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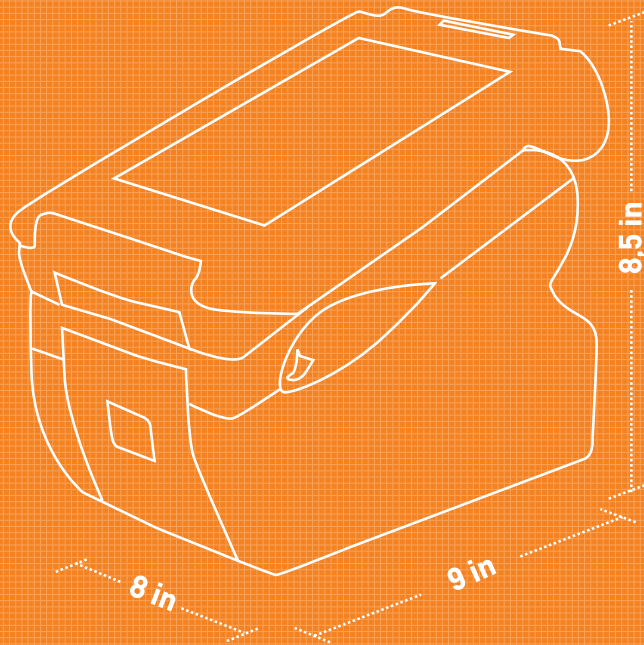
**An Interview with
Jaymin Patel**

President of GTECH

Also:
U.S. Lottery Directors' Panel
Discussion on Privatization

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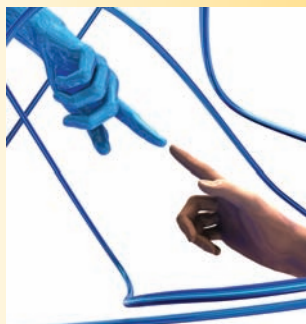
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PGRI's Morning Report is our weekly electronic newsletter. It is sent out to your e-mail address every Monday morning. This provides you with a brief synopsis of the previous week's industry news. In addition to the news items, our editor, Mark Jason,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



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From the Publisher

By Paul Jason, CEO, Public Gaming Research Institute

I hope you have been receiving the PGRI electronic newsletter 'Morning Report.' This is a weekly summary of news but with an increasing amount of editorial commentary and follow-up research. Along with all the general industry news and updates on lotteries, commercial suppliers, and political/legal developments, the last few weeks have included additional items on:

- Is Horse Racing Industry actually being helped, or not, by the addition of casinos?
- International Proliferation of Remote and Internet Gambling Safe Havens.
- Feature on Raffles Games.
- Investment banking firms both advising U.S. lotteries and owning equity in commercial gambling companies.
- Implications for U.S. of WTO decisions regarding cross-border internet gaming. Also, the U.S. Trade Representative's response to those decisions.
- EU, EC, and ECJ status reports with attempts to discern the meaning of it all.
- How the media manipulates news about our industry, with amusing examples.
- The unfortunate politicization of BCLC Canada Oversight.
- Retail 'play rate' as the missing component to the 'retailers win more than their fair share' argument.
- California's Budget & Finance Office on proposal to privatize the lottery.
- The interesting denouement of Gov. Blagojevich's proposal to lease the IL lottery.
- Every week includes notices for employment opportunities.

Presently, there is no charge for the 'Morning Report.' This electronic newsletter is sent to you every Monday morning. So sign up to receive your free copy at sjason@publicgaming.org.

There is so much incredibly interesting material this month. The panel discussion on privatization is surprisingly candid. U.S. lottery CEO's and Directors have to keep their focus on operations and generating revenues, so it is a privilege to hear their thoughts on the politically charged topic of 'privatization.' The panel consisted of eight of the most experienced U.S. lottery directors and so you don't want to miss what they have to say on the subject.

Our industry has changed a lot in the past few years, and industry leader GTECH has certainly changed along with it. We all know about the acquisition by Lottomatica. So, what questions would you ask Jaymin Patel, President of GTECH, about what it all means? I hope I asked them! Jaymin gives us a clear picture of a company poised to help this industry fulfill its potential. And it's not all about cutting-edge technology.

Younger players seem to be developing a special relationship with their media devices. Notice how playing with their cell phones, PDA's, iPods, and now YouTube and MySpace, has become an end in itself, how the distribution channels have become objects of entertainment in themselves? Ross Dalton, GTECH Sr. V.P. Printed Products and Licensed Content Markets, talks about this phenomenon in "Content = Contact."

European jurisdictions continue to fight for the right to regulate gambling within their own borders. The EU continues to push for liberalization of markets, for freer competition and more open borders. Philippe Vlaemminck, the legal counsel to the European lotteries in almost all cases related to these conflicts, is a regular contributor to PGR magazine and we appreciate his insights. Getting the EU perspective in harmony with the interests of its member states and the traditional role of lotteries has always been a focus. This month, Philippe and his associate, Annick Hubert, explore legal frameworks for getting control of remote and underground gambling operators.

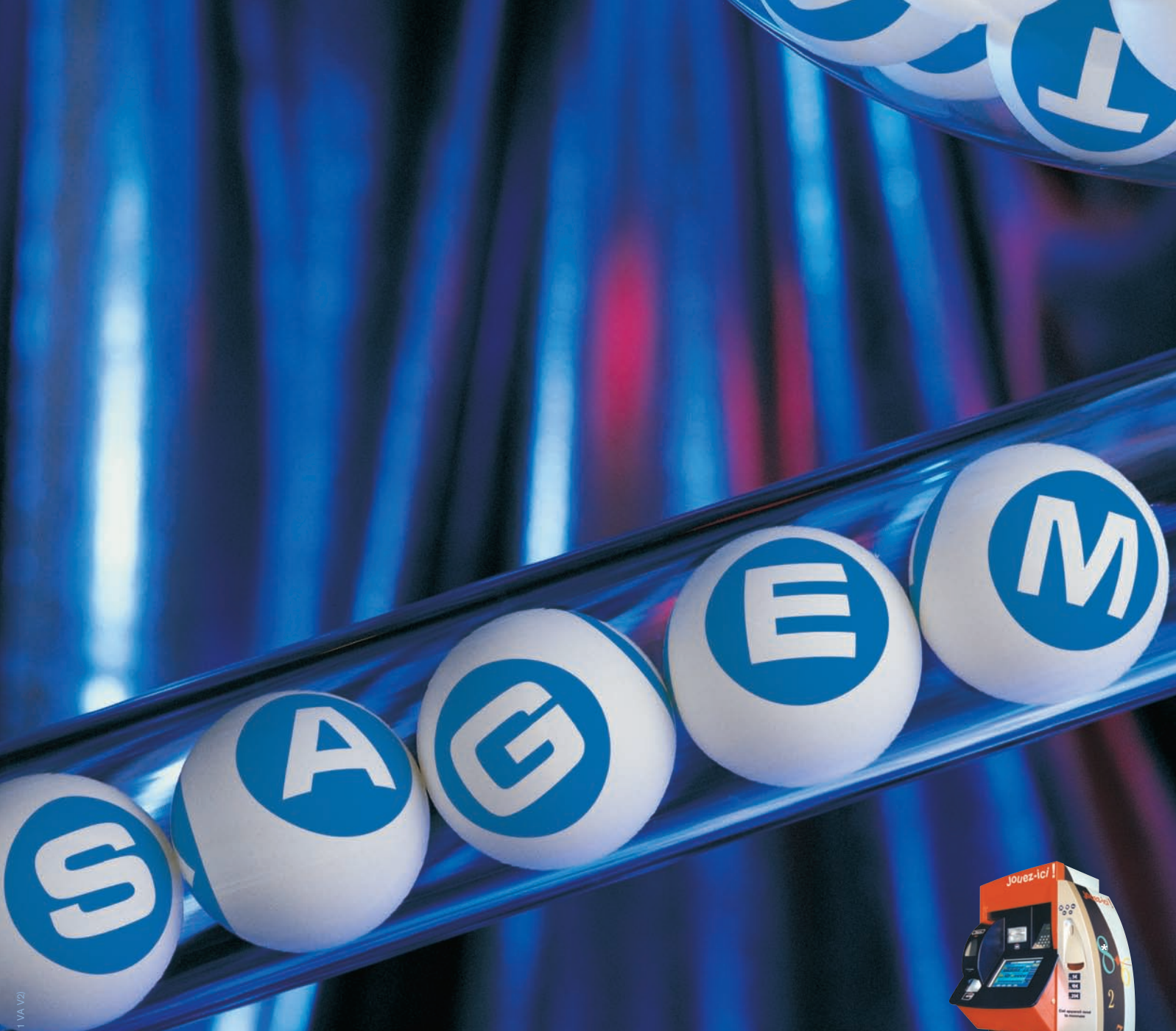
Whoever said "Two Ed's are better than one" may have been on to something. Iowa's Dr. Ed Stanek and Kansas' Ed Van Petten joined forces to create the first ever U.S. multi-state instant/scratch-off game. Combine the player appeal of instants with the excitement of bigger prizes and more winners and we might see instants/scratch-offs sales accelerate even faster than they already are...now that's something to get excited about! Mary Neubauer of the Iowa Lottery and Sally Lunsford of Kansas Lottery walk us through the inception and launch details.

Raffles have been big news for awhile now. D.C. Lottery is launching its first Raffle on July 1, and has provided us with this anatomy of their summer Millionaire Raffle. Jeanette Michael talks about strategies, beginning with internal staff motivators, continuing with multi-media push and street promotions, and ending with a theatrical live drawing on August 24 at the D.C. Lottery headquarters.

Mr. Ho Kwon Ping is Chairman of Banyan Tree Holdings and Resorts. Mr. Ho is not an expert in our industry, but he is a visionary who captures the imagination. His "Lotteries: A Whole New Mindset" assesses the competitive position of state owned lottery monopolies. Mr. Ho proposes that the international community of state owned lotteries combine forces to create both a politically powerful consortia and the most awesome philanthropic agent the world has ever known.

Andy Amada asks a question that we've all asked ourselves... why do so many players hold back until the jackpot reaches \$50 million dollars, as if he can't be bothered with pocket change

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How an Industry Leader Stays Motivated and Charged-Up to be the Catalyst for Innovation and Growth

An Interview with Jaymin Patel, President of GTECH



Jaymin Patel

Jaymin Patel, President and Chief Operating Officer of GTECH Corporation, met with PGRI at the European Lottery Congress in Budapest to talk about GTECH's focus on customer service and expanding portfolio of gaming products.

Paul Jason: *There has been a lot of talk at the European Lottery conference about new game styles, new media, and the changing legislation and regulatory environment. How has GTECH's primary mission and purpose changed as a result of the changing gaming industry and as a result of the combination of Lottomatica?*

Jaymin Patel: Our core focus on servicing our customers has not

Europe, Asia, and Australia are all quite different from one another.

Let's look at a few examples of how we work with customers to help them increase their sales. Take North America between 2000 and 2005. There have been dramatic changes in gaming legislation and the growth of other forms of gaming. There has been an explosion of casinos in California, an expansion of VLT gaming in several states, introduction of different types of games and the introduction of gaming at new venues. Our customers have tried to find ways of growing their lottery sales, despite these other forms of gaming growth. We've had to be more innovative. We worked with some of our customers to introduce VLT Central Systems and VLT machines, where states allow them. We've also had to introduce games that appeal to more players.

There has been tremendous growth in instant tickets over the last five or so years. Between 2000 and 2006, instant tickets grew from approximately 42% of the total lottery pie to 53% in North Amer-

In our business, it is very hard to talk globally, because regional approaches to the business – whether it be legislation, lawmaking, or the basic approach to business – can vary so much.

changed. Our fundamental role is still to provide the technologies and services that drive revenues for good causes. The main reason that we exist and the reason our business has grown to where it is, is that we realize our mission is to provide our customers with the systems, marketing strategies, technologies, and services that enable them to grow their enterprises year after year.

