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# GAMING

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

## **Gordon Medenica**

Director,  
New York Lottery



## **Tom Shaheen**

Director, North Carolina  
Education Lottery



## **Jodie Winnett**

Acting Superintendent,  
Illinois Lottery

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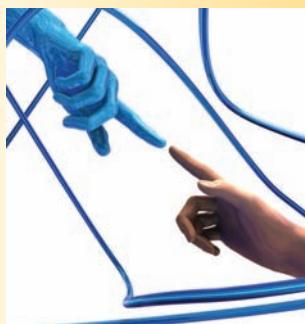
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**PGRI's Morning Report** is our weekly electronic newsletter. It is sent out to your e-mail address every Monday morning. This provides you with a brief synopsis of the previous week's industry news. In addition to the news items, our editor, Mark Jason, follows up to get commentaries and quotes from the 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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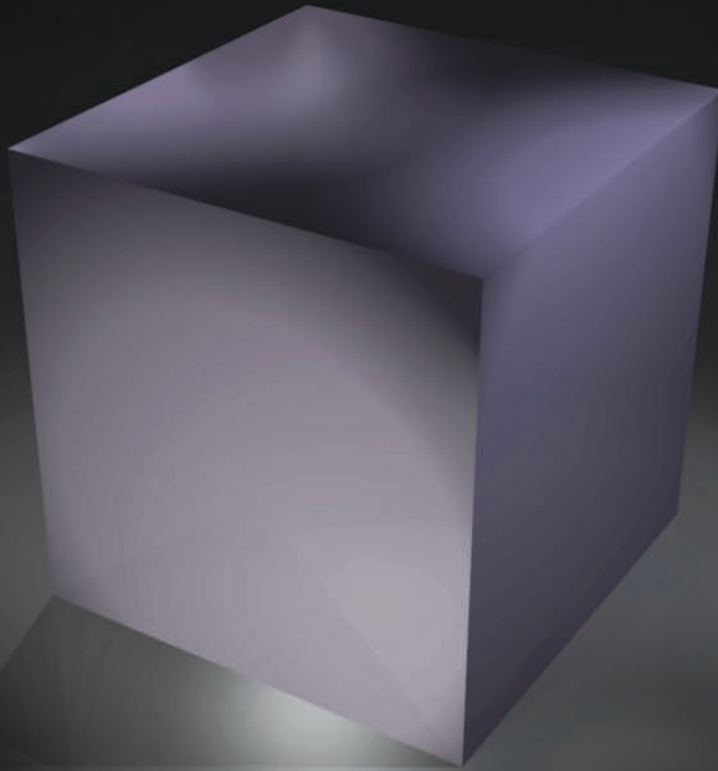
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## From the Publisher

*By Paul Jason, CEO, Public Gaming Research Institute*

We have been encouraged to further internationalize the content of Public Gaming Research Institute products. So we're spending the first 3 weeks of January visiting lotteries and clients throughout Europe. Beginning in Rome, continuing to Austria; now writing this to you from Prague, and next continuing on to Germany, Netherlands, France, and U.K.; and concluding with the ICE Gaming Exhibit in London January 22-24. There's a lot to report on and you will be reading about it in coming issues of the magazine and at [www.publicgaming.com](http://www.publicgaming.com). Of course, it is not about places – it's about people, your colleagues and their experiences and the perspectives shaped by those experiences. I especially want to thank all of my European friends who shared so generously of their time and hospitality.

The SMART-TECH 2008 Conference is right around the corner ... April 28 to May 1 in Charleston, South Carolina. We are so pleased and honored to be co-hosting the conference this year with Ernie Passailaigue and the South Carolina Education Lottery. Mark your calendars and check our website, [www.publicgaming.com](http://www.publicgaming.com), for conference updates. Agendas, speakers, and panel discussion topics will be announced as they are confirmed. Anyone who attended last year's conference at Wynn Las Vegas can attest that SMART-TECH delivers – it's truly fun, informative, and a fabulous place to catch up with colleagues from all around the world.

For that matter, be sure to visit [www.publicgaming.com](http://www.publicgaming.com) for the most comprehensive news and information on our industry. The volume of news is exploding and we are working hard to organize it in a way that makes it easy to quickly find what is most relevant to you. The website also includes original content in the form of editorials and interviews that do not appear anywhere else, along with the conclusion to articles and interviews published in this magazine. We welcome any suggestions on how to make the website as user friendly as possible.

