

PUBLIC

# GAMING

I N T E R N A T I O N A L

## Announcing the 2007 Lottery Industry Hall of Fame Awards



Constantinos  
Antonopoulos, CEO,  
Intralot, Greece



Reidar Nordby, Jr.,  
CEO, Norsk Tipping AS,  
Norway



Jan Stewart, CEO,  
Lotterywest, Australia

## FEATURED INTERVIEWS:

**Arch Gleason**  
CEO of Kentucky  
Lottery Corporation  
President of the  
World Lottery  
Association



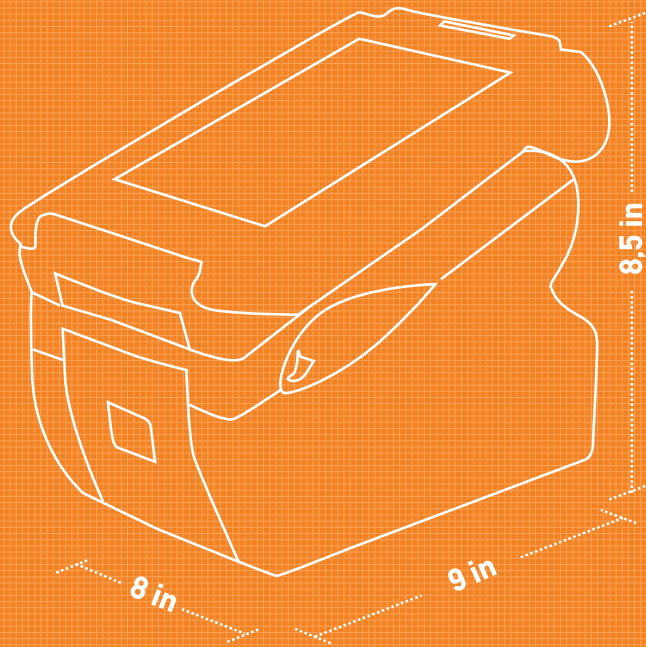
**Ed Trees**  
Executive  
Director of  
Pennsylvania  
Lottery

**Leo DiBenigno**  
Secretary of  
Florida Lottery



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Our industry news gets reported here as soon as it hits the wires. If it's lottery and gaming news you need, you can surf the web yourself to find it, or you can come to our website and get all your industry news in one place.

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



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# Features

- 4 **PGRI's Lottery Industry Hall of Fame 2007**  
Constantinos Antonopoulos, CEO Intralot, Greece; Reidar Nordby Jr., CEO Norsk Tipping AS, Norway and former president WLA; Jan Stewart, CEO Lotterywest, Australia and Sr. Vice-President WLA.
- 6 **An Interview with Arch Gleason**  
President and CEO of Kentucky Lottery Corporation, President of the World Lottery Association (WLA), and Host of this year's World-Meet '07.
- 8 **An Interview with Ed Trees**  
Executive Director of Pennsylvania Lottery.
- 10 **An Interview with Leo DiBenigno**, Secretary of the Florida Lottery
- 12 **These are Exciting Times**  
Atlantic Lottery Corporation successfully implements internet gaming – interactive, multi-player, and transaction-based. By Lara Wood, Director Brand and Market Development, ALC.
- 14 **Innovate to Generate**  
The technology is there. Let's use it to innovate and move our industry forward. By Charles Cautley, Senior Vice-President and Chief Technology Officer, GTECH Corporation.
- 16 **Privatization or Modernization of State Lotteries? That is the Question!**  
On the difference between privatizing and modernizing the state lotteries. By Philippe Vlaemminck, Jean-Marc Lafaille & Cleta Mitchell.
- 20 **Pending Lawsuit May Clarify Federal Law as it Relates to State Lotteries and Internet Gaming**  
Michael Shebelski on the Doncaster vs. the New Hampshire Lottery Commission lawsuit.

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# PGRI's Lottery Industry Hall of Fame 2007

The Lottery Industry Hall of Fame was founded by Public Gaming Research Institute in 2005 as a means of honoring those who have done the most to make the world lottery industry the great success that it is. The recipients this year are all a credit to that ideal. The three newest members were voted in by the 23 current members of the Lottery Industry Hall of Fame. See [www.lotteryindustryhalloffame.com](http://www.lotteryindustryhalloffame.com) for more information about the membership and the selection procedure.

PGRI, and their peers in the world lottery industry, congratulate the 2007 members of PGRI's Lottery Industry Hall of Fame. They join a very select and distinguished group of world lottery industry leaders.

## Lottery Industry Hall of Fame Induction Ceremony

**Date:** Wednesday October 3, 2007

**Time:** 5:00 pm to 5:20 pm

**Place:** Kentucky International Convention Center, Room 100

The time and place make it convenient to go directly to the World-Meet '07 opening night reception (5:30 pm.) and the opening session of the trade show at the conclusion of the ceremony.

## Recipients of the Lottery Industry Hall of Fame 2007:

### CONSTANTINOS ANTONOPOULOS

CEO, Intralot, Greece

Constantinos (Costas) Antonopoulos is on a mission, dedicated to helping lotteries raise significant amounts of revenues for good causes around the world. His hard work, his vision and dedication to the customers and the communities that they serve has led to the establishment of a global presence in over 40 countries with over 3,600 employees. That's up from the 10 employees Intralot had in 1992 when Costas co-founded Intralot and assumed the position of General Manager. Costas' philosophy has always been to provide the best technology through significant research and development, to provide the highest levels of customer service through strong partnerships with his customers, to provide the best working conditions through cooperation and training and to provide a beneficial presence in all of the communities that he serves through support, social responsibility and good corporate citizenship. Costas established a client-oriented philosophy and created autonomous business units by creating strong teams and minimizing hierarchies. Costas' inspired leadership has resulted in product and marketing innovations that are driving growth and winning customers. In addition to his responsibilities at Intralot, Costas is active in numerous Greek and international business activities. Costas has received many honors for his continuing pursuit of excellence and international leadership. His many awards include the 'Businessman of the Year 2004', the 'Best Manager for Innovation 2005', 'Best Global Oriented Manager 2005' and 'Best Manager FTSE/ASE 20' for 2006. Costas has a degree in Electrical Engineering and a Master of Science degree in Systems Reliability.

### REIDAR NORDBY, JR.

President & CEO, Norsk Tipping AS

The Norwegian National Lottery, Norway

Reidar Nordby, Jr. has been the President and CEO of Norsk Tip-

ping, the Norwegian National Lottery, since 1989. Reidar served as President of the World Lottery Association (WLA) from 2000 to 2006. Under Reidar's leadership, the WLA became a truly world-class organization, has made the international lottery community stronger and strengthened relations between the five Regional Lottery Associations. Reidar has also initiated the WLA Security and Risk Management Standards and the newly developed RFP standards. He is a member of the WLA Strategic Development Committee, the Board of Directors of Viking Lotto, and the European Football Pool, and is chair of the WLA Suppliers Relations Committee. In recognition of his international orientation, he has been appointed Member of the Strategic Advisory Board, China Center for Lottery Studies at Peking University. Under the leadership of Reidar, the Norwegian National Lottery has been among the top ten most admired companies in Norway for 12 consecutive years. Reidar is Consul for the Kingdom of Sweden and has been awarded the Swedish Royal Order of the Northern Star. Reidar is the author of several academic publications, including:

Jacobsen, K, Hofman-Bang P, and Nordby Jr, R. "The IC Rating model by Intellectual Capital Sweden" Journal of Intellectual Capital, Vol 6 no 4, 2005,, Jacobsen K, Hofman-Bang, P, and Nordby Jr, R., Ledelse, måling og rapportering av intellektuell kapital, Magma, Tidsskrift for økonomi og ledelse, Vol 8, no 5, 2005.

### JAN STEWART

CEO, Lotterywest, Australia

Jan Stewart sums it up... "Since my almost 'accidental' and unplanned entry to the lottery business back in 1987, I have found this business an endless source of interest and personal satisfaction. I am committed to excellence in the operations of Lotterywest, in the World Lottery Association, and to making whatever contribution I can to enhance the standing of the lottery business throughout the world." Jan's background is social work (graduated with a Masters of Social Work in 1992). Her career in the lottery industry began in July 1987 when she was offered a position as a consultant to the Board of the Lotteries Commission of Western Australia (LCWA - now Lotterywest). In 1992, Jan was formally appointed to the position of Chief Executive Officer of Lotterywest, a position she has held since that time.

Today, Jan is one of the most recognizable and visible leaders in our industry for having made presentations and moderating panel discussions at virtually every World lottery Association (WLA) conference since its inception in 1999. Jan's service to the membership of the World lottery Association is widely appreciated and respected. Over the past 8 years, Jan has held numerous positions in the WLA and works tirelessly to promote the cause of lotteries throughout the world. Presently, Jan serves on the Executive Committee and holds the position of Senior Vice President of WLA. Additionally, Jan is a member of the WLA Security and Strategic Development Committees, the WLA Communications Committee, and is now leading a group to work on the development of WLA marketing standards for our membership. ♦





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# An Interview with Arch Gleason

President and CEO of Kentucky Lottery Corporation, President of the World Lottery Association (WLA), and Host of this year's World-Meet '07



Arch Gleason

**Paul Jason (PJ):** *How have your experiences as president of the World Lottery Association changed your perspective on our industry from when your only focus was as president and CEO of the Kentucky Lottery and from your tenure as NASPL president?*

**Arch Gleason (AG):** This role as WLA president has opened up a literal world of experiences for me. I've been exposed first-hand to the vast array of societal and cultural differences from so many different corners of our world. I've also seen the wide variety of developmental stages in lottery organizations around the world.

Despite these differences, these experiences have also reinforced for me a tremendous amount of common ground shared

work of our corporate and social responsibility initiative, maintaining, improving, and increasing the adoption of the WLA's security control standards, and embarking new initiatives, which will set forth marketing and distribution best practices.

**PJ:** *There's been a tremendous amount of discussion about these WLA security standards. How will these benefit lottery organizations?*

**AG:** The standard that's been set forth by the WLA is the ISO 27001. This standard allows lottery organizations to ensure we're conducting security measures to highest acceptable public standard. One of the best things about this standard is that it's scalable – both small and large lotteries can scale the standard to fit their organization and the risks associated with the scope of their lottery activities and operations.

I have no doubt that this will be one of the key elements which will set us apart from other gaming operators, and this will ultimately be the way lotteries are successful in competing against them.