Governments need to continue to raise monies for good causes, whether those monies go to support education or charitable organizations. The demand for raising money for good causes continues to increase each year. For example, in the North American market, certainly between 2000 and 2005, many states suffered significant state budget shortfalls. Lotteries are seen as a way of filling these budget shortfalls. It is a bit different in Europe, because the monies there are directed toward good causes rather than to the government's general fund. The pressure for all governments to raise more money for good causes is increasing.

Therefore, our fundamental mission hasn't changed. What has changed is the way we address specific market requirements around the world, and the way we try to drive lottery sales working in conjunction with our customers. In our business, it is very hard to talk globally, because regional approaches to the business – whether it be legislation, lawmaking, or the basic approach to business – can vary so much. Although there are some worth noting, North America,

ica this past year. It's clear that consumers are looking for more and more forms of exciting play. That has driven us to introduce online content and online games that appear to have the characteristic of instant tickets, because that's what consumers want.

PJ: *Instant feedback.*

JP: Yes, instant feedback. And this is an area where Lottomatica has had tremendous success with their instant ticket business so when you ask how GTECH's mission and purpose is impacted by Lottomatica it is in a very customer-beneficial way in that we can now offer instant Best Practices to our customers that is based on practical experience of one of our biggest customers. Some of the products we've helped customers introduce, like Pick 'n Play, appear to be more like instant games. They have a higher prize payout and a more interactive feel to them – because that's what consumers are looking for. They are comparing the online games now to instant games and other forms of gaming in the marketplace. We have to be ready to deliver those more exciting games; a large part of our strategy is designed to introduce new content and make the newer games more exciting for the consumer.

PJ: *Aside from being a good sales/marketing/PR image, it seems that differences in markets and regulatory environments require that you work*

*We invest more than \$50 million in R&D,
and approximately 70% of it is invested into enhancing the core business.*

even more closely with your customer to create the best solutions.

JP: That is very true. Looking at this business by regions of the world, we are trying to spend more time with our European customers, who are further along on the gaming continuum by virtue of expanded gaming enabling legislation. In the U.S. and Canada, there is a great deal of creativity in retail sales and marketing, particularly in relation to scratch cards. And this is a very important growth opportunity for our various European customers. The exponential growth of our Italian Gratta eVinci instant business is a testament to the size of this incremental revenue opportunity overseas. In just three and a half years, the Italian instant lottery business has grown to \$5.1 billion (3.9 billion Euro) for 2006, up 160% from 2005 which was 205% higher than 2004, and is expected to approximate \$9.2 to \$9.8 billion (7.0 - 7.5 billion Euro) in 2007.

PJ: *Many of us who are from the outside looking in see GTECH as technologically sophisticated, with a pipeline full of forward-leaning products, that is just waiting for a green light from lotteries and their regulatory agencies. But what is interesting about what you are saying is that you are just as committed to enhancing the value and effectiveness of the conventional and traditional products that are still the bread and butter of our industry.*

JP: That's where we spend approximately 75% of our R&D, to enhance and upgrade our lottery management software and point of sale technology. In addition to innovation which is the lifeblood of our business, we also focus on the basics of the business. We invest more than \$50 million in R&D, and approximately 70% of it is invested into enhancing the core business. In other words, helping our customers improve their systems and technologies to drive same store sales.

PJ: *So while it might be exciting to talk about new technology, new game concepts, changing regulatory landscape, and the like, the real story is the task of figuring out how to incrementally grow sales by 7% a year by enhancing the performance of traditional products is what really drives the business.*

JP: That's a major focus of ours. I can tell you that GTECH's Marketing organization, led by industry marketing veteran Connie Laverty O'Connor, spends much of its time on how to help our existing customers grow their existing businesses. We use proven best practices where we benchmark the performance of all of our customers around the world against certain best practices in terms of retail distribution channels and game practices.

As you might expect, every customer has slightly different characteristics that result in being in different places on the best practices curve. In California, they have a requirement to return approximately 34% back to the state, which results in the product mix needing to look a certain way. In other jurisdictions, there is no set requirement

in the governmental and legislative rules that stipulates a percentage to return, which results in a different set of game dynamics.

If you take the case of Italy again, our Marketing team has been working closely with Marco Sala, our Managing Director for Italy. The 10 euro instant ticket launch on January 8, 2007, has enjoyed staggering sales performance – from over 400 million euro in December of 2006, to over 700 million euro monthly for the five months from January 1 to May 31. An almost 60% increase over last quarter 2006 base. These amazing results were achieved with little or no cannibalization to the existing lotto game in Italy and zero impact in the 5 euro, 3 euro, 2 euro, or 1 euro categories, which of course offer much lower prize payouts, an important part of the bottom line profit equation.

People tend to think of GTECH as an online technology company, and we definitely are a major contributor in that space. However, we are also a major player in the instant ticket space supporting some of the highest performing per capita lotteries world-wide with an expanded portfolio of instant game services and solutions. We plan to play an even bigger role in the instant ticket value chain in the future with the recent acquisition of CGI and our refined approach to instant optimization best practices and leading technology innovation in instant ticket management accounting and self-service distribution. If you look at our North American business, a full 50% comes from validating and distributing instant tickets. So, our instant ticket business is as large as, if not larger than, our competitors'.

PJ: *It seems like a cornerstone to GTECH's value proposition is your focus on and ability to integrate the expertise you have in all aspects of this business. This transfers to management of product mix, which gets complicated when you're not just managing a portfolio of instants, but building an overall plan that includes instants, online lotto, and entirely new games and media.*

JP: The area of best practices is not limited to the existing game portfolio and the existing business. We believe there is tremendous potential for optimizing the business by introducing new products and new technologies in the field. If you look at what is happening in retailing, aside from our own industry, there are dramatic changes. There is the growth of chain stores and big box retailers, but fewer "mom and pop" stores in North America. Consumers' buying habits are changing. We are also doing a lot of research in the retail industry to figure out what the next wave will be; hence the reason why we have made such large investments in our expanded line-up of self service technology, as well as our brand new, secure and automated Instant Showcase. Instant Showcase is a counter-top dispenser of instant tickets that has proven it can substantially reduce ticket shrinkage and provide excellent accounting for all instants inven-

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What does it mean?



Privatization: A Panel Discussion with U.S. Lottery Directors

PGRI Smart-Tech Conference 2007

Following is an edited transcript of a panel discussion on privatization. All 8 panelists are current U.S. lottery directors. There are more than 8 speakers because some panelists spoke more than once. Since we wanted this to be a candid and open discussion, we have chosen to respect the privacy of the speakers and not attribute specific quotes to individual panelists.

Lottery Director 1:

There is a big difference between talking about doing something and actually doing it; I remember reading in the Canadian press not too long ago that the trend in the United States has been towards privatizing the state lotteries. Of course, that's not exactly correct. The trend has been to talk about it, not to actually do it. The trend has been to ask whether privatizing lottery operations is a possibility, politically and practically. So far, not a single lottery has gotten beyond the question asking, exploratory stage. It is surprising to some lottery directors that these ideas are announced by politicians without consulting them at all, not as a matter of courtesy, but from the more practical goal of simply understanding the issues.

It is interesting to many of us just how quickly the Queensland-Tattersalls deal was negotiated and finalized. Discussions were started two years ago, but everything seems to have transpired outside of the public eye. It is quite clear that whatever happens here in the U.S. will take a longer time and be required to overcome formidable obstacles. There will be lots of discussion, lots of very public debate.

An interesting thing about our political system is that approval typically requires legislative action. Our state legislatures are voted in and out of office periodically. I know of cases where legislatures authorized certain initiatives, let's say a particular game, that required the suppliers to make a large investment to install and implement the games. Then the legislative body

If everything stays exactly the same with respect to the amount of promotion allowed, and the types of games that are allowed, etc., then how and why would sales increase?

changed, some people voted out and some new people voted in. The new legislature decided they did not want to authorize those games so they changed the law to make those games illegal. This would seem to raise two questions. First, even though states' budgets are always struggling for funding, is there a limit to how much the states actually want the lottery to sell and if we are too successful don't we invariably exceed that limit? Second, how do interested parties deal with the possibility that legislatures might change their minds, even after a commitment is made?

Director 2:

Another question relates to the terms and conditions under which the operations would be 'privatized.' It seems that the expectation is that private operators would pay a large sum of money up front and then also pay a large annual annuity, possibly tied to performance. The notion is that all this extra money would come from the significant increase in sales that the private operator would generate. So then the question arises, how would regulations and general public policy need to change in order for those increases to actually be realized? Proponents of privatization seem to be a little vague about this. If everything stays exactly the same with respect to the amount of promotion allowed, and the types of games that are allowed, etc., then how and why would sales

increase? And if the way that sales would increase is by changing regulations to allow more games and promotions and other changes, then the state is raising money not by privatizing but by changing gaming and regulatory policy. And as was just mentioned, if sales did increase, would there be a public concern over the increased amount that people are playing? And then if there is public concern, how would you address that concern if you have turned over control of the games to a private operator? When you look at the numbers, it is clearly impossible to generate these kinds of increases without changes in regulatory policy. The kinds of games allowed, the amount you spend on promotion, the payout percentages, some things would absolutely have to change. I think everyone in this room has direct experience with the legislature's reluctance to make those changes. The thing is, we respect the role of the legislators as the protector of the public interest and being in the best position to translate the will of the public into prudent public policy and effective regulatory policy. My question is this – will the private operator have that same approach when they fall short of their financial targets?

Director 3:

I would propose that lottery directors could be a tremendous resource of information to help to assess the pros and cons of privatization. There are many issues that we are immersed in that legislators are not so familiar with. Elected officials are always concerned about expansion of gambling. They are concerned about problem gambling and other issues. For instance, there are no regulations that prevent us from selling lottery tickets on college campuses, but we avoid overly aggressive marketing campaigns that would increase sales but produce other undesirable consequences. Another important aspect of this that legislators need to consider is the perception of quality and integrity that most of us here have invested our entire careers over decades to try to build. Whatever route elected officials

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Defending the Common Cause of Lotteries: “The Controlled Expansion Theory”

By Philippe Vlaemminck & Annick Hubert



Philippe Vlaemminck¹



Annick Hubert²

The gambling sector follows universally almost the same pattern. In most jurisdictions where lotteries are operated, this is done through a state monopoly.

The major exceptions to those rules are precisely those jurisdictions which host the illegal remote gambling operators and are the same jurisdictions which are considered as Tax Havens and/or do not subscribe to the international standards and procedures to fight money laundering (FATF).

Remote gambling does indeed not yet want to fit into the universal model, but instead creates new opportunities/challenges and issues. Furthermore, it can undermine the universal model and its values, and is often seen as socially undesirable and irresponsible (no concern about problems, no willingness to contribute to society through taxes or other means)

Lotteries, on the contrary, continue to play an important role in society.

As already outlined in the Schindler case, this role is partially within the context and partially outside the context of the EU Treaty, but is always a positive contribution to society, including to the development of the EU.

The blind application of the EU Treaty can cause a threat to the positive contribution of lotteries towards society.

Remote gambling operators try to get unlimited access to the different EU jurisdictions based upon the EU Treaty (or based upon WTO law in case of the US), while nor the EU Treaty rules nor any other international regulatory framework provide adequate legal answers to important issues (contract law, taxes, consumer defence, product and operator control).

The first, but not the only problem, is to bring the EU perspective in harmony with the role of Lotteries. The Internal Mar-

ket rules and exceptions on free movement do not provide a full and comprehensive answer. Some aspects are an exemption from those rules, while others do require different legal frameworks as the Second and Third Pillar, or even the OECD, the Council of Europe and/or the WTO.

From Schindler to Placanica, the European Court of Justice case law has clarified some points, but also created difficulties for certain governmental gambling policies as well as for the good causes funding role of lotteries. The tendency upheld in the recent Placanica ECJ judgement and in the Ladbrokes EFTA Court judgement provides for some latitude thanks to the partial recognition of the “controlled expansion” theory.

The “controlled expansion” theory was developed in the European Court by the Belgian and the French Government. What does it mean and how can it be used universally?

