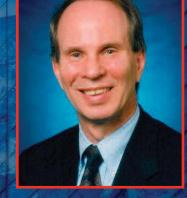


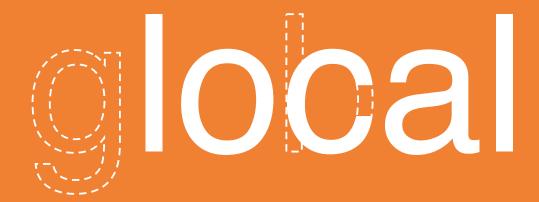


# Lotteries, Digital Convergence and the Human Factor



A Conversation with Buddy Roogow, Director, **Maryland Lottery On His 10th Anniversary** 





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On the Cover: Maryland Lottery Director Buddy Roogow.

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Mobile Phones are Lottery Ready — Expanded Content

A Conversation with Buddy Roogow — Expanded Content

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#### Letter from the Publisher

By Paul Jason, CEO, Public Gaming Research Institute

Our November issue attempts to wrestle down some of the implications of the Unlawful Internet Gaming Enforcement Act.

Following are my thoughts on why gaming is a "special sector" that should be regulated by the government. It is my hope that this commentary might stimulate discussion and feedback. I do not presume to have the answers or even interesting questions. This is simply my way of throwing down some ideas to get the ball rolling...

Integrating the amazing capacity of technology to connect people throughout the world has introduced us to a host of new challenges. As different as the markets and governments and cultures and regulations throughout the world appear to be, there is one challenge that we all face together. It's the problem of convergence. Not the convergence of different technological platforms... that's the easy part!

What confounds us is the convergence of the messy and unpredictable world of humanity with the awesome power of technology to transform that world for the better. The capacity of technology to enhance our lives far outstrips our ability to implement it. The bottleneck occurs where technology's uncompromising compliance with the rules of physics converges with the goal of supporting human needs and ambitions. And human behavior seems to comply with no rules, except perhaps the rules of chaos theory.

It is this convergence of the human factor with technology that stymies us. Is there any technological obstacle that cannot be overcome? Game developers must enhance entertainment value but retain randomness. Mobile and internet distribution must provide age and jurisdiction verification. Game software must be easily "re-skinned." Game structures must migrate among different technological platforms and channels (servers, monitors, internet, cellular...). Done, done, done, and done. From a technological point of view, whatever needs to be done, can and in fact will be done sooner than it can be implemented.

The more formidable challenges have to do with political, cultural, legal, and other entirely human-centric domains. For instance, we have always struggled with the convergence of our devotion to free market capitalism and the fact of pressing human needs that are not being met, of our love of freedom and society's needs for laws that govern behavior, of our expectation that individuals take personal responsibility and the consequences of self-destructive behavior. Technologies that shatter jurisdictional boundaries have now complicated the already complicated business of managing these conflicting agendas.

Nowhere has this convergence challenged us more than in the gaming industry.

Gaming seems to be a flash point at which closely held beliefs and ideals converge and clash with one another. For instance, many of us believe that the business of allocating capital, human, and materiel resources is almost always performed better by private enterprise endeavoring to earn a profit, i.e. "free market capitalism." As proponents of free market capitalism, we advocate for minimal government regulation, free trade, and free and open borders. And yet we contend that gaming should be regulated. Why? What makes gaming different? What makes gaming a "special sector?" The system that maximizes economic growth and expansion is one that minimizes government regulation. The trick of it is that growth and expansion are not the primary objectives that society wants for gaming. Even though we allow that gaming is an activity to be enjoyed by many, that does not mean that society is best served by applying to gaming the conventional business focus on growth and expansion.

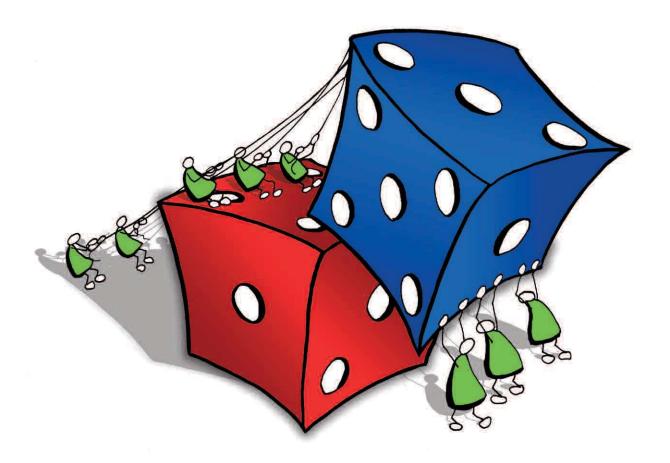
Let's look at two of the most basic priorities: promoting responsibility and moderation in gaming, and maximizing the economic benefit to humanitarian and public service causes. It would seem that these objectives would not assimilate naturally with the conventional private enterprise focus on maximizing financial return to shareholders. Of course, there are successful partnerships, like in Italy and the U.K. and other jurisdictions, in which the strengths of private enterprise are harnessed to optimize the benefits to the recipients of lottery proceeds. But even when large portions of the mission are outsourced to private enterprise, government regulation and oversight remain an important component to managing gaming for the benefit of society.

A thank you to all of our contributors for writing some of the best articles ever. They're interesting, informative, and truly do give us a window into the future. And thank you and congratulations to Buddy Roogow for giving us a peak at a great lottery career. We're all looking forward to the next ten years!

Paul Jason

President and CEO, Public Gaming Research Institute







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### A Conversation with Buddy Roogow On His 10th Anniversary.

Paul Jason had the pleasure of interviewing Buddy Roogow on the occasion of his 10th anniversary as Director of the Maryland State Lottery.

**Paul Jason (PJ):** Your focus on entertainment and fun instead of winning and jackpots would seem to diminish the syndrome of "jackpot fatigue."

Buddy Roogow (BR): It is particularly pertinent currently because we are suffering from a series of low jackpot levels right now. Mega Millions is getting hit regularly and it is ironic that the success of a jackpot game is based not on winning jackpot experiences but on rolling jackpot with no winners. This describes the situation with MM which has not reached super jackpot levels for the past seven or eight months. We've had very few large jackpots and a large jackpot today is defined as something exceeding \$150 million. We haven't been able to generate that because people have been winning early, even against the odds, and as a result the jackpots get into a kind of a cycle where they grow less quickly and player interest is lower because excitement isn't really generated until you hit the higher jackpots. Powerball has experienced it and Mega Millions is experiencing it now. Identifying the Lottery with entertainment and fun can help avoid becoming stuck in the quicksand of unreliable jackpot games.

**PJ:** Your catchphrase, "Let yourself play" doesn't really pitch to the possibility of winning the big bucks.

**BR:** The lottery is all about fun. It has to be about fun. We cannot compete in the fiscal or financial investment field. That is not where lotteries have a strong point. The lottery is not an investment strategy; we are entertainment. And entertainment sometimes has a reward and people can be rewarded, but they have to come into the process of playing the lottery not looking for riches so much as to be entertained. We really compete with the whole entertainment sector. At least what I determined early on is that we are much better off competing with movies and books and restaurants. We are appealing to the way people decide how to spend their idle time instead of trying to compete with casinos in Atlantic City or Las Vegas. As s result we moved the lottery away from advertising the potential to get rich quick, that the lottery is a life changing experience. The lottery is a life changing experience for very few people. For most people it isn't and never will be. We made an effort to be more honest and direct with our advertising and talk about entertainment instead of getting rich quick.

**PJ:** I'm thinking your advisors weren't so enthusiastic about your concept of de-emphasizing the hype to win a big jackpot, like "Great strategy to increase sales, Mr. Roogow."

**BR:** Right, I remember one time when I was on the radio or T.V. I said "the lottery – it could be you but it probably won't be." That was the line that was published in the paper and talked about on

radio and television and my staff was aghast. Then we found that the public sort of responded with "he's telling us not to play the lottery so we better play" – reverse psychology. This is back in the mid to late '90's and it wasn't the focus of lotteries to say things like that. We began to



have a lot of fun with that. Whenever I was being interviewed I would always talk about the games but I would say "remember the lottery is not an investment vehicle. The odds of you winning is much worse than the odds of us winning. The house almost always wins and in the long run we will win." I began to look with a jaundiced eye at some of the commercials in some of the other states and especially in other countries that still talked about castles, islands, vacations and cruises. That's really not what we are about.

PJ: It seems like the focus on entertainment instead of winning succeeded at engaging the interest of the players in a more enduring and stable way.

BR: That's right. I hope it has been successful in a lot of other ways too. It has engendered a feeling of trust among the players, media, legislators, among the powers that be. It has made the lottery a part of what I like to call the fabric of the state, fabric of the economy. We entered into co-operative agreements with all sorts of major economic players in the state of Maryland like BlockBusters, Pizza Hut, and the racing industry. And it has made us part of that institutional framework that the state really revolves around. We now are talked about in those kinds of circles. I think by creating that kind of honesty about our product we were able to achieve that.

Every state will say that they are in a tremendously competitive environment and Maryland is no exception. I came on when the lottery was going through a few doldrums. There had been a system conversion that was very controversial in 1996 and the lottery was the subject of some painful controversy in the media. On top of that Delaware and West Virginia had their slot operations developing in full battle regalia, so to speak and they were very successful enticing many of our players to cross artificial state boundaries to play slots. That combined with Atlantic City and very strong lotteries on all sides of us really put Maryland in a crunch. In truth, we are a small state and must be innovative.

We had to find a way to counter that and grow our lottery and so after we were able to change the focus of the lottery and make it more entertainment oriented we then had to back up that entertainment with rewarding experiences. You can't just say we're

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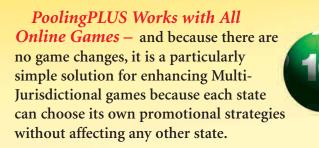
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### Why the Lottery Security Community Should Be an Integral Part of Every Technology Inititative from the Beginning

By John C. Tarr, Director of Security Montana Lottery

By nature security personnel are conservative, and skeptical. These traits come easily, and are often advantageous in this profession. However, while effective in some situations, skepticism and mistrust do not encourage the development of new, better technologies to enhance security. Often called 'forever negative' or even 'sales suppression team', the security department needs to develop technology in order to improve the entire organization.

Routine procedures provide us with a sensation of control and we view these guidelines and procedures as positive attractions. Security training emphasizes routine, documentation, and separation of duties to avoid problems. We develop policies based on legislative requirements, governing guidelines from associations, security infringements, and experience. Development of policies is a reactive response based on risk and threat factors. Our security operations are then tested and retested based on these policies.

Security is the reason a consumer feels comfortable purchasing a lottery ticket, this fact is something our sales and marketing arms will usually never openly articulate. Historically, even lotteries that experienced major security incidents rebound by upgrading or adjusting their security procedures until public confidence is restored.

Technological developments are altering our world, and faster than some can keep up with. Probably the most frightening factor is that as a society we are constantly on the periphery of new technological developments. So if you believe we are moving fast now, wait a few more years and you will hear, "Remember how pleasant and simple things were back in 2006." If this statement sounds impossible, then think about the changes you have experienced in just the last five years. Or a better idea is to talk with your children or grandchildren about how they see the future. In general, their perspective is that technology will continue to change their lives and they generally embrace these events.

As security professionals, we are faced with several options regarding this technological shift. Retirement from the field is one option, or we can resist the implementation of new technology. Or, we can manage the technology transformation to meet or improve current requirements. Two of these options are not worthy ones, in my opinion. Retirement is not an option, either our financial situation prevents it, or we simply cannot imagine it until several years from this point in our lives. Resisting the implementation of new technology will hurt your lottery in the long run and at the end of the day you might be perceived as negative.

This leaves us with the third option, managing new technology to improve our lottery's security. If you stop and think for a minute, changing technology is something you have adapted to over the years without even realizing it. For example, many lottery security personnel come from a law enforcement background, think about the days when many of us used "mirror boxes" for speed checks. It's a great honed skill but worth zilch today. In fact, some of you under 50 are thinking to yourself, "mir-

ror boxes" what the (blank) are those? Another example is that many of us still know our way around a typewriter, a talent used only when younger employees ask, "What is that thing in the storage closet?"

The reality is that the lottery security community, not the marketing staffers should take the lead in introducing new technologies. For the simple reason that our security will improve, not diminish, when new technology is implemented. New technologies could also improve our lottery's image within our jurisdictions if we look at the total capabilities of our equipment.