In this issue are discussions and interviews that took place over a two day period at the offices of the New York State Lottery. Public Gaming very much appreciates the hospitality and time taken by NY Lottery Director Gordon Medenica and other key Lottery personnel to talk with us and share their insights with our readers.

Throughout the two days, three recurrent themes stood out:

- A total focus on the task at hand, which is to generate funds to support education
- A perception of business relationships as 'partnerships'
- The long-standing tenure of the vast majority of NY Lottery personnel.

In every aspect of the organization, working relationships are considered 'partnerships'. Tim Iacabucci, the Video Gaming Proj-

ect Director, refers to VLT manufacturers as 'partners in creating an exciting and entertaining gaming experience'. Retailers are referred to as 'partners in providing an entertaining product to the people of the state'.

Establishing a positive work environment is obviously critical in reducing employee turnover. The NY Lottery has gone beyond that, creating an environment which supports capable and ambitious career-orientation. As Tim Iacabucci put it: "The class of 1990 is probably the most well-represented group within the Lottery." That's seventeen years of tenure. While Gordon Gurney, Deputy Director of the Lottery, modestly deflected credit for this employee supportive workplace, NY lottery personnel pointed to his mentorship as a major factor in creating a great lottery and a great team.

Tom Shaheen, Executive Director of the North Carolina Education Lottery, talks about launching the Lottery, parsing the precise meaning of advertising restrictions, managing media relations, building a retail network, and most of all the tremendous opportunity for the Lottery to support Education in NC. Jodie Winnett, Acting Superintendent of the Illinois Lottery, talks candidly about the impact of competition in the lottery industry, addresses some tricky public policy issues, and discusses challenges and opportunities with an open minded approach to all varieties of options.

Thank you to our contributing editors. Matt Mansfield of GTECH points at a future of lottery gaming environments with a focus on entertainment and community. Philippe Vlaemminck, Harold Fogt, Annick Hubert, analyze the series of recent and incredibly important decisions and settlements being reached in the legal battles over Internet and cross-border gaming. And Paulo Guttler of Editec describes their experience in China, a market rich with potential that we all would like to know more about.

Ciao, Auf Wiedersehen, Au Revoir, Na Shledanou, Cheers, ... and a hearty best wishes for a fabulous 2008! ♦

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# New York Lottery – Medenica, Gurney, Charlson

A discussion of the issues affecting the New York Lottery.



Gordon Medenica



Gardner Gurney

The following discussion took place on December 6, 2007. Gordon Medenica, newly appointed Lottery Director, Gardner Gurney, Deputy Director, Director for Finance and Administration, and John Charlson, Director Communications, discuss a wide range of issues affecting the New York Lottery with Mark Jason of PGRI.

**Mark Jason (MJ):** Mr. Gurney, you've been with NY Lottery for awhile, haven't you?

**Gardner Gurney (GG):** Probably longer than I want to admit, recently reaching my nineteenth anniversary. I started in the internal audit department in the fall of 1988. When we moved to Schenectady in 1991, I moved from the internal audit to the finance office. We went through various changes there, and I went to the executive staff in 2004. I've had quite a few different jobs since I've been here at the Lottery, most recently as Director of Operations when Joe Sealy moved up. For me it's a totally different thing than I've worked on before, and I'm certainly learning a lot.

**MJ:** With the notable exceptions of Mr. Medenica and Mr. Charlson, it seems as though the tenure at the NY Lottery personnel is significant. That is of course a very impressive thing. Do you make a specific managerial choice to try to promote from within?

**GG:** I would say from some perspectives, absolutely. Since we are one of the largest lotteries in the world, we have many people here who have far more experience than outside candidates would have. So, for certain positions, absolutely. We have the ability to train people up, and take advantage of everyone's strengths. But also I think looking forward, there are a lot of changes within the industry. The larger we get, the more it will be advantageous to have the perspective of people from outside. The lottery is changing. No one can deny that the Lottery today is not going to be the same Lottery ten years from now. So having the opportunity to get information and perspective from people who have been in various industries around the nation is helpful. If we just go down the same road, staying as we are, if we don't bring in fresh ideas and perspectives, we are not going to grow as fast as we could.