Under EU law a Member State is permitted to maintain a restrictive gambling policy within the context of the Treaty. The same principle has been recognised by the WTO Dispute Settlement Bodies in the context of GATS

On that point, a certain number of reasons of overriding general interest have been recognised by the case-law, such as the objectives of consumer protection and the prevention of both fraud and incitement to squander on gaming, as well as the general need to preserve public order

Moral, religious or cultural factors, as well as the morally and financially harmful consequences for the individual and for society associated with betting and gaming, may serve to justify a margin of discretion for the national authorities, sufficient to enable them to determine what is required in order to ensure consumer protection and the preservation of public order.

The restrictive measures imposed must satisfy the conditions laid down in the case-law of the Court as regards their proportionality and be non-discriminatory.

As regards the objectives capable of justifying those obstacles the ECJ made a distinction between:

- The objective of reducing gambling opportunities and channelling players away from highly addictive games (offered via the internet or other channels which are hard to suppress)

¹ Philippe Vlaemminck is the managing partner of Vlaemminck & Partners, a Belgian law firm specialising in EU & WTO law and since more than 20 years substantially involved in defending the cause of lotteries at all levels (internet, privatizations, regulatory approaches, ...). Vlaemminck & Partners has recently concluded a cooperation agreement with the national US Law firm FOLEY & LARDNER LLP to develop legal work on both sides of the Atlantic, including legal assistance regarding lotteries.

² Annick Hubert is currently a State Attorney of the Belgian Department of Foreign Affairs, legal representative of the Belgian Government at the Court of Justice of the European Union and the European Free Trade Area Court. She is joining the EU law practise group of Vlaemminck & Partners this summer.

- The objective of combating criminality (preventing the use of betting and gaming activities for criminal or fraudulent purposes) by making the operators active in the sector subject to control and channelling the activities of betting and gaming into the systems thus controlled.

From that perspective, it is possible, according to the ECJ in Placanica and the EFTA Court in Ladbrokes, that a policy of controlled expansion in the betting and gaming sector may be entirely consistent with the objective of drawing players away from clandestine betting and gaming (Placanica ruling) or highly addictive games (Ladbrokes ruling) to activities which are authorised and regulated.

In order to achieve that objective, authorised operators:

1. Must represent a reliable, but at the same time attractive, alternative to a prohibited activity.
2. This may as such necessitate the offer of an extensive range of games.
3. Advertising on a certain scale.
4. And the use of new distribution techniques.

There are several new ECJ preliminary referrals which create opportunities for consolidating the “controlled expansion” theory. The Belgian government has always shown to be a very



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active player in the defence of the lottery monopolies and will pursue this policy of active intervention in all cases referred to the European Courts.

It goes without saying that such a policy requires a monitoring approach on a national level, so as an enhanced cooperation on a


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Midwest Millions: A New Breed of U.S. Lottery Game

Can the “Powerball Phenomenon” prove successful for instant-scratch games?

By Mary Neubauer, Iowa Lottery and Sally Lunsford, Kansas Lottery



Mary Neubauer



Sally Lunsford

It's a lottery game where players in different states will buy tickets and compete for prizes, but it isn't Powerball, or any other lotto game. For the first time, two U.S. lotteries are joining together to offer a joint instant-scratch game to see if the concept that has proven so successful on the lotto side can succeed with a different product. In September, the Kansas Lottery and the Iowa Lottery will release “Midwest Millions” and players in both states will buy tickets as part of one big instant-scratch game that will offer a higher prize percentage and a greater number of large prizes than the state lotteries have traditionally been able to offer on their own.

Instant-scratch games are one of the staples of the modern lottery industry, with multiple games for sale at the same time and players annually buying billions of dollars worth of the latex-covered tickets that they scratch off to determine whether they've won a prize. But to date, instant-scratch games have been an individual product for each U.S. lottery.

Kansas Lottery Executive Director Ed Van Petten said his inspiration for “Midwest Millions” came from the success that Canadian lotteries have achieved by joining together to offer instant-

shows to support instant-scratch sales, to date, no U.S. lotteries have offered a joint scratch game with prizes in each jurisdiction offered as part of one big pool.

Other Multi-Jurisdictional Efforts: At one time, all lottery games were individual to the jurisdiction where they were offered. But lotto games such as Powerball and the Canadian instant-scratch games have proven that players are willing to compete as part of a larger game spanning multiple jurisdictions in exchange for bigger prizes and more chances to win.

As he continued to evaluate his idea in mid-2006, Van Petten, who has led the Kansas Lottery since 2000, contacted Iowa Lottery CEO Dr. Ed Stanek, the longest-serving lottery leader in the world and one of the co-inventors of the Powerball game. Stanek saw merit in the idea, and the two began the work of bringing a game to market. While they have joked that they're only working on the game to prove that “two ‘Eds’ are better than one,” both understand that they could be changing the face of U.S. lottery products.

“Fifteen years into the Powerball era, no one can argue with the success the multi-jurisdictional concept has achieved,” Stanek said. “A multi-state instant-scratch game definitely deserves a fair shot in the market.”

The number of tickets that can be offered in an instant-scratch game and the size and number of prizes that can be supported are dependent upon population. In 1992, Iowa, Kansas and 13 other lotteries joined forces to introduce Powerball, which has gone on to produce world-record jackpots and dozens of multi-millionaire jackpot winners. Today, Powerball is played in 29 states, Washington, D.C., and the U.S. Virgin Islands. By joining together to sell Midwest Millions, Kansas, with a state population of about 2.7 million people, and Iowa, with a population of about 2.9 mil-

If this is successful, my hope is to involve more states.

scratch games with millions of dollars in prizes. “I was looking at the sales trends for the multi-provincial games in Canada and wondered why no one in the United States had tried a similar concept,” Van Petten said. “The Canadian lotteries have been quite successful with this type of game. We have many multi-state lotto games where the prize fund is pooled. Why not try the same concept on an instant game?”

The provincial lotteries in Canada have successfully offered joint instant-scratch games since 1976. The multi-jurisdictional scratch games have been sold across that country and single games have offered prizes including \$1 million in cash, vehicles and vacation packages. While U.S. lotteries have worked together on promotions, advertising campaigns and even television game

lion, will effectively double their population base for the game.

Stanek, who has led the Iowa Lottery since its start in 1985, said Powerball's success has exceeded any expectation he had when it began and he's hopeful about the future for multi-jurisdictional instant-scratch games. “It all depends on players' reactions and the ability of states to be flexible about game concepts, but this could be the beginning of a new generation of lottery product,” he said.

Van Petten echoes those thoughts. “I do think this is an interesting concept that will intrigue our players by allowing us to fund larger prizes with the pooling of resources,” he said. “If this is successful, my hope is to involve more states. I think this will be a special benefit to smaller states such as Kansas and Iowa.”

Working Through Differences: The work of producing Midwest Millions has not been without complications. The Kansas and Iowa lotteries discovered that they had differences in game rules to be worked through, differences in ticket dispensers and even differences in the basic design and lay-out of tickets they had sold. For example, the Iowa Lottery has offered instant-scratch games in which the tickets' backs were designed as postcards so that they could be mailed in for second-chance drawings without requiring an envelope. The Kansas Lottery has never sold postcard-style tickets. The Kansas Lottery, meanwhile, has allowed its players to enter second-chance drawings by mailing in entries or dropping them off at the lottery office or other designated locations, while the Iowa Lottery has required its players to mail in their entries for drawings. In Midwest Millions, both lotteries will offer postcard-style tickets that can either be mailed in for second-chance drawings or dropped off at lottery offices or other designated locations for entry.

Showcasing Agriculture: Tickets in the \$10 Midwest Millions

game feature scenes indicative of the states' shared agricultural heritage. Artwork on the tickets includes a picture of a sunflower (Kansas' state flower and a major cash crop) and an ear of corn (Iowa is the nation's top corn-producing state) along with a field full of round bales of hay in the background. The bales near the front of the scene have morphed into big round bales of money.

The Kansas and Iowa lotteries both have contracts for ticket printing with Pollard Banknote Limited based in Winnipeg, Canada, and Pollard will print the entire batch of tickets for the game at one time.

Midwest Millions will offer 1.2 million tickets, with 600,000 going to each state. The game will begin statewide sales in both states on Sept. 10. Instant prizes will range from \$10 to \$50,000 and two second-chance drawings will each offer a \$500,000 prize and 50 prizes of \$1,000. The first drawing in the game will be conducted Jan. 11 in Topeka, Kan. The second drawing will be April 18 in Des Moines, Iowa. The game's prize percentage is

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Internet Subscription Sales for State Lotteries

By Michael Shebelskie, Law firm of Hunton & Williams



Michael Shebelskie

State Lotteries seeking to find new revenue streams should consider Internet subscription sales. Internet subscription sales parallel the traditional subscription sales model, except that the communications between the players and the retail agent are conducted through the Internet rather than the mail.

Moreover, as this article explains, Internet subscriptions sales for State Lotteries have a clear path for compliance with federal laws. The principal

federal statutes that outlaw various forms of interstate gaming operations either do not apply to Internet subscription sales for state-sanctioned lotteries, or have safe harbor provisions that allow Internet subscription sales to be lawfully conducted.

Federal "Anti-Lottery" Statutes

The Federal Anti-Lottery Statutes, 18 U.S.C. § 1301 et seq., were enacted primarily to outlaw "private" lotteries and illegal numbers games. Those statutes impose the following prohibitions, none of which applies to Internet subscription sales by a State Lottery:

- They ban the transportation of paper lottery tickets across State lines.¹ That has no relevance to Internet subscription sales which do not involve the use of paper tickets.
- They ban the transportation of lottery tickets through the U.S. mails.² That too has no relevance to ticketless Internet subscription sales.
- They prohibit a person in one State from using an agent in another State to procure a lottery ticket in that other State.³ That prohibition does not apply to Internet subscription sales by a State Lottery that are limited to persons in that State.

It should be noted too that the Anti-Lottery Statutes have a safe-harbor provision that exempts from the statutes' reach the transportation or mailing "to addresses within a State of equipment, tickets or material concerning a lottery which is conducted by that State acting under the authority of State law." Any in-

state mailings associated with Internet subscription sales for State Lotteries, therefore, could claim the benefit of this provision.⁴

Federal Wire Act

The Federal Wire Act, 18 U.S.C. § 1081 et seq., is the federal statute most cited as a bar to Internet gaming. That Act's prohibitions, however, do not apply to State Lotteries.

The Wire Act prohibits persons who are engaged in the business of betting or wagering from: (i) using a "wire communication facility"; (ii) for the transmission in "interstate or foreign commerce"; (iii) of "bets or wagers" or "information assisting in the placing of bets or wagers"; (iv) on any "sporting event or contest."⁵ While the Internet generally entails use of a "wire communication facility," Internet subscription sales for State Lotteries would not satisfy all the other elements of the Wire Act.

In the first place, lottery chances would not appear to qualify as a "bet" or "wager" as these terms are generally understood in the law. A "bet" or "wager" typically refers to a stake where one party to the stake will win and the other will lose depending on the outcome of an uncertain event.⁶ With certain limited exceptions, State Lotteries do not run the risk of losing when they sell a chance, and such risk-free transactions (from a State Lottery's perspective) accordingly are not properly understood to be "bets" or "wagers."⁷

Equally important, lotteries are self-evidently not a "sporting

The Federal Wire Act, 18 U.S.C. § 1081 et seq., is the federal statute most cited as a bar to internet gaming. That Act's prohibitions, however, do not apply to State Lotteries.

event or contest." Consequently, even if a lottery chance were viewed as a bet or wager, they are not bets or wagers on a "sporting event or contest" and are thus outside the Wire Act's scope.

This view of the Wire Act's limited scope – which comports with the plain reading of the statute's text – is supported by the

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¹ 18 U.S.C. § 1301.

² 18 U.S.C. § 1302.

³ 18 U.S.C. § 1301.

⁴ 18 U.S.C. § 1307(b).

⁵ 18 U.S.C. § 1084(a).