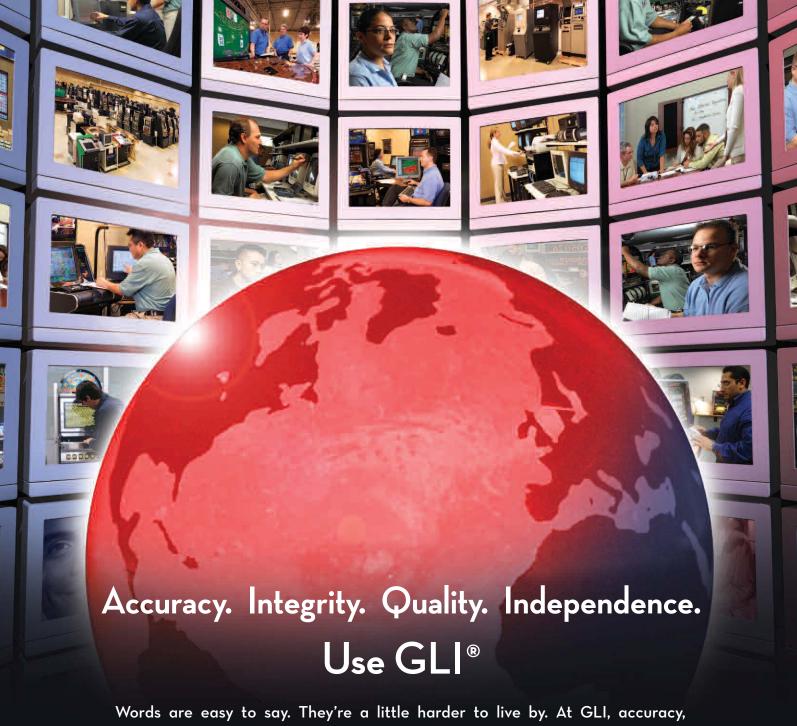
We are applying this philosophy in Montana by working with our online vendor partner INTRALOT. Currently we are exploring the possibility of communicating hazard notifications by means of our Lottery terminals. Messages can be broadcast by city, county, region or statewide. These communications are also adaptable for pure law enforcement purposes such as notifying retailers about counterfeit scams. The Montana Lottery did this in cooperation with the Resident Secret Service office, and received very positive feedback. This was particularly true with single owner stores who commented they only find out about a counterfeiting operation when they go to the bank and see a notice.

An area for future exploration is to utilize INTRALOT'S terminal communication system for disaster notifications, when other communications are inoperative. This is possible due to Intralot's exclusive satellite communications, which can support wireless internet communication. This will take some planning and time, but in theory every satellite receiver in a retailer location is convertible to allow wireless Internet use if they have power.

In another application of new technology, the Montana Lottery partnered with our scratch ticket vendor Oberthur Gaming Technologies (OGT) to apply their patented FAILSAFE™ keyless validation system. This validation system contains a multi-dimensional PDF-417 barcode, which is printed under the latex on the scratch tickets. For security reasons, this system is desirable because it eliminates site validation codes on scratch tickets, and allows reconstruction on damaged tickets. However, after the deployment of this technology, the true advantage became apparent; retailers liked the new tickets because of the time saved during the validation process.

The message is simple, be involved in all operations of your lottery, and teach other departments that they must not perceive security as just one isolated area but as a complementary part of the total operation. For this to work, you must be open to changes in technology and changes in daily security operations. For some, the uncertainty of all this change may impact your staff, so make them part of the process and keep them updated as new technology is developed. Keep this in mind during the heightened events that normally surround a new vendor selection and the Request For Proposal (RFP) process. This is the best time to look at the vendor's offering in terms of security, player and retailer needs.





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Saying words are easy. Living them is harder. Living up to our standards is our life.





#### The Unlawful Internet Gambling Enforcement Act of 2006

#### Is Not a Green Light for Intrastate Internet Gambling

By Mark Hichar, Esq., Partner, Edwards, Angell, Palmer & Dodge, LLP



#### Introduction to the Unlawful Internet Gambling Enforcement Act of 2006

On October 13, 2006, President Bush signed legislation including the Unlawful Internet Gambling Enforcement Act of 2006 (the "2006 Law"). The 2006 Law contains language substantially similar to that in House Bill 4411 introduced by Rep. Jim Leach (R-IA) and that was part of the Internet gambling legislation that passed the House in July, 2006 – i.e., the "Internet Gambling Prohibition

and Enforcement Act." The other part of that July legislation – i.e., the portion introduced by Rep. Bob Goodlatte (R-VA) and known as the "Goodlatte Bill" (H.R. 4777) – was not part of the 2006 Law.

The 2006 Law prohibits persons "engaged in the business of betting or wagering," from knowingly accepting credit (including credit extended through credit cards), electronic fund transfers, checks and certain other forms of payment in connection with the participation of another person in "Unlawful Internet Gambling." "Unlawful Internet Gambling" is defined generally as the placing, receiving or other knowing transmission of a bet or wager via the Internet, where such bet or wager is unlawful under any applicable federal or state law in the state (or tribal land) in which the bet or wager is initiated or received.1 Wagers initiated and received within a single state are expressly excluded from "Unlawful Internet Gambling," provided the wagers are expressly authorized by and placed in accordance with applicable state law, and the state's laws or regulations include age and location verification requirements designed to block access to minors and persons located out of the state, as well as data security measures designed to prevent unauthorized access by such persons.<sup>2</sup> In this regard, [t]he 2006 Law provides that "the intermediate routing of electronic data shall not determine the location or locations in

which a bet or wager is initiated, received or otherwise made." (2006 Law, new section §5362(10)(E) of U.S.C. title 31) Thus, under the New Law, the "intrastate" nature of state-authorized Internet gambling will not be destroyed if the electronic messages containing bets or wagers are routed out of the state, as long as they are initiated and received within the state.

Pursuant to the 2006 Law, within two-hundred seventy days of its enactment, regulations shall be promulgated requiring "designated payment systems" and all participants therein (e.g., payment processors) to identify and block credit, electronic and other payment transactions to businesses conducting Unlawful Internet Gambling. Financial transaction providers shall be considered to be in compliance with the regulations if they rely on and comply with the policies and procedures of the designated payment system of which they are member participants.<sup>3</sup>

Civil actions may be commenced against interactive computer service providers to cause them to remove or disable access to online sites violating the 2006 Law. However, such actions are limited to seeking such removal or disabling (unless such interactive computer service providers do not qualify for the exemption from liability under the 2006 Law set forth in footnote 3). The 2006 Law does not impose an obligation on interactive computer service providers to monitor their services or to search for violations of the 2006 Law.

The 2006 Law also makes available certain civil remedies to restrain actual or threatened restricted transactions, and these are available to state attorneys general as well as to the United States Department of Justice (the "DOJ").

The DOJ Maintains that Existing Federal Law Prohibits Intrastate Internet Gambling, Unless the Electronic Wagering Data Remains in the State, and the 2006 Law does not Modify Existing Federal or State Gambling Laws

Unlike the Bill that passed the House in July, the 2006 Law does not clarify or otherwise amend the Wire Act, except only to provide that interactive

...continued on page 25

- I "Bet or wager" is broadly defined and includes risking anything of value upon the outcome of sporting events and games subject to chance, and also includes "the purchase of a chance or opportunity to win a lottery or other prize (which opportunity to win is predominantly subject to chance)." (2006 Law, new section §5362(1) of U.S.C. title 31) It does not include, however, participation in fantasy sports leagues if conducted in accordance with the specific requirements of the 2006 Law.
- 2 A similar exclusion is provided for wagers within the land of a single Indian tribe or between the Indian lands of two or more Indian tribes to the extent authorized by the Indian Gaming Regulatory Act. (25 U.S.C. 2701 et seq.)
- 3 By definition, financial transaction providers, providers of interactive computer services and providers of telecommunications services are not in the "business of betting or wagering." However, notwithstanding this exclusion, a financial transaction provider, interactive computer service or telecommunications service may be liable under the 2006 Law if it:
  - (A) "has actual knowledge and control of bets and wagers," AND
  - (B) (1) operates, manages, supervises, or directs an Internet website at which unlawful bets or wagers may be placed, received or otherwise made; OR
    - (2) owns or controls, or is owned or controlled by, any person who operates, manages, supervises, or directs an Internet website at which unlawful best or wagers may be placed, received, or otherwise made.





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#### Advocacy in Favor of UIGEA

#### from a Non-Lawyer Perspective

Hooray! The U.S. Federal government is finally stepping up to the plate in a courageous attempt to get control of internet gambling. Of course we all know that this is merely a start. But it is a vitally important first step. The "Unlawful Internet Gambling Enforcement Act" (UIGEA) does not make internet gambling illegal. That's because the forms of internet gambling addressed by UIGEA were already illegal. The operative word here is "Enforcement." The UIGEA attempts to empower the judicial system with the means to enforce what is already existing law by making it unlawful for businesses to receive proceeds or monies in connection with unlawful internet gambling and for financial institutions to transact funds related to unlawful betting or wagering.

Pundits are already declaiming the intent and practicality of the UIGEA. This is to be expected when the full weight of the U.S. government threatens to put a stop to the illegal profiteering of internet gambling companies. It is to be expected that instead of claiming that they have some inalienable right to engage in an illegal activity (and evading taxes too?), foreign gambling interests will focus on issues of privacy, practicality of enforcement, notions of free trade, and the "freedom to do what you want in your own living room". Our "freedom" is being exercised by acting on our recognition that gambling is so clearly and obviously not just like all other economic activities and that the huge profits generated by gaming do not belong to private interests. What these offshore gambling enterprises do is already illegal. Now it appears that they will actually be held accountable to the law. The UIGEA is not about conservative Christian values, or "freedom to do what you want in your living own room", or political maneuvers of presidential candidates, or Antigua, or any of the other red herrings that proponents of free trade applied to gambling loudly proclaim. It is about the rights of states to regulate gambling within their own borders versus the rights of private interests to unregulated and illegal gambling profits.

There are those who talk about regulation of gambling being a state issue and not a federal issue, and that the U.S. federal government should not legislate on internet gambling. It is true that states, and not federal government, are endowed with the authority to regulate gambling within their borders. The only problem, obviously, is that states do not have

#### The Value of Internet Gambling

What is the value of internet gambling? U.S. residents account for half the world market. The world gambling market is estimated to generate over \$15 billion this year in net profit. The U.S. portion of that is over \$7.5 billion. That is "spend value" which means the amount that gambling companies win from their clients (and the amount that gamblers lose). "Spend value" or net profit is, of course, much less than the actual amount that is gambled since most of the revenue is recycled to gamblers in the form of winnings.

dominion over other states, much less other countries. The result is that they do not have the power to enforce the law, so foreign internet gambling enterprises shamelessly ignore the law and run right over the right of our U.S. states to regulate gaming within their borders. The UIGEA merely empowers our judicial system with the mechanisms to enforce already existing law. Without this federal regulation, states did not have the power to exercise their right to regulate gambling within their borders.

Of course this is only a first step. It is now up to the states to determine how each state wants to adjudicate this issue and what regulatory policy will best serve the citizens of that state. The manner and method in which state regulatory policy evolves will usher in a whole new set of interesting challenges, possibilities, and, to be sure, political complications and issues. In spite of these complications and issues, the UIGEA is still a fabulous first step toward giving the citizens of each state the power to decide for themselves the kind of gaming regulatory policy they want to implement.

The fact that the UIGEA leaves some questions unanswered should not deter us from supporting our government's attempt to stop the runaway train that internet gambling has become. The final Act includes amendments made to the original Goodlatte and Leach bills passed in the House. For example, the bill that has been signed into law makes reference to changing nothing about existing law, that the UIGEA does not change the legality or illegality as already contained in existing law. This would seem a reasonable notion since the purpose of the UIGEA is to provide the means of enforcing existing law as opposed to enacting new law. Unfortunately, there are existing laws that were enacted before internet and cellular technologies complicated the definitions of what constitutes "interstate" vs. "intrastate" trade. So now it appears that if the Wire Act is applied in its original form that it would have a rather bizarre implication. Specifically, if a communication is initiated within a state and terminates within that same state, but the communication traveled outside of the state in the interim (as all satellite, cellular, and internet communications do), that constitutes interstate trade! In other words, all aspects of the transaction took place within the boundaries of the state, it was initiated and received within the boundaries of that state, but the instruction spent a nanosecond in the virtual world that exists outside the boundaries of that state. In the



short term, obstacles like this are likely to be formidable. I would hope that, in the long term, there might be a way to address anomalies like this. Further, I would expect that this will not be the only point of confusion that needs to be clarified in the UIGEA. I would also propose that even though the UIGEA is not perfect and needs clarification, it is still a great step towards the goal of controlling internet gambling.