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*I have no doubt that the WLA security standards will be one of the key elements which will set us apart from other gaming operators, and this will ultimately be the way lotteries are successful in competing against them.*

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by lottery organizations. No matter where they're located, at the end of the day every lottery I've encountered is in the business of offering games of chance to the playing public. Their success is based on the public trust in the integrity of the games and operations. Add this to the fact that we all raise money for public benefit and good causes, and you quickly see we all shared a great deal in common no matter where we're located.

**PJ:** *What are some of the more important current initiatives of the WLA?*

**AG:** As a membership organization, the WLA's primary objective is to provide educational opportunities and forums through which our membership can exchange thoughts and share experiences. One of the key outlets we have to make this happen is through the WLA Academy. This program is being restructured, and will be reintroduced in a much different format and with improved content in 2008. The Academy will focus on core courses that will be offered around the globe, but they will be customized to reflect the nature, culture, environment, and the stage of lottery development in the particular region where they're being held.

There are also a variety of other initiatives the WLA is undertaking. These include launching the responsible gaming frame-

**PJ:** *I know that you would want to hold your lottery accountable to the highest standards because it's the right thing to do and you are responsible to your constituents to fulfill high expectations, but to what extent will holding the performance of the lottery to a higher standard in an area like security differentiate the lottery in ways that will provide a competitive advantage over against other gaming venues?*

**AG:** Of course, reinforcing the public trust in our security is important to our lottery brand. The development and adoption of higher standards and best practices is a key differentiating strategy that will ultimately help our member lotteries be more successful in an increasingly competitive gaming environment.

**PJ:** *There are so many different ways of operating a lottery – is it difficult to get all of the members of the WLA to work together, and how hard is it to build consensus?*

**AG:** You've hit on one of the great things about the organization. We're a tremendously diverse group, from the perspectives of culture, political environments, and stage of lottery development, which means a number of different viewpoints are brought to the table. Even in light of this, it has not proven difficult to

...continued on page 22





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# An Interview with Ed Trees

## Executive Director of the Pennsylvania Lottery

*"With its commitment firmly in place to grow net revenue to accommodate the rising number of older Pennsylvanians who benefit from Lottery-funded programs – by responsibly increasing ticket sales and offering players and retailers the latest in innovations to keep its product line fresh and diverse – the Pennsylvania Lottery has become an industry leader in the 21st Century."* – Ed Trees, Executive Director, Pennsylvania Lottery



Ed Trees

**Paul Jason (PJ):** I notice on the Pennsylvania Lottery Web site that your operating expenses are listed as 2 percent of total sales; that is an impressively small figure, reflecting a very efficiently run operation. Is there anything you could point to as being something your organization does differently to yield this high level of operating efficiency?

**Ed Trees (ET):** Pennsylvania runs its Lottery like a business. We are constantly looking for more cost-effective ways to operate our business. I believe

U.S. lotteries in general are exceptionally efficient operations. We take our responsibility to maximize profits for benefit programs very seriously and therefore strive to be as efficient as possible.

**PJ:** Is there anything you are focusing on now to improve your operations, to make them even more efficient and effective?

**ET:** We see the task to streamline operations and improve our efficiencies as ongoing. We are currently in the midst of transitioning myriad hard copy documents to electronic copies via an imaging system to reduce paper files. Work continues with our electronic OrderPad (tablet) projects to reduce paperwork requirements for our sales force and allow them to focus on the needs of their retailers and devote more time to serving them.

**PJ:** You have had to adapt to dramatic change in recent years. How has the expansion of gaming in Pennsylvania (with the introduction of slot machines) affected the Lottery?

**ET:** The introduction of slots in Pennsylvania is intended to redirect the estimated \$3 billion that Pennsylvanians annually spend playing slots in other states. Slots are not intended to compete with the Lottery and we have no reason to believe that they will. Further, playing the Lottery is a fundamentally different experience than playing slots. Consumers can purchase Lottery tickets at 8,500 different locations in Pennsylvania, while there will be – at most – 14 slots facilities in the state.

While many Lottery purchases are impulse buys – picking up a ticket at the counter while a clerk checks out the few items you made a quick stop to purchase – slots are destination-based entertainment, and players must consciously plan to make a trip to a slots facility. I'm confident this Lottery will continue to generate ample

revenue for programs that benefit older Pennsylvanians, even as slot machines become available as another form of entertainment.

**PJ:** How do you maintain growth when your customer is being presented so many new choices of games and venues? Any thoughts on how to adapt to dramatic change in general?

**ET:** We believe the key to continued growth is to maintain our focus on the core business areas that have brought the Pennsylvania Lottery success over the past four years. We will continue to expand our retailer network, as well as offer various bonus programs and increased earning opportunities through retailer incentives and promotions. Combining these elements with effective marketing of our product; appealing and effective advertising; monthly consumer promotions such as buy one/get one free, buy five/get one free, etc.; improving merchandising efforts at retail locations in addition to seeking ways to improve our product positioning; and increased winner awareness as well as maintaining our strong benefits awareness will carry the Pennsylvania Lottery well into Fiscal 2008 with continued success and growth.

We will remain focused on our efforts to be topical, newswor-

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*U.S. lotteries in general are exceptionally efficient operations.*

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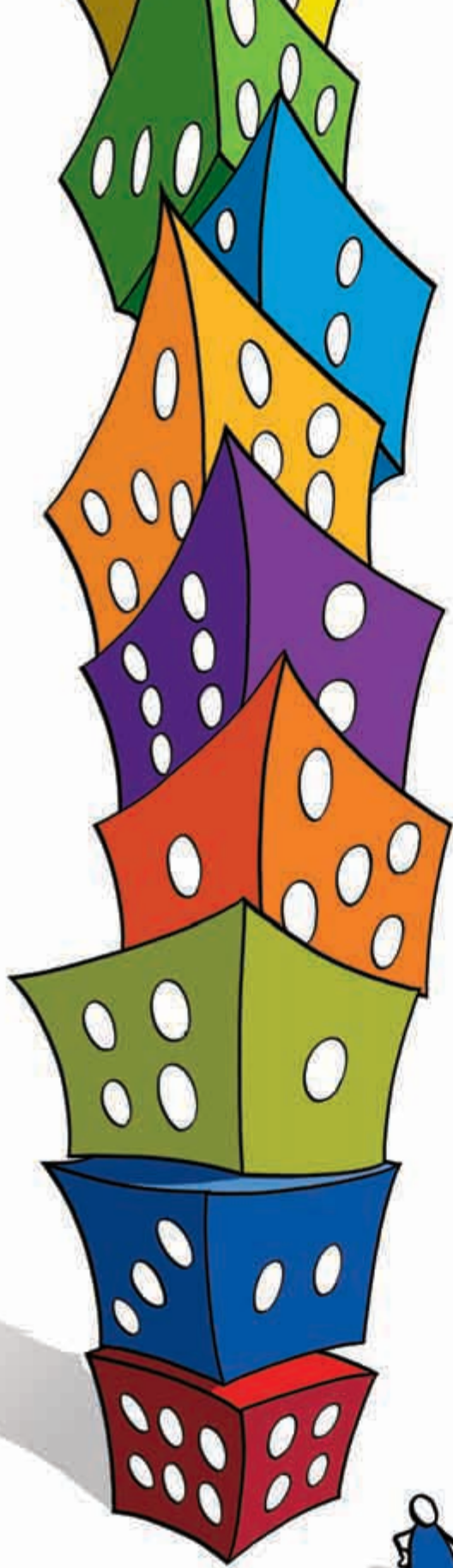
thy, and creative with both Lottery products and Lottery programs as we work to continue growing our business. The Pennsylvania Lottery has been one of, if not the fastest growing U.S. lottery over the past four years, and we believe we will continue our strong and robust sales.

**PJ:** Could you tell us a little about which games are most likely to be an important part of the future of the Pennsylvania Lottery?

**ET:** In the short term, each of the new games we introduce or new and innovative methods of play we offer, will continue to perform an important role for the Pennsylvania Lottery. Looking ahead to the future, however, new games or adaptations of existing games will be necessary as the shelf-life of terminal-based games continues to shorten.

We have found that improved and appealing games – licensed properties for instant ticket games such as 'The Price Is Right,' 'Deal Or No Deal,' and 'American Idol,' and innovative methods to play and win

...continued on page 26



## Creative Collaboration at Play

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# An Interview with Leo DiBenigno, Secretary of the Florida Lottery

Why it's important to explore opportunities to change with new games, new retail channels, new distribution through new media, even considering the possibility of new economic models...



Leo DiBenigno

**Mark Jason (MJ):** *You've held many positions in government. How would you compare the politics involved in your current position with other positions you have held?*

**Leo DiBenigno (LD):** My position today is surprisingly less political than a lot of other jobs, but a lot more fun. I am very fortunate, and very honored, to have been given this opportunity. I truly consider mine to be the best job in state government. I know we're not curing cancer, and I know we're not doing a lot of other

things that other state agencies do. But raising money to fund incredibly beneficial educational programs is something that motivates me every day. What interests me, what motivates me most in this job, and why I came back to the Lottery after having left for three years, is that it is the only job in government that I've experienced in which the results of a decision implemented today can begin to be tracked immediately. And that's very gratifying. You don't often have that opportunity in government. You make decisions, you implement programs and policies in government that can take years to derive benefits. In the Lottery, we make a decision, we implement, and we can see whether we were right or wrong the very next day. And then, like a business, we adjust, we constantly improve in order to raise even more money for education. This job is less political for me because our governor has an incredible respect for the will of the people. He understands that Floridians voted for the Lottery twenty years ago, and in their wisdom, expect a lottery that is run with absolute integrity, absolute fairness, and one that carries out its mission to raise money for education. So he's been very supportive of my first six months to really carry out that mission. Again, it goes back to his respect for the will of the people in this state, when they voted in support of the lottery.

**MJ:** *What do you see as some of the most important current initiatives of the Florida Lottery?*

**LD:** For the past six months, I've really tried to take stock of where the Lottery has come from. I knew that a year into the job we'd be celebrating the Lottery's 20th anniversary, and I knew with that there would just be some natural opportunities to do some things that the Lottery really hadn't done up until now. So, I've taken the opportunity to really look at everything we've done and tried over the past 19 years and reconsider some of them to see if we can do them dif-

ferently, respond to our players in ways that up until now perhaps we haven't been able to do. Always with the mind-set that of course we are going to be celebrating our 20th anniversary very soon, and I think there's going to be a natural expectation among the public that we do something special.

