will definitely lead to larger purses and more employment both at the CDPEC and in our industry."

In addition to harness racing, the CDPEC will offer a wide range of entertainment and gaming options that will appeal to Islanders and be a significant draw for tourists.

Iguazu Grand Hotel Opens

In response to increasing demand, Argentina's Iguazu Grand Hotel Resort & Casino has inaugurated 47 new suites and one panoramic suite in July of 2005. The new rooms are all equipped with state of the art high speed Internet, mini-bars, safe boxes, hair dryers, stereo equipment, and cable TV. The ample marble bathrooms all have a Jacuzzi. The hotel has three restaurants, a 17,000 square foot casino, two bars, a theater that seats 200 guests, a 564 foot spa, a library, and six conference and meeting rooms that can accommodate up to 200 guests.

IGT Launches Progressive in New York

The first lottery progressive games in New York gaming are now available at five New York Lottery Video Gaming Facilities. IGT's local progressive SPAM™ video game was installed at Fairgrounds Gaming and Raceway, Batavia Downs Gaming, Mighty M Gaming at Monticello Raceway, Finger Lakes Gaming & Racetrack, and Saratoga Gaming & Raceway.

The progressive top award builds from a base of \$1,000 and increases respectively every time a SPAM™ machine is played. When the top award is

won, it is paid to the winner in its entirety. SPAM™ is a 2-cent game with a 125-credit max bet.

New Hampshire's Rockingham Park Signs with Casino Company

New Hampshire's Rockingham Park racetrack has signed a deal with Millennium Gaming Inc. and Cannery Casino Resorts to expand the existing facility and bring gambling and live thoroughbred racing to the track. Before the traditional trotting track can see this kind of development the state will have to legalize a gambling expansion bill. The most recent expansion bill was rejected by the state Senate in April.

If the state does not allow expansion of gambling the Park will be developed for other purposes.

Kentucky Slots Bill Filed

State Rep. Tom Burch, D-Louisville, said he was pre-filing a plan that would allow Kentucky to have up to 21,000 slot machine terminals. Horse tracks and certain hotels would be allowed a share of 10,000 slot machines. Meanwhile, each of Kentucky's 120 counties would be eligible for an initial allowance of 50 terminals. The remaining 5,000 machines would be divided among the counties based on their populations, under Burch's proposal. Initially, the plan would bring in about \$200 million. The machines, which would be overseen by the Kentucky Lottery would benefit Medicaid and education, among other things. ♦

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Arizona

Arizona Lottery sales for fiscal year 2005 hit an all-time high of \$397.5 million, \$31 million more than FY '04's. As a result, the state will receive \$116.4 million in net profits, the highest in the Lottery's history. The Lottery's success was due to superior results with Scratchers and The Pick. The Lottery added a new feature to The Pick called EXTRA, which for an additional \$1 per play gave players an instant win opportunity.

California

The California State Lottery broke a 20-year record by posting \$3.33 billion in sales for FY '05. Additionally, the California State Lottery will transfer \$1.17 billion to California's public education, making this the fifth consecutive year to transfer more than \$1 billion. Scratchers games brought in more than half of all ticket sales revenue at more than \$1.73 billion, an increase of \$400,000,000! SuperLOTTO Plus and MEGA Millions generated \$1.11 billion, while Fantasy 5, Daily 3, Hot Spot and Daily Derby brought in \$487 million. The new MEGA Millions game, introduced during the last two weeks of the fiscal year, was a hit with players and broke the first day ticket sales record by bringing in \$2.4 million.

DC

In addition to changes in Powerball, the D.C. Lottery will also be seeing changes to other games. The Lottery's QuickCASH game will be replaced by a new D.C. Daily Six game that will feature two plays for \$1. The Lottery will also replace its Hot Five game in November with a similar game called "Rolling Cash."

Idaho

The Idaho Lottery and the Boise Hawks challenged local celebrities from the Treasure Valley to step up to the plate and take a swing at scoring some money for area schools. The Celebrity Homerun Derby gave the six celebrity batters the chance to raise money for K-12 public school in the area. Celebrities included familiar names and faces from TV and radio in the area. Each batter had 5 swings, and each hit garnered a different cash amount from the Idaho Lottery: infield hits were \$25; outfield hits were \$50; hitting the fence was \$75; and out of the park was \$100. All batters won \$150 for the school of their choice.