#### EUROPEAN GOVERNMENT SPONSORED GAMING UNDER ATTACK

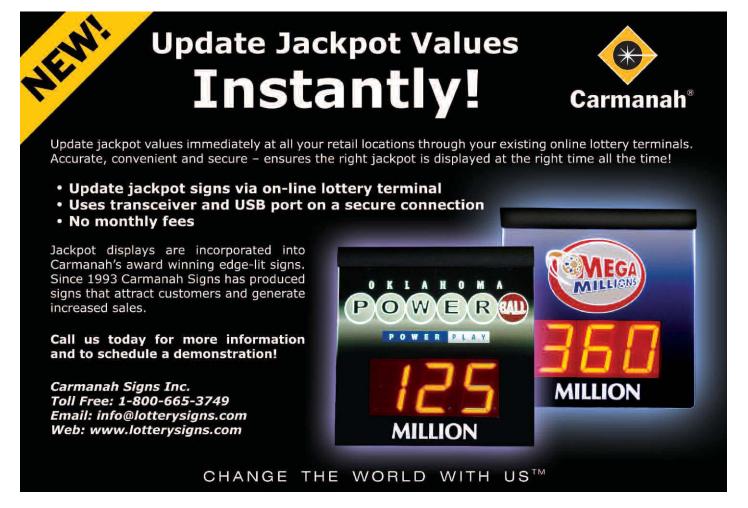
#### Ladbrokes LTD versus Norway

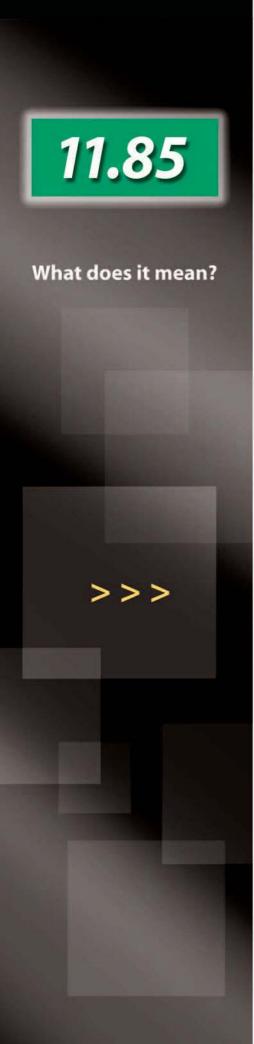
Norwegian gaming and lottery legislation is being challenged by Ladbrokes LTD. Having had its 2004 application for a betting license rejected, Ladbrokes filed a lawsuit against the Norwegian government. Ladbrokes argues that it should be able to offer its services in competition with the state licensed monopoly under the principles of free and fair trade. Ladbrokes contends that gambling should be treated just like any other business and that that the operation of state controlled gaming is monopolistic and in violation of EFTA (European Free Trade Association) laws. The district court in Oslo has referred Ladbrokes' case against the Norwegian government to the EFTA court in Luxembourg. The EFTA will now rule on the legality of the Norwegian Lottery Act, which establishes that certain forms of gaming may only be offered by a state-owned company (Norsk Tipping). At issue is whether EEA/EFTA law that requires all member countries to allow free and fair trade applies

to all forms of gaming. EU national governments argue that EEA Articles 31 and/or 36 allow an exclusion for governments to exercise control and restrictions over certain forms of gaming. Gaming is presently treated as a special economic sector which is subjected to strict government restrictions. The rationales for these restrictions are that governments do a better job than the private sector at promoting a moderate and responsible gaming sector, are better at minimizing problem gaming, and that the profit from gaming should go to humanitarian and socially beneficial purposes and not be a source of private profit.

Ladbrokes managing director, John O'Reilley states "This is a major step in our ongoing challenge to state monopolies in betting and gaming. By having the case referred to the European Court we can expose the discrepancy between European law and national law. Betting is subject to free and fair competition under Article 49 of the Treaty of Rome in the same way as other goods and services. At the moment in many European countries national law is restricting competition and choice and delivering poor value to the consumer."

Should the Norwegian government *not* win the support of the EFTA in this case, this will be seen as an important step and possible legal precedent by those who want to liberalize and privatize gambling within the EU. Should the Norwegian government *win* the case, this will be seen as an important victory for those who would want to preserve the rights of the people to channel the profits generated by gaming towards





humanitarian and socially beneficial causes instead of to private interests, and for those who feel that the government would be better at promoting responsible gaming and more diligent at minimizing problem gaming.

The EFTA Court has set a deadline for the submission of written observations of November 6, 2006. The usual time-frame for the advisory opinion from the EFTA Court which follows is 8 to 10 months. Ladbrokes is also engaged in legal action in the Netherlands where it is hoping to secure a referral to the European Court of Justice (EJC).

#### OTHER EUROPEAN JURISDICTIONS

The Netherlands: Ladbrokes LTD has lost an appeal case in the Netherlands preventing it from accepting bids from Dutch citizens. According to the Dutch Court, Ladbrokes.com must now block the country's gamblers from placing bets on its site. Ladbrokes will also seek an appeal with the Dutch Supreme Court.

France: Austrian Internet gambling provider Bwin executives Manfred Bodner and Norbert

#### **UIGEA** and Free Trade

One of the criticisms of the UIGEA is that it violates the WTO notions of free and open borders and free trade. The U.S. supports the WTO and its efforts to push countries to realize that protectionist policies are ultimately counter productive. In order for the world to enjoy the benefits of free market capitalism, all countries need to buy into the notion of free and open borders and free trade. Even so, there are still laws and procedures with which all companies and industries and businesses must comply. And so the companies engaged in the business of internet gambling must too comply with these laws. The bad news is that complying with these laws will likely impinge on their profits, if for no other reason than the small matter of taxes to be paid. The good new is that there is no reason they could not be financially successful by redirecting their competencies to support this industry in legal ways. Many, perhaps even most, of the companies which support the U.S. state lottery industry are in fact under foreign ownership. The UIGEA is totally consistent with our commitment to free and open borders combined with a respect for each country's laws and the position that gambling is an industry that requires special regulation and oversight.

Internet gambling providers worldwide can use their game development experience to shift towards providing content for state lotteries. They can do so either by contracting directly with a lottery or by becoming a provider of content for a lottery's vendor. And, with a \$50 billion-plus U.S. lottery pie to pass around, companies that gain such contracts could stand to make a great deal more than they could competing with thousands of other Internet wagering sites under the most recent circumstances.

When one considers the thousands of Internet gambling sites on the worldwide market the expertise required to become one of the premier sites is undeniable. Lotteries would be well-served to work with these companies to find out how they held their players' attention and kept them coming back in a market filled with seemingly endless options.

#### Reasons Why the UIGEA is Good for U.S. Citizens

Governments are obligated to protect their citizens. Allowing U.S. lotteries to sell via the Internet will mean the UIGEA does this in a number of ways:

1. It gives our government the ability to track where Internet gambling dollars are going, and gives it an opportunity to disallow certain companies on political or legal grounds. The free-wheeling nature of Internet gambling to date has left our nation unable to effectively track where our dollars are going. While some Internet gambling sites have been legitimate businesses run by adventurous entrepreneurs, others might have been funding terrorism or organized crime for all we know – money that could be used against a legitimate government.

If Internet gambling operators do become lottery vendors, the potential for operators of ill repute to gain contracts in the U.S. will be eliminated by the extensive background checks U.S. jurisdictions submit their vendors to.

Teufelberger were preparing for a press conference announcing a sponsorship deal with AS Monaco Football Club when a group of French police officers arrested the pair on the grounds that their online wagering site violated French gaming laws. The two, who were later released on \$370,000 (apiece) bonds, are expected to return to France in November for questioning.

Française des Jeux stated that it was reasonable to assume that any other executive

... continued on page 34

- 2. If anyone from any country can set up an Internet gambling site, it certainly wouldn't be a problem for an identity thief to set up a site and steal credit card numbers from our citizens. The UIGEA gives jurisdictions that choose to allow Internet lottery sales the ability to offer their citizens a safe alternative.
- 3. The UIGEA will create jobs within the U.S. Any Internet gambling that is operated solely by entities outside a jurisdiction brings virtually nothing to the economy of that jurisdiction. Compare that to the case of imported goods. A store front is required to sell those goods, creating at least one job and a tax-paying business. Even when people order items from an overseas website, eventually that item has to pass through the hands of a local carrier to make it to the purchaser's front door. Downloaded music from the Internet may not require a storefront, but if enough songs for a particular artist are downloaded in a jurisdiction it increases the likelihood that artist will add a tour date in that jurisdiction – a tour date that will create commerce in the area. An overseas Internet gambling provider brings nothing to an area but a hole for money that could be spent within a jurisdiction to disappear forever.

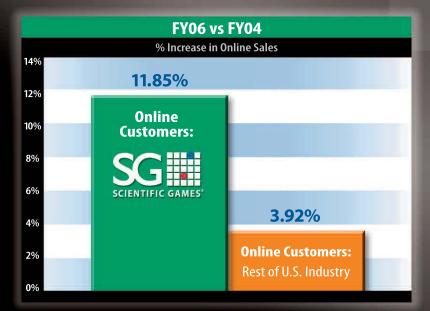
Conversely, Internet gambling, regulated by and housed within a jurisdiction provides jobs for citizens of that jurisdiction, and the profits stay within the jurisdiction.

# 11.85

This number means more fun for players,

more commission for retailers

and more revenue for beneficiaries.



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#### How Do Vendor Collaborations Benefit the Lotteries? A Look at the Betware/Ingenio Partnership

By Prerna Desai, Media Manager, Betware

The world of gaming is fluid, where marketing strategies of lotteries are continually moving towards larger sales volumes and better customer satisfaction. The idea of a progressive change which caters to emerging trends in the industry has resulted in a partnership between Betware and Ingenio.

Betware is a gaming services and solution vendor, with over ten years of expertise in software for the gaming market, while Ingenio, a subsidiary of Loto-Québec, has been primarily involved in the research and development of new gaming products and marketing channels worldwide for the past eight years. The resulting partnership bodes well for not only the two parties involved, but also for the industry as a whole.

Vendor-game developer partnerships are beneficial in a number of ways. Trends in the industry point towards an increased interest in interactive gaming, as traditional games such as lotto (although still popular), take a backseat to games where the player feels more involved and believes he affects the outcome, as with the Ingenio games. These trends led Betware to want an increase in its cache of more traditional offerings, such as number games and sports betting. With this partner agreement in effect Betware can now offer Ingenio's games to lottery corporations worldwide, thereby widening its product portfolio considerably. Says

Svanur Thorvaldsson, Marketing Director at Betware, "instead of the approximately 30 games we previously offered, Betware can now give over 60 games on top of our platform to present and potential clients."

With such partnerships, the lottery or "customer" benefits in several ways. A single gaming supplier fulfils all its needs, acting as a "one-stop shop," rather than requesting the lottery to look elsewhere for its other needs to which the sup-





plier cannot cater. The lottery itself also has a host of games and features from which to choose, since such partnerships expand the supplier's range dramatically. The games from Ingenio have all been programmed and integrated to Betware's Instant Game Server, a powerful component of the Betware solution, which can host third-party software. "All Ingenio's Flash enabled games are ready to run on the Instant Game Server since it has great flexibility. Any client who requests these games would be able to launch them within a very short time

because Ingenio games and technology are easy to plug into the Instant Game Server," says Steindor Gudmundsson, Core Team Manager at Betware. And with all the games being re-skinable, the graphic user interface of each game can be customized by Ingenio, to suit the lottery's preferences. The variety of games is vast enough to appeal to all ages as well, as is the revenue potential of a lottery which chooses a range from this variety to cater to its players. Depending on the choice of games, the lottery itself may determine whether it wishes to not only keep its existing players (and keep them satisfied), but also attract new players.

The advances in the European gaming market have provided Betware, which is based in Iceland, with an edge in progressive game offerings. Canada and some countries in Europe, especially where Betware's clients are based, are pioneers in their business towards the



... continued on page 34



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#### Digital Convergence and Strategic Implications for the U.S. Lottery

By Ed McGuinn, CEO eLottery

Certain industry surveys have highlighted that world-wide internet gaming will surpass \$15 billion in net revenues for 2006 and that approximately 60% of this volume comes from U.S. players. This is approximately 20% of the aggregate sales for the entire U.S. lottery industry.

The U.S. lottery industry has struggled the past several years over integrating the internet as a complementary sales channel. There has been positive movement; virtually all U.S. lotteries have established their own web sites which highlight products, winning numbers and 'safe play' standards. Many lotteries have rolled out customer relationship or 'VIP' modules to communicate by email with their in-state players, and recently four U.S. lotteries announced or have implemented the internet based sale of subscriptions for some of their lottery products.

The 'lowest hanging fruit' for most lotteries to consider is updating their postal based subscriptions to an email based subscription process for their lottery products along with the popular multi-state Powerball and MegaMillions games. Once the lottery develops a comfort with their new e-commerce channel they could evolve to daily sales of their product offerings which could include instant games and keno.