## New Ideas

**LD:** Having said all of that, we have begun the process of implementing some ideas for new initiatives. Late last year, like many other states, we did a raffle for the first time in our history. We had tremendous success with that, so much so that we went ahead and did another raffle this past July 4th. We are going to continue doing on the scratch-off side our family of games. We are going to occasionally bring out groups of related scratch-off tickets. That seems to have a great appeal. Right now we've got something that we call the 'Life Family of Games' that are doing tremendously well. In fact, of all the family of games

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*We're very interested in pursuing bringing ITVM's back into Florida.*

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we've ever done, this one is performing better than any we've done in the past. And then we're going to look at some structural changes, enhancements, to things that haven't changed in a long time. For example, I know later some of your questions talk about the role of possibly ITVM's (instant ticket vending machines). Florida had ITVM's. The last time was about five years ago, and we're very interested in pursuing bringing ITVM's back into Florida. So really everything is on the table that we're legally able to do, to try to reconsider or consider for the first time and just be responsive to our players.

## Raffles

**MJ:** *Your raffle has done really well. Any idea why your raffles would be so successful, where raffles have not been in some other states?*

**LD:** We had the good fortune of launching our first raffle during the holiday season. Florida enjoys an incredible sales increase during the holiday season. It has mostly to do with our tourists. But that I think is the main reason, other than the fact that it's the first time our players have ever had an opportunity to participate in a raffle. Those are the main reasons the first one performed so well. In the summer-time, I'm the first to admit that, while it sold out and we didn't have

...continued on page 32

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# These are Exciting Times – Lara Wood

## Atlantic Lottery Corporation Successfully Implements Internet Gaming

Following is an interview with Lara Wood, Director Brand and Market Development, Atlantic Lottery Corporation. I would encourage you to visit the ALC website to see the Internet, iBingo, and Playsphere implementations. [www.alc.ca](http://www.alc.ca).

**Paul Jason (PJ):** *What were your objectives in the initial Internet gaming planning stages?*

**Lara Wood (LW):** In our case, because the Internet was a new channel, Responsible Gaming was a very important part of our initial planning process. We are continually researching our players to determine what they want and how to meet their needs. Around 5 years ago we began to notice how people were doing more and more banking and shopping online. This indicated that we would need to have this choice be available to our players. At the same time, we started thinking about how we can do this responsibly, and we realized that we cannot go into this without doing thorough due diligence and really understanding it. From the very beginning, when we started to assess the technical requirements, what the site would look like, what the games would be, we focused on responsible gaming as a vital component to a successful implementation. We worked with an external group of experts, a consortium of responsible gaming experts. The challenge was that at that time regulated gaming on the Internet was so new that there simply were not a lot of Internet specific experts. So we enlisted the support of experts from all different industries, who started providing us with input from a whole spectrum of different controls that we could put into place and from that list we actually began to hook up with Internet focused experts and we started to determine what things should be added that will add incremental value. Then we started to analyze the big list to determine precisely what combination of controls delivers maximum player protection. So where we ended up was with a suite of responsible gaming features which still allows the player to relax, enjoy the games and have a great playing experience but puts some tools and information at their fingertips to help them manage their playing responsibly.

Now we have a registration process which requires the player to sign up for an account. Then we have a third party verify all the information to determine that the player is of age, minimum 19 years old, and has a valid residence in Atlantic Canada. These are two criteria that must be met not just for responsible gaming but to be compliant with our regulatory commitments. Once that's done, the player then has a tool to establish a spending limit for themselves. It is important to cause the player to go

through the thought process of deciding on a limit, so everyone is required to do this before beginning to play. It's surprising how many people set limits below the maximum, which is \$99 per week. Many people choose limits in the \$10 to \$30 range.

Once you get into the sight, you have clearly visible links to help the player keep it fun and responsible. There is a session clock to keep track of how long you've been playing. There is also a self exclusion program which allows you to exclude yourself for periods of time or to provide a 'cool down' time, and the system will not let the player back into their account for the designated period of time. Then we also have a self-assessment questionnaire that can be printed out that has tips on how to keep the playing fun and to help the players understand and assess their playing behavior and the amount they play.

**PJ:** *Could you tell us a little about the companies that supply your Internet products?*

**LW:** We have a suite of 5 Ingenio products that we offer right now under the category of interactive. I don't know if you saw the logos on the front page. iBingo – we consider a category. 'Pick and Click' are the probability games that we consider a category. Both of those are offered by Boss Media on the same platform. To the consumer, all the categories are not separate,



...continued on page 30





## Fulfill Your Net Potential

Boss Media has the expertise to help you create a secure online gaming haven for your customers, just as it helped Svenska Spel of Sweden and Atlantic Lottery of Canada.

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# Innovate to Generate

By Charles Cautley, Senior Vice-President and Chief Technology Officer, GTECH Corporation



Charles Cautley

What bright idea did you have today? We all come up with “innovative” ways to perform our duties and get the job done. But many times, when a truly creative idea comes to mind, we’re too busy with our daily activities to expand on that idea, letting it slip us by, only to be kicking ourselves later when a competitor has beaten us to the punch. The end result: a potentially lost opportunity that could have directly affected your company’s bottom line.

The capture and development of new ideas has taken on much more significance for top-level executives worldwide. Today, “innovation” is the competitive

differentiator. In fact, creating a culture of innovation is the key to survival in today’s competitive global marketplace. This is true for companies like GTECH and for the lottery industry as a whole.

An idea alone is of no value. The successful application of innovation is a multi-step process. It is not just about creating the idea but creating a culture that takes an idea through implementation and producing value in the market faster than anyone else. In my years of experience, I have seen companies use innovation to build substantial business and accelerate growth. Across the board, the following three business practices are key to innovative success.

To begin, complacency kills creativity. Shake up the status quo often so ideas that simmer below the surface have the opportunity to rise above the fray. There is great value in creating teams consisting of employees with diverse outlooks and mind sets that challenge each other, challenge the corporation, and question assumptions. Every employee should be encouraged through objectives and rewards to find time to work on solutions that will impact the future.

Second, an idea must be supported by a process that pursues it and implements it. Unfortunately, most corporate cultures and bureaucracies inherently stifle our risk appetite; only ideas that have a high chance of success are chased. This often leads to incremental improvements only, while the big ideas are chased by others. Break away the best employees from the bureaucracy of the mother ship and grant them the flexibility to follow through with their creativity.

Third, management holds the key for innovation to blossom. Be unfailingly committed to improvement and change. Failure of trying should be rewarded over not trying. ROI (Return on Investment) is important but many innovations take time to find their sweet spot and meet their potential. Be patient. The customers will reward you for it.

There are many examples of companies that are leaders in the innovation process including 3M, General Electric, and Google. At 3M, innovation is at the heart of its culture where failure is tolerated and innovation openly rewarded. General Electric embraces change by rapidly adopting ideas across the business units (e.g. Six Sigma) and build-

ing diverse teams to challenge the status-quo. Google has organization principles dedicating more than 10% of work time to innovation.

## Innovation is the Lifeblood of GTECH

As Architects of Gaming, GTECH is uniquely positioned to provide the value that our customers need to grow in a rapidly changing industry. As part of GTECH’s ongoing innovation process, we launched a global campaign this summer to challenge our employees to come up with as many new ideas as possible. We asked for new product ideas; better ways of developing, delivering, and selling; and how to get to market quicker and less expensively. We received more than 2,100 ideas. Employees who participated were entered into a raffle for great prizes such as a plasma television, X-Box 360, iPods, and \$300 gift cards.

The idea generation was just the beginning. A team of “innovation champions,” which includes the senior leadership, went through each idea and narrowed the list down to high-value ideas. Organizational improvement ideas with high-internal value were immediately handed to the respective department managers. Product ideas that were already in progress were injected into our product plans, and the remaining thoughts were evaluated against GTECH’s strategic business goals. The top ideas are now being reviewed for IP protection and are being included in our Marketing and Technology three-year plan.

Since joining GTECH four months ago, I’ve been listening to our customers and understanding their urgency to create more value in the marketplace. Our global innovation initiative goes hand-in-hand

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*Creating a culture of innovation is the key to survival in today’s competitive global marketplace.*

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with this revenue imperative. Our commitment is to anticipate market trends in order to create technology and products for the future. The more effective and efficient GTECH is at developing and delivering its products and services, the lower our costs are to our customers. This, in turn, will enable our customers to generate more income for good causes. Here are some of the key growth ideas stemming from our

...continued on page 25





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# Privatization or Modernization of State Lotteries?

## That is the question!

By Philippe Vlaemminck, Jean-Marc Lafaille and Clea Mitchell



Philippe Vlaemminck

Looking to generate billions of dollars in the short term to cover a current budget deficit, the State of Florida announced recently that it will consider “privatization” of its state lottery presumably with the goals of increasing revenues and enhancing efficiency. Similar announcements have been made in other states, like California and Illinois. Given the time, complexity and political will required to achieve this goal, privatization (however it is defined) may or may not be the solution to find the

financial projections to evaluate how much it can pay up front. It then needs to figure out which games will be played during the term of the license and forecast their sales results for the term of the license: 10, 15 and even 25 years. This is a very difficult “crystal ball” exercise. No consumer goods company can predict the sale of their products over such a long period of time. The taste of the consumers will change and new technology could eliminate current products and create totally new and unpredictable type of products. Who could predict 10 years ago that the most important distribution mean for the sale of gaming products in the world would be the Internet, and that lotteries in the United States would be prohibited from using this channel of distribution?

If a state is looking not only at solving a short-term deficit prob-

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*Privatization companies often are already providing advertising, promotion and communications services to state lotteries. In practice, the typical U.S. government lottery is already privatized to a large extent.*

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Jean-Marc Lafaille

substantial revenue needed to cover the State's current budget deficit. Depending on how and what is done, one can ask ourselves whether such an effort is necessarily the right course of action.