Kansas

Ticket sales from the Kansas Lottery reached nearly \$207 million in FY '05 – a sales figure second only to FY 2004 when the Lottery reached \$224.4 million. The Lottery transferred an unaudited \$65.4 million to the state of Kansas during FY 2005, including \$701,164 in profits from the special veteran's games.

Maryland

The Maryland Lottery closed FY '05 breaking several records once again. Total sales reached a record \$1.485 billion and revenue generated for the State reached a record \$477 million, topping FY '04's record by nearly \$19 million. Though sales in most categories continued to climb, specific games finished the year with tremendous gains. Keno and Keno Bonus, combined, experienced this year's biggest sales increase at nearly 17%, while Mega Millions produced a substantial sales increase of 10%. Sales of Pick 3 and Pick 4 combined increased by more than 9%, bringing in an additional \$21.6 million. Total scratch-

off sales grew by 10%, resulting in an additional \$36 million in sales. Extreme Cash was the Lottery's top-selling scratch-off ticket this year.

Massachusetts

The Massachusetts State Lottery has made a difference! This past year the Lottery has held seven recycling events that resulted in the collection of over 56 tons of instant tickets. The Massachusetts State Lottery is believed to be the only lottery in the country that redeems instant tickets for the sole purpose of recycling. The impact that its efforts have made on the environment include the following: 952 Adult size trees were saved; 1,120 Barrels of oil were conserved; 3,360 Pounds of air pollution has been avoided; 392,000 Gallons of water were saved; 184 Cubic feet of landfill space has been saved; 235,200 Kilowatt hours of electricity conserved.

Minnesota

Record Minnesota State Lottery ticket sales of \$408 million in FY '05 generated a record \$106.18 million for State projects. The overall increase in sales was due to a 17.5% increase in Scratch Games, representing \$37.7 million, offsetting a 9.7% decline in overall Online Game sales. The decrease in Online Game sales was due primarily to the decline in Powerball® sales that resulted from lower than normal jackpots caused by a record 16 jackpot wins. Operating costs, already down 27% in FY '04 compared to the previous year, were reduced an additional 2.6% in FY '05.



New Jersey

New Jersey Lottery Executive Director Michellene Davis, Esq. accompanied Dr. Marcia Taylor, Director of the Governor's School of the Arts, on a recent visit with students and staff at the College of New Jersey in Ewing, NJ. The School of

the Arts is one of six Governor's Schools benefiting from the Lottery's fiscal year 2004 contribution of \$962,000.

New Mexico

Strong sales of in-state games helped drive the New Mexico Lottery to its second-best year of sales. Sales of all games exceeded \$139 million (unaudited), while net revenues for Scholarships were \$32.2 million, topping \$30 million for the third straight year. Instant ticket sales surpassed \$90 million in one year for the first time. In-state online game Roadrunner Cash exceeded \$9 million, an all-time high, and newly introduced 4 This Way! combined with Pick 3 to exceed last year's Pick 3 sales by 41% for a total of just under \$3 million.

North Dakota

North Dakota's three lottery games have raised \$7.2 million for the state treasury since Powerball sold its first ticket in March 2004, and North Dakotans bought \$24.9 million worth of tickets in 15 months. Powerball sold \$18.9 million, Hot Lotto sold \$4 million and Wild Card 2, sold \$2 million.

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RoundUP

purchasing the 10 millionth ticket sold at one of the Lottery's 400 retail locations. The date and time of the 10 millionth ticket sale depends entirely on the pace at which lottery tickets are sold. All game purchases – Powerball, Hot Lotto and Wild Card 2 – contribute to the countdown toward the 10 millionth ticket. No bells or whistles will go off at the retail location that sells the 10 millionth ticket. All players must save their winning and non-winning tickets from August 11 until the Lottery announces the 15-digit serial number on the winning ticket. Players will be responsible for checking the serial number on each of their tickets. The player that has the winning ticket should immediately call the Lottery office in Bismarck at (701) 328-1574.