The two most emotive issues relative to the adoption of an internet sales channel is market demand and legality.

#### Market Demand

eLottery recently commissioned two independent surveys to assess overall demand for an internet sales channel. Both surveys targeted 10 U.S. Lottery jurisdictions; California, Colorado, Idaho, Illinois, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Virginia. In the survey conducted by Ipsos Reid, 41% of the respondents indicated "they would be somewhat or very interested in an internet-based Lottery subscription product". The respondents cited convenience, speed and privacy as the major appeals and that they would prefer to use a credit card (if allowed by the state), PayPal or a debit card to facilitate the purchase.

The survey conducted by Independent Lottery Research highlighted similar overall customer demand but noted approximately 80% of the respondents in the 18 to 24 and 25 to 34 age groups would "maybe," "probably," or "definitely" purchase lottery tickets if offered. This is particularly important in that most U.S. Lotteries have struggled in getting their products adopted by these age demographics. In addition, over 25% of the respondents cited that they would play more often if they had the convenience of an internet channel and that they would continue to purchase tickets at traditional retail channels. This would make a strong argument that an internet sales channel would increase overall sales and it should assuage any concerns about cannibalization in the traditional sales channels.

#### Legality

There has been an ominous cloud hanging over the question of internet gaming in the U.S. for many years. The Federal Wire Act (18 U.S.C.1084) is decades old and was originally targeted for interstate wire (i.e. telephone) transmission of bets or wagers on a sporting event or contest. There have been several attempts to update the 'Wire Act" to reflect the internet as a transmission device but none have been able to make it through Congress. As a result there was a fair amount of concern by most lotteries about adopting an e-commerce channel. However on September 29, 2006, Congress passed legislation, HR 4954, which included the Unlawful Internet Gambling Enforcement Act of 2006. We believe that this legislation gives a U.S. lottery the 'green light' for an intrastate internet based sales channel.

The Unlawful Internet Gambling Enforcement Act of 2006 specifically provides:

- 1. Safe Harbor for state lotteries from the Wire Act in that authorized state lotteries and their agents are specifically protected when selling lottery tickets over the internet to majority-aged players located within the state. The new law in Section 5362(10)(B) creates a safe harbor for lotteries from the term ``unlawful Internet gambling'' for authorized intrastate transactions. Authorized intrastate legal gaming was always thought to be outside the scope of the interstate Wire Act and HR 4954 now makes that clear.
- 2. Definition to gaming approved by a state and conducted on an intrastate basis. HR 4954 clarifies that a transmission that originates and terminates in the same state, but traverses another state in the process is an intrastate transaction. Section 5362 (10) (E) states that the intermediate routing of electronic data shall not determine the location or locations in which a bet or wager is initiated, received, or otherwise made.

A lottery director or lottery commission must accept the fact that the present federal legislation will not provide the exact language and explicit interpretation to address every single constituent concern about gaming. We believe that the Unlawful Internet Gambling Enforcement Act along with the Tenth Amendment will provide most states with the necessary foundation to initiate their move into e-commerce. One must also expect that a lottery's traditional 'on-line' vendor will be hesitant to recommend an e-commerce strategy for fear that such a move may dis-intermediate their operating strategies or business model.

#### The Path to Digital Convergence

With the passing of the Unlawful Internet Gambling legislation

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#### Internet Implementation: Ideas for Keeping Retailers in the Game

Let's say your lottery navigates the legislative process and is able to implement internet sales. Given the fact that the National Association of Convenience Stores (NACS) lobbied hard against the Unlawful Internet Gambling Enforcement Act (see sidebar), some of your retailers may start to wonder if their business is going to suffer.

The good news is, there are ways to launch such a program that could result in increased traffic through retail outlets – especially in regards to convenience stores. After all, the 18-34 age group – the cyber-minded group that lotteries are trying to figure out how to connect with, and the same group that lotteries will be targeting with internet games – is the largest demographic of convenience store shoppers.

With that statistic in mind, it's not unreasonable to view the possibility of e-commerce as an opportunity for lotteries and convenience stores to build an even more mutually beneficial relationship. What follows are strategies that can be implemented to produce benefits for both lotteries and retail outlets.

In-store lottery Internet kiosks: In an interview with the National Association of Convenience Stores (NACS – see sidebar), NACS Sr. VP Government Relations Lyle Beckwith mentioned that the association would be likely to support in-store kiosks that sold internet games.

While employing only this method would in a sense abandon the spirit of expanded distribution that comes with internet sales, it would still be a step in the right direction in that it would allow lotteries to experiment with new types of games.

Pre-paid Internet cards purchased at retail outlets: Pre-paid Lottery Internet cards purchased at retail outlets would go a long way towards solving many, but not all, of the dilemmas associated with internet purchases. Pre-paid cards would allow lotteries that aren't allowed to sell via credit card an avenue to sell online games. Also, retailers would be able to garner commission from the sale, and in all likelihood new customers would be coming into retail outlets to purchase the cards that would allow them to play the new lottery products available on the internet.

One issue that would need to be dealt with, possibly via legislation, in regards to pre-paid lottery internet cards would be price points for the pre-paid cards. Let's face it, the costs involved with manufacturing \$1 cards is the same as \$100 cards, so higher price points on pre-paid cards would ultimately lead to a greater percentage of sales dollars going towards the good causes that lotteries help support. At the same time, lotteries have rules relating to how much they are allowed to charge for a product. It may be in a jurisdiction's best interests to legislate to allow

#### **NACS Opposition to UIGEA**

NACS (The National Association of Convenience Stores) lobbied against the Unlawful Internet Gambling Enforcement Act – not because they are pro-internet gaming, but because the law would remove a barrier to U.S. lottery sales over the internet.

When Public Gaming International asked NACS Sr. VP Government Relations Lyle Beckwith to explain NACS position, Beckwith stated, "The bill that passed the House in July opened the door to online lotteries for the first time through an exception for supposedly intra-state activity. The problem with the bill is that once something is put on the internet it cannot possibly be kept within the state and people throughout the country will be able to buy those internet lottery tickets. The provision requiring location verification is completely ineffective because it leaves it to the gaming business (in this case lotteries) to define what will be effective and the law has no teeth. And once one lottery goes online, others will have to follow suit as a competitive matter. The result will be an explosion of new gaming on the internet in the form of lottery ticket sales."

Beckwith went on to say, "NACS' opposition is not exclusively based on the foot traffic lottery sales generated in convenience stores. There are also issues relating to age verification and other public policy questions that need to be addressed in the context of any online lottery proposal."

When asked if there were any way in which lotteries could build an internet sales platform that won't hurt convenience stores, Beckwith commented, "An internet-based 'self serve' machine located in licensed lottery retail locations might have merit and of course we are always willing to discuss new ideas."

All due respect to NACS, but most experts in the lottery industry agree that the technology to effectively verify age and contain internet gaming within a jurisdiction does exist. That doesn't mean lotteries and vendors shouldn't strive to improve the technology, but all one has to do is look at the Canadian and European markets to see that the technology exists and is effective.

In a letter to a congressman, urging support for an amendment that would remove state lotteries exemption to the bill, NACS Director of Government Relations Allison Shulman does bring up an excellent point – it's one that, given the source, might lead one to believe that it's the real reason behind NACS opposition to the bill, and it's a reason that lotteries should heed. Shulman notes that nearly 85 percent of the convenience stores in lottery jurisdictions rely on lottery sales, and the foot traffic that lottery products draw to their establishments, as significant portions of their overall revenue. While the implementation of internet sales in Canada and overseas jurisdictions have proven the popularity of internet sales to be slow growing, small business owners across the country that are struggling to make it on paper thin margins can be hurt by even a modest decrease in foot traffic. Lotteries will need to be careful in implementing Internet sales in a corporately responsible manner.



higher prices on pre-paid internet cards.

While pre-paid Lottery internet cards would help in ensuring that minors don't pay for lottery games, there's always the chance a child may steal his or her parents pre-paid card and play online. One way lotteries could guard against this would be to require adults who use pre-paid cards to maintain a password protected account for online plays. This wouldn't stop parents from willingly allowing their children to use their account, but it decreases the likelihood of unsupervised play to that of the common scratch ticket.

Only sell new game styles over the Internet: Some claim that lottery sales over the internet will only really work if the industry designs new games made specifically for internet play. Others advocate at least giving lotto and scratch tickets a chance on the internet before discounting them as a viable internet product. Whichever school of thought one belongs to, it's hard to argue that the best way to ensure that internet sales don't cannibalize brick and mortar sales is to not offer the traditional games over the internet.

Of course, there's no reason why lotteries couldn't cross-promote their internet and retail sales platforms by creating internet add-ons for games purchased at retail outlets. Certainly, adding internet elements to traditional lottery products in the guise of second-chance games has already proven successful. Why not take it a step further and require an additional purchase online to take part in the internet element? The add-on game strategy worked well with Powerball/Power Play, as well as with several single-jurisdiction games. There's no reason such a strategy, if done right, couldn't produce similar results with an internet add-on game.

Lottery Retailer Sites: Lotteries can also build internet sales platforms that actually drive players to retail outlets. One possibility would be to allow individual retail outlets to set up a page on their lottery's website. Lottery players who want to purchase over the internet would have to pick a convenience store's page to do so. The retailer would receive a commission, and the player would receive coupons and information on upcoming specials at that store.

Even if a lottery didn't want to set it up so that tickets had to be purchased on a convenience store's page, lotteries could utilize the zip code information on each internet purchase – information that is needed to verify whether a sale is actually taking place within a lotteries jurisdiction – to give internet customers coupons and information on upcoming specials for participating retailers within the general vicinity of the purchaser's zip code.

Relationship Marketing Systems offers a service to lotteries called the Retailer Marketplace that already works to drive customers to retail establishments in such a way that is independent of lottery sales. For more information on the Retailer Marketplace see the November 2005 issue of Public Gaming International (page 14).

The opportunity to offer e-commerce strategy is a great way for lotteries to generate even higher revenues for good causes. But, as Oberthur Gaming VP of U.S. Sales and Marketing Jim Nulph pointed out at EXPO/ILAC 2006, it's important that, "as we think about the internet and spend our resources and our research and development dollars that we don't forget the retail component of what we do, because retail is not going to go away."

### M on the internet

#### NSGC Tests internet Gambling Blocking Software

It is estimated there are more than 2,300 casino-style Internet gambling sites in operation, many of which are unregulated and illegal. The Nova Scotia Gaming Corporation (NSGC) recently announced the pilot test of BetStopper, groundbreaking software that will help block gambling sites such as these from children under the age of 19.

The customized content-blocking program is strictly a prevention tool designed to help parents protect their children from visiting gambling websites. This software is the first of its kind in the world. NSGC developed it with a US technology partner.

For the next six months, NSGC will be pilot-testing BetStopper with as many as 500 families in Nova Scotia to help determine the effectiveness and usability of the product. This will allow NSGC to determine whether BetStopper could be a valuable tool for parents on a long-term basis. The BetStopper pilot began on October 7, 2006.

#### EGET Powered Lithuanian Lottery Site Launched

EGET announced the launch of the first online gaming site in Lithuania. The site is operated by Olifeja, the Lithuanian national lottery operator.

Since June, when EGET announced its partnership with Olifeja, the two companies have worked together to bring online gaming to Lithuania and, at the same time, extend Olifeja's brand to even more new channels.

The initial launch of the gaming site includes two Olifeja-branded internet bingo and keno games with more games, including several multiplayer games, to be delivered with future releases. Mobile games, to be delivered by EGET's mobile subsidiary, WinOne, are also included in the next release phases.

#### Boss Media to Supply System to St. Minver

Boss Media has signed a contract for its Boss Media Management System with European gaming services supplier St Minver.

Boss Media Management System is an open business system for the management of complete digital gaming operations. The system allows gaming operators to have a general system for all players, all gaming products and all digital distribution channels.

Under the agreement with St Minver, Boss Media will receive an initial license fee of US \$3million, and royalty fees based on the total gaming volume handled through the Boss Media Management System.

### Mobile Phones: The Most Widely Adapted Interactive Platform in the World is Now "Lottery Ready"

By Scott Slinker and Paul Zuzelo, Win.Go Mobile

In Part 1 of this series, we presented an overview of the mobile phone games business, and demonstrated its relevance to the worldwide lottery industry as it exists today (at least, we hope we did!). We concluded the first article with the observation that:

- Lotteries are already in the game industry (albeit not the interactive segment)
- The prime demographic (18 35 year-olds) for mobile games is the most underrepresented, and most desirable, audience for future revenue growth
- This demographic has already adopted mobile phone gaming in very large numbers
- The most widely adopted interactive platform in the world mobile phones – are ready and available for all types of lotteries and lottery games

While the authors think it's inevitable that consumers will be playing the lottery on their mobile phones in the not-too-distant future, it's natural to be a little wary and skeptical whenever someone trumpets technology as the "next great thing" in any industry, including the lottery industry. After all, the current lottery system — with its well developed infrastructure of vendors, retailers, game types, marketing organizations, etc. — wasn't built overnight. A lot of thinking and many years of hard work were necessary to create today's multibillion dollar lottery ecosystem.