Many state lotteries are already largely privatized. Facility management contracts frequently delegate to private companies the operations of large segments of their business in return for an agreed-upon small percentage of lottery sales. For example, private companies are already provide scratch ticket system covering printing, distribution and accounting, for on-line terminal system covering the design and implementa-

tion of the hardware, software and network, the sale, distribution and accounting of the games going through the system, the back office MIS, etc. Private companies often are already providing advertising, promotion and communications services to state lotteries. In practice, the typical U.S. government lottery is already privatized to a large extent, leaving aside the questions of draws and the security aspects of the organization. Thus, current talk of privatization needs to take this practical reality into account.

lem but also at improving the efficiency and productivity of its lottery, it would be well advised to examine as well its lottery's current operational structure and, doing so, it may find additional helpful steps to deal with its short-term financial problem. State governments have traditionally assumed direct responsibility over lottery operations by giving the responsibility for the lottery to a department, to a commission reporting to the legislature or to a State corporation. Which way is better, or is there a better way? If one would like to get into the details of each model the reader could read the book *Dissected & Re-assembled* – an analysis of gaming which concludes that, considering the nature of a Government, a State Corporation should do better than a department or a Commission. Very few states in United States have decided to go that route and it is difficult to compare the results of each model as many other important variables may influence the results, the most important of which being the type and number of games authorized by the state government's legislation.

In most of the other countries of Western Europe, Canada and Australia, the state corporation approach is the most popular model chosen by governments and with good results. In countries where a full privatization was implemented under the control of a state regulator or commission, the licensee does not seem to have a larger freedom to operate than a state corporation. Very often, the private licensee is operating within a very tight regulatory framework with little maneuvering room for entrepreneurship behavior.



Clea Mitchell

In a “full privatization” model, the future licensee must develop

In Europe, both the privatization and modernization approach has been tested. Having evaluated both approaches, it is clear to us that a well-conceived and effectively empowered state corporation can provide huge advantages to a government. Considering the specific situation of the U.S. state lotteries, an strategy focused on regulatory and corporate modernization could be very beneficial and provide the respective governors and legislatures with the solution for both the budgetary problems and the necessary responses to the demands of consumers and society at large. Such approach will need to take into consideration all international, federal and state law requirements to avoid that an uncontrolled liberalization of the gaming market would occur or that some inconsistencies in the policy would lead to further legal battles as it was the case with the IHRA.

A solution could be to create a state corporation with the proper degree of autonomy to run the state lottery. This corporation could be asked to pay up front for its license an amount equal to the current yearly profits multiplied by the number of years of the license (should not be much more than 7 to 10 years because of the incertitude). The state corporation could then go to the banks and borrow the money to pay for the license. This way the state government will get up front money to cover its deficit, and will achieve increased efficiencies and productivity, which will inure to the benefit of the State Lottery as well. After the term of the license, the Government can repeat the operation or decide to do otherwise. ♦

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*A solution could be to create a state corporation with the proper degree of autonomy to run the state lottery.*

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# Pending Lawsuit May Clarify Federal Law as it Relates to State Lotteries and Internet Gaming

By Michael R. Shebelskie and William H. Wright, of law firm Hunton & Williams LLP

The Internet provides many opportunities for State Lotteries to increase their customer base and revenues. State Lotteries, however, have not fully exploited those opportunities out of concern – and to a great extent, misunderstanding – over application of federal anti-gambling statutes to State Lotteries. A lawsuit filed in federal court this July may help dispel some of that concern.



Michael Shebelskie

The lawsuit, *Doncaster v. New Hampshire Lottery Commission*, concerns the New Hampshire Lottery's "Replay" program and implicates the right of out-of-state residents to participate in the program via the Internet. Rulings in that case could make clear that State Lotteries have a green light to allow participation in such drawings over the Internet.

## The Replay Program

The Replay program is a type of second-chance drawing akin to programs offered by other State Lotteries. Begun in 2006, the Replay program applies to every losing ticket sold in every New Hampshire Lottery game, whether an on-line or an instant game. Each such ticket has a unique identification code on its back. The holder of a losing ticket uses that code to register the ticket with the Replay program. By doing so, the holder receives "Replay Points" in an amount five times the purchase price of the ticket.

The registrant uses Replay Points to participate in drawings. Each Replay Point is worth one entry into a regular drawing. Every three months there is also a big prize drawing called "Ultimate Replay." Each entry in "Ultimate Replay" requires 100 Replay Points. A registrant decides which drawings to participate in and can enter as many times and into as many drawings as that person's Replay Points allow.

Winners are randomly selected from the entries in each drawing and awarded non-cash prizes (such as gift certificates). Prizes also can be randomly awarded to persons registering a ticket. These prizes can be accepted or traded for additional Replay Points. Replay Points, however, have no cash value and cannot be redeemed for money.

All participation in the Replay program is conducted through the Internet. That includes initial establishment of an account, the registration of losing tickets, and the selection of drawings in which to participate.

Although non-residents of New Hampshire can purchase lottery

tickets in New Hampshire, participation in the Replay program is limited to New Hampshire residents. Persons must attest when they register with the Replay program that they are New Hampshire residents and also must provide a New Hampshire residential mailing address on the on-line application form. In fact, the on-line application form already has New Hampshire filled in as the State for an applicant's mailing address. That pre-filled entry cannot be altered on-line.

## The Doncaster Lawsuit

William Doncaster lives in Massachusetts and, according to his complaint, regularly travels to New Hampshire. He claims that he purchases lottery tickets there and complains that he cannot participate in the Replay program because he does not live in New Hampshire. Doncaster seeks to maintain his lawsuit not only on his behalf, but as a class-action on behalf of all out-of-state persons who purchased lottery tickets in New Hampshire since the commencement of the Replay program. Doncaster seeks compensation for the previous tickets that he and the class purchased as well as an injunction allowing participation by out-of-state residents in the Replay program.

Doncaster contends that the bar on out-of-state participation in

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*The Federal Anti-Lottery Act's prohibition on use of the mails does not affirmatively mention the mailing of prizes or winnings.*

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the Replay program violates the equal protection and the privileges and immunities clauses of the U.S. Constitution. The equal protection clause provides that States cannot deprive persons of "the equal protection of the laws." Generally speaking, that clause prohibits a State from treating like groups of people differently absent some legally justified reason. The privileges and immunity clause provides that "citizens of each State shall be entitled to all Privileges and Immunities of Citizens in the several States." That provision prohibits a State from denying a non-resident a covered privilege or immunity

...continued on page 24

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Mike Shebelskie's and William Wright's practice includes advice to private and governmental entities on Internet gaming and other gaming related matters. Hunton & Williams LLP, Richmond, VA Phone 804-788-8716. mshebelskie@hunton.com

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*An Interview with Arch Gleason* ...continued from page 6

get members of the group to work together so long as we stay focused on that which we have in common. We are all lotteries that offer games of chance to the playing public, whose success is dependent on the public's trust in the integrity of our games and operations and whose acceptance and popularity are bolstered by the funds we raise for public benefit and good causes.

This spirit of cooperation has extended to our regional associations as well. For example, the WLA has worked closely with

WLA, and do you see the potential for more cooperation between regional operations?

**AG:** Besides the WTO case I discussed earlier, the WLA has cooperated with NASPL on several fronts. A good example is the global RFP best practices now available to both memberships to use in procuring goods and services. There will be other efforts moving forward as well since there is clear evidence these associations can work together effectively.

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*I think the Internet and how it will ultimately be utilized for gaming is the most significant and pervasive issue relating to the conduct of lotteries and gaming around the world today, without question.*

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NASPL on the WTO case, and the WLA and the EL are currently working together concerning the European Commission's consideration of liberalizing or opening gaming markets and increasing open market competition. We are most fortunate to work in a business where our diverse groups make sure to support and cooperate with each other.

**PJ:** *Do issues and challenges differ much by region or continent, or do they share many of the same big picture issues?*

**AG:** I think the Internet and how it will ultimately be utilized for gaming is the most significant and pervasive issue relating to the conduct of lotteries and gaming around the world today, without question. It's interesting that even though this issue is common to everyone around the world, there are vastly different approaches to the questions of how to deal with Internet gaming. In the U.S., the question seems to be whether Internet wagering ought to be allowed at all, versus in Europe, where the questions isn't whether to allow it but rather how it should be regulated and should Internet gaming be liberalized to take a free market approach. So, there are quite different approaches to the same issue.

I happen to believe that there is a common solution, no matter which way one approaches it. If it is ultimately decided that Internet wagering should be provided, then the question becomes what's the best way to regulate and control it. I think the answer is clearly to utilize the lottery organizations that have been created and sanctioned by governments throughout the world to serve the interests of the public. This plays back into the development issues that we were talking about before. If Internet wagering becomes something that the governments want to allow, then lotteries want to position themselves to be the offerer of choice, both to the governments and to the playing public. We hope to do that by meeting a higher standard of corporate social responsibility and security and protecting the interests of the public, we will be better able to manage the expansion of gaming in the most prudent and responsible way.

**PJ:** *How much interaction is there between NASPL and the*

The WLA decided a few years ago that instead of having biannual conventions and biannual forums, in the years in which a forum would have taken place we will join with a regional association to meet. The first of those meetings will take place here in Louisville this October as the WLA and NASPL join together for World Meet '07. During this gathering, we will look at a variety of global issues such as updates on court decisions, legislative and regulatory matters from around the world, corporate social responsibility/responsible gaming, sales techniques, and marketing strategies. Topics like this provide a forum from which members of both groups can benefit.

**PJ:** *The likelihood of markets opening up to increased competition will create a need for lotteries to establish a strong brand value. How should we approach this issue of branding?*

**AG:** This is unequivocally a very important issue for lottery organizations, no matter where they might be based. The strengths of lottery brands include high levels of public trust, integrity, quality and entertainment value. Ultimately, our high level of public acceptance is underpinned by these attributes and the funds we raise for good causes. All of these elements are integral to our brand, and by focusing on them, we will stay successful.

Interestingly, here at my home lottery in Kentucky, we're prohibited by law from engaging in any sort of beneficiary advertising. While we've worked for years to get our state legislature to address the issue, it significantly undercuts our ability here to brand like most folks can.

**PJ:** *Speaking of your home organization, tell me about the games which are likely to be an important part of your success in Kentucky.*

**AG:** Kentucky, like virtually every US lottery, sees a significant amount of revenue from our instant games. Here in Kentucky, instant account for approximately 60% of our sales.

As for proprietary games, we're always looking for ideas here, and we've offered a couple of the licensed property games. We've have found some of them have proven successful, while others

*If Internet wagering becomes something that the governments want to allow, then lotteries want to position themselves to be the offerer of choice, both to the governments and to the playing public.*

haven't been all that great for our playing environment.

Our next largest source of revenue is our daily Pick 3 and Pick 4 games, which comprise about 20% of sales. Powerball sales account for about 15% of sales, and the remainder is spread along a couple of other online games we offer.