⁶ 38 Am. Jur. 2d Gambling § 3 (1968); see also Black's Law Dictionary, p. 146 (5th ed. 1979) (defining "bet" as an "agreement between two or more persons that a sum of money or other valuable thing, to which all jointly contribute, shall become the sole property of one or some of them on the happening in the future of an event at present uncertain, or according as a question disputed between them is settled in one way or the other. Id. at p. 1416 (defining "wager" as a "contract by which two or more parties agree that a certain sum of money or other thing shall be paid or delivered to one of them or that they shall gain or lose on the happening of an uncertain event or upon ascertainment of a fact in dispute, where the parties have no interest in the event except that arising from the possibility of gain or loss").

⁷ Some lottery games, such as pick 3 or pick 4 games, can have prize structures with predetermined payouts. The drawing of a popular number as the winner in one of these games can result in a lottery paying out more money than it received for that game-paying cycle—thus causing the lottery to "lose" money in some sense. A State Lottery could avoid offering such games through the Internet and thus preclude any argument that a particular drawing qualified as a bet or wager.

Content = Contact

By Ross Dalton, Senior Vice President of Printed Products and Licensed Content Markets for GTECH Corporation



Ross Dalton

There is a standard joke that the average lottery player gets 1.3 years older every year. It's pretty much common knowledge to anyone in our business that traditional games in the lottery space get less and less compelling to younger audiences with every passing advance in technology.

Despite the rapid improvements over the last few decades in the technology behind delivering lottery games, there have not been any significant technological improvements in the games themselves, save perhaps monitor-based games. In this same period of time, we have also witnessed the complete evolution of technologies in telephony, computing, and home entertain-

The solution to me is to extend gaming content beyond the draw or beyond the scratch.

ment. And, we have watched the Internet become ubiquitous while the phenomenon of MySpace, YouTube and text messaging have grown from concept to commonplace. More directly, in our space, the casino industry has reinvented itself multiple times and off-shore bookmaking and virtual casinos have exploded in popularity.

The reality is that at least two mainstream disposable income markets – motion pictures and recorded music – are in decline. Both movie theatres and music stores aren't receiving nearly as much attention as resources like iTunes. One begins to wonder if the truth to "what consumers are looking for" is right in front of us. And it ain't what we are selling today.

However, there is a clear indication that several components of a lottery player's experience parallel that of the next generation's desire for entertainment. Problem is that we haven't translated our definitions properly enough to attract them to our core offerings.

In short, some of the experiential aspects of new-age entertainment – drama, reality, and fantasy – are the same things we were building into lottery products in the birth of our industry. The emotions behind reality television's popularity parallel our industry's desire to do more and more advertising focusing on real winners. One could say we defined instant gratification with the proliferation of instant tickets far ahead of the SMS-based promotions tied to game shows. I can further make the

leap that the drama involved in a season of American Idol or Pop Idol can be compared to the agonizing fun of watching drawing balls roll down a chute.

This all adds up to an equation that should say we are closer to new solutions, products, and game ideas than we think. All of us look at what our children are doing and secretly say, "I don't have a game that does that." The reality is far less daunting.

It is right in front of us.

Customers continually challenge our company to drive more content to their retail channels. There is a supposition that the vendor community is responsible for content development, yet the barriers to deployment, be it public perception or hard legal boundaries, have made it nearly impossible for any proliferation of new content to occur. Meanwhile, we all face increased competition in both the gaming space and the disposable income space – from entities with farther-reaching access points and quicker-to-market technology.

We still have a hard time getting away from things like \$1 per play and mail-in, second-chance drawings. The next generation of players has already defined for us how it wants to interact with its entertainment choices and how much more extended it expects a single "fun" experience to be. While my college-aged daughters would never play a lottery game for a \$5,000 cash prize, they'd never hesitate to text into a promotion for the chance to win 5,000 music downloads – which happen to cost the same \$5,000 in prize value.

The casino industry is focusing its player interaction more and more on reaching players when they are away from the casino itself, using the player's club rewards programs as a

We should utilize the now proven concept of "user-created content," see MySpace, YouTube, etc., and the experiential angle of the access point, see iPod, texting, etc., as our drivers for the next age of lottery products.

way to frequently remind customers to come back and have fun. They provide these incentives for customers at all points along the visit-frequency spectrum. It isn't so much trying to get the big players back as it is trying to get everyone back. Sounds like our attempts to get people to play at low jackpot levels, doesn't it?

Too often we over-segment our players into too few categories:
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The D.C. Millionaire Raffle: Anatomy of a Successful Raffle

Your best chance to win \$1 million! That's how the D.C. Lottery and Charitable Games Control Board (D.C. Lottery) is hitting the streets with its new D.C. Millionaire Raffle Game.

Raffle ticket sales will begin on July 1, 2007 and end August 22, 2007. The drawing is timed to coincide with the D.C. Lottery's 25th Anniversary to help mark the day in 1982 when it started selling its first game, the instant scratch ticket Match 3. The raffle drawing is scheduled for August 24, and the sale of all 250,000 \$10 tickets is a perfect way to celebrate 25 years of being D.C.'s best bet in the nation's capital.

D.C. Lottery Executive Director Jeanette A. Michael explains that she has established a four year tradition of offering D.C. Lottery players a new and exciting game every year – a strategy that prompted the agency to add a raffle game to its product line, especially when the research reflected the success other lotteries achieved. *"D.C. Lottery staff worked diligently to track and research the affect of adding raffle games to the product lines of U.S. lotteries,"* Michael said.

After six months of analyzing raffle products from around the country, the D.C. Lottery began to design a campaign for its first raffle game. The view of Director of Marketing and Communications Kevin Johnson is that, *"The raffle concept is not new, but because it was a new lottery product at the time of our research, the information we received continued to evolve."* The influx of ideas and strategies allowed the D.C. Lottery to craft a campaign designed to capitalize on best practices from around the country, which ultimately led the D.C. Lottery to set a goal in line with that of lotteries – to sell out the game!

To achieve this success, the D.C. Lottery is implementing a three-pronged strategy: 1) employee and agent incentives; 2) multimedia push and street promotions, and 3) invitation only attendance to see raffle drawing live. Each component is timed to create synergy to enhance sales and position this game as a new exciting product from the D.C. Lottery.

Starting with its staff, the D.C. Lottery has issued a creative challenge called, "Each one – Ask One Hundred." Every D.C. Lottery employee is encouraged to ask 100 people, *"Did you buy your D.C. Lottery Millionaire Raffle ticket?"* If the agency sells all 250,000 tickets, the names of eligible staff will be entered into an employee raffle with a top prize of \$100, a second prize of \$50, and two third prizes of \$25 each.

The D.C. Lottery agent incentive is also different and innovative, as the agency is offering agents two ways to have a chance to win lucrative cash prizes worth up to \$50,000. D.C. Lottery Sales Director Billy Parson explains, *"Starting July 1, 2007, D.C. Lottery*



agents will receive an additional 2% commission on raffle sales. Plus, a bonus commission of \$2,500 will go to the agent selling the \$1 million grand prize ticket. All agents have to do is inform players that the raffle game offers the best odds of winning \$1 million and ask for the sale. The D.C. Lottery's Sales Representatives are working with the agents to ensure that each one understands

what is at stake and the rewards for achieving the Lottery's goals."

For the public, the media message is simple. The D.C. Millionaire Raffle offers lottery players their best odds of winning one million dollars and is only available for a limited time. In addition to the one grand prize of \$1 million, there are three second prizes of \$50,000 and another 100 players will each win the third prize of \$1,000.

Along with a one week teaser campaign with limited radio, Internet, and mobile billboards, the D.C. Lottery will hold a PR kickoff event, followed by a four week multimedia advertising blitz. Simultaneously, D.C. Lottery will conduct a series of street promotions at major events and venues around the city. Professional teams such as the Washington Nationals of Major League Baseball, The Washington Mystics of the Women's National Basketball Association, and the D.C. United of Major League Soccer have all signed on to allow raffle sales and promotions at home games at RFK Stadium and the Verizon Center. These promotions and others throughout the city create on-the-street, people-to-people exchanges and will provide a great atmosphere for incremental lottery sales.

Towards the end of the promotion, the D.C. Lottery will use a bit of nostalgia, employing promotion teams to hit the streets as "walking billboards" as part of the final component of the campaign strategy. The signs will say "The end is near." Similar language will be seen as static messages on POS at agent stores to create "fun" urgency to buy the last remaining tickets. Johnson noted that this approach reflects a simpler time when big news was communicated on street corners. *"It's a more direct touch. We think it's clever and will cut through the clutter."*

The final phase of the campaign is the actual drawing. Fifty D.C. Lottery Player's Club members, their guests, and the media will be invited to celebrate at the D.C. Lottery headquarters, where they will view the live drawing that will generate a D.C. Raffle Game Millionaire!

As others have done before them, the D.C. Lottery is looking to succeed with its raffle game. *"I want this to be the hottest ticket in town,"* Michael said because she like the rest of the agency is hoping that the D.C. Lottery has a summer sizzling with winners! ♦

Losing Fatigue, Not Jackpot Fatigue

It's causing a \$5.4 billion annual shortfall.

By Andy Amada, Relationship Marketing Systems (RMS)

In 1995, online lotto games generated \$10.2 billion in sales here in the US. During the next 11 years the Consumer Price Index grew 32% and population grew 14%. Sales for those same states in 2006 should have reached \$14.9 billion just to keep pace. Instead, they only amounted to \$9.5 billion – in other words, a current annual shortfall of \$5.4 billion and growing.

Everyone believes players are dropping out or waiting to play because of Jackpot Fatigue. But, the problem has nothing to do with the size of the prizes. The problem is all about Losing Fatigue.

Players don't need \$200 million or even \$100 million to justify playing. They would be ecstatic at winning \$50 million, \$5 million or even \$1 million. The hottest games in town are the Raffles with only a \$1 million prize and the players are paying up to \$20 a ticket! Why, because the odds of LOSING have been significantly reduced and raffles produce more winners.

Millions of players have been losing for so long they have literally given up on winning. They have been playing for years, even decades, without seeing anything significant. For example, in Powerball, if a player spent \$5 a week, it would take 25 years before they see a prize over \$7. That's way too long to expect a player to remain loyal. They probably stopped playing after five years. So, what do the players do? They limit their playing until the jackpot is high enough to justify losing. It's the lack of winning experiences and loss of faith that they can win that has caused the players to lose interest in what used to be our greatest income producers.

So, what will it take to rebuild value in the online games to get the current players playing more and the old players back into the game? It's very simple – the same three things that got them interested in the first place; (1) believing they have a chance of winning; (2) hearing that others like them are winning; and (3) entertaining playing experiences. All of this and more can be achieved if Lotteries choose to add our product PoolingPLUS™, for players who want an affordable way to get more chances of winning.

However, to reach the target of rebuilding the value in online games, pooling should not be just 'given' away; it should be used as an incentive to encourage more online play.

PoolingPLUS™ requires a minimum purchase of the traditional 100% owned tickets in order to qualify for the pool, which not only creates more perceived value, it gives the Lottery more control over the offers.

The example shown above is just a sample PoolingPLUS™ ticket



layout. The ticket consists of two parts. The top part of the ticket represents the traditional 100% owned plays like players are buying today. In this example, the qualifying purchase is only two 100% owned plays, but it can be any quantity the Lottery would require from the player as a minimum purchase before they can qualify for the pool. The bottom part of the ticket shows a single pool of 10 plays for just an extra \$1. The Lottery could also offer more than one pool per qual-

ifying purchase if it chooses. This is what the players want – more chances of winning for an affordable price. Because the Lottery controls the quantity of required tickets and the number of pools offered with each purchase, the Lottery will have dozens of new promotions that can be offered to meet its marketing objectives.

With PoolingPLUS™, the players do not create the pools or go through any of the other hassles of the traditional office pool. The pools are created automatically by the gaming system and the Lottery receives full value for every ticket. Thus, if there are 10 tickets in the pool, the Lottery receives \$10.

Every state lottery can breathe new life back into their online games and once again see double digit growth rates by just adding PoolingPLUS™. Sales would increase significantly even if a majority of current players only pooled intermittently. But, the real 'grand slam' for the Lottery will come from new players and the players who return to the game for the opportunity to get more chances to win, not to mention from current players who start their play earlier.