In particular, there are some very basic but very essential issues that need to be understood and resolved for the mobile lottery to get up and running, and reach widespread acceptance among consumers. In our next few articles, we'll discuss three of these key, fundamental issues:

- Age verification
- Location verification
- Payment processing

While the importance of these issues may be prioritized differently by different lottery commissioners, all jurisdictions will have regulations and requirements governing these items that need to be satisfied in order to offer the lottery via the mobile phone.

The good news is that existing mobile phone technology and procedures offer a proven, ready-to-implement solution for each of these issues. In this article we examine the age verification issue.

#### Age Verification

"Responsible gaming" is an implicit (and usually explicit) requirement for all games in which the players are wagering their own money, hoping to win prizes or cash in return. The legal lottery business is no different – it needs to promote responsible gaming as a core value, and its first line of defense against excessive or irresponsible gaming is enforcing a minimum age requirement to play lottery

games. As if this were not enough incentive, in the U.S., the proposed HR 4411 "Internet Gambling Prohibition and Enforcement Act" requires (from page 14 of the bill) the following...

- "...Nothing in this section prohibits the use of a communication facility for the transmission of bets or wagers or information assisting in the placing of bets or wagers, if:
- 1 "at the time the transmission occurs, the individual or entity placing the bets or wagers or in-formation assisting in the placing of bets or wagers, the gambling business, and, subject to section 1084(b)(3), any individual or entity acting in concert with a gambling business to process the bets or wagers are physically located in the same State, and for class II or class III gaming under the Indian Gaming Regulatory Act, are physically located on Indian lands within that State;
- 2 "the State or tribe has explicitly authorized such bets and wagers, the State or tribal law requires a secure and effective location and age verification system to assure compliance with age and location requirements, and the gambling business and any individual or entity acting in concert with a gambling business to process the bets or wagers complies with such law;"

At first glance, age verification would seem to be a fairly problematic area for mobile lottery purchases. After all, if you can't see the purchase or directly examine his/her identification, how can you have any idea of the purchaser's age? Even though IDs can be fake, a retailer with a physical presence at least has the opportunity to view the customer and further verify the authenticity of an ID; the equivalent would seem not to exist in the mobile world.

This issue isn't as intractable as it seems. "Remote" age verification has existed for many years. Sweepstakes, contests, and other promotional giveaways always require that an entrant be of a certain age (usually 18) to enter or win, and these promotions have been successfully conducted for may years without the need to directly age-verify each entrant. More recently, Internet-based gaming sites (poker and casino games) in which players gamble for real money have instituted strict and difficult-to-circumvent age verification processes that meet all legal requirements of the countries and jurisdictions in which they exist.

In the mobile arena, there are a number of initiatives aimed toward solving this problem to the satisfaction of all parties (state and national governments, cellular regulatory agencies, parents, etc.). The Cellular Telecommunications Industry Association (CTIA) has recognized the pressing need for standards and processes to verify the age of consumers of "adult content" (which includes gambling and wagering) and has moved strongly and quickly to define and implement procedures for all cellular carriers and vendors. This is a proactive effort to avoid having state and

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Cotteries are preparing for the Performance of a Lifetime!



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### Find Out What Einstein Bobbleheads Can Do for Your Lottery @ EverythingEinstein.com

Imagine owning a retail franchise. You sell Albert Einstein memorabilia and gag gifts. Fun stuff! Your store, EverythingEinstein.com, carries a full line of A.E. merchandise including bobbleheads, talking action figures, key chains, pencil toppers,  $PEZ^{\oplus}$  dispensers, neckties, and the immensely popular  $E = mc^2$  Gift Set (coffee mug, mouse pad and license plate holder).

Your primary supplier, who gets a percentage of your sales, approached you three years ago and convinced you that offering its higher priced merchandise could increase your sales and profits. It will, however, cost you more and yield lower profit margins. Seemed at the time like you were the one taking all the risk, but you gave it a try anyway.

Three years later, sales are up. But your accountant says you've been trading off your profit margins to drive up sales. He also says you're no longer maximizing profits. Over those three years, your "marginal cost" (the cost incurred to generate each additional dollar in sales) was nine times greater than the profit realized from each additional dollar in sales. You've passed the dreaded point of diminishing returns. If you continue along this path, your accountant says you'll eventually see a reduction in net profits. Seems unbelievable that profits could actually decrease when sales are higher than they've ever been!

There is a bright side though. You were among the lucky ones! Last year, the sole franchisee in a neighboring state saw sales rise 3%, but her net profits fell 4%. Another friend booked a sales gain of about 2%, but his profits dropped 5%.

Now do this. Imagine that your Einstein products are actually lottery tickets and you can begin to see where the U.S. lottery industry is headed.

I first wrote about this dilemma more than four years ago. (See "The Missing P," Lottery Insights (NASPL), July 2002). Certainly don't want to leave any impression that this article is the result of some kind of epiphany that occurred after I left the "government side." My friends and former colleagues will recall that I've been writing and talking about the strategic importance of higher margin products for years. I haven't always enjoyed resounding success in getting "buy in" or selling the message, but the notion seems to be catching on lately. Still, old habits are hard to break.

During a breakout session at NASPL, one senior lottery employee opined that "percentages" aren't as meaningful as hard dollars. Dollars buy books, not percentages...right? That pearl of wisdom came on the heels of a fiscal year in which their marginal costs were nearly three times marginal revenues (well past diminishing returns). And their net margins are down almost 3% since FY04. Stay on those tracks and a train wreck is inevitable at some point. Maybe it won't happen for a few years...so then the new folks coming in can take the heat.

Here's another good one. Not long ago, I was also asked if any of my writings on the subject have been published in academic journals. Same individual went on to ask why declining margins are so bad if total profits seem to be going up. What's the big deal? (*He obviously hadn't looked at his numbers for FY06*). How about a \$40 million drop in profits when sales grew by more than \$110 million! That's the big deal. I'm all for expanding the body of academic study relating to lottery management.

But when did getting the message published in an academic journal suddenly become more important than getting the message right?

Couldn't the example above merely be an isolated case? Not hardly! But don't just take my word for it. Look at the numbers. Sixteen U.S. lotteries experienced a reduction in government transfers between FY04 and FY05. Six of those lotteries saw transfers fall despite increased sales. At least two more suffered that same fate in FY06. Eight lotteries in all -1 in 5 – suffered a decrease in transfers despite increased sales during the past two fiscal years. And it's not the last time we'll see that happen either.

We've even reached a point now where on-line margins are no longer safe. Do a quick break-even analysis. For every dollar of on-line play that moves from a 50% game to a 65% game (or 65% add-on), you need a 60% increase in sales JUST TO BREAK EVEN! No misprint there. It takes \$160 dollars in sales at a 65% payout to yield the same profit as \$100 dollars in sales at a 50% payout. So when \$10 million in sales shift from a 50% game to some of the "new generation" games with 65% payouts, the first \$16 million in sales just gets you back to net neutral.

Thankfully, many lotteries are seeking alternatives. Call it Product Re-development. Call it forward-looking. Call it necessary. By any name, current game design and product development strategies need some tweaking. Lotteries just cannot run the risk of indefinitely sacrificing their profit margins to drive sales. That's just the plain and simple economics of product development!

#### So what else is out there?

There are viable alternatives. The performance of our Lotto Gold+™ program earned "Product of the Year" recognition at the 2006 Public Gaming ILAC Expo. Launches of Lotto Gold+™ in Argentina and the Ukraine have produced outstanding results. To date, we're talking about 23% and 56% increases in sales and net income respectively. Lottery Dynamics has given both lotteries a way to increase their profits well into double-digits without any cost increase. Who else in the industry can do that for you?

When I "moved over from the lottery side" to work for Lottery Dynamics, I saw a company that offered a unique value proposition. And, frankly, one that was way overdue. New game concepts designed to deliver sustainable long-term sales increases...without any increase in cost to client lotteries!

As already mentioned, Lotto Gold+\*\* was the first offering. Multiple price points and a shared progressive jackpot all rolled into one lotto game. No need to change a matrix. Added value for players and lotteries! Retailers generate higher commissions (for the same work effort). State governments get additional revenues without increasing their prize costs.

With Lotto Gold+™ players get the added value of different price points and substantially higher jackpots. Players choosing to stay with a \$1 wager still have at least the same starting jackpot. Players willing to buy up can now get more than a marginal improvement of their odds. For the same odds, Lotto Gold+™ allows players to buy up for better jackpots and better secondary prizes. Higher jackpots are available

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#### The Unlawful Internet Gambling Enforcement Act of 2006 Is Not a Green Light for Intrastate Internet Gambling... continued from page 10

computer services that do not violate the 2006 Law shall not be liable under the Wire Act provision pertaining to common carriers (18 U.S.C. 1084(d)) (unless they are not exempt from liability under the 2006 Law as set forth in footnote 3). Indeed, the 2006 Law expressly states that it shall not "be construed as altering, limiting, or extending any Federal or State Law or Tribal-State compact prohibiting, permitting or regulating gambling within the United States." (2006 Law, new section §5361(b) of U.S.C. title 31)

This is of particular concern with respect to any intrastate Internet wagering that states may wish to expressly authorize in accordance with the provisions of the 2006 Law. While it may be possible to implement such intrastate Internet wagering without violating the 2006 Law, unless the electronic messages containing wagers and information assisting in the placing of wagers remain within the state at all times, such intrastate Internet wagering will violate existing federal laws, as those laws are interpreted by the DOJ.

While a discussion of existing federal laws is beyond the scope of this article, it is sufficient for these purposes to note that the DOJ takes the position that existing federal law prohibits intrastate wagering if the electronic messages containing the wagers are routed out of the state. Testifying on April 5, 2006 with respect to the Goodlatte Bill, Bruce G. Ohr, Chief of the DOJ's Organized Crime and Racketeering Section (Criminal Division), voiced the DOJ's objection to a proposed amendment to the Wire Act contained in the Goodlatte Bill that would have permitted intrastate wagering over the Internet.<sup>4</sup> He stated:

[The Goodlatte Bill] also permits "intrastate" wagering over the Internet without examining the actual routing of the transmission to determine if the wagering is "intrastate" versus "interstate." Under current law, the actual routing of the transmission is of great importance in deciding if the transmission is in interstate commerce. The Department is concerned that these two proposals would weaken existing law.

Two years earlier, the DOJ expressed even more clearly that (in its view) the routing of electronic wagering messages out of state violates federal law even if they were initiated and received in the same state and were legal in that state. By letter dated January 2, 2004, from United States Attorney David M. Nissman to Judge Eileen R. Petersen, Chair of the U.S. Virgin Islands Casino Control Commission, U.S. Attorney Nissman maintained that it would violate U.S. Federal law if the U.S. Virgin Islands were to permit Internet gambling. He stated:

As you know, the Department of Justice believes that federal law prohibits all forms of Internet gambling, including casino-style gambling, occurring within a state, commonwealth, territory, or possession of the United States and the Criminal Division [of the DOJ] has asked me to send you this letter. While several federal statutes are applicable to Internet gambling, the principal statutes are Sections 1084 and 1952, of Title 18, United States Code<sup>5</sup>...[W]e believe that the acceptance of wagers by gambling businesses located in the Virgin Islands from individuals located either outside of the Virgin Islands or within the Virgin Islands (but where the transmission is rout-

ed outside of the Virgin Islands) would itself violate federal law...

As mentioned, the Bill that passed the House in July, 2006 contained provisions amending the Wire Act. Indeed, had it become law, it would have excepted from the prohibitions of the Wire Act wagers initiated and received within a single state, provided the wagers were expressly authorized by and placed in accordance with applicable state law, and the state's laws or regulations included age and location verification requirements designed to block access to minors and persons located out of the state, as well as data security measures designed to prevent unauthorized access by such persons. In other words, it would have created an exception for intrastate wagering under the Wire Act substantially the same as the exception contained in the 2006 Law – which exception applies only to the 2006 Law. In addition, the Bill that passed the House in July, 2006 would have made irrelevant under the Wire Act the intermediate routing of bets or wagers or information assisting in the placing of bets or wagers.

However, the above-described amendments to the Wire Act were not made part of the 2006 Law, and by the express terms of the 2006 Law, the Wire Act and other federal laws pertaining to Internet gambling remain unaffected by the 2006 Law. Accordingly, the Wire Act and such other federal laws will continue to apply to Internet gambling just as they did prior to the enactment of the 2006 Law, and there is no reason to believe that the DOJ has or will change its interpretation of the Wire Act or such other federal laws.