Ohio

The Ohio Lottery is planning to replace Super Lotto Plus with a game called Lot 'O Play. The bingo-styled game has a field of 25 numbers within five horizontal and vertical rows. If a player gets all numbers in a row – horizontally, vertically or diagonally – they win the rolling jackpot, which starts at \$1 million. The \$2 game will launch on October 9.

Oregon

The Oregon legislature voted to eliminate the Lottery's Sports Action game in mid-2007. The bill, which received unanimous approval in the House several weeks ago, passed in the Senate as well.

Rhode Island

Despite some challenges that kept sales of several Rhode Island Lottery games in check, the Lottery was able to increase its overall revenue, adding a record \$308 million into the state's General Fund. Video Lottery revenue from Rhode Island's two VLT facilities increased 11%, contributing to the nearly 10% increase in lottery revenue to the state. In March 2005, the Rhode Island state legislature passed a bill that prohibits smoking in restaurants, bars and taverns – some of the most pop-

ular Keno and HotTrax® venues. This, as well as PowerBall®'s frequent wins, proved to limit sales on these profitable games. Over the past fiscal year, Retailer incentives and player promotions helped to encourage sales on instant ticket, on-line and monitor games. With the PowerBall® game change and revisions to the HotTrax® games scheduled for release in 2005, the Rhode Island Lottery will continue to respond to players' needs and the best interests of the state.

South Carolina

The South Carolina Lottery had record breaking sales in FY '05, amounting to over \$956 million – \$6 million more than FY '04. South Carolina's Board of Economic Advisors (BEA) originally estimated the annual FY '05 transfer to be \$255 million. Actual transfers were over \$280 million, translating into a per capita amount of \$70. This is the fourth consecutive year that SCEL transfers have exceeded expectations.

Texas

Texas Lottery officials are considering guaranteed jackpots to help avoid inflated estimates. Newly proposed jackpot prize guidelines include a guarantee the winner collect either the advertised amount or the amount calculated by sales, whichever is greater. The guarantees would apply to jackpots paid with the 25-year annuity, not to winners who choose the immediate cash-option payment. The proposed rules would also require lottery officials to make a "fair and reasonable" estimation of potential jackpots. And if the jackpot falls short of the estimate and ticket sales, the lottery would be allowed to pull money from other lottery funds to cover the difference.

The non-profit organizations in Texas that conduct bingo games had a big second quarter this year, as gross receipts were tallied at \$155.3 million and prizes awarded totaled \$117.1 million. There are 1,293 non-profit organizations that conduct bingo games in Texas.

"A Nickel isn't Worth a Dime Anymore" ...continued from page 15

The Author: Prior to joining Lottery Dynamics, LLC as Vice President of Marketing – North America, Michael Frick served for two years as Deputy Secretary of the Florida Lottery. He also served as Deputy Executive Director of Support Services with the Pennsylvania Lottery from March 2000 through February 2003. He holds a B.A. and law degree from Marquette University, Milwaukee, Wisconsin. He also holds a Masters Degree in Business Administration, with honors, from Kutztown University of Pennsylvania. He is admitted to the practice of law in Wisconsin and Pennsylvania.

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Virginia

FY '05 proved to be another record setting year in sales and profits for the Virginia Lottery. FY05 sales (unaudited) totaled \$1.334 billion, surpassing the previous sales record set last year by \$71.5 million. Sales were driven by Pick 4 (+8%), Scratchers (+8%), Pick 3 (+5%) and Mega Millions (+4%). Lottery profits totaled \$423.5 million, an increase of \$15.5 million, all which will benefit public schools throughout the Commonwealth. FY05 is the seventh consecutive year that Virginia Lottery sales and profits have increased.

West Virginia

The West Virginia Lottery had record sales in FY '05 with revenues of \$1.399 billion, up 7.3% over FY '04. Racetrack video lottery accounted for \$894.5 million, up 4.6%, while video lottery in bars and clubs saw the most rapid growth, at 28%, to \$310.32 million. The state's net profit for all lottery games was \$563 million, up 10 percent over FY '04.

Wisconsin

The Wisconsin Lottery reported its second highest sales ever in FY '05. The Lottery's \$451.9 million in sales is second only to FY '04's figure of \$482.9. The majority of the dip in sales between the two years is attributed to smaller Powerball jackpots that resulted in a \$28.7 million drop in sales.