Consider if a state offered two simultaneous PoolingPLUS™ promotions. The first offer could incentivize lower end players to return to the game. That offer could be the same as shown in the example above, where every player who buys 2 or more tickets can spend another dollar and get 10 more chances of winning. The second offer could appeal to the higher end player who is willing to spend more. The offer could be buy 5 or more tickets and get in up to 5 pools, incentivizing players who usually buy 5 or more tickets to kick in another \$5 to receive 50 more chances of winning. Players who have dropped out will have a powerful incentive to return to the game.

Reversing losing fatigue, growing the player base, and keeping players in the game requires giving the players more reasons to believe they can win, creating more winners and winner stories, and providing more entertainment. PoolingPLUS™, which requires no game changes and allows the Lottery to continue with the long odds and higher jackpot games, is the most powerful tool toward accomplishing those objectives. ♦

Lotteries: A Whole New Mindset?

By Ho Kwon Ping, Chairman of Banyan Tree Holdings



Ho Kwon Ping

I have always been intrigued by the phenomenon of anomalies – that strange, often illogical and apparently untenable or contradictory situation in the animal kingdom, plant world, or human society, which does not make sense and should not exist, but somehow survives and even thrives.

In human society and the realm of economic policy, there is probably no greater anomaly than that of the state lottery. At a time of global corporate consolidation and competition, requiring the destruc-

tion of monopolies and opening up of all markets and industries, and the rise of supra-national enterprises all ferociously competing against each other in every corner of the world – state lotteries remain quaintly domestic, narrowly focused, happily monopolistic cash cows.

Not only are state lotteries protected monopolies, what is interesting is that there is no big clamor to break them up. Competitors such as casinos quietly lobby, in their own self-interest, for lotteries to remain as they are, and not enter into the casino space. Governments depend on lotteries for off-budget financing of social and even physical infrastructure and want to keep it that way. And consumers are assured that state lotteries will at least not defraud them. Most companies would sell their souls for such a comfortable situation. And indeed, the success of the state lottery business model has led to its global proliferation.

Often however, pioneering institutions in any social or economic sector become so successful and create such elaborate architectures around themselves that these legacies, the source of their greatness, become the very source of their own downfall. They then need a totally new paradigm shift, accompanied by a radically new mindset, to re-invent themselves.

The airline industry is a case in point. Airlines were such shining symbols of national pride that governments many years ago passed legislation restricting foreign ownership of airlines, and introduced very complicated bilateral aviation landing rights – the so called first to sixth freedoms. These expressions of modern national sovereignty are now legacies haunting airlines as they struggle to survive in a new world which demands globalization and rationalization, and where the old rules of the game are no longer relevant.

Lotteries suffer from the same legacies. Because they were the first form of gambling in all societies – lotteries can be traced back thousands of years – they were the first to be regulated. That legacy, entrenched in rock-solid legislation, is now as anachronistic as the six freedoms which ironically shackle the reform of the global airline industry.

At a time when the future calls for institutions to be freely competing and to be international in scope, the global lottery architecture consists of a plethora of purely national, largely state-owned enterprises, shackled from expanding into new gaming domains such as casinos or internet gambling, and serving as lucrative but often under-appreci-

ated cash cows for their owners, the government.

And so, even into the previously idyllic, genteel and cosseted world of state lotteries, change has inevitably intervened. Today, state lotteries are in a vaguely uneasy twilight zone. They are not immediately threatened by the traditional kind of competition arising from de-monopolisation, namely, more entrants entering the same space. Instead, they are threatened by new players arising from new spaces – competition from new technologies operating in a borderless world, such as online gaming. The entire business model of state lotteries is being eroded slowly but surely as younger people opt for more exciting gaming opportunities, and the new players aggressively cross borders to create global gaming enterprises with strong branding.

I sense not panic but unease amongst players in the lottery industry. You exist in a surreal world where on one hand you have no predators at all to worry about, and yet, you sense that one day you may wake up and discover, as the dinosaurs did, that the entire climate has changed and your business model enters a slow but inexorable decline.

By definition, anomalies are exceptions and cannot last forever, because if they could, they would become part of the norm. Therefore, if the state-owned, monopoly lottery model remains an anomaly within a global, competitive economic marketplace, is it doomed? As its traditional followers age and disappear, and the younger generation opts for flashy casinos and online gambling, will the beleaguered lottery industry be the proverbial frog in a pot, blissfully unaware that it is being slowly cooked?

A whole new mindset is needed in a globalized world of international competition in gambling, both in the physical world of casinos and cyberworld of online gambling, if lotteries are to remain relevant to the needs of future societies. At a time of global corporate consolidation and competition, requiring the destruction of monopolies and opening up of all markets and industries, and the rise of supra-national enterprises all ferociously competing against each other in every corner of the world – state lotteries remain quaintly domestic, narrowly focused, happily monopolistic cash cows.

The fundamental strength of the state lottery system, from a social policy and economic perspective, is that it is a highly specific tax on eager, voluntary taxpayers, and provides very rich and conveniently off-budget funding for a wide range of socially desirable programs.

The fundamental weakness of this same model, is that the trade-off for it being a monopoly is the constraint from diversifying into new businesses or even expanding into related gambling products, and from going international.

One way to break out of this conundrum is to privatize the state enterprise, remove its monopoly status, and then allow it to compete freely with other gaming operators, domestically or internationally.

This is what Australia seems to have done for a number of its state lotteries, such as Tabcorp and Tattersall. South Africa, Austria, and other European countries are also pursuing the privatization route.

But can I suggest a completely different solution to this conundrum, one which would require perhaps a new mindset, which essentially

would see the transformation of state lotteries from a cash cow for government social programs, to being a major change agent in the quest for global social change.

Environmental problems are now increasingly not only cross border and regional in nature – such as the haze which blanketed much of South East Asia last month – but, as in global warming, they are impacting the whole earth. Governments which agree to adopt a global approach to these problems are nevertheless constrained by the lack of funds for the projects to solve these problems.

If a new framework for regulating state lotteries were to come about through an international agreement, which would allow state owned lotteries to acquire other lotteries, to engage in casinos or online gambling, in return for funds which could be channeled to international causes – such as global warming – this would truly create a 21st century mission for the age-old state lottery.

Governments should expand the role of their state lotteries to become not just mechanisms for off-budget financing of domestic social programs, but also as the means to finance critical but poorly funded global programs. One way to do this would entail, for example:

First, legislation which would allow state owned lotteries such as the members of WLA to buy into each other, or form investment consortia, so that a few really huge, globally oriented players can emerge to compete with the major private gaming operators in the world.

Second, legislation to allow these new, global, mega-lottery operators to enter into spaces previously denied them, such as casinos, online gambling, and so forth. The intention would be to remove their shackles and enable them to maximize their revenues and profits.

Third, legislation which would require that the profits from such mega operators be channeled not to the domestic social programs of their respective shareholder governments, but to global causes.

The private sector is today the most creative practitioner of global philanthropy – personified by the Gates Foundation, or by Warren Buffet. Governments have talked a lot about noble, global causes, but have not really walked the talk. They talk the talk very well till it comes to coughing up the money.

With a new mindset about how in a borderless world, state lotteries can and should play a new and unique role, much can be done.

Why should we as a society allow the incredible profits from casinos proliferating all over the world, including in staid Singapore, accrue to a handful of billionaires, while forcing state lotteries to die a slow death? Would it not be better to create a new international convention which would allow state lotteries to join forces and compete globally against private casino or online gambling operators, and to direct these obscenely huge profits to globally deserving causes?

I note that the WLA members enjoy a combined annual revenue in excess of 120 billion US dollars. With your cost to revenue ratio being probably the lowest in the world of any business enterprise, I would guess that your combined profits would be enormous, possibly in excess of 100 billion US dollars annually.

If you were allowed to compete globally and in new spaces, the incremental increase in profits could be at least in the tens of billion of dollars. That is serious money to be applied towards any global cause.

And it would transform state lotteries from staid cash cows for national governments, into probably the most vigorous players in global philanthropy, dwarfing even Gates and others.

Ladies and gentlemen, I was once a starry eyed idealist who got into trouble for my naivete. I do not now think that ideas which seem to be so logical in theory, will necessarily become reality. There are vested interests lurking everywhere, and just as world peace should be so simple to achieve if people just wanted it, so too is my idea about transforming state lotteries just as idealistically obvious but probably as elusive and naïve as world peace.

But that does not mean we cannot think new thoughts. Above all, it means that we should all start to adopt new mindsets to deal with new realities.

I can only give you examples from my own experience. My own company Banyan Tree is a small company, with a market capitalization of less than a billion dollars.

I founded it only twelve years ago. We are a blip in the radar screen of the global hospitality players. But when I founded Banyan Tree, my stated goal at that time was that we wanted to be among the top 3 players in our chosen global niche. The niche would undoubtedly be small, but we would be one of the dominant players in that chosen space.

That was our mindset, our vision since the beginning. Today, we are on the cusp of achieving our goal. We have more than two dozen hotels and over 40 spas under development all over the world. In three years time we will truly be a global player, stringing a necklace of jewels across each continent, and dominant in our chosen niche.

Another example in a totally different sphere is the history of Singapore Management University, which is just across the street from you, and which I welcome you to visit in your spare time. Less than ten years ago when I was appointed as founding chairman, we were not even a written concept paper, but just a dream.

But we dared to dream way beyond our realistic aspirations, and everyone who joined SMU's pioneering team of faculty, staff and students were imbued by this same vision of creating something totally new and yet of excellent standards, in the Singapore university sector. This required a mindset change amongst all of us.

I use these examples to demonstrate that a new mindset is the start of a long journey to a new reality. The global lottery industry, safely protected from direct competition and generating financial returns envied by everyone else, is nevertheless facing unprecedented challenges which require new thinking, fresh approaches, and certainly new mindsets from its leaders.

You perform a socially vital role, and yet are under-appreciated or even sometimes shunned as a kind of necessary evil, whilst your flashier competitors get all the glamour. Your market is languishing and your products are seen as archaic. You need not only a new business model, but a compelling new social mission which is global in scope and aspiration.

As I said at the outset, I am a total stranger to your industry and therefore will not know what is or is not do-able. But I do know from my own experience that if you are able to create a compelling vision, everything else will fall into place.

I wish you well in your long journey towards change and continuity. Thank you. ♦

Based on a speech given by Mr. Ho Kwon Ping at the World Lottery Association Conference, Nov 14, 2006 Singapore. Mr. Ho is Chairman of Banyan Tree Holdings.

How an Industry Leader Stays Motivated and Charged-Up – An interview with Jaymin Patel ...continued from page 7

tory to easily reconcile with the retailer's cash drawer.

We have an extensive menu of products, which is designed to take the pressure off the retail shops and make their lives easier by removing labor associated with instant ticket management while at the same time creating visual appeal to attract new players. After all, it has taken the public two or three years to get used to checking in at a self service kiosk at an airport. And now that's the norm. We anticipate similar widespread acceptance of self-service for lottery purchases.

We are also a major player in the instant ticket space supporting some of the highest performing per capita lotteries world-wide with an expanded portfolio of instant game services and solutions.

PJ: *There is virtually no other company that is involved with so many different lotteries, across so many different product lines as GTECH. If we could capture all the intelligence and information that courses through your employees on a daily basis, that could have a powerful impact on our industry. Perhaps it could be said that GTECH owes it to all of us in the industry to help get us on board with doing the things that will make us more successful and effective.*

JP: One of the first conversations I had with Connie when she came to GTECH was about how to convert information into improvements in operations and increased profitability for lotteries. It is a top priority to turn the knowledge gained by collaborating with our customers around the world into increased funds for the good causes they support.

PJ: *The main thing is that you have access to a wealth of information that is going to enhance the whole business for everybody.*

JP: Absolutely. This goes back to the point of raising money for good causes. Does GTECH benefit? Of course we do. We are a public company and we do have to drive value for our shareholders. But, the focus of our company is to point our 6,000 employees toward serving our customers and making them more successful, which in turn generates more monies for good causes every year. In other words, the best way to deliver value to our shareholders is to ensure that our customers succeed. Our job is to work with our customers as partners, to help them accomplish their strategic and financial objectives.