#### Conclusion

In conclusion, while the acceptance by a state-authorized Internet gambling business of credit card payments, electronic fund transfers, checks and other payments in connection with intrastate wagers made in accordance with state law (and compliant with the location and age verification requirements of the 2006 Law) will not violate the 2006 Law, the DOJ may, and likely will, continue to assert that such intrastate Internet gambling is unlawful under other, pre-existing federal laws, unless the electronic data containing wagers or information assisting in placing wagers is routed so as to never leave the state. This is because existing federal and state laws are not limited or otherwise amended by the 2006 Law and, therefore, existing interpretations of (and ambiguities in) those laws will remain intact. Thus, the DOJ's interpretation of pre-existing federal laws likely will remain unchanged, and the DOJ will thus continue to assert that existing federal laws prohibit intrastate Internet gambling where the electronic messages containing wagers and/or information assisting in wagering are routed outside the state.

NOTE ABOUT THE AUTHOR: Mark Hichar has been a partner at Edwards, Angell, Palmer & Dodge since 2000, and leads the firm's Gaming Practice Group. Mr. Hichar represents GTECH Corporation in various gaming and general corporate matters, and advises GTECH on legislative developments. Between 1990 and 2000, Mr. Hichar was employed as an attorney by GTECH Corporation, serving in progressively senior capacities and eventually as Assistant General Counsel.



<sup>4</sup> At the time, the Goodlatte Bill did not contain language that would have made irrelevant the intermediate routing of electronic data containing bets or wagers or information assisting in the placing of bets or wagers.

<sup>5</sup> I.e., the Wire Act and the Travel Act, respectively.

entertaining, you have to do a few things to make it entertaining.

One is increase the payouts. You have to make sure the players recognize there is a chance to win in these games. So we increased the payouts in most of our games. There are no limitations in Maryland. It is purely up to the lottery to determine what the payouts are.

We turned on our promotion engine I think unlike any other state in the country. We run promotions all the time. There is rarely a time when you could come into Maryland when you won't see a lottery promotion. Right now we have a poodles promotion. In November we will have a sprinkler promotion for Keno. It goes on and on and on. We have bonus promotions for Pick 3 and Pick 4. We are able to maintain the strength of those games that are old war horses and keep them from getting too stale. So we back up these promises of entertainment with promotions that utilize TV to a great extent. We have promotions that culminate in game shows that can range from one minute to a full 30 minute venue in which people have an opportunity to win lots of money. We get lots of publicity for that. We get hundreds of thousands of entries into our 2nd chance promotions and we are seen by the media as a reliable source for fun news stories that enhance their ratings. I am on TV and radio constantly but I can't be on there just to hawk the lottery. I have to talk about news and events associated with the Lottery that are newsworthy. I think it just created a platform for us to communicate the whole entertainment posture.

PJ: Tell us about your initiatives in Racetrack and Monitor Games.

**BR:** I think Monitor Games are the wave of the future. I don't think the internet is. I think the bill that was just passed by

Congress pretty well put a kibosh on that anyway. But I don't think the internet would have been meaningful as a revenue source for a long time. Even where the internet is being used in Europe, for example, it never accounts for more than 10% of total sales of any lottery.

People say they want to play a game that entertains them, that is interactive, that competes with the internet. And monitor games are terrific for that. Actually, you can do on a monitor almost anything that you can do in a casino. You can play card games, Keno, and even virtual reality horse racing games which are off to a real strong start in Maryland. You can change the skins on those games from race cars to race horses, to dogs, to anything you want. We are real excited about that. Our Racetrax game started a few weeks ago and we are looking to add a card game.

We will start a Poker style game next year sometime. We will try to keep the people entertained in ways that expand the market rather than cannibalize it.

**PJ:** The entertainment value is quite enhanced in monitor games. But insofar as they are still strictly games of chance you are well within the regulatory policies, correct?

**BR:** No skill, can't be skill. Even though when players play the virtual reality Racetrax game, the horses look like real horses, with real jockeys and they have records. I think people can try to apply skill just like they do when they pick their numbers. They have their systems for Pick 3 or Pick 4. But it doesn't matter, it is all totally random. We also set the payout higher. Numbers games traditionally are set at 50% and we set our monitor games from the low 60's to near 70 % payout.

PJ: Many of your initiatives that emanate from your fundamental philosophy of fun and entertainment versus the focus on winning a lot of money seem to be so consistent with many other goals like responsible gaming and so forth.

**BR:** I think so. I really do. We are trusted in the environment here. The legislature and the public trust the lottery and see it as having integrity and see it as a legitimate state program. So you are right – we are not an item of controversy and we certainly are not out there promoting gambling in irresponsible ways.

**PJ:** With the T.V. show and countless public appearances, you have become a very recognizable personality. The people of Maryland must feel like they have gotten to know you over the years. Do you think let-







ting the public associate a face and personality with the lottery has engendered a sense of trust and perhaps even camaraderie in the players?

**BR:** I hope so. That is part of my personality. I like people, I like dealing with the media. I like being on radio and TV. The legislature and Governor and media have responded well and I guess, yes, I am the face of the lottery here. People see me and say hey, that's Buddy. They always ask "what do I need to do to win?" That is not necessarily the recipe for every lottery director. It happens to work for me here in Maryland. By giving the lottery an actual face it lets people personalize it, it lets people identify with it and see that it is something they can recognize and be comfortable with. I think that has worked here because of the unique circumstances that apply in Maryland.

PJ: What else can you tell us about your career?

BR: I was County Administrator in Howard County until 1991 when I joined Gov. Schaefer as Deputy Chief of Staff and performed a similar role for Gov. Glendening. Gov. Glendening asked me to take over the lottery in 1996 and I jumped at the opportunity because it offered a chance to get back into management instead of being in a staff position where you are involved with policy development in the Governor's office. I was now in a management role again and I would be measured by the success or failure of the lottery to raise revenue and meet its targets. And virtually every year we have been able to exceed our targets so everybody is very pleased. For me that is exactly what I like to do. I have a Masters Degree in Public Administration. I was trained in that area. I like dealing with people. I have an affinity for numbers. I love fooling around with projections and trying to come up with ways to enhance our sales. So it is exactly up my alley and is something I enjoy very much.

When I started with the lottery 10 years ago I had little experience with the lottery. I rarely bought lottery tickets and was a little intimidated with it I guess, but I always had a good feel for numbers and management. And lotteries over the years, I think to the good fortune of all, have moved away from hiring people who are experienced in security to be directors, to people who have good management skills and an eye and ear and mind for financial transactions. That has happened over the years and mirrors my experience since 1996 when I got started.

**PJ:** So you like being out front there so everyone can take pot shots at you?

BR: Yeah, I love being out front and they haven't taken so many pot shots. Like anyone over 10 years, we've had our controversies but I think some of the good will we've built up over the years has helped us weather those storms quite successfully. I think it is important for the lottery to have a public face, one that people know will respond to their concerns, a place they can actually email or call. If someone has a problem, sometimes I will call them directly and they are usually stunned and grateful that I actually called them or wrote them a letter. Doing these things helps to build that public trust.

**PJ:** So in order to succeed you really have to be out there because it's the only way to give people a sense of who you are.

**BR:** Absolutely, and they should know the person who is responsible for the games that they are playing and taking their hard earned cash. I don't think it's appropriate to hide behind a board or government bureaucracy.

**PJ:** Nine straight years of continuous growth and sales of \$1.560 million in fiscal year ending June 2006. What's next?

BR: We hope to at least match that in 2007. Speaking of jackpot games, I look at other states all the time and some are very hostage to jackpot games. In other words a large percentage of their sales, maybe 20, 30 or 40% of their sales come from a Mega Millions or Powerball style games. In Maryland we are at about 7%. I don't want to be hostage to a jackpot game. My feeling is that jackpot games are dinosaurs. They only are successful when they generate very high jackpots and every time you generate a certain level jackpot you have to get an even higher jackpot to generate the same level of interest. It is the perfect description of jackpot fatigue. I am doing everything I can to move us away from dependence on jackpot games. I can tell you since the fiscal year started we have been unable to generate a large jackpot and it has hurt our sales. It has probably hurt other states sales even more because I suspect other states have larger percentages of sales coming from Mega Millions.

So what do we do? We have to make it up in other places. That is why we are looking at these monitor games and testing them. We test everything first. For example, the horserace game we tested live in 30 locations for about 9 months before we put it into the system and made it system wide. We will test other games like that. It gives you a couple of really good advantages when you test a new game. One advantage is, of course, you are testing its success by measuring how it compares with other games and how it generates new sales. Secondly, just in case there is controversy, you can pull it very easily since it is in a small testing phase which allows you to limit the damage. We have to keep looking for those new ideas to offset what I believe will be the inevitable demise of jackpot games.

**PJ:** It's interesting that you are able to explore these new directions which will position you for future growth while continuing to enjoy excellent short term growth.

BR: That is exactly right. We have had that growth for 9 straight years. I hope we can get it for a 10th. The way we started this year, Mega Millions may not be the opportunity for success that it has been in past years so we have to have new products. That is a tough road. Instant games have grown dramatically in many states across the country frequently exceeding 50% of the total lottery sales. A portion of this growth is cosmetic because of the introduction of more expensive products. We, too, offer \$10 and \$20 tickets so Maryland is following others down that road. Success can't be measured by simply raising the price. We've got to find other ways to get people to spend a dollar or two with large volumes of people playing. That's the opportunity monitor games can provide.

PJ: Look in your Crystal ball. What else can you tell us about the future?

BR: Traditional numbers games like Pick3 and Pick4, particular-



ly in the densely populated urban states, are in danger, Pick 3 has been in decline for many years. Last year we were able to arrest that decline and actually experienced a rise in Pick 3 sales because we ran a number of promotions in which we aggressively used our unclaimed prize fund to finance second chance winning opportunities. But in the long run those games are not the big growth vehicles that they were in the past. It does give us another reason why we have to be interactive. Younger players, the 18-34 emerging market, are critical to any lottery's long term success. We have begun a big effort to try to capture them. In order to appeal to that demographic you have to give them the same kinds of things that excite them in other parts of their lives. They love the interaction. They love the internet. How can we deliver that experience? We can use the internet - not as a vehicle for betting - but as a vehicle for presentation. And we can use it much more effectively than we are now. We also need to develop loyalty or frequent player clubs that operate much like the frequent flyer program. Every

major industry has them – you earn points – so why shouldn't lottery players get points every time they buy a ticket and have a card or authorization number that allows them to determine how many points they have and maybe get something in return as they collect more points. That's another thing we are looking at.

PJ: And monitor games have a rich potential.

BR: I think so. Not only because of the environment they are primarily in, which is restaurants, bars, and race tracks and every other kind of major venue you can think of, but because you can try almost anything on a monitor game as long as it is not a game of skill. It must focus on chance and randomness. We are going to explore that to the extent that we can. We have big plans in the monitor game area and you will see Maryland introducing new monitor games at a fairly rapid pace in the next couple of years.

PJ: Thank you, Buddy. We're looking forward to the next ten years!

Mobile Phones: The Most Widely Adopted Interactive Platform in the World is Now "Lottery Ready" ... continued from page 22

national governments impose their own (and possibly conflicting) set of requirements and regulations for age verification. Mark Desautels the CTIA's point man in developing the new system, said the increasing amount of adult content accessible via wireless devices is the driving force behind getting a system in place soon. Desautels further stated that wireless carriers would implement the system voluntarily.

"The adult side of things really kick-started it," Desautels said. "As indecency becomes an increasing point of interest on the part of policy-makers, we really need to be proactive about it."

"We want to develop more sophisticated filtering tools," he said, "so that the ability to filter or to block certain types of content will be another part of the suite of services that carriers seek to provide."

In addition, some mobile carriers have already implemented their own age verification processes, preventing mobile users from accessing any content or URLs unless they've proven that they meet minimum age requirements. One of the first operator sto do so, in July 2004, was Vodafone UK. Its "Content Control" barring and filtering mechanism is now the default option on all Vodafone phones. Those who want to access age restricted services have to register and provide proof that they are over 18. While stressing that, at the present time, it does not offer age restricted services via its Vodafone Live! Service, Vodafone said that the measures had been implemented to restrict access to wireless internet sites which might not be suitable for a younger audience.

Vodafone's Content Control service works in a number of ways:

• It is an "opt-in" service, meaning that customers who wish to have access to adult content and services need to "opt-in" by verifying they are over 18, either by registering a credit card or by visiting a Vodafone store.

- Unless specifically opted-in, customer's phones are unable to access adult content.
- Filtering tools are additionally now in use on the Vodafone network. Search terms for WAP and Internet sites are constantly filtered, preventing access to all phones except those that are "opted-in" to sites known or suspected to contain adult material. Sites that the filters do not recognize are quarantined briefly while they are manually checked.