**MJ:** Mr. Medenica, you stepped into control of by far the largest lottery in the country two and a half months ago. In general, what did you do? You walk into a lottery that did \$7.1 billion last year. My guess is that you spent no small amount of time speaking with Mr. Gurney. What else did you do, let's say in your first week?

**Gordon Medenica (GM):** Well, my first week was classic 'drinking from the fire hose'. My first week was spent in Kentucky, at the NASPL convention. So I literally began the job in the midst of all the state and world lottery people. It was probably the most intense learning experience for me. In fact, I spoke with Gardner before I started. He told me about the convention, and that there are a number of people scheduled to be at the convention. He offered to cancel and stay here for me when I started. Someone raised the notion that I just go to the convention. So in fact I spent the first week in Kentucky, totally absorbed in lottery issues, and meeting all the lottery people.

**MJ:** And I'll bet you went to every seminar you could, and learning from both the questions and discussions.

**GM:** Nonstop. For people who have been to these conferences before, it may not be as interesting. But for me, I was absorbing every scrap of information that I could. I also have a little anecdote for you. In my previous gig, in Philadelphia, I had advised a local investor group that bought the Philadelphia Inquirer and the Daily News. Interestingly, the first person we hired after we closed the deal, the chief marketing officer, was the former head of the Pennsylvania Lottery, Ed Mahlman. Ed had worked with Brian Tierney, the investor and CEO of Philadelphia Media Holdings, when Brian owned an advertising and public relations agency. So, Ed came in as CMO for newspapers. I was very much the newspaper guy on the acquisition team. There were other financial experts and experts in other areas. I immediately hit it off with Ed. And just anecdotally, I started hearing all these stories about the lottery over the last couple of years. Other than playing the lottery myself, I'd never been thinking about it as a business. So, when it became clear that I was going to be taking this position, of course I was pumping Ed like crazy. So I'd have to credit Ed with my early childhood education in the lottery

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# North Carolina Education Lottery

An interview with Tom Shaheen, 20 years in the industry.



Tom Shaheen

Thomas Shaheen, Executive Director North Carolina Lottery, talks with Mark Jason about the excitement of starting a Lottery (and some of the hurdles still being wrestled down) ...

**Thomas Shaheen (TS):** In a couple of months I'll be celebrating my 20th anniversary in the industry. What's really exciting is that you always can learn something. When I came here, the biggest learning experience I encountered was starting a lottery with competing lotteries on every border.

That was a challenge. Many of the lotteries that started up in the early years didn't have any lotteries on their borders. We are the only one, I believe, that started with an existing lottery on every border. That meant that our players were very savvy about all lottery games. We had to compete with Virginia, South Carolina, Georgia, and Tennessee. That was difficult. When you're the only game in town, or when there's only one border covered, it's a whole different ballgame. There were, and are, four examples to be compared to, every single day. That was a difficult challenge to work through, and we're still working through it.

**Public Gaming (PG):** As I understand it, North Carolina is not the first start-up you've been involved with.

**TS:** No, it's not the first start-up I've been involved with. It is the first start-up in which I've been the Director.

**PG:** Which start-ups were you on the ground floor with?

**TS:** Primarily Georgia, and Texas, and I was also at the Florida Lottery start-up.

**PG:** What kinds of positions did you hold at those lotteries?

**TS:** In Florida, I was a sales representative at the start-up. In Texas, I was a mid-level manager. In Georgia I was Vice President of Sales.

**PG:** So you're the kind of manager who's done everybody's job, and therefore knows when people are performing well and also when they're not.

**TS:** Let's just say that I have a good understanding of what everybody's jobs are about.

## The Lottery as a Business and a State Agency

**PG:** How would you compare starting a lottery with starting a business, in terms of the details of implementation?

**TS:** Depending on the jurisdiction, it would be a different

comparison. If you are set up as Georgia was, to run as a business, there would be a lot of similarities between starting a lottery and starting a regular marketing venture. If you're in a state agency, such as North Carolina, it's not quite as comparable. As a state agency, there are a lot of limitations that come along with state government. Our challenge was that we had to start a business that was a state agency. Lots of policies that are already around the state may or may not pertain to the lottery. I kind of had to meander my way through to determine whether these policies were applicable to the lottery or not.