Policy makers here in our state have not allowed us to provide monitor-style games like Keno, and we don't look for that to change in the near term. If they ever did decide to provide us this opportunity, we feel confident sales could be boosted by 10% to 15%.

As for our future, we will continue to look for enhanced opportunities for distribution, in particular with contemporary ITVM's. We just agreed to purchase another 200 of the most contemporary ITVM's available, and will look forward to monitoring their success. Otherwise, we'll just continue our practice of emphasizing

fun games with good prize structures.

**PJ:** Are live event drawings still an effective public relations tool?

**AG:** Here in Kentucky I think they've run their course. Early on in our history, we would go out about 12 weekends out of the year to fairs and festivals to hold the drawings live on location. These attracted huge crowd at the beginning. However, public interest waned as we were on the road for several years, which meant crowds and the sales they generated started to dwindle. We stopped going out about seven years ago.

I do however think they continue to make a strong statement about the integrity of our games. There's nothing like showing the public how drawing are conducted, and I remember after attending several of these events and seeing people look on in amazement when they realized the level of security involved in

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**PJ:** Finally, everyone is looking for a better way to motivate retailers to sell more products. Based on your experiences, what is the best way to approach retailer incentive programs?

**AG:** This is one of those areas where my serving as WLA president has given me a new insight into the issue. Here in the U.S., we take what I describe as a shotgun approach to retailing – we look for a maximum number of retailers spread around our area

As for stimulating sales through retailer commissions, here in Kentucky we have continually fine-tuned our program to make sure it does just that. We pay a standard 5% base commission. At one point we paid extra (incentive) commissions based on the increase in retailer sales from one year to another. However, we had several instances where some of our top retailers saw no additional compensation – even though they sold more tickets than other retailers because as the lottery business matured, their levels of an-

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*As for our future, we will continue to look for enhanced opportunities for distribution, in particular with contemporary ITVM's.*

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based on populations. In other parts of the world, they use what I describe as a rifle approach – they are much more selective as to where retailers are located, retailers must pay significant up-front fees and in many cases construct a special kiosk area to sell lottery products. Depending on cultural differences, both of these models can be effective.

nual sales growth hadn't been significant. This didn't seem fair to our larger volume retailers, so we changed the program to reward week in and week out sales production for our instant tickets allowing them to earn up to an additional 2% on their instant sales. How well has this worked for us? Instant sales have grown 66% in the eight years since the program was put in place. ♦

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*Pending Lawsuit May Clarify Federal Law as it Relates to State Lotteries and Internet Gaming* ...continued from page 20

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unless there is a "substantial reason" for the disparate treatment that bears a "substantial relationship" to the State's objective. Material to this consideration is whether less restrictive means of regulation are available that do not undermine the State's objectives.

The New Hampshire Lottery has not yet filed a response in the lawsuit, so it remains to be seen what arguments the New Hampshire Lottery will make to justify exclusion of non-residents from the Replay program. Public statements by Lottery officials, though, suggest that the Lottery will point in part to the fact that prizes in the Replay program are mailed to winners. According to Lottery officials, federal law prohibits the mailing of lottery prizes to out-of-state persons. That purported federal law restriction reportedly provides a "substantial justification" for limiting participation in the Replay program over the Internet to New Hampshire residents.

### **Potentially Significant Rulings**

The federal law on which the New Hampshire Lottery is expected to rely is known as the Federal Anti-Lottery Act. Originally enacted in the late 19th Century, the Act prohibits the interstate transportation of lottery tickets as well as the use of intermediate brokers to sell lottery tickets in one State to persons in another State. The Act also prohibits the mailing of lottery tickets and certain other materials concerning a lottery.

The Act, however, has various exceptions for State Lotteries, including exceptions for mailings to addresses within the State that conducts the lottery.

The Doncaster lawsuit implicates several of these provisions and could give rise to several instructive rulings.

First of all, the court could hold that the Replay program (and similar second-chance drawings) do not qualify as a "lottery" under the Act. A lottery is commonly defined by three elements: (1) the furnishing of consideration; (2) the offering of a prize; and (3) the distribution of the prize by chance.

The Replay program self-evidently satisfies the second and third of these elements, as participants in the Replay program are awarded randomly drawn prizes. The Replay program, however, may not satisfy the first requirement – the furnishing of consideration. Since participants do not pay to register losing tickets and their Replay Points are not redeemable for cash, participants in the Replay program do not provide any consideration to participate in a Replay drawing (unless one adopts the strained position that the provision of a registrant's name and address on the on-line application qualifies as consideration). As such, the Federal Anti-Lottery Act is arguably inapplicable to the Replay program. Adoption of this position by the court could free the Replay program and similar re-drawing programs in other States from the Act's restrictions.

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...continued on the PGRI website. Go to [www.publicgaminginternational.com](http://www.publicgaminginternational.com) to view the entire article.

## Innovate to Generate ...continued from page 14

worldwide innovation initiative. Although these concepts will take time to develop, we are excited about their long-term potential.

**1. Content Execution:** With GTECH's unique leadership position in handling so many channels, we clearly see the opportunity to liberate the content delivery from the technology supporting it. We will provide a highly efficient common technology platform that allows for rapid game introduction across all channels enabling better player choice/engagement and responsible gaming.

**2. Player Registration and Corporate Social Responsibility:** There is a great need in the industry for an intelligent solution for age verification that will not impede consumer participation and ultimately help grow same-store lottery ticket sales. This solution – coupled with the new retail scanning technology – will prevent potential retailer fraud and increased consumer protection.

**3. New Media:** The Internet has become an intrinsic part of our lives and the use of mobile computing and communications devices such as cellular phones, digital assistants, and pocket computers continues to grow globally. GTECH already has a leading New Media suite and our new coming release embraces key changes that will offer new exciting growth potential to our customers.

**4. Green GTECH:** We're looking at innovative ways to support the environment through paperless wagering, reducing power consumption, and reducing hazardous material. The potential for paperless wagering is significant and the innovations we are pursuing will make it a reality.

**5. Simplicity at Retail:** This innovation would create technologies to simplify retailer accounting, cash register reconciliation, winning-ticket verification, and expand GTECH's current retail solutions to encompass more flexible consumer-friendly self-service products.

The lottery industry has seen such substantial growth over the years that success has come without the need for great risk. However, players have more choices today and their appetite for more engaging content has grown. Some lotteries have been more proactive at addressing these needs, particularly those lotteries with higher target commitments or those that have been more challenged by the threat of convergence and the private sector. The lotteries that are seizing this challenge and embracing innovation have an exciting future ahead of them. GTECH stands ready to partner with lotteries to foster innovation and maximize their returns to good causes. ♦

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## An Interview with Ed Trees ...continued from page 8

terminal-based games – keep the momentum strong. Such games always prove appealing to players and profitable for the Lottery.

**PJ:** What do you see as important or innovative in game development? What games or trends are likely to play an important role in the future of state lotteries?

**ET:** Topical instant game themes appear to help increase our sales for the entire product line even higher. We believe this brings a renewed energy to the retail level and a newsworthiness

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*We have found through discussions with our retailers that higher-priced instant tickets, with their inherent higher prize offerings, tend to get attention from the serious gamer who previously did not purchase our product.*

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that is important for our organization. We work hard every day to find a way to transfer this level of energy and interest to the terminal-based side of our business.

**PJ:** Are live event drawings an effective public relations tool? Do they get attention, generate interest, increase sales?

**ET:** We do little in the way of live event drawings. There is a significant investment in terms of time and resources to insure such drawings are conducted properly, securely, and with the same level of integrity as our drawings which take place in the same venue each evening. As mentioned previously, we work hard to minimize those things that can take away from the focus on our core business initiatives and live event drawings take much time, effort, and manpower.

**PJ:** Any other event-oriented marketing ideas that you think are effective?

**ET:** We have found some success with grass roots marketing events intended to help create consumer awareness of new product launches. We believe the recent introduction of the mid-day-only animated game, Treasure Hunt, benefited from efforts of this type. 'Take the Mid-Day Express to Buried Treasure,' a month-long bus tour that announced the launch of Treasure Hunt, traveled across the Commonwealth and gave away more than 4,000 Treasure Hunt tickets or 'free chances to dig up \$10,000 or more in hidden treasures.' The tour stopped at 21 Lottery retail locations across Pennsylvania.

**PJ:** How do you decide the price points of tickets? Is it always a good thing to try to push them higher?

**ET:** Setting price points for instant games is a collaborative effort that calls upon the marketing skills and instincts of our staff and vendors. We must always be mindful of the balance between price and product value delivery. We have worked diligently to be consistent in terms of price and value expectations of our

players. Certainly our retailers appreciate our efforts in this area to improve their profitability per transaction!

We have found through discussions with our retailers that higher-priced instant tickets, with their inherent higher prize offerings, tend to get attention from the serious gamer who previously did not purchase our product.

**PJ:** You launched four new instant games in June, with top prizes that range from \$24,000 to \$1 million. These games would have much better chances of winning the top prize than the big jackpot games. Does the player get enthused about these better odds, or is it hard to shake the 'jackpot fatigue' syndrome?

**ET:** Our players respond favorably to new game introductions. We consistently launch new instant games at the start of every month – anywhere from two to four each month, with the exception of six holiday-themed games in October – and our players know to look for this.

**PJ:** Everyone would like a better way to motivate retailers to sell more tickets. What do you think about changing the retailer compensation plan so that instead of a flat commission rate, you pay for performance?

**ET:** We always look for new ways to keep our retailers engaged and enthusiastic about Lottery. We believe that keeping our retailers engaged is critical to our success.

We have found over the years that our retailers prefer cash incentives. The Pennsylvania Lottery has implemented performance-based incentive programs for retailers to keep them energized. The more retailers sell, the more money they earn, and a raise regarding a tiered commission based upon performance is captivating. In addition to performance-based incentives, we offer monthly retailer promotions and product-specific incentives for retailers.

We also plan to offer new sales incentives for retailers, which we've done for many years, but for the first time, we look to offer similar incentives for Lottery sales staff this year.

We continue to focus on growing our retailer base by centering on key corporate accounts. When Governor Ed Rendell took office in January 2003, the Pennsylvania Lottery retailer network included 7,023 locations. The Lottery increased its retail network by more than 21 percent, and today, more than 8,500 retailers sell Lottery tickets. By concentrating on recruitment and focusing on corporate accounts, the Lottery reversed a 16-year decline in retailer counts, from 1986 to 2002.