Another industry expert, Ron van der Gaast, notes:

"The most important market constraint (to carrier distribution of mobile lottery) is regulation, and linked to that is age verification. The industry is keen to prevent underage gambling, which is a significant risk because of the large base of young mobile users."

But even for those carriers who may not yet have implemented their own or the CTIA's processes, it's straightforward to engage a third-party service provider such as Veratad (www.veratad.com) to screen would-be lottery players for being underage. Veratad works by comparing information provided by the purchaser against Veratad's own specialized database of information. Using the mobile lottery application on the phone, the user would enter some simple information about himself/herself, or respond to a specific query, which Veratad then compares to its special data. If the consumer's responses don't adequately confirm the consumer's age, the purchase can be denied, or alternatively, additional verifying information can be requested in order to validate the purchase.

But even if an underage lottery player manages to fool all the stringent processes and actually purchase a mobile lotto ticket or mobile instant game, there is one final hurdle: collecting one's winnings. As a final safeguard, lotteries can choose to require that win-

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### **Industry News**

#### GTECH to Buy Creative Games

GTECH plans to acquire Creative Games International Inc. (CGI), a wholly-owned subsidiary of Canadian Bank Note Company Ltd. located in Florida. Financial details of

the acquisition were not available. The acquisition, contingent on certain preclosing conditions, is expected to be completed in November. GTECH intends to maintain and invest in CGI's operations in Florida. An integration plan has been developed in order to assure customers of uninterrupted services, according to company officials.

#### Deal or No Deal Sets Industry Record; Lotteries Sign on for Baseball Instants

A record has been set within the Lottery industry. Fifteen lotteries have committed to run a "Deal or No Deal" instant game this season. There are even more lotteries that are including "Deal or No Deal" in focus group testing for a possible 2007 launch. "Deal or No Deal" is offered to lotteries exclusively through MDI Entertainment, a whollyowned subsidiary of Scientific Games Corporation.

MDI is also seeing great success with its Major League Baseball-themed instant. More than 10 U.S. Lotteries have signed up to launch Major League Baseball-themed instant games next year with many more considering the game and planning to test it in focus groups.

#### Kentucky Extends GTECH - Saves Millions

The Kentucky Lottery approved a three year contract extension

with GTECH. Payments to GTECH will be reduced from 2.75 percent to 1.59 percent of gross on-line sales. The GTECH rates will go into effect immediately, so the last 21 months of the existing contract and

the three years of the extension will be under the new rate structure. This means there will be a savings for the KLC between \$7.6 million and \$9.4 million over the next five years, depending on actual sales. From this amount, a savings of \$6.6 million will be realized over the next 21 months.

#### **EGC Expands Game Offerings**

Electronic Game Card, Inc. announced that it has developed two additional game software programs to be offered on its EGC for lottery and gaming clients. The Company's extended 80 play Tic Tac Toe GameCard and Miami Dice can be played on a software simulator at www.electronicgamecard.com.

#### **INTRALOT Changes Corporate Identity**

After 14 years of worldwide leadership in the Lottery industry, INTRALOT changed its corporate logo to more accurately reflect the Company's evolution and its ongoing strategic goals. The new INTRALOT logo symbolizes the company's "21st century personality" as well as its broad international success. It is a straightforward depiction that expresses not only the company it represents but also INTRALOT's core corporate values.

### **People**

Kansas Lottery Executive Director Ed Van Petten has been elected Chairman of the Powerball Group of the Multi-State Lottery Association (MUSL). Van Petten was elected to the position by the 31 member lotteries that offer the Powerball game. His term started July 1, 2006, and will run for one year. Van Petten has been Executive Director of the Kansas Lottery since 2000. During those six years, sales have increased 28 percent, and more than \$382 million in lottery revenue has been transferred to the state to be used for economic development and other programs.

Robin Schooling has been named director of human resources for the Louisiana Lottery Corporation. Prior to joining the Lottery, Schooling was the recruitment manager for Amedisys, Inc. She holds a Senior Professional in Human Resources (SPHR) designation and is a member of the board of directors of the Greater Baton Rouge Society for Human Resource Management.

Andy Akers recently joined the Missouri Lottery staff as a Lottery sales representative for the Kansas City regional office. He will be responsible for supporting retailers in the Sedalia, Marshall and Warsaw areas.

Prior to joining the Lottery, Aykers worked in sales for D & D Beverage in Sedalia. Akers earned a bachelor's degree in general

studies from Columbia College in Columbia.

Two new executive appointments have been made at NZ Lotteries. Wayne Pickup has been appointed Chief Information Officer. Mr. Pickup previously held the position IT Projects Director at NZ Lotteries for three years where he played an integral role in the implementation of a new Gaming System, new lottery terminals and the extensive modification of NZ Lotteries' new national headquarters on Khyber Pass Road. In his new role Mr. Pickup will be responsible for IT operations at NZ Lotteries.

Jude Urlich has been appointed Head of Communications and Government Relations. Ms Urlich most recently worked at Victoria University as their Director of Public Affairs. Prior to that she directed her own consultancy and has held marketing and communications management positions in the public sector.

**Pol MajGen Surasit Sangkhapong**, director of Thailand's Government Lottery Office has resigned. Surasit, who is a close aide of recently ousted Prime Minister Thaksin Shinawatra, said he wanted to find other jobs after serving the GLO for three years. GLO deputy **Wanchai Surakul** was named acting director.



### **Round**UP

#### Arizona

Arizona Lottery players could get special deals on admission to the State Fair by purchasing Lottery tickets. Players received a special promotion code when they bought The Pick. The code, which could be entered online at azstatefair.com, got players \$2 off Fair tickets. Players could also save \$2 on Fair admission when they brought in non-winning Wheel of Fortune tickets on Wednesdays.

#### British Columbia

The British Columbia Lottery Corporation and Canadian Breast Cancer Foundation BC/Yukon Chapter (CBCF) announced the launch of the Pink Ticket, a new Scratch & Win ticket to make the public aware of CBCF's "Go Have 1" campaign which encourages women to have a mammogram. The Pink Ticket, which features the CBCF pink ribbon logo, provides the "Go Have 1" web site and toll-free phone number for women looking for more information about scheduling a mammogram. The back of the ticket also carries a call to women over the age of 40 to consider having a mammogram as well as statistics about breast cancer.

#### Colorado

The Colorado Lottery will distribute imX Solutions' promotional, educational and secured research (PEM) cards through designated independent retailers this fall. The promotional acceptance, educational effectiveness and research capabilities will be used to evaluate the market potential of this digital medium to help launch the Colorado Lottery's newest online game, MatchPlay, in February 2007.

#### DC

The D.C. Lottery sailed into high gear as Fiscal Year 2006 sales are forecasted to reach an all time record high of \$266 million. The FY 2006 revenues obliterated the previous record set in FY 2004 of \$241.3 million by more than 10 percent. And, the D.C. Lottery is on track to transfer \$72 million to the District's General Fund.

#### Florida

Changes in some of Florida's most viewed sites will be noticed all over the state as Florida Lottery billboards will soon show its latest milestone – \$16 billion to education. The staggering total showed up in the Lottery's fiscal year 2005-2006 financial report that placed the fiscal year's contribution to education at a record \$1.2 billion. The Florida Lottery's 210 billboards are in the process of being changed to reflect the new total. The Lottery's Web site, printed materials and other advertising will also be updated to the milestone.

#### Georgia

The Georgia Lottery ran a statewide promotion KENO! Kick for \$1,000,000 Challenge in October, allowing players a second chance drawing for a shot at \$1 MILLION or a Ford Edge vehicle. To enter, players had to submit non-winning KENO! tickets to the Lottery. Five contestants will be randomly selected to participate in the KENO! Kick for \$1,000,000 Challenge during the Atlanta Falcons game at the Georgia Dome on Nov. 12, 2006.

#### Indiana

The Hoosier Lottery launched a \$25 ticket that is both a scratch ticket and a raffle ticket. "Holiday Raffle" gives players a chance at up to \$250,000 instantly. Winners need to be sure to save the bottom portion of their tickets, as a special scratch-off number at the bottom reveals the raffle number for the ticket. The raffle boasts a grand prize of \$2.5 million.

#### Maine

Maine Lottery players who bought just a single Megabucks or Powerball ticket of \$5 or more received an entry for a chance to win one of 100 video iPods! These 100 iPods are 60 GB hard drives storing up to 15,000 songs, 25,000 photos or 2,000 videos.

#### Manitoba

Manitoba Lottery Corporation (MLC) in partnership with Tree Canada planted ten thousand trees in an effort to offset the effects of greenhouse gas emissions associated with its facility operations. MLC is the first and only Gaming organization in Canada to have been awarded the status of a "carbon neutral organization" by Tree Canada.

#### Massachusetts

The Massachusetts State Lottery posted record-breaking sales and local aid figures for Fiscal Year 2006. This marks the third consecutive year that the Lottery generated record numbers in these areas. The Lottery returned a remarkable \$951.2 million in local aid to the Commonwealth - the largest amount ever returned for cities and towns in the 34-year history of the Lottery. Sales for FY06 climbed to \$4.52 billion, an increase of more than \$41.2 million over last year's record revenues.

#### Michigan

The Michigan Lottery is launching Millionaire Raffle, a game that will go on sale November 12. For \$20 per ticket, Lottery players will have a chance at five annuitized prizes of \$1 million, 10 prizes of \$100,000, and a whopping 750 prizes of \$1,000 each! Only 500,000 tickets will be available, which means this game offers the best odds ever – 1 in 100,000 – to win \$1 million!

#### Minnesota

Minnesota Lottery sales reached \$449.7 million in fiscal year 2006, an increase of 10.2 percent from 2005 and a new record for the second consecutive year. Sales of Online Games and G3® Games totaled \$181.9 million, up \$27.3 million, or 17.7 percent, over the previous year. Most importantly, \$121.5 million was generated for state projects and programs in FY06. This is an increase of \$15.3 million, or 14.4 percent, over fiscal year 2005. This marks the third consecutive year of record lottery profits. Since FY03, contributions to the state have increased by 53 percent.

#### Missouri

The Missouri State Lottery announced it will become the ninth U.S. lottery to use Cole Systems' OrderPad Enterprise™ as their automated sales force software solution. The Lottery purchased 50 software licenses for sales representatives who service more than 5,000 retailers across the state.

#### New Hampshire

New Hampshire Lottery players who purchased a single Hot Lotto ticket of \$5 or more from October 1 to October 28, 2006 received an entry into the Viva Hot Vegas drawing. The drawing for 4 trips to Las Vegas is scheduled for November 15 at 10 AM in the sales office at lottery headquarters. Each trip, to either the Wynn, Bellagio, Mandalay Bay, or Venetian, is for 2 people to spend 4 days and 3 nights in Las Vegas. Airfare, lodging, transportation and \$1,000 cash is all part of the package.

#### New Jersey

Under Executive Director Michellene Davis' direction the New Jersey Lottery has recently taken a large step forward in addressing public awareness of their support of key institutions and educational programs. As the summer of 2006 began, NJL sales representatives launched an educational campaign for the Lottery's 6,100-plus member retailer network. They brought with them posters of children who ben-

### **Round**UP

efit from the free and reduced school lunches in the state's public schools, students from New Jersey colleges who benefit from scholarships and operational aid, and students from the New Jersey School for the Deaf – all of whom benefit from the funding that the Lottery contributes back to the state.

#### New Mexico

The New Mexico Lottery recently launched a Deal or No Deal instant. To add to the excitement, the Lottery and KOB-TV offered a Deal or No Deal Giveaway for one lucky contestant who will win a trip to see a live taping of the show. The Giveaway included a trip for two to Burbank, California, tickets to attend the October 25 taping of the Deal or No Deal TV show as well as hotel accommodations and ground transportation. The prize was valued at \$2,000.

#### North Carolina

The North Carolina Education Lottery launched two new games in October. Carolina Pick 3 started Friday, October 6, and the Carolina Cash 5 game kicked off Oct. 27. The games are expected to generate an estimated \$5 million a week.

#### Oklahoma

On October 12, the Oklahoma Lottery completed a successful year of operations. In its first year the Oklahoma Lottery has launched 27 Scratchers, debuted the Pick 3 online game last November, was welcomed to the Powerball family in January and has invited Oklahomans "to put 25 grand in their hand" with Oklahoma Cash 5. To celebrate the first year, the Lottery has planned a statewide Scratcher promotion and will be launching the First Anniversary Raffle in November.

#### Ontario

Pollard Banknote has been identified as the preferred vendor of instant lottery ticket printing services for the Ontario Lottery contin-

gent on signing a contract acceptable to OLG. The contract is expected to be valued at approximately \$130 million over its initial 10 year term.