PJ: *Let's talk about sports betting, your Finsoft acquisition, what you are doing in Italy, and how your initiatives in these areas might evolve.*

JP: First of all, let's step back to strategy. As we thought about the business, and we talked to our customers, we realized that certain parts of the world take the lead in adopting new technology, and that lotteries focus on revenue growth from different products, depending

on their legislation and market dynamics. In North America, instant tickets are the leading product. However, in Europe and Asia, as we listened to our customer base, we found that quite a few of our customers are looking at new ways to grow returns to good causes.

They are looking at interactive. You have many European customers taking their traditional online and instant games onto the Internet. They are looking at sports betting as a way of expanding beyond traditional lottery. They are looking at other forms of skill-based gaming. The idea here is to create pools of players, such that the pool of players creates lots of activity and creates excitement and a sense of community, for more and more players.

As we thought about what we have at GTECH that will address these needs, we realized that our Enterprise Series architecture already supports the Internet requirements, and we have been providing Internet systems and technologies for the last few years. But, we don't have the full technology suite in sports betting. We had to fill some gaps to be able to fulfill the needs of our customers in Europe and Asia.

We looked at the entire marketplace, and we found that Finsoft was, by leaps and bounds, the best company in providing sports betting technology and expertise. Finsoft does not operate sports books; it doesn't operate anything at all. It provides technology and consulting services to the sports betting industry. The current industry is largely commercial operators, so the growing segment of the industry is government-sponsored sports betting, where lottery customers and licensed government entities are looking to implement systems.

The Northern European countries such as Finland, Denmark, Sweden, and Norway all have sports betting systems. There are probably two or three customers in Western Europe that are looking to introduce sports betting systems. A few more lotteries like Turkey, Taiwan, and Singapore are either in the process of rolling out sports betting systems or will in the next 12 months. So there is a lot of activity in this area, and we are now very well equipped to provide sports betting technology and services to our customers.

PJ: *Why don't more governments get control of sports betting with a regulated and legalized policy, as opposed to driving it underground?*

Internet-based sports betting actually happens to be a better controlled business than the general lottery business, because using the interactive channel requires player registration.

JP: There are several aspects to consider. First of all, we will only operate in a legally-managed jurisdiction. In the U.S. market, for instance, it is illegal to operate Internet wagering. We would not support an operator that wishes to accept bets from the U.S., since

Ultimately, it will be about ensuring a high level of corporate social responsibility.

it is illegal. Similarly, when we look at the customer base in Europe and Asia, we ensure that as Finsoft supplies systems and technology to customers in those regions, they are doing so where the local jurisdiction allows for Internet wagering. This is very important to us. We would never risk our core business, which is a licensed business globally, by operating in illegal countries or in a gray zone.

PJ: *How do you deal with age and location verification?*

JP: Internet-based sports betting actually happens to be a better controlled business than the general lottery business, because using the interactive channel requires player registration. You are required to provide your national insurance number or the equivalent, your date of birth, and to transfer funds from a bank account to replenish an e-wallet. So the controls around the business are quite strong.

Of course, you have to register in the country in which you are betting. If betting in the U.K, you have to register on a site as a U.K. citizen or resident. If you are betting in Finland, it is done the same way. Then, it is up to the operator in England to make sure that if they are offering their services in Belgium, they are doing so under E.U. law or U.K. law. So there is a bit more control around that than in the lottery business, where players are typically not required to register.

PJ: *Is it the case that GTECH's products might just as effectively be implemented by private operators who are being taxed, instead of government owned lotteries?*

JP: It is the same set of economics. It is the way it is delivered. Whether we as a company provide technology and services that our customers will operate or whether we operate on behalf of governments. The net result is that we are still driving sales and returning monies to good causes.

In the case of Italy, where we are the leading national operator, we are required to return a certain percentage of our revenues to good causes. Then, of course, there is the trend of potential privatization in the U.S. market and a couple of overseas markets. Governments, in very simple financial terms, are looking to securitize the value of current good causes, so that they can use those monies for state pension shortfalls and education requirements.

PJ: *The notion of "Public Order" plays an important role in the European Court of Justice assessing the arguments about whether to open up the gambling industry to free market competition. In North America, the notion of corporate social responsibility plays a large role in determining who operates a lottery. It seems like the real cutting edge differentiator between who should operate the lottery has less to do with securitizing than with fulfilling the need to operate this industry in the most responsible way.*

JP: It is important for our customers to understand that we are not pushing an agenda as a company to privatize or open up markets that have been run by governments. We are very comfortable

and privileged providing services and technologies within the current construct of the marketplace, whether it be North America or overseas. What we will do as a company is to offer our services as an operator or as a full-service provider of technology and marketing services where governments decide to privatize.

In North America, if the governments decide to privatize, then we would like to become part of a consortium that operates a North American lottery. In Europe, were governments to deregulate and open up competition in the European markets, we will provide our technology in those European markets. We are not seeking to directly compete today against our customers. We are not lobbying either way. We will simply follow the markets, follow the governments' lead.

Ultimately, it will be about ensuring a high level of corporate social responsibility. That will come about in two ways. If the governments liberalize markets in Europe or privatize in the United States, it is up to the governments to create a gaming commission, which is different from a lottery commission. The gaming commission is really much more commercial in nature, compared to a lottery commission. As you are well aware, in the U.S., we have gaming commissions all over the country that manage casinos. They are in place to provide oversight, probity, and ensure that there is complete transparency in the business within a set of rules. In the lottery business, the oversight is very different.

In our business, integrity and credibility are, and will continue to be, the cornerstone of public trust. GTECH works very hard every day to maintain this credibility and holds all of our employees to the highest standards of ethics and good character. Our continuing commitment is to act as good stewards and continue to earn our customers' trust in our people and our operations.

PJ: *Is there anything else important that you want to communicate to our readers?*

JP: Yes. GTECH is a company that listens. We want to respond to the market requirements of our customers. We want to be able to provide operating services, technology, and marketing services across the entire value chain. The value chain includes: retail lotteries, interactive betting, sports betting, live event wagering, video lotteries, instant tickets, and gaming, content (i.e., new and exciting games that drive sales), and the list goes on. We are not there yet, but we are making very good progress. There will be more acquisitions along the way.

The reason we are attending the European Lottery conference this year and will attend subsequent conferences, is to present our thoughts to our customers. But, even more importantly, we are here to listen to what their thoughts are about their own businesses and how they can grow. It is our job to then develop solutions and marketing strategies that will allow them to grow same store sales and increase returns to good causes. ♦

Privatization: A Panel Discussion with U.S. Lottery Directors ...continued from page 8

choose to take, they should carefully consider the tremendous brand value that is the state lottery, a brand that symbolizes honesty and integrity and is associated with the good causes which are supported by the state lottery. And yet legislators rarely ask for our input which is a shame because we could help them identify these public policy issues and understand this industry before entering into agreements that would have profound implications for future generations.

Whatever route elected officials choose to take, they should carefully consider the tremendous brand value that is the state lottery, a brand that symbolizes honesty and integrity and is associated with the good causes which are supported by the state lottery.

Director 4:

We really have got to recognize that this is sort of the perfect storm in politics. You've got a governor that's typically term-limited, who is thinking about positioning himself for running for an even higher office. So, the governor is looking for ways to generate income for the state, satisfy his constituents who are going to fund his future campaigns, and do this without raising taxes. Of course, to sell the lottery would raise so much money that not only would all short-term budgetary problems be solved, the current administration would be heroes and have lots of cash to shower on all varieties of special interests groups. Also of course, the M & A and private equity people on Wall Street are willing to share their expert opinion that privatization is a great idea. So Wall Street makes a ton of money, the political leaders enjoy a bump in popularity and funding to snare the support of every interest group in the land, and public opinion which is usually receptive to plans to solve all financial problems without raising taxes. There you have the perfect storm in politics.

The problem is that it is a political agenda. Proposals to sell the lotteries are driven by politics and not good public policy. It is a short term fix which creates the illusion that you are going to be able to give people something for nothing. Because the critical element to this perfect storm is that the politicians and bankers will be long gone when the ramifications of privatization become clear many years down the road. The lottery is a tremendously valuable asset that belongs to the people. The management of this industry should not be turned over to private interests. And I'm concerned that when there is so much money and power coalescing to support a political agenda, it could be hard to stop. But like my colleague said, it's not about listening to us, it's about driving a political agenda. And what could possibly be more tempting to a politician than to promise something for nothing!

Director 5:

I agree with my colleagues completely about the politics of the proposals to privatize. I would also like to point out that many of us had successful careers in private industry before signing up for public service. The assumption that private industry is so efficient and innovative and always operated like a well-oiled machine is just not right. We all strive to improve operations and efficiencies and create a culture of innovation, and we all have room for improvement. But there are inefficiencies, lack of leadership, and human shortcomings in private industry just as there are in all walks of life. The interesting thing is, look at the constraints that we, as lottery directors, have to deal with. Little things like not being allowed to structure pay for performance or expand distribution to include new media...we must manage our lottery within a political framework. And that's not a bad thing. It's a good thing because we are in business to serve the interests of the people, not private shareholder interests. Whoever is operating the lottery must always be responsive to a wide variety of political concerns. So instead of asking how much more efficient private industry is than the public sector, maybe we should be asking how well private industry would do at meeting all the conflicting demands of a government agency. The main thing is, if you want to improve the financial results of the lotteries, you need the games, new games that some of the lotteries do not have now. Just turning the lottery over to a private company without these new games, I don't how they would produce different financial results. And for that matter, we can outsource parts of the operation, even large parts. If someone is convinced that private industry can do a better job, then outsource that portion of the operation. For instance, even now we don't run our central systems and many other aspects of the lottery. So, in that sense, we have already privatized those parts of the operation. But the state retains ownership, retains control, and retains regulatory power over the lottery. As far as I'm concerned, it is a good mix of responsibility.

Instead of asking how much more efficient private industry is than the public sector, maybe we should be asking how well private industry would do at meeting all the conflicting demands of a government agency.

Director 6:

I'm wondering if there is not another premise behind the privatization idea. The lottery can be a problem for legislators and political leaders. Voters seem to have strong opinions about gaming. I think that maybe state elected officials are tired of the controversy and taking the criticism of everything that happens in the lottery business. By privatizing it, they can say that they don't control it now that it's a private

business. If the state didn't own and control the lottery, the legislators would not be criticized for lottery operations. So maybe it's more about deferring of responsibility. As Guy Simonis points out, *"why do you have to go out and hire private business to do this?"* You have countless experienced professionals already at your service. There is nothing that private operators can do that the lottery professionals who are dedicated to public service cannot do just as well. We're all perfectly capable of making as much money as you want for good causes. And unlike private operators, we are trained to integrate a concern for the welfare of the players and the public into all of our operational strategies. Is the state going to dictate to the private operator how much they can advertise and what size payouts to have and that you can't provide incentives to retailers, you can't do in-store promotions, you can't distribute through that channel, you can't make the games too entertaining...how is the private operator going to adapt to all these restrictions?

Another problem that I have not heard brought up before...is it even legal for a government to grant a monopoly to a single private operator? Wouldn't other private interests sue for the right to compete, sort of like they are doing in Europe right now? Once you go from a state owned operation and enter into the realm of private enterprise, isn't it possible or likely that you then must conform to a different set of rules regarding monopolies and fair trade practices? Isn't it possible that the state and the private operator could be sued by the SEC for restraint of trade? And what if the contract was awarded to a large, highly capitalized Wall Street concern, who then did not partner with one of the 3 major online vendors...wouldn't our current suppliers challenge the notion of being locked out of the market?