**PJ:** Do you see any important trends in distribution? Self-serve vending machines? New retailer channels like the 'big box' stores such as Walgreens, Wal-Mart, Costco, etc.?

**ET:** The Pennsylvania Lottery believes that finding new ways to distribute its product is fundamental to its ability to continue growing. We must continue to find secure methods to adapt our business models in an ever-changing retail environment. In Pennsylvania, we have made a significant commitment to offer-



# IS YOUR LOTTO GAME UP-TO-SPEED?



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ing more self-service opportunities for consumers. We now have 3,400 Instant Ticket Vending Machines and 1,000 Player-Activated Terminals at retail locations across the Commonwealth.

**PJ:** Do you believe the instant ticket sight validation code system ensures integrity in the award-redemption process?

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*We now have 3,400 Instant Ticket Vending Machines and 1,000 Player-Activated Terminals at retail locations across the Commonwealth.*

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**ET:** We believe making such technology available to retailers and consumers provides an additional means for both to confirm whether a ticket is a winner or not. And we believe it does help ensure integrity.

**PJ:** How does a U.S. Lottery director operate in this politically complex environment?

**ET:** In Pennsylvania, the Lottery operates as a bureau of the Department of Revenue. The Secretary of Revenue is charged with overseeing the day-to-day operations of the Lottery; additional supervision is provided by the Executive and Legislative branches of state government. Governor Rendell charged the Pennsylvania Lottery with raising funds to support programs that benefit the Commonwealth's older residents.

Under his leadership and the leadership of Secretary of Revenue Thomas W. Wolf, the Pennsylvania Lottery closed Fiscal Year 2006-07 with record-setting sales that exceeded \$3 billion – sales that translated into contributions of more than \$949.1 million to programs that benefit Pennsylvania's older residents every day. The Pennsylvania Lottery is, and always has been, the only state Lottery to exclusively contribute all of its proceeds to fund programs for older residents.

Governor Rendell insists that state government can be run like a business. Secretary Wolf and Lottery staff have done exactly that, and in the process, have proven that government CAN

implement sound business principles and succeed.

**PJ:** After a year of unflagging success, it seems that some lotteries have had trouble with their raffle games the past few months. Why the turnaround? Is it just that players lose interest and need something new?

**ET:** Raffle-style games are not unlike other Lottery games where perceived newness and freshness are key elements. There is a 'novelty' aspect to raffle games that lessens each time a new one is launched. We are going to have to work hard to bring the freshness into this product category, as Pennsylvania has future raffles in its game portfolio.

A second element at play here is that with each introduction of a Raffle game, the slower rate of sales contributes to a lower sense of urgency on the part of the player to purchase a ticket for the game. Players become conditioned to believe they have 'plenty of time' to participate.

**PJ:** What do you think of a multi-state instant scratch-off game?

**ET:** I think it is an interesting idea. A larger, multi-state instant game would offer bigger prizes and enriched prize structures, much like multi-jurisdictional jackpot games. There may very well come a day when regional or national game themes are a part of a state Lottery's product offerings.

**PJ:** Many lotteries have been negatively impacted this year by Powerball jackpots that didn't get high enough to stimulate and sustain a buying frenzy. Isn't there some way to generate player interest in the concept of more winners of more modest prizes?

**ET:** Historically, games with large top prizes that increase when not won generate the greatest sales. As an industry, we continue to look for new ideas and game concepts to stimulate terminal-based game sales. The Pennsylvania Lottery has been very aggressive in this area. This past fiscal year, we introduced two new lotto-style games, along with two raffle games. Much like the instant product line, new and fresh content on the terminal-based side of our business will be vital to sustaining Pennsylvania Lottery's growth. ♦



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*These are Exciting Times – Lara Wood* ...continued from page 12

but technically how we have them set up is in different sorts of sections from suppliers. The interactive pieces come from Ingenio and Boss Media and then their products are customized to our market. We have been very happy with the performance of Boss Media and Ingenio. We consider them a partner. As for Boss Media, we knew that they had a great product and the expertise that we wanted. We are happy with the success of the product so far and how the whole project went. I think that goes without saying; the fact that we are with them, that we've launched it and that it's successful basically tells the story. We have very stringent requirements from a responsible gaming and regulatory point of view. Boss had to jump through lots of hoops to meet all those requirements. They were able to do that and live in the regulated lottery world. So I would have to say we are pleased with that.

**PJ:** Was Boss's experience with the Svenska Spel Internet implementation an important consideration?

**LW:** The Svenska Spel team is a great resource and colleague for us. We worked closely with Svenska Spel and a lot of our strategies are similar to theirs. The fact that Boss had done this integration of the product for a WLA lottery that we work with really enhanced our comfort level. Plus, we could see it live, working on Svenska Spel's site and watch the success they were having. Certainly, that was a comfort to us moving into this new area.

**PJ:** Why Bingo?

**LW:** Very important. Our strategy when we moved onto the Internet was to start with a very convenience based offering. Our focus really was convenience and we wanted to go first with our traditional products with our core players to give them an option. So in the beginning, it was really about convenience, not so much on offering new types of games. Our sense was that to move forward and succeed on the Internet and to compete with the increasing amount of unregulated offerings that we're finding online, we needed to make a shift into entertainment and community based products.

**PJ:** How do you verify that the information is truthful?

**LW:** We have a third party that takes all the information that is entered in the registration process and matches that against a national database. The good and bad thing is that we our system errs on the side of caution. We need to have a perfect match on all your personal information with this national central system in order for you to pass.

Since we err on the side of caution, sometimes we have legitimate people who fail the verification process. In fact, our instant pass rate is around 75%. But if you do not pass the online verifi-

cation process, we do have a manual option. So the information must match exactly for the player to pass.

**PJ:** Have you had any incidents of someone successfully registering who is either underage or not residing in Atlantic Canada?

**LW:** We did have a couple of instances in the past 3 years of identity theft in which the registrant had access to all the personal information of another person and so this person passed the verification process since all the information was actually legitimate. In these cases it was someone known to the individual. But additional controls, secondary control systems, did reveal the misrepresentation immediately. So the account was shut down almost immediately.

**PJ:** So even where a person was determined to commit fraud, you even caught that person right away.

**LW:** Yes, we really do not have a problem in the registration process. Because we are the lottery and held to the highest standard of accountability, we must err on the side of caution and be assured that nobody can enter the system who is not supposed to be there. The fact is we have the opposite challenge, we have many people who call us because the system failed to verify their registration when they are in fact legitimate.

**PJ:** Were there any other security issues that needed to be dealt with?

**LW:** One of our big competitive advantages as a lottery is integrity and security. So apart from the responsible gaming piece, in which I included age verification, there was a lot of other security considerations. We spent a lot of time on our systems and the way our systems are set up. Because we are the lottery, we fortunately already had that mandate in terms of security of our system. So we had a lot of expertise in house in terms of fire walls and making sure our systems are secure. The visible part of security would include age verification and other customer facing controls. There is also a less visible part of security which is just as much a priority for us. In terms of making sure customer data was protected and making sure we store our data in such a way that we feel completely confident that it is secure and that our systems are secure and that we are blocked from any outside interference. All of those things were really at the top of our thinking when we started to build the system. So that when we actually launched, we knew we had it built to those kind of levels and standards, which is the same levels that we require all of our products to be at.

**PJ:** Do you have evidence that you are attracting players away from unregulated or illegal gaming sites?

...continued on the PGRI website. Go to [www.publicgaminginternational.com](http://www.publicgaminginternational.com) to view the entire interview.



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*An Interview with Leo DiBenigno* ...continued from page 10

to extend the drawing as some other states did, it took a lot longer to sell the tickets. We did produce more tickets than we did in the winter raffle. Also, in the summertime, our sales are just naturally slower. To the extent that other states experience the same summer slowdown in sales, that could have contributed to the less than ideal performance that other states have experienced in recent raffles. If I had to think of another reason, over the last twenty years the Florida Lottery has been operating relatively conservatively, when compared to other state lotteries. To that extent, producing a raffle was such a departure from what our players have experienced that they just got very excited about it. It was something so new, so 'off the beaten path' for us, that they just flocked to it.

### On Player Motivation

**MJ:** *We all hear that the two most critical aspects to revenue and interest are making the games interesting and fun and supporting the beneficiaries. And yet, tourism jumps your revenue. Since they aren't residents of Florida, tourists would seem to be less concerned with who is benefiting.*

**LD:** In some ways we're almost 'breaking the code' here in terms of the incentive that people have to play the lottery. I do tell people

*But so far, even in Broward County, we don't see a direct impact from these racinos.*

that I think quite honestly that there is sort of a 'consolation prize' aspect to playing the lottery. You more than likely won't win, but at least the proceeds go to a good cause. I think that is a common theme in people's thinking. But without question, the primary motivation, no matter how much we would like to think otherwise, for people playing the lottery is to win the prizes. Whether the players are tourists or permanent residents, their primary motivation is to win. But I think in either case there is that 'consolation prize' of know that the money is going to a good cause.

### On Bigger Jackpots vs. More Winners

**MJ:** *Where do you stand on the trade-off between bigger jackpots versus more winners?*

**LD:** It is a balance. It is a trade-off. I think it has to do with the type of game. In a Lotto game, a six number game, the primary interest centers on the jackpot. If anything, the lower-tier prizes sometimes are a let-down for players. For example, I constantly hear, whether by e-mail, telephone calls, or letters, from players that for our Lotto game, if they pick five of the six correct numbers, giving a prize of about \$5,000, they view it almost as a negative. 'I got 5/6 of the way there, yet I only win 1/100,000th of the jackpot.' Although certainly no one ever sends it back, I think that on the Lotto game, it's a letdown. Again, the players' primary interest in that game is on

the jackpot. That's what makes that game so exciting and fun. People love to go to work and talk at the water cooler about what they would do if they won the \$20 million jackpot.

With the other games, we definitely strive to find ways to have many more lower-tier prizes. Especially on our scratch-offs, but even on our other games. I'll give you an example. In our Fantasy 5 game last year we introduced this 'easy match' option which is an 'instant-win' option for our Fantasy Five Online game. The top prize on the Fantasy 5 is \$250,000. The top prize on the 'easy-match' is \$500. And the vast majority of the prizes tend to be in the \$25, \$50, and \$100 range. So for the games other than Lotto we do try to spread out the number of lower-tier prizes. On the scratch-offs we have very popular games that have almost nothing but \$25 and \$50 prizes. That's that winning experience. They may not have won the top prize, but it's enough to keep them happy, provide that entertainment that they were looking for when they bought the ticket.