#### Oregon

The Oregon Lottery® and Oberthur Gaming partnered to promote OGT's Orange County Chopper™ ("OCC™") instant ticket with a three-month promotional summer bike tour. The Lottery offered three custom OCC™ bikes – two bikes were integrated as an instant win feature on the ticket, and the third is an autographed, custom designed bike designated as the grand prize for the second chance drawing. Since the start of the 31-event bike tour promotion, the Lottery has seen high participation in the second chance drawing.

#### Rhode Island

The Rhode Island Lottery is pleased to report another successful year, with sales totaling \$1,731,315,483. This is a 5.78% increase from last fiscal year's sales. After all prize payouts, retailer commissions, and daily operational costs were settled, the Rhode Island Lottery turned over a record \$323,899,491 to the State's General Fund.

#### South Carolina

The South Carolina Education Lottery is the recipient of the highest award in governmental accounting and financial arenas – The Certificate of Achievement for Excellence in Financial Reporting. The award is given by the Government Finance Officers Association of the United States and Canada (GFOA).

#### **Texas**

The Texas Lottery reported reaching the highest level of total sales in its 14-year history. Un-audited sales totaled more than \$3.774 billion for Fiscal Year 2006 and resulted in cash transfers of more than \$1.029 billion to the Foundation School Fund. Sales for all Texas Lottery® products were up 3.1 percent over FY 2005.

#### Find Out What Einstein Bobbleheads Can Do for Your Lottery @ EverythingEinstein.com... continued from page 24

every drawing. No more waiting ten rolls for a jackpot to reach the "excitement" threshold.

Lotteries get to offer higher starting jackpots and higher average jackpots without the risk of "seeding" or self-insuring. Starting jackpots for Lotto Gold+<sup>54</sup> are always guaranteed. Costs can be capped at a lottery's current payout percentage. No additional cost. Higher price points drive higher sales – and net income – without lower margins!

The Lottery Dynamics portfolio also includes two other game designs. Lotto Silver+™ is our add-on game that lets players "supersize" their jackpots and secondary prizes. Lotto Silver+™ offers multiple price and prize options making it far more dynamic than current "multipliers."

Lotto Platinum+<sup>™</sup> is our newest game and has the potential to become a new standard in the on-line product category. Lotto Platinum+<sup>™</sup> plays like bingo, but pays like lotto! It can be offered with instant prizes or with daily drawings. Lotto Platinum+<sup>™</sup> has four different price points (up to \$5) with a \$5 million guaranteed starting jackpot. It gives players the chance to win "millionaire" prizes everyday. Serious jackpot prizes at great odds. Unprecedented extended play value. Up to 27 ways to win on every ticket. Oh yeah, and every num-

ber in the drawing is on the player's ticket!

All of our products center on elements of choice and value for players and lotteries. Radical thought...a content provider with a bold vision to increase shareholder value by giving an advantage back to the lottery!

Sadly, not everyone shares our vision (yet). Some "suppliers" aren't the least bit bashful about suggesting that you should give away the farm to increase your harvest. They'd even appreciate your help selling legislators on that sweetheart deal. Hold on tight to your farm and politely offer them some courtesy bobbleheads instead...from EverythingEinstein.com.

ABOUT THE AUTHOR: Prior to joining Lottery Dynamics, LLC as Vice President of Marketing – North America, Michael Frick served two years as Deputy Secretary of the Florida Lottery and was Deputy Executive Director of Support Services with the Pennsylvania Lottery from March 2000 through February 2003. He earned 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 licensed to practice law in Wisconsin and Pennsylvania.



#### **Finland**

Veikkaus' game system, which has been in use for several years, will be entirely reformed during the next few years. The system reform will start with the reform of the internet gaming service, which has already begun. It will be followed by the replacement of the online terminals at retail outlets by new equipment in spring and summer 2007. In summer 2008, Veikkaus will implement a completely new central game system.

#### Germany

FLUXX AG has entered into a partnership with the Hamburg-based AOL Digital Marketing Group, whereby FLUXX's JAXX Lottery Service displays will begin carrying advertising messages and image trailers. The flat screens above the ticket dispensers are controlled individually by an editorial system and can carry regionally specific or nationwide content depending on the target groups. The aim is to establish a network of 2,000 supermarkets and filling stations by the end of 2007 in order to generate 1.5 million contacts daily.

#### Guatemala

GTECH has signed 15-year deal with Supreme Gaming (SGL) to provide an online lottery system in Guatemala. GTECH will supply products and ongoing services for new lottery from the commencement of sales, expected to be February 2007.

#### Israel

The Israel National Lottery, Mifal Hapayis, reported all time highs in lottery ticket sales for September, totaling at NIS 143 million (US \$33 million). Lottery sales for the third quarter of 2006 have totalled NIS 300 million (US \$70 million), constituting a 40 percent increase in sales compared to the same quarter of last year. Since the beginning of the year lottery sales have shown a nine percent increase and now stand at NIS 773 million (US \$180 million), this compared to the same period last year where sales stood at NIS 708 million (US \$164).

#### Luxembourg

The Luxembourg National Lottery (Loterie Nationale) and Comtech M2M announced the deployment of the Comtech jackpot communicators across Loterie Nationale's full network of lottery retailers. The units were installed at retail locations to promote Loterie Nationale's Lotto game as well as Euro Millions. The units display jackpot levels in real time and increase the brand awareness with customers.

The system has allowed Loterie Nationale to reduce its costs in sending out expensive paper posters and has allowed them to communicate directly with their customers at the point of purchase in delivering accurate jackpot amounts without having to rely on the retailer.

#### New Zealand

The New Zealand Lottery transferred a record \$138.5 million to the Lottery Grants Board by New Zealand Lotteries in 2005/2006. The amount is not only the largest transfer in the New Zealand Lottery's 19-year history, but it is a whopping \$24.5 million more than was budgeted.

#### Singapore

Mid-Autumn is the most popular Chinese festival celebrated by Singaporeans after the Lunar New Year. To enhance the celebratory mood of this festival, Singapore Pools held a Mooncake Draw on October 6 at 9.30 pm with a jackpot prize of \$5 million.

The Mooncake Draw offered an additional bet type called iToto.

This bet type gives players more chances to win the jackpot for every dollar spent. iToto enables ten players to jointly bet on a System 12 QuickPick ticket. Each iToto System 12 ticket has ten equal shares. Each iToto bet is equal to one-tenth of the System 12 QuickPick ticket and an iToto player can buy one or more of the ten shares.

#### South Africa

Intralot announced that the Gidani consortium, in which its subsidiary INTRALOT South Africa is an 18 percent equity member, was chosen as the new operator of the South Africa National Lottery after an international tender. The contract duration is seven years with a launch date of the 1st of April 2007.

The estimated annual gross revenues for the consortium will reach €90 Million on average, while the estimated funds for good causes will exceed €3.5 Billion during the contract. The awarding authority is the Department of Trade and Industry of South Africa and the National Lottery Board will provide control and oversight of the contract.

INTRALOT South Africa, in which INTRALOT S.A. is the majority shareholder, participates in the Gidani Consortium as the second major partner after the South African government, which will participate in the consortium as a 20 percent equity partner. The rest of the consortium — based upon the local regulations about Black Empowerment — consists of various local entities (i.e. local associations, investment groups, NGOs etc).

#### Sweden

Svenska Spel is planning to introduce a minimum age restriction of 18 on all its in-store games. The new restrictions are aimed at simplifying things for store owners who have to enforce different age restrictions for different games, some of which have had no previous age restrictions.

#### Trinidad and Tobago

GTECH has signed a five-year contract extension with the National Lotteries Control Board of Trinidad and Tobago (NLCB) worth approximately \$78 million in revenue over the next five years. Under the terms of the extension, GTECH will provide the NLCB with approximately 800 Altura terminals and 400 handheld lottery terminals, aimed at replacing existing terminals in new retail locations. GTECH will also provide the NLCB with 250 multimedia Keno monitors and 400 Express Point Plus terminals. GTECH will also provide maintenance and services throughout the length of the contract, which will end in September 2011. In addition to lottery services, GTECH will also provide prepaid mobile phone top-up and bill payment services over its lottery terminals in Trinidad and Tobago.

#### Venezuela

The Board of New Media Lottery Services PLC announced the agreement of a 10-year lottery contract with Aragua Lottery, the Venezuelan state lottery program. A new company, Cell Phone Systems 2005 C.A., has been established to hold the Aragua Lottery contract. NMLS will own 45 percent of that company. The agreement includes mobile lottery games, internet gaming and sports betting; and a plan to introduce Fixed Odds Betting Terminals ("FOBT") to the Venezuelan market for the first time.



from an online bookmaker who came to France would also be arrested.

The French professional soccer league later announced that it was suspending any form of advertising for Internet gaming.

Germany: Officials from the interior ministries of the German states of Hesse and Bavaria have stated that executives of foreign companies who let German residents place sports bets online are committing "criminal" acts that could lead to prosecution in Germany. They went on to say that executives of these companies could be arrested on criminal charges in Germany if they set foot in the country.

Hesse, Bavaria and Saxony have ordered Austria's Bwin to stop advertising and offering Internet wagering in their states. Slovenia: Bwin filed a 50 million euro damages suit against Slovenia, stating that the country has violated EU regulations on the free flow of services because two Slovenian Internet providers, Siol and T-2, have blockaded bwin.com. The companies blockaded the site after a Slovenian gaming watchdog pointed out that Bwin (among other companies) does not have the required gaming license to pursue Internet wagering in the country. The watchdog then requested that Slovenian Internet providers restrict access to the sites. Sio and T-2 were the only providers to acquiesce to that request.

#### How Do Vendor Collaborations Benefi the Lotteries? A Look at the Betware/Ingenio Partnership

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introduction of more avant-garde gaming entertainment. For example, Islenskar Getraunir was the first state lottery in the world to introduce sports betting on the Internet in 1996 and the Danish lottery, Danske Spil in its four years of web gaming has introduced contemporary offerings like bingo, instants and horse betting (in addition to their traditional games like lotto and oddest games).

Such work has afforded Betware with a product portfolio that can fulfil the needs of lotteries (such as those in North America, where the legislation may open to web-based gaming) which are starting to venture into new media channels for sales, or which are considering investing in such a plan in the future.

Since the company only participates in sales with lotteries which are licensed to operate in authorized jurisdictions, the partnership with Ingenio strengthens and paves the road for a brighter future in partnerships with North American state-owned lotteries.

The one supplier concept, along with a multiplicity of game offerings makes sense for lotteries looking to integrate their already existing central systems with a flexible, powerful third party platform and a set of new and exciting interactive games.

#### Digital Convergence and Strategic Implications for the U.S. Lottery... continued from page 18

into law, a vast majority of illegal internet gaming sites (ex. Sportingbet.com, BetonSports.com and Cryptologic) have either shut down their U.S. operations or moved their corporate domicile out of North America. This represents a significant new business opportunity for U.S. lotteries to re-connect with customers who had moved some of their gaming play to these off-shore internet enabled competitors. To implement an e-commerce sales channel, the path differs on a state by state basis but most lottery commissions or state legislatures will need to add a regulation defining reasonable procedures to block underage, problem gaming and out of state play. It would have to state that the State Lottery recognizes that the internet has developed into a viable commercial channel

for distributing goods and services. The lottery also recognizes that with proper supervision and control this channel of distribution can both increase sales of lottery tickets and provide added convenience to purchasers of tickets. The regulations are hereby modified to specifically authorize the Lottery to license qualified sales agents to sell lottery tickets over the internet.

We believe that now is the time for U.S. lotteries to change their long-term strategy and accelerate their adoption of an e-commerce sales channel. Those that do will be able to integrate changes in customer demand for wireless, skill games and 'player to player' platforms more efficiently and can expect to achieve a 10 to 15% increase in sales over a three to five year period of time.

Mobile Phones: The Most Widely Adopted Interactive Platform in the World is Now "Lottery Ready" ... continued from page 29

nings are collected in person via the lottery's retailer network (allowing direct age verification as done currently), or that payment by check be made to an individual whose age is verified via driver's license or other difficult-to-counterfeit proof. This approach has the added benefit of providing the state lotteries with a mechanism to reward these retailers with added sales commissions each time the mobile lottery is played, regardless of whether the mobile game is purchased at the retailer.

#### Conclusion

Robust procedures already exist that allow age verification for purchasers of mobile lottery products. By using tested and proven procedures, remote age verification can be accomplished, to a reasonable level of certainty that satisfies jurisdictional regulations.

Paul Zuzelo and Scott Slinker are co-founders of Win.Go Mobile Inc., a company dedicated to extending lotteries worldwide to the mobile platform. © 2006 Paul Zuzelo and Scott Slinker. All rights reserved.