Director 7:

Don't you find that legislatures love to hold lotteries to a higher standard than anyone else? And then along with high expectations come all the restrictions! I can't buy an item worth more than \$500 without someone in state government authorizing that purchase. I can't enter into a contract for more than \$5,000 without the governor, executive, and council approval. What other corporation this size is expected to operate under those restrictions. Yet, I have a dedicated staff that would do anything that they can to drive sales up, and last year we returned a record amount of money to our good cause. All the states have, right in their own backyards, a wealth of experience, a wealth of dedicated state employees who have developed relationships with vendors and private retailers, and who do the job just as good if not better than anyone else. Give your own state lotteries the opportunity to expand, to be creative and innovate, to move into new distribution channels, implement new games – give lotteries the freedom that you would need to give to private industry and we'll produce the results you want. And that is the operative concept here. We belong to the state and to the people, so we will always be dedicated to serving the needs of the state and our public.

Director 8:

We need to recognize that none of these deals have been cut yet.

So, we have to ask ourselves what kind of deal will be cut if one ever really is cut. In spite of that, these proposals are certainly attracting a lot of attention. I woke up on a Sunday morning, the week after I had a frank discussion with the managing editor of our state's largest newspaper. I told her that I thought their newspaper was really in the business of making money and that is different than what they purport to do which is supporting the public right to know the truth and reporting the news objectively. I told her that instead of reporting the news objectively, she seems to be creating the news. Of course, she insisted that no, they don't do that, they don't create the news – they only report the news, and they do that with a focus on objectivity and integrity! So, Sunday morning, I woke up and opened the newspaper. Actually, I didn't have to open it. On the front page of the Sunday newspaper, in two-inch tall red letters: *'Should The State Sell its Lottery?'* And, the news behind it was that they went and talked to the legislature's leaders and they said, *"Gee we haven't thought about that."* And, they went to the governor and he said, *"I don't know. I haven't talked to the lottery director about that at all yet."* And so this non-story received a headline that was two-inches tall, in red letters on the front page of the paper. At the same time I went back in history a little bit. 911 got 1" tall black letters and the death of the Pope got 1" black letters. Our non-story about lottery privatization got 2" tall red letters. So ours is an industry that gets a disproportionate amount of media attention and this is a story, privatization, that has all the elements of controversy and politics that makes for great media grist.

Director 9:

Let's consider the conditions in which a private company wants to take on running a state lottery. First, there are federal laws that have to be complied with, unless these federal laws are changed. In Indiana, the deal that has been written up in the trade press and in the popular press involves a billion dollars up front and a \$200 million a year annual payments thereafter. But doesn't the Indiana lottery turn just over about 200 million dollars a year? And the lottery doesn't have to pay income tax on the money it brings in. A private company would have to pay income tax on the income at the corporate tax rate, a sizable amount of taxes. I suppose a state can forgive state income tax, but how is the company going to position itself to grow without the new products and pay those taxes at the same time and make a profit in the end. If they end up making a 5% profit, they might as well put their money in a Treasury bill. The government at the same time does control us on a day to day basis. Would the private lottery be required to comply with open records law and open meeting laws? When the board of directors meets, will the public and the press be allowed in to listen to the discussion about how to increase sales and create more aggressive marketing campaigns? Our real boards of directors are the state legislatures that control us in the end. I was asked, some years ago, by a reporter, what the toughest part of my job was. I said, *"Complying with what the legislature expects of me, because about half think I'm selling too few and the other half selling too many."* Unlike General Motors, GTECH, Scientific Games or Intralot, ours is a business where

the board is not sure how successful they want us to be. In the political environment we live in, the boards and legislatures that we deal with have many members who actually want us to fail. And they will do whatever they can to make us fail. That's the reason I would rather work for a private lottery than a government lottery. I'm not sure that the constraints that are imposed on us, like advertising constraints, are things that the legislature will ultimately be able to loosen up and give away, simply by saying that the operations are private, as opposed to public. We know that we have suppliers now and they are experts on selling things to lotteries. Most of our suppliers haven't really been in the position of selling things to the general public, the end customer. Is there some kind of mismatch there? And then some of these Wall Street firms have capital but know nothing about this business.

Director 10:

Does anyone know who exactly is interested in purchasing lotteries? I'm not sure it's the current vendors we have now.

Director 11:

From what I understand there are 15 interested companies in Indiana. I've read that in a popular press account. And, we know we don't have that many major suppliers in the country. So, they all have to be people with money and solid business credentials. But, I don't know any more than that. It can be anybody. Anybody who has the money can come forward. I think it is wide open. Certainly, our major suppliers are all viable candidates to bid on these, and Wall Street firms and private companies with capital and solid financials and record of integrity.

Director 12:

It certainly would include private operators of lotteries. Lottomatica, a private operator, operates the largest lottery in the world, in Italy, almost \$15 billion US a year. So I don't want to convey that I'm not open to the concept that this could work. I'm only observing that the math doesn't work based on the premises that are being put forth by the U.S. states. But there are highly successful private operators of lotteries around the globe. And I know that at least two of the world's private operators of lotteries today were asked by the mortgage bank/venture capitalists whether they would be interested.

There are lots of potential bidders for these lotteries. It is going to depend on what the terms and conditions are as to what the yields will be for the governments that are involved. The rules haven't really been fully defined and probably won't be until they are vetted through the process of legislative approval. It would definitely require legislative approval and possibly even electoral and ballot approval in some of the states. The primary driver does seem to be the large upfront payment. As our colleague mentioned earlier, I think a lot of the politicians would like to get away from being the purveyor of gaming and rather be in a regulatory posture. They don't seem to have anywhere near as much difficulty in the role as the regulators of casino gambling in their jurisdictions as they get for being the purveyor of the lottery. But the rules have to be defined and someone

has got to do the math to see that the yields being discussed simply don't add up. Increased efficiencies wouldn't add up to a fraction of the proposed sale amounts. There is only 2.4 billion dollars for the operating expenses in all of the US lotteries last year. So obviously, you can't save enough money by theoretically improved operating efficiencies to pay the kinds of dollars that are involved. The only way to realize more income is to increase revenues. And the only way to increase revenues is to allow new games, increase marketing or payout amounts, or change the rules in some ways.

Director 13:

What about the anti-gambling community. Seems like they could be for or against privatization. On one side, they believe that government shouldn't be in the business of operating gaming. On the other side, they believe everything should be controlled. So, which side do you think those folks will come down on?

Director 14:

The rookie legislators would vote to abolish the lottery. But most anti-gambling people, from my experience and observation, look at lottery as the lesser evil. I would think that they would look at privatization as being more likely to result in expansion of gaming, which is what they don't want.

Director 15:

The politics of the issue is troubling because in addition to the great PR that the governor gets for proposing this magical financial fix, and in addition to promising free healthcare, college tuition, and other bennies, in addition to being able to accuse opponents of being narrow-minded spoilers, in addition to political contributions and lobbying from pro-privatization interests like Wall Street, we have a media which is influenced by all these forces and also grabs onto anything that can create controversy.

I've got a provocative question to ask you. If the motive here is really to get a large up-front payment and not really about privatization at all, then why couldn't one state lottery buy and operate another state lottery? States have an advantage over the private sector, by not having to pay state or federal income taxes on the profits. So, you might be able to bring in income for your state through your lottery without expanding gambling in your own state.

Director 16:

So now we are wondering whether states want to divest their equity position in their own lottery or invest in buying someone else's lottery? Interesting dilemma. I can't imagine that any legislature or governor would be really supportive of a state operating the lottery in another jurisdiction. They have enough problems with operating their own. I just don't think it is practical.

Any comments on the implications of federal statutes with regards to a state selling a lottery? In 1890, all lotteries were made illegal – by states and in their constitutions. Federal law prohibited all lotteries in the U.S. They were all made illegal, until the 1960's when there were

exceptions made for state operated lotteries. So, does federal law even allow for a lottery to be privatized? If so, does the federal gaming tax apply – as it applies now to casinos, with every employee of a casino having a \$50 or \$75 per year tax placed on them by the federal government. Would that apply to every clerk in a convenience store, everyone at a check-out counter in a grocery store? Does anyone have any thoughts on the implications of federal laws on this issue of privatization?

Director 17:

I think that in the end, we might have two opposing forces. On one side would be all the big money interests, the private interests and Wall Street capital, along with powerful political forces, and on the other side we have the intelligence and will of the American people. Obviously, we can't underestimate the effect of big money and powerful politicians who ally with the media to persuade the voters that they can get something for nothing. These people definitely do have the clout to impact and change federal and state laws that control gambling. So it's a scary thought because in the short term, all of these people make more money by expansion of gambling, and the more it expands, the more money they all make. So that would seem to be their implicit, if not explicit, agenda...to expand gambling. In spite of that, I do think the American public is going to pay attention to what happens with gambling. I think there is a general feeling of discomfort with uncontrolled expansion of gambling and that the American people are sensitive to the importance of managing this industry in a smart way.

A couple other things...I really think that people will pay attention to who is operating a gambling organization and realize the importance of integrity and effective oversight in this industry. And I think people are suspicious that a large up-front payment would not be properly allocated, that the government would not know how to invest the money, that it would be quickly spent and then we'd have little to show for it. So I am placing my bet on the ability of the American people to pay attention and discern the best path for our country to take on this issue of privatization.

Director 18:

What if the problem is that state legislatures are politically not in a position to green light more ambitious lottery initiatives, but if the lottery were in private hands there would be more flexibility for state politicians to allow for growth? We have all said that current state lottery directors could do just as good a job as private operators if we were allowed to operate under the same rules – that if growth, innovation, and expansion are what is wanted, then we could deliver that as well as anyone. But maybe that's the point, that state legislatures are politically obligated to exercise more hands-on control because the lottery is owned by the state. And that, like casinos, if the state did not own the lotteries, then there would not be this constant political pressure and controversy over how the lottery is being operated. Certainly businesses that aren't overseen and micromanaged by elected officials whose planning horizon is usually 2-4 years until the

next election are run differently than businesses that can think beyond 2 years and build on strategies that result in more lasting value.

What if the problem is that state legislatures are politically not in a position to green light more ambitious lottery initiatives, but if the lottery were in private hands there would be more flexibility for state politicians to allow for growth?

Director 19:

If maximizing the return on the lottery is the sole goal of the policy makers, then privatization makes all the sense in the world, but they will have to accept the consequences. I also think that if they want to take the hand-cuffs off, I don't think they have the stomach for the political fallout. So as our colleague said, if they really do want to expand gaming, they might need to put some distance between themselves as regulators and the operators. In other words, it could be more politically comfortable for the state to regulate a private operator if their goal is to expand gaming. But of course, they insist that expansion is not really what they want.

Director 20:

I think that lottery directors should have a role in this particular discussion on a political level. Hopefully most lottery directors have this kind of relationship either with their governor or someone in the state legislature. I think we need to be prepared to make the arguments and assert the issues that are important to the operation of the lottery as we know it and just make sure that our elected officials have all of the information they need to either negotiate an agreement or continue to entertain the idea of privatization. I think it is partly our responsibility to make sure that our political leaders are making informed, reasoned decisions.

Director 21:

I would like to comment on the references to the potential for problem gambling to go up if slot machines and video lotteries are approved. The record clearly shows that with good programs in place, video lottery can be implemented without increasing problem gambling in any significant way. There are states that have expanded gaming and increased revenues in a responsible way. So I would argue against the notion that states need to privatize in order to expand gaming. I think that we, the current state lottery directors and our state-owned lotteries are the best to lead a responsible and prudent approach to expanded gaming.