So, for some of the games, like Lotto and the raffle, all of the marketing was geared toward the top prize. People had different reasons to play each of those games.

**MJ:** *Maybe part of the difference is the immediate nature of scratch-offs versus the delayed nature of the Lotto and raffle games.*

**LD:** I think that's right. In addition, I think Fantasy 5 and 'easy match' are great examples of learning. We're incorporating the best of both, and creating something new that appeals to both. So with Fantasy 5 you've got to wait for the nightly drawing and you have a chance at winning a big jackpot. There's that delayed gratification. But then we add elements with easy match of instant gratification. That is probably the primary reason why that game has done so well in Florida, because it combines the best of both games. We've been very fortunate in being able to roll that out. We've learned from watching experiences in other states, tweaked our game, and it has done very well.

### Competition

**MJ:** *There are currently a number of forms of alternative gaming in Florida, and it seems to be growing. Is that correct?*

**LD:** We do have racinos, the horsetracks and dogtracks, that are allowed to put in slot machines. Only in Broward County, Fort Lauderdale, at this time. There was a referendum a year or two ago, that allows the tracks to put in Vegas-style class 3 slot machines in three or four facilities down there. Like many other states, we do have Indian Gaming Casinos that operate within Florida. So yes, there is, increasingly, more gaming competition in Florida. We also have 'cruises to nowhere'. Cruise ships that dock in our various ports, mostly on the Atlantic side and take passengers out to international waters. It's basically a floating casino. When the Lottery first started twenty years ago none of this existed. So there is certainly far more competition.

I'll tell you, though, that so far the Lottery has not been able to determine that those additional activities are harming our sales. I can't



say that's always going to be the case. In fact, I think over time that competitive pressure will at a minimum impact our sales growth rate. But so far, even in Broward County, we don't see a direct impact from these racinos. This fall will be a year since the first of the racinos opened up, that the track started using slot machines. I have promised the state legislature that we'll provide them with an analysis of Lottery sales, specifically in the south Florida market year over year,

to their elected officials and hold them accountable. I think this inspires a sense of comfort and confidence that the Lottery is operated by the state, in the best interests of the public.

But, this is all conjecture. There are some public/private lotteries, such as in Georgia and Tennessee, that operate quite well, with the same public confidence. But, I know you're meaning something entirely different. You're talking about pure privatization, as is being

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*The way lottery tickets are bought today will change fundamentally over the long term. So lotteries, in my view, will not exist over the next forty years in the way they have over the last forty years.*

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looking for an impact from this increased competition. As I said, so far we don't see it. But it's important enough for us to keep an eye on. It's something we're going to have to deal with in Florida over the long term. One last thing: as a Lottery Secretary, I tend not to look at these racinos as too much competition. State law requires that all the tax revenue from the slot machines in Broward County go into the same education trust fund as do the Florida Lottery profits. So that even if Lottery sales are negatively impacted by racinos, because the players are playing less Lottery and more slots in Broward County, the money is still going into the education trust fund. So to the extent that the state and education programs in the state are negatively impacted, that won't happen in Florida.

**MJ:** *So it becomes a wash either way. Are the racinos owned by the state?*

**LD:** No. They are not owned or operated by the state. These are private enterprises. But they are taxed at a certain percentage by the state, and so those taxes go into the education trust fund.

**MJ:** *The Lottery has no authority or regulatory responsibility over other gaming, is that correct?*

**LD:** That is correct. The Dept. of Business and Professional Regulation regulates the pari-mutuels and these racinos.

### On Privatization

**MJ:** *Do you feel that state-owned lotteries deliver a higher level of security and safeguards than would a privatized lottery?*

**LD:** I do believe this is a critical facet to consider in the privatization issue. I do think, however, that the security safeguards can be maintained even if the lottery is privatized. As a part of any privatization agreement, those things can be written into any kind of agreement. However, speaking from my view of public perception, that the public certainly has complaints and criticisms about government overall, including the lottery. We get, I'm sure, all the same complaints about lottery operations and lottery fairness as all the other lotteries do. But my sense is, from talking to thousands of players over the years, that at least they have a level of comfort and confidence in the fact that the lottery is state-owned and operated. Players know that the Lottery has direct oversight from the Governor and the legislature. If they have any concerns or complaints, they can go directly

discussed in California, Indiana, and Illinois. That is still an untested reality. It has yet to materialize. So I can't predict what would happen in those states if they actually do privatize. But, again, I do believe that there is a level of comfort among players derived from knowing that their elected officials can be held accountable for the operation of their lottery, just like any other state agency would be.

**MJ:** *But the primary purpose of a private company is to make money for its shareholders...*

**LD:** Our real goal as a lottery is to make money. There should be no doubt about that, whether we're owned and/or operated by the government or not. Privatization is a new and complicated issue. A lot of the discussion is conjecture, and hypothesizing on how it's going to turn out. But, it's an intriguing enough issue that I think we owe it to the taxpayers to consider the options.

I look at Vegas casinos, for instance. These are private entities, these are profit-driven, in some cases publicly-traded companies. And they operate with an incredible amount of oversight and with the utmost integrity as well. There are all sorts of regulations, licenses, oversight, and independent auditing, all the things that lotteries have to do. They operate in that same environment, and yet they are private entities. And there is a great deal of confidence, I believe, in how casinos operate. I think that manifestly shows itself in the fact that you have millions of people willing to go there every year and spend their hard-earned money in those casinos. They wouldn't do it if they didn't trust the honesty and fairness of those casinos. So there are two ways of doing it. There's the government lottery way, and there's the private, Vegas casino way. And they both operate very well. So I think now is perhaps an opportunity to see if some of the lessons and additional benefits that come from the private sector can be implemented in the public sector.

**MJ:** *So what you are saying is that you believe, looking at casino regulation in particular, it's very possible to regulate a private enterprise to provide the same level of security and confidence that the public has in the lottery. So, at that point, it does become very much a financial issue.*

**LD:** That's an important issue, and is worth considering, at least.

### Technology and the Younger Generation

**MJ:** *There are so many ways today, with new technology, for younger*

*people to entertain themselves. It seems every lottery wrestles with how to become more relevant to the younger crowd. How do you evolve game styles to stay current with new technology?*

**LD:** It's no different in Florida as everywhere else. Long term, in some ways we have to be even more aware of that particular issue, given the demographics of our state, the retirement destination that Florida is. Our surveys show that our players, while not young, aren't old either. I think we're more in the middle-aged category. But certainly I agree with your basic point. Lottery typically doesn't appeal to lower age people. Election and voting are in the same boat, for some reason that no one's been able to figure out. It's a balancing act. We want to appeal to a broad demographic in a responsible way. How young is too young? To err on the side of caution, we tend to advertise in a slightly older demographic medium. And again, I think we do that to be careful and prudent. But long term there's no question that the Florida Lottery in particular needs to look for ways to appeal to a broader demographic

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*It is a key aspect of our long-term growth strategy to expand our retailer Network... Like many states, we'd love to be able to harvest the 'big box' stores, a Wal-Mart or Costco.*

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as it pertains to age. I wish we had the answer. We don't right now, but it's certainly something that we're going to have to come up with some solutions as time goes on. I may be too old to worry about it when that time comes. But it is certainly something that our research people and our games development people are watching, along with our vendors, Scientific Games and GTECH, who watch these things as well, because they have that long term perspective. I think the industry as a whole is considering all of our options.

**MJ:** *The increased use of technology would seem to be a tricky area for lotteries. Do you see that expanding?*

**LD:** That question is a good reminder for me. There are two items that I've just begun to look at since joining in the Lottery six months ago: the ability to sell lottery tickets via cell phones and the internet. My understanding is that the technology is there. I'm told that in Europe players can buy lottery tickets over the cell phone. So the technology exists. That's not the barrier. The barrier seems to focus on the legality of being able to do things. That's something that I personally get frustrated about sometimes. I have yet to hear a definitive answer on the legality of using these technologies to sell tickets. And if illegal, identifying the law that needs to be changed for a state lottery to employ these technologies. Vendors tell you one thing, and then lawyers tell you another. The constraints that the lotteries operate under creates a natural incentive to err on the side of caution and, in an abundance of caution, not push the edge of the envelope technologically into an arena that is not yet legally tested. We're in that same predicament with every other lottery and will be very careful to pursue it unless we've got legal cover.

**MJ:** *So many issues in the lottery world tend to be a 'damned if you do, damned if you don't' situation.*

**LD:** It is, and it is by nature a risk-averse industry. Because of the fact that there is this discrepancy in opinion, it leads to the safer option of doing nothing.

#### On Political Involvement

**MJ:** *How much input do you have regarding decisions about lottery offerings?*

**LD:** We at the Lottery develop a strategic plan every year. We work with the legislature and the Governor to come up with it. The way it tends to operate is that the Governor has to approve the overall direction of the Lottery. Then we go to the legislature to approve our budget. So that's where the give-and-take takes place in terms of how the Lottery operates. I'm very fortunate in that generally speaking both the legislature and the Governor look to the Lottery as the subject matter experts to develop policy and recommendations, and make those recommendations as to how the Lottery can best accom-

plish its mission, to maximize revenue for education. And then it's up to the Governor and the legislature to decide to what extent we'll be permitted to actually carry out that strategy.

**MJ:** *Along the lines of the discussion in our last topic, I'm would expect that you're careful to highlight any recommendations which may be other than conservative.*

**LD:** I'll disagree with you there. I think my job is to try to be innovative, to put forward various options, some more progressive than others. My job is to maximize the revenue for schools. My job is, therefore, to think day in and day out of how we can do that by selling lottery tickets. I think we have a responsibility to at least consider all of the options. There are of course some things we won't do. It's a grey area, and we side on a more conservative approach. It's a judgment call, but I do view my responsibility to present all of the options. Some are 'pushing the envelope' more than others, but I do think we have a responsibility to at least consider them, to follow our mandate, to maximize revenue for education.