**PG:** So in terms of daily implementation, lotteries function in ways very similar to a private enterprise. But in terms of constraints, limitations, maybe policies designed for totally different circumstances...if it's a state law, it applies.

**TS:** Yes. And that has a tendency to restrict a great deal of our marketing ability. There may be policies in the state that you can't do what you would normally do to market the lottery.

**PG:** I had one lottery director tell me that in his state no state employee could be paid a commission. That severely hampered his ability to motivate his salespeople. Would you say that's the primary difference between operating the lottery as a corporation rather than a state agency?

**TS:** Yes. When you develop the lottery as a corporation you have much greater opportunity to develop your policies and procedures in a way that directly pertains to the lottery itself. For instance, trying to allow retailers to have a reasonable amount of time to pay for instant tickets after receipt was a very difficult thing to achieve in North Carolina, because the state has a rule that it does not issue credit to anybody. If we deliver tickets to a retailer and tell them they don't have to pay for them for three weeks, that's issuing credit to that retailer.

**PG:** How'd you get around that one?

**TS:** Well, we had to sit and meet with the state controller and show that the retailer would not have the opportunity to sell or use all the tickets in one day. For instance, a \$1 scratch ticket comes in packs of 300. Most retailers wouldn't have the opportunity to sell that many in one day. We told the state controller that it would be difficult to collect \$300 for that pack,

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# Illinois Lottery

Jodie Winnett discusses current Lottery initiatives and games as well as the implications of cross border gaming and other issues



**Mark Jason of PGRI (MJ):** *How long have you been the Acting Superintendent?*

**Jodie Winnett (JW):** Since April of last year; since we lost Caroline Adams. In addition to my superintendent duties, I'm also the Associate Director of the Department of Revenue, under which the Lottery operates. So I've been working with the Illinois Lottery for just over four years.

**MJ:** *So in a sense you oversaw Lottery operations for the Department of Revenue, so that when Caroline Adams passed, you stepped in to make sure the 'ship stayed right'?*

**JW:** Exactly.

**MJ:** *Privatization has been quite an issue in your state, with the Speaker of the House and the Governor at odds, taking diametrically opposed positions on that. Can you tell me what the current status of that issue is?*

**JW:** Sure. The proposal was on the table this year for two reasons. Illinois, like many states, has a dire imbalance in its pension funding. The lease of the Lottery was identified as a source to start to correct that imbalance. As well, as we looked at the Lottery, the landscape for gaming and retail businesses, we needed to determine if the government was the best steward for the Lottery going forward. Can we be nimble enough, can we react to changes in the marketplace to do the best for the Lottery? And we're not sure that we are the best place for the future of the Lottery. So we put the option on the table. . As we open a session in January, we believe that those two facts remain, and we expect it to be an option on the table again. And the debate will begin again. It was a big, new idea, and those types of ideas sometimes take time to be understood. There was a lot of good debate, a lot of good discussion. But it wasn't ultimately the path that was taken last year.

**MJ:** *One school of thought is that a state-owned lottery is not conflicted by a specific profit motivation, as opposed to a privately-held organization. What would your thought on that be, in terms of balancing the public welfare with revenue and profit needs?*

**JW:** I would say that the government regulates many businesses that without any controls could be harmful to the public, without actually operating those businesses. And that's how we approach this model. The state would still have a regulatory

hand, much as it does with casino gaming. The state does not own those casinos, but it regulates the operators.

**MJ:** *So in your mind, while there certainly are pros and cons to the privatization issue, the idea that the state would need to own in order to properly protect the citizenry wouldn't be an accurate statement. You believe the state is perfectly capable of regulating a private enterprise in that context.*

**JW:** Certainly. And Illinois has a strong track record of effective regulation. The Department of Revenue currently regulates the gaming, liquor and horse racing industries in Illinois.

Of course, each has separate boards and commissions that continue to have an active role.