Director 22:

I still think we need to all be concerned if or when the first deal
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Internet Subscription Sales for State Lotteries ...continued from page 14

following additional considerations:

- The Wire Act's legislative history affirms that the statute's prohibitions are limited to sports betting and wagering, and do not encompass lotteries. The Wire Act was enacted during the Kennedy administration as part of the government's efforts against organized crime, and the legislative history accompanying the enactment repeatedly states that the Act was enacted to protect the integrity of the growing national sports industry from racketeering and organized crime. In contrast, the legislative history contains no statement that lotteries are within the statute's scope.⁸
- Other statutes involving gaming that Congress enacted in approximately the same time period as the Wire Act include the term "lottery." Consistent with general usage, Congress expressly provided in those other statutes that the term "lottery" does not include "the placing of bets or wagers on sporting events or contests."⁹
- Since the Wire Act was enacted, numerous bills have been introduced in Congress that would have expanded the Act's scope to include non-sports gaming. All such bills have been defeated. This long history of unsuccessful legislative attempts to expand the meaning of the statutory term "bets or wagers" in the Wire Act to apply to lotteries provides yet further support for the conclusion that the statute does not apply to lotteries.¹⁰

Based on the foregoing, every reported judicial decision addressing the matter has held that the Wire Act is limited to bets or wagers on sporting events or contests. The most recent of these is *In re Mastercard International, Inc. Internet Gambling Litigation*, 313 F.3d 257 (5th Cir. 2002), a series of consolidated lawsuits in which consumers tried to invalidate credit card charges they had incurred for on-line casino gambling. The consumers argued that the charges were illegal – and could not be enforced by their credit card issuers – because the on-line bets violated the Wire Act. The district court disagreed and held that the Wire Act applies only to bets or wagers on sporting events and contests. The district court

had arrived at this conclusion following a review of the statutory text – which it found plain and unambiguous on the point – the case law, and the legislative history. The Fifth Circuit upheld the district court's holding, stating: "(we) agree with the district court's statutory interpretation, its reading of the relevant case law, its summary of the relevant legislative history, and its conclusion."¹¹

Importantly, the Wire Act does not prohibit Internet subscription sales for State Lotteries regardless of whether the associated Internet transmissions are considered interstate (or foreign) communications. A transmission must satisfy all of the Wire Act's elements to be actionable. And since a lottery chance is not a bet or wager on a sporting event or contest, an Internet communication to purchase a lottery chance does not violate the Wire Act irrespective of how that communication may be routed between the player and the State Lottery.

Thus, even if a lottery chance were a bet or wager on a sporting event or contest, the Wire Act still would not attach liability for transmissions assisting in the placing of lottery chances that originate and end in a State that authorizes such Internet sales for its State Lottery.¹²

Racketeering Statutes

There are three federal racketeering statutes that proscribe certain conduct in connection with gambling enterprises. One prohibits interstate travel with the intent to promote any "unlawful activity," which includes a gambling offense in violation of State law.¹³ Another bars the knowing transportation in interstate commerce of paraphernalia to be used in lottery-type operations, with the exception of transportation into a State for "a lottery conducted by that State acting under authority of State law."¹⁴ The third prohibits an "illegal gambling business." That statute, however, determines legality according to the underlying law of the State in which the conduct occurred.¹⁵

These statutes would not apply to Internet subscription sales for a State Lottery offered to persons within that State. Such

⁸ See generally *Judiciary Comm.*, S. Rep. No. 558, 87th Cong., 1st Sess., reprinted in 1961 U.S. Code Cong. & Ad. News 2361 (1961).

⁹ 18 U.S.C. § 1307(d); 18 U.S.C. § 1953(e).

¹⁰ See *In re Mastercard International Inc. Internet Gambling Litigation*, 132 F. Supp. 2d 468, 480 (E.D. La. 2001), *aff'd* 313 F.3d 257 (5th Cir. 2002) ("even a summary glance at the recent legislative history of internet gambling legislation reinforces the Court's determination that internet gambling on a game of chance is not prohibited conduct under 18 U.S.C. § 1084").

¹¹ Other cases that hold that the Wire Act applies only to sporting events and contests include: *United States v. Kaczowski*, 114 F. Supp. 2d 143, 153 (W.D.N.Y. 2000); *Pic-A-State PA, Inc. v. Pennsylvania*, 1993 U.S. Dist. LEXIS 12790 (M.D. Pa. 1993), *rev'd on other grounds*, 42 F.3d 175 (3d Cir. 1994); *United States v. Sellars*, 483 F.2d 37, 45 (5th Cir. 1973), *overruled on other grounds*, *United States v. McKeever*, 905 F.2d 829 (5th Cir. 1990); *United States v. Marder*, 474 F.2d 1192, 1194 (5th Cir. 1973).

¹² The Wire Act also contains the following safe-harbor provision: Nothing in this section shall be construed to prevent the transmission in interstate or foreign commerce of information...assisting in the placing of bets or wagers on a sporting event or contest from a State or foreign country where betting on that sporting event or contest is legal into a State or foreign country in which such betting is legal.

¹³ 18 U.S.C. § 1084(b). This provision exempts from liability transmissions assisting in the placing of otherwise covered bets and wagers as long as the transmission originates and ends in a State that authorizes such betting.

¹⁴ 18 U.S.C. § 1952.

¹⁶ 18 U.S.C. § 1955.

¹⁸ 31 U.S.C. §§ 5364-5367.

¹⁵ 18 U.S.C. § 1953.

¹⁷ 31 U.S.C. § 5363.

¹⁹ 31 U.S.C. § 5362(10)(B).

sales, if authorized under state law for a state-sanctioned and conducted lottery, would defeat the predicate for application of these racketeering statutes.

UIGEA

Last year, Congress enacted the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA). That statute was the culmination of a several year effort by Congress to address Internet gaming and provides generally that persons in the business of betting or wagering who engage in “unlawful Internet gambling” cannot accept certain forms of payment or financial instruments, such as credit card charges, electronic funds transfers, and checks.¹⁶ UIGEA also establishes and authorizes enforcement mechanisms that apply to companies offering the subject financial instruments, such as banks and credit card issuers.¹⁷

UIGEA does not preclude Internet subscriptions for State Lotteries. Unlike the Wire Act, the definition of “bet or wager” in UIGEA does encompass lottery chances. However, UIGEA expressly exempts from the definition of “unlawful Internet gambling” – and therefore exempts from the Act’s restrictions – the placing or receiving of bets or wagers, including lottery chances, where the “bet or wager is initiated and received or otherwise made exclusively within a single State” and the “bet or wager and the method by which the bet or wager is initiated and received or otherwise made is expressly authorized by and placed in accordance with the laws of the State...”¹⁸

As a consequence, UIGEA does not prohibit a State Lottery from employing Internet subscription sales (and accepting credit cards and similar electronic payments in conjunction with such sales) as long as the sales are authorized under that State’s law and limited to persons within that State. In that scenario, the Internet subscription sales would not constitute “unlawful Internet gambling” as the purchase order would be initiated and received within a single State that authorizes such sales.

Further, such Internet subscription sales would not run afoul of UIGEA even if the Internet transmissions were routed out of the State in question between the point of origination and receipt. UIGEA 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.” In other words, transmissions that begin and end within a single State are considered to be “made exclusively within a single State” for purposes of UIGEA even if the transmission is routed across State lines. This was an explicit effort by Congress to allow States to authorize Internet sales for state-sanctioned gaming to persons within their borders.

State Law Issues

Critical to the foregoing analysis is the assumption that the relevant state law authorizes (or at least does not ban) Internet subscription sales. It is imperative, therefore, that a State Lottery verify the status of its governing state law on the question. A few States have statutes prohibiting Internet communications for gaming transactions. Most States do not. In some instances, the State Lottery’s regulations may need to be amended to authorize Internet subscription sales.

Consideration also should be given to any State regulations (or other State laws) that prescribe requirements for lottery retailers. Regulations designed for traditional “brick and mortar” retailers – such as requirements that the retailer have publicly accessible facilities and that the retailer must be engaged in businesses other than the selling of lottery tickets – may not make sense for an “e-tailer” and may need to be modified to permit an Internet subscription service.

¹³¹ U.S.C. § 5362(10)(E).

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Privatization

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goes through. I am concerned that then the media hype will just take over. When it was first talked about in Illinois, I was bombarded by my own state’s media with questions about the whole thing...were we going to do this too, if not why not etc.? The problem of course, is that we are not supposed to talk about it. With all due respect to my colleague, I am not holding my breath waiting for my governor and legislature to ask my opinion on this subject. In fact, I would be expected to not weigh in on this subject at all. And therein lies the problem. Supporters of privatization can engage in as aggressive media blitz as they want, even with inaccurate and outrageously manipulative statements. But we have our hands tied, can’t respond or say anything.

Director 23:

On my first day on the job in lottery, I was opening mail. The Director of the Lottery came down to see me and he said, “No matter what you do, do it at the highest level of integrity, because the public is watching.” And here I was working in the mailroom, opening mail! That’s always stayed with me over these years. The lotteries are built on the faith of the public in what we do. Our open records laws allow the public, whether they are for or against the lottery, to have open access to every document we have, electronic and paper, to prove their point or disprove our points. I’d hate to see that go away. The lottery belongs to the state and to the people and I think it would be a big mistake to sell our state’s lottery to a private operator. Thanks. ♦

From the Publisher ...continued from page 4

jackpots less than that? Instead of “jackpot fatigue,” Andy calls it “losing fatigue” and provides some intriguing solutions to the problem, whatever it is that you want to call it.

I trust everyone has October 3–6 marked in their calendar for the NASPL/World-Meet Conference (www.worldmeet07.com).

This will be the most important international industry conference of the year. Turn back couple pages to see the full page notice with conference details. David Gale, Clint Harris, Arch Gleason, and the entire NASPL staff and membership are making this into a most memorable event. I look forward to seeing you all there! ♦

Defending the Common Cause of Lotteries: “The Controlled Expansion Theory” ...continued from page 11

European level between the different Member States, in order to maintain a close contact concerning the different procedures.

By pushing through their position in ECJ cases, the member states have the possibility to contribute to the construction of European law and thus to the future of gambling in this particular area. The governments even have the responsi-

bility, not only to play a steering role in the outlining of a future gambling policy, but also to continue to provide the necessary legal support once this is set. Every case before a European jurisdiction has therefore to be seen as an opportunity to defend the interests at stake and to stop the risks of liberalisation. ♦

Midwest Millions: A New Breed of U.S. Lottery Game ...continued from page 13

74.07 percent with overall odds of winning of 1 in 2.83.

Entries in the second-chance drawings will be determined as a percentage of sales (e.g. if one state sells 60 percent of the tickets in the game, it will get 60 percent of the entries in the second-chance drawing). Each state will conduct preliminary drawings a few days before the final drawings; then the entries from those preliminary drawings will be combined for the final joint drawings. The top-prize winners in the drawings could

both end up being from one state, as could the 50 other winners in each drawing, although that isn't likely.

Both lotteries will support the game with print, television and radio advertising that will be jointly produced to achieve economy. Kansas' Van Petten knows that sales will measure the game's success. “I think the bottom line is sales,” he said. “It doesn't matter if we penetrate 100 percent of our retailer base if players don't like the game. But, I fully expect this game to sell out.” ♦

Content = Contact ...continued from page 15

instant players and on-line players, frequent players and infrequent players. We have oversimplified our approach to our markets. No wonder our player base is shrinking!

The solution to me is to extend gaming content beyond the draw or beyond the scratch. Hundreds of consumer brands, such as Coca-Cola, Proctor & Gamble, and Subway, spend millions of dollars each year to extend their customers' interaction with their brand. Through bottle caps, promotional scratch-offs, or pure couponing, those companies are taking consumers – most of them young – to web sites and other interactive forums to do nothing more than continue the contact between brand and customer. That is our challenge.

The new player will expect more from a purchasing and/or gaming experience. Just as they expect more when they buy a Coke or a sandwich, these players want more for their entertainment dollar. It is about not only more chances to win but also more chances to be entertained. Entertainment and con-

venience are essential to attracting the 20- and 30-somethings that aren't playing today.

I believe we have to intentionally blur the hard and fast lines we have lived by for years and pay more attention to what consumers expect than to what a pay table may dictate. We should utilize the now proven concept of “user-created content” (again see MySpace, YouTube, etc.) and the experiential angle of the access point (see iPod, texting, etc.) as our drivers for the next age of lottery products.

Our goal is to find ways, around the world, to prolong brand and product contact with consumers. Regardless of the legal specifics of a particular jurisdiction, we believe there is real value in using marketing leverage to attack these opportunities. Some places will use straight-out interactive gaming while others will have to execute softer interactions to stay within legal and political boundaries. Regardless, we feel these extended brand interactions will drive sales from new players. ♦

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