**MJ:** *It seems that every lottery director deals with a group of bosses, the legislators, that contains very conflicting opinions. While happy with revenue, many dislike the whole idea of gaming, so it can be difficult if not impossible to please everybody. How do you deal with that?*

**LD:** I think we're fortunate in that the majority of the legislature is focused on the revenue. But sure, we certainly do have critics. We respect that, and we try as much as we can to provide the information that they need to make their voting decisions. But we're fortunate in that we do have a lot more supporters. I think the fact that millions of Floridians play the Lottery every month doesn't go unnoticed.

**MJ:** *So your brand value and the acceptance of the Lottery by the overall population helps smooth things with the legislature.*

**LD:** It's nice to be able to operate an entity that, broadly speaking, has popular support among the vast majority of the public. It's a good feeling for me personally to know that Floridians love their Lottery, for the most part. That helps us to be able to educate the legislators about the benefits that come from the Lottery. Yes, we're not perfect. But, twenty years ago the lottery referendum passed by a two-thirds majority in this state, and the will of the people is manifested every day.

### On Multi-State Games

**MJ:** *Florida hasn't joined multi-state games, such as Mega Millions and Powerball. Any reason?*

**LD:** I haven't been around that long, and certainly can't address why we didn't join these in the past. Today, though, it's something that we regularly reconsider. We do get letters and e-mails from the public wanting us to join a multi-state game. I think there are a variety of reasons not to. The main one I see, and this is in no way a criticism of my colleagues around the country, is that frankly Florida has learned from their experience. And I don't say mistakes, but experiences. That experience is almost universal as far as I can tell, in everything I've looked at. Bringing a multi-state game into a lottery increases sales for a short period of time. But it has the negative consequence of destroying the in-state Lotto game. Over time, after a period of a couple of years or so, if you add up the sales from the regular Lotto game in a particular state, and the multi-state game, they don't even reach the level of what the original game did by itself. So just economically I think Florida has looked at and considered what has gone on in all of these states that have joined multi-state games, and has concluded that we don't want to go down that path. Long term, it may do more harm than good. Having said that, we do always consider all of our options. We try to take the best from games we operate and games that others operate, and try to build on that. If there's a way to do that, than we shouldn't ignore it. But so far, at least for our particular lottery, we've concluded that joining a multi-state game would do more harm than good.

### On Retailers

**MJ:** *How do you compensate retailers?*

**LD:** Straight 5% commission across the board, and a 1% cashing commission bonus, for tickets up to \$600 that they cash in their store. So on average about 5.5% of every dollar goes to retailers.

**MJ:** *Did you ever consider a graduated system, where the percentage goes up as they sell more?*

**LD:** I have not. Of course, I can't speak to what might have been considered before my time. But, we do have an additional retailer incentive fund. It's about \$2.5 million per year. It's used to incorporate a level of 'pay for performance'. We try to use it for rewarding retailers who go above and beyond to help sell tickets. Our special retailer promotions are conceived and designed in a way that those high-performance retailers will derive a greater share of that special retail incentive pool. And I think that works very well because I want to reward the retailers who work harder for us.

**MJ:** *It sounds like this is more of a discretionary fund rather than a specific contractual percentage.*

**LD:** These are programs we design to use this money, the additional \$2.5 million. These programs are discretionary. They are designed specifically to reward performance, as opposed to the flat fee, which is shared equally regardless of how well the individual store performs. The legislature has given us additional money and we use it to reward in a typically entrepreneurial, incentive based way to reward those highest-performing retailers.

**MJ:** *How do you market that to the retailers, making them aware of the availability of these funds, provide it as something they strive for?*

**LD:** Mostly through our roughly 120 sales representatives throughout the state. They have a certain number of retailers on their routes. When these special retailer incentives are rolled out, maybe two or three times per year, the sales representatives inform the retailers about their opportunity to increase their commissions by meeting the benchmarks, the objectives set forth in the retailer incentive program. We also have a quarterly newsletter that we send out to all 13,000 retailers that we have. We will announce the next quarter's incentive program in the newsletter, so that they can expect their sales representative to come and talk to them about it. If they have any questions, they can get them answered directly. So we use that as a great tool to keep our retailers informed about what's going on in the lottery business.

**MJ:** *So in a sense you have a graduated system. It just isn't completely standardized. You can vary it to meet your needs at any given time.*

**LD:** Yes. In the way you describe it, absolutely true.

**MJ:** *Do you see any changes coming about in retail channels?*

**LD:** It is a key aspect of our long-term growth strategy to expand our retailer network. We have 13,000 retailers across the state. Our ration is slightly lower than the national average. We are definitely striving toward increasing that number, with our goal being 14,000 across the state. Like many states, we'd love to be able to harvest the 'big box' stores, a Wal-mart or Costco. Just like with everyone else, the hurdles come from these retailers viewing lottery as too much red tape, too much paperwork to justify the financial benefit to their bottom line. So we're looking at perhaps different ways to be able to offer lottery tickets in those stores. One very obvious example would be ITVM's, instant ticket vending machines. In some ways, the objectives of these two strategies, bringing back ITVM's and expanding our retailer base into non-traditional retailers, perfectly coincides. The pharmacies and 'big box stores' of the world may very well be interested in vending machines that are more automatic, that don't require labor-intensive accounting. Doing one will benefit the other, so that's one of the main reason why we're trying to bring ITVM's back into Florida. I think that will provide a natural segue into our another dilemma, which is trying to increase our retailer network and getting into some of these non-traditional retailer establishments.

**MJ:** *Has anyone from the Florida Lottery actually spoken with some of the 'big box' stores?*

**LD:** We have spoken with Sam's Club and Sears. The feedback that we got from both is a certain level of interest, but with some caveats. The major caveat is the intensive accounting requirements of



having a lottery terminal in their store. So the natural solution to that would be an ITVM. As soon as we have authority to pursue ITVM's, we will definitely be back knocking on the doors of Sam's Club, Sears, Wal-mart, etc. to be able to offer them this different option.

**MJ:** *I assume a challenge is that these stores are national, and want to offer whatever they have on a national level.*

**LD:** That certainly has been one of the challenges. I've heard that from my lottery director colleagues across the country. I don't think there's a solution to that, obviously. Our hope is that they will view the lottery as a unique product, and that we can find a mutually beneficial way to overcome that hurdle. At the end of the day, though, we can only offer as much as we can. If they don't want the sale of lottery tickets to be state-specific, there's not much we can do about that.

### On Ticket Price Points

**MJ:** *The ticket price points seem to be rising, and nobody seems to have found a point at which people simply won't buy.*

**LD:** I'm definitely keeping a very close eye on the success that Texas is having with its \$50 scratch-off ticket. I'm curious as to public receptivity, the positive response by the public to that price point. In Florida, our top tier ticket costs \$20. We've not up until now considered anything above that. We've only gotten to the \$20 price point in the last three years, so we're still benefiting greatly from being at that price level. I am certainly very curious as to Texas' experience. I can tell you that our retailers would love to have the lottery offer more and more higher priced tickets, whether from the on-line side or the instant ticket side. Like any consumer product, you have to offer variety, choices. There are many players who enjoy the lower tier prizes and there are many players who are introduced to the lottery at that price point but over time are willing to take a chance at the higher price point. So the lower tier tickets are a great entry level introduction to lottery. So I'm hesitant to focus solely on the higher price points. For the most part, my view is that the market, the public should ultimately make that decision. If that's where the sales go, and that's where the sales are focused, then we need to cater to our players. Day in and day out, we need to satisfy our customers. Over time, if they are more interested in the higher price points than we're going to give them what they want.

**MJ:** *Is there any data to suggest that the higher price points would bring in a higher-income demographic?*

**LD:** Not that I am aware of.

**MJ:** *Any thoughts on how to engage a higher-income demographic?*

**LD:** I don't think we look that closely at demographics in that way. Our advertising and marketing research tends to focus on the broadest appeal across the population spectrum. We try not to carve out specific segments on a socio-economic standpoint. We want to appeal to all Floridians, offer something that would appeal to all of them. Whether it's at the dollar level, or the \$20 level, we have a product that might be of interest to them.

### On the Maturing of the Industry

**LD:** The Florida Lottery used to be the new kid on the block.

Suddenly we're almost twenty years old. We are now experiencing a lot of the same difficulties and challenges that come from the maturing of the industry. One of the inherent advantages that Florida has is the dynamic and transient nature of the Florida population. We have a thousand new residents every day. We have a tremendous amount of tourism. We have so many people from the Caribbean and South America either moving to Florida or at least making Florida a second home. So, while we are definitely experiencing some of the challenges associated with being a mature lottery, that is mitigated at least in part by some of the built-in advantages that we have. So that's why I'm so earnest and aggressive in learning from some of the other lotteries. Why go through some of the same pain that others have experienced? If we can learn from that and mitigate some of those problems, great. Long term, Florida definitely has to keep its eye on competition. But I view that as healthy, as a good thing. That keeps us on our toes, focused, striving every day to be better, to serve our customers. I don't view that as negative in any way.

Really long-term: Modern lotteries are about forty years old. The big thing for me is this: Will lotteries even exist in forty more years? I'm going to be long retired, so I'm not going to have to worry about that. But the idea that lotteries are here forever, and will be a source of revenue for states forever, I think is unrealistic. All you have to do is look backward forty years and realize that states had survived for hundreds of years without lotteries. So I believe lotteries and states do need to at least consider the day when lotteries just may not be a revenue source for them.

**MJ:** *You're looking from a state budget viewpoint. What about gaming in general...*

**LD:** Gaming has been around for thousands of years, and will be around for thousands more.

**MJ:** *So you're looking at the gaming industry as a whole and wondering what place lotteries may have. Do you see technology as a serious threat?*

**LD:** I think you hit it on the head. I think technology ultimately will be the driver. The way lottery tickets are bought today will change fundamentally over the long term. So lotteries, in my view will not exist over the next forty years in the way they have over the last forty years. The technology, and the legal issues, will eventually be sorted out, to make it easier for the public to buy lottery tickets. And maybe it will be absorbed in the overall gaming of a particular state. So that the lottery is just one type of gaming offered within a state, but is absorbed in the greater gaming industry of a particular state. The lottery is not a wholly separate entity, as we've grown accustomed to over the last thirty or forty years.

**MJ:** *The landscape of gaming within any given state is changing right now.*

**LD:** Long term, the gaming industry within a state will be more integrated than it is right now. When we think of gaming, we think of horsetracks and casinos. Lottery is this sort of other, separate, protected monopoly that doesn't interfere with, and doesn't get involved with, overall gaming. Long term, I see that merging. But again, I don't think I'll be around when that's fully realized. ♦



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