**MJ:** *There's quite a discussion about casino gaming in Chicago. Would you say that discussion is motivated because Cook County in particular feels like it's losing out to Joliet on the gaming revenue?*

**JW:** Well, it's close to Indiana as well, probably closer.

**MJ:** *Yes. The Indiana gaming map is interesting, with casinos clustered in East Chicago and on the Kentucky border.*

**JW:** Yes, 20 minutes from downtown Chicago.

**MJ:** *So the discussion is motivated more by legislators looking across the border and thinking that the Chicago population is driving 20 minutes and spending a lot of money, for which the state of Illinois gets nothing. This is not unusual; it seems as though gaming expansion is almost being forced. Citizenry is gaming anyway. The only question is which state is the beneficiary of the tax money generated.*

**JW:** I've read the same things that you've read.

**MJ:** *Let's move on to more lottery-specific questions.*

**JW:** (laughs) Yeah, you started off with the hard ones. You should have softened me up a little bit.

**MJ:** *A 33% return on good revenue is very good, higher than the average. Any particular points on that?*

**JW:** I think we run a very lean organization. We have been very careful in the way we've grown our price points with our instant tickets. I'm seeing a lot of growth there. We're trying to manage that growth carefully to ride it as far as we can, and make sure the player base is ready for the introduction of higher price-point tickets. Introducing some new games...we had two very successful raffles. Looking very carefully at our on-line games

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Gaming industry is a serious thing.

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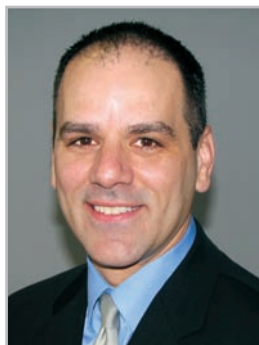
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## New York Lottery – Tim Iacabucci and Randall Lex



Tim Iacabucci



Randall Lex

The following Interview/Discussion focuses on Video Gaming, the way the games and machines are selected, getting cooperative interaction between different interest groups and competing suppliers, horseracing and the different VLT Facilities, ...

**TI:** Timothy Iacabucci - Head of Research and Development

**RL:** Randall E. Lex - Director of Marketing

**MJ:** Mark Jason, Public Gaming International Magazine

**John Charlson**, Communications Director, makes the introductions: Tim Iacabucci is in charge of Video Gaming here at the Lottery. Brian Corrigan with Multimedia oversees the central system, which is located right here at the Lottery headquarters downstairs. After we spend a little time here, we thought we'd take you downstairs and give you a little show-and-tell on how that works. At the same time, we wanted to talk today about video gaming.

We talked a bit beforehand, and Mark had some questions on the various facilities in the state. Who owns and who operates the different facilities, who owns the machines, the types of games we have at the facilities, which ones are the most popular, and a number of other questions. Questions related to the future of the NY Racing and Wagering Board and the future of Aqueduct are better pointed to others, possibly at the Governor's office. But we are charged with the oversight of Video Gaming, and with that, I'll turn it over to Mark.

**MJ:** Tim, a little background information first. When were Video Gaming machines first legalized in New York?

**Tim:** The initial legislation authorizing the installation of Video Gaming was in 2001. This legislation was changed in 2002, primarily to change the allocation as to how much was provided to the facilities. It was again changed in April of 2005, again changing the allocations.

**MJ:** When were the first installations made?

**TI:** In January of 2004 we put in 1324 machines in Saratoga Gaming and Raceway.

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*The six-month benchmark review is probably the greatest thing that was ever put together in this program.*

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**MJ:** How many locations do you have now?

**TI:** We have eight now, with a total of 13,060 machines.

**MJ:** How long did it take to get that number in place? Was it a fairly quick process?

**TI:** We did three of them immediately, in January, February, and March. Saratoga, Finger Lakes, and then Buffalo, all in 2004. Then Monticello opened up June 30 of 2004. Then Batavia opened up in May of 2005. Then in 2006, we opened up Tioga in July, Yonkers in October, and Vernon Downs in October. So they came in bunches.

**MJ:** Tim, how long have you been here?

**Tim:** Since 1990. I started as an auditor, moved into research and development, then into Video Gaming. And now I'm back in research and development again under Marketing.