The Lottery will introduce its first \$20 ticket, Big Money Extravaganza, this September. The ticket offers five top prizes of \$250,000 and the largest prize payout on a scratch ticket in the Lottery's history. Big Money Extravaganza will be supported by two special POS items and an incentive program for retailers.

After trips to Summerfest, the world's largest music festival; the Lumberjack World Championships; and Wisconsin State Fair, the Lottery events team will make stops at a two-week Oktoberfest celebration and Wisconsin Badger football games. Also on the schedule—the final two Bucks & Trucks grand prize drawings for Ford F-150 Supercrew trucks! ♦

U.S. Lotteries, the Internet, and the WTO ...continued from page 13

subject to this exemption. The WTO originally ruled that since the US allows casinos and lotteries and other forms of betting, it had no basis to claim that the international provision of such services should be prohibited to protect morality or the public order. The US appealed.

Let's explore what happens when the WTO concludes that a member of GATS is in violation of the treaty. The offending country must remove any discriminatory treatment of foreign traders and treat trade for the applicable service just like it treats domestic service providers. That would mean a change in regulatory behavior which most likely would mean the repeal or amendment of the laws causing the discrimination or unfair treatment. In the area of gaming, most countries have national laws and in particular national lotteries. The US, Australia, Germany, and Canada have state or provincial lotteries exclusively. Japan has state and municipal lotteries. There is no federal lottery. There are a few countries like Argentina that have both state lotteries and a national lottery. But most of the countries in the world have only national lotteries. This poses somewhat of a dilemma for countries like the US. The states do not enter into treaties involving foreign trade - that is the role of the federal government. But the federal government knows little about lotteries and has no stake in the outcome of the lottery business other than the federal income tax collected on prizes. In the case of the GATS treaty, it appears as though the federal government unwittingly included state lotteries and other gaming services as recreation and entertainment services which foreign providers must be allowed to provide under the same terms and conditions.

The WTO Appellate body affirmed that this is the case in April 2005. There were federal and state laws cited by Antigua in their complaint. All US state lotteries are currently intrastate monopolies. The amendments to the constitution protect the rights of the states to regulate their intrastate gaming enterprises and lotteries free from federal interference. Yet the federal government is bound by its own trade agreements. Violations where corrective action is not taken can result in sanctions like tariffs or embargos. There was an instance where the EU was found

guilty of trade violations involving Ecuadorian bananas. Ecuador was allowed to violate EU copyrights on music CD's, pirate the CD's and sell them without paying a royalty to EU interests. This is called cross-sector retaliation and is permitted under GATS.

The federal government may be in a position where it cannot change state laws to comply with its trade agreement. However, there is a further complicating factor that helps the US on one hand and hurts it on the other. The Appellate Body overruled the lower decision with regard to the US not having an exemption for the protection of morals and civil order. So the US can allow its intrastate only state lotteries and can use the Wire Act and its sister laws to prosecute cross border gaming. However, that does not apply to wagering on horse races since the 2000 Congressional amendments to the Interstate Horse Racing Act allow betting across state borders for off-track betting. That would imply that the US must change its laws to either reverse the exemption enacted in 2000 or allow betting on horse races via wire or the Internet by US based gamblers with betting syndicates located in other countries. The US trade rep has suggested that changing the law is a relatively easy thing to do and that such action will resolve the conflict.

However, there are others who believe that the resolution is not so simple. In order to protect morals, the US under the decision is allowed to confine lotteries to intrastate activities and to confine Indian casino gambling to Indian lands. But some are interpreting that to mean foreign entities should also have the right to set up intrastate lotteries in the US and also offer casino services within the confines of Indian reservations.

Regardless of which interpretations prevail, the decision by the WTO while no longer appealable, applies only to trade between Antigua and the US. It might be argued that the sanctions that can be imposed by Antigua could never have much of an effect on the US. However, with the precedent set, the same principles would apply to all other countries claiming similar discrimination. Does that mean that bookmakers from the UK will eventually be allowed to set up offices for intrastate lotteries to compete with US state lotteries? Will US lotteries start selling online? Only time will tell. ♦

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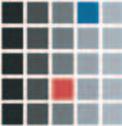
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