**MJ:** All of this from being an auditor?

**TI:** Yes. I understand the Lottery from many different angles.

**MJ:** All of the installations are racetracks?

**TI:** Yes. The Legislation requires that the facilities have a racing and gaming license.

**MJ:** Why is it that VLT installations focus on racetracks?

**TI:** From looking into the way the legislation went, a lot of the net machine income supports the racing industry. So there's an inherent tie between the two. From the Lottery's point of view, we were asked to set it up and oversee it and that's exactly what we did.

**MJ:** Any more locations currently being considered?

**TI:** Not by the Lottery. We've completed all facilities currently scheduled to receive machines.



**JC:** And the discussions between the Governor and the legislature regarding the future of racing and what may happen at Aqueduct is well-publicized. The Lottery looks forward to working with them in implementing whatever decision they might come to.

**MJ:** When the legislation was written, was the number of machines authorized stipulated on a per-location basis, or overall for the state?

**TI:** There's no number of machines specifically stipulated in legislation. The track works with the Lottery to determine the optimal number for each facility, what each facility can handle relative to the population base.

We have grown in Saratoga and Finger Lakes already. Batavia has shifted some machines around. Monticello actually contracted because they wanted to do some other features in the building. They wanted to use a room for another purpose. Yonkers has been built out in stages. Yonkers is the newest. Even though Vernon Downs opened up a couple of weeks after Yonkers, Yonkers started with one section and then built another section. Their final opening was on March 17 of this year, with a possibility of an additional 2500 machines.

**MJ:** Who owns the Yonkers facility?

**TI:** The Rooney family owns the Yonkers facility.

**MJ:** The same family that owns the Pittsburgh Steelers?

**TI:** The same. And they manage the facility themselves.

**MJ:** What was the total return from VLTs last year?

**TI:** About \$525 million.

**MJ:** On a percentage basis, with every other lottery that has VLT's, the dollars from VLT dominate lottery revenue. At the New York Lottery it isn't that way. Not only that, but on a real dollar basis, a number of lotteries with VLT's in much smaller states, have VLT revenue that exceeds that of New York. Any reason for that?

**TI:** Are you talking about per machine or total amount brought in?

**MJ:** Total amount brought in. Now, it does seem that the focus of VLT installations has been away from the population centers, New York City in particular.

...continued on page 27

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# New York Lottery – William Murray



William Murray

William Murray, Deputy Director and General Counsel of NY Lottery, discusses public policy

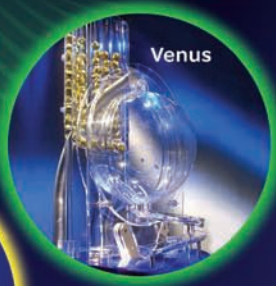
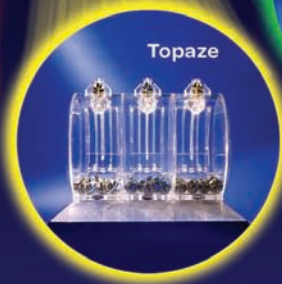
**Mark Jason (MJ):** What are some of the legal issues you need to deal with?

**William Murray (WM):** Since the Lottery is highly privatized, with most of our work being done by private contractors and by private businesses that serve as our retailers, most of our legal work has to do with those contracts with our suppliers and retailer network. Most of those issues are contractual in nature. Some of them are more regulatory. That's the bulk of the work, dealing with those private companies that help us bring the Lottery games to the public.

**MJ:** You use the term 'privatized'. It seems the term has been used in different ways so that the meaning has become unclear. What do you mean by 'highly privatized'?

**WM:** Just in describing the division of labor among the state lottery, the people who are employed by the state lottery, like the three of us in this room. We're state employees. So I think of us and our colleagues who work for the Lottery as the public part of the Lottery organization. And then there are the contractors like GTECH and Scientific Games and the many others who help us operate the games as a big part of the 'privatized' side of the Lottery. And then the 16,000 or so retailers we have throughout the state make up the 'privatized' side of the Lottery. As you compare the Lottery to other state

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agencies, we are far more privatized than other state agencies are.

**MJ:** *So, if we think of the Lottery as a business, the vast majority of the business activities are performed by the private commercial sector and not by the government sector and government employees.*

**WM:** That's right. I don't think we've ever counted up the number of man hours, but it's fair to say that if one did go through this process there would be far, far more man, and woman, hours put in by the private side than is invested by the public side.

**MJ:** *So, the Lottery's role is much more of a regulatory and contractual one, and your role specifically is to verify these processes and make sure that it all runs smoothly?*

**WM:** The legal staff spends a lot of time in that role. But beyond the legal, contractual, and regulatory duties, the Lottery's management in general has much more leadership responsibility in general than just contractual. Lottery management, the Lottery Director, and all the Lottery staff work on providing leadership for the public and private sector portions of the Lottery.

**MJ:** *Are there any legal initiatives currently on the board that are of interest?*

**WM:** Yes. We have a game called 'Quick Draw', a KENO-type game, that has a special statutory framework with requirements that have been in place since the game was first introduced in New York in 1995. Some of those requirements limit the way the game can be operated and marketed. We in the New York Lottery have recommended regularly to the legislature that it consider changing the law to ease those limitations. We are in the process of preparing an initiative, a proposal, for the consideration of the Senate and the Assembly that would ease those limitations on 'Quick Draw'. In particular, those limitations that require that we offer the game only in those retail locations in which they serve alcoholic beverages and have at least 25% of their sales in food, or if they don't sell alcoholic beverages that they occupy space that has a minimum of 2500 square feet. Another limitation is that the game be operated no more than a certain number of hours during the day, with no more than eight of those hours being consecutive. That requires the game to have an arbitrary break in operations during the day. All those restrictions make the game difficult for our retailers, who offer the game to the public, to operate the game. We're recommending to the legislature, as we have in the past, that those limitations be eased. There's also a sunset date that the legislature imposed on 'Quick Draw' in which our authority to operate that game expires on a regular basis every year or two years. The next sunset date coming up is May 31, 2008. We're

...continued on page 28



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# Free Trade in a Regulated World: the United States

## Measures affecting the cross-border supply of gambling and betting services in the WTO dispute settlement.

By Philippe Vlaemminck, Howard W. Fogt Jr. & Annick Hubert



Philippe Vlaemminck



Howard W. Fogt Jr.



Annick Hubert

On December 17, the European Union (“EU”) announced its agreement with the United States (“US”) on a compensation package offered by the US in response to its withdrawal in WTO of GATS commitments on gambling and betting services, including on-line gambling. This bilateral agreement provides EU service suppliers with new trade opportunities in the US postal and courier, research and development, storage and warehouse sectors. The US also made concessions in the testing and analysis services sector. Other WTO members, like Canada, Australia, Japan and India had previously settled with the US. Countries like Macau and some Caribbean nations have more difficulties to come to an agreement with the US as the US withdrawal of its GATS commitments has a more immediate impact on their economies. Eventually, we expect that there will be agreements with them as well. The US needs to accept the international trade consequences of the fact that there are nations in the world who have a different view on regulating gambling services, and that this will remain a source of likely trade conflict as long as no international solutions on this and other similar activities are available.

The GATS allows members to modify or withdraw commitments, provided that they negotiate offsetting compensation. However, the overall level of its market access must remain the same.

Following the ruling in the art. 21.5 DSU Panel (the “compliance Panel”) dated 30

March 2007, the US had to make a choice. It could comply with the DSB rulings and recommendations, thereby partially opening up its market for cross-border supply of certain gambling and betting services (i.e., those connected to horse race and other sport betting). Alternatively, it could commence appropriate WTO procedures for withdrawing its commitments on gambling and betting and compensating for the so-called loss of market access. Regardless which option the US chose, it had to respect both the WTO procedures and the general principles (e.g., the non-discrimination principle) set forth in the Marrakech Agreements setting up the WTO,

The European Commission mentioned this requirement explicitly in its press statement “While the US is free to decide how to best respond to legitimate public policy concerns relating to internet gambling, discrimination against EU or other foreign companies should be avoided” said Peter Power, EU Spokesman for Trade. Free trade does indeed not equal a free ride!

In the context of this specific trade dispute, the US had argued that even if it had included “gambling services” in its GATS commitment, it was a mistake or oversight. That being said the US sought to avoid the WTO consequences of this oversight by arguing that it had the right to limit the impact of GATS commitments if such commitment would undermine the public order of the concerned WTO member. In the current case on gambling services, the US com-

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**Howard W. Fogt Jr.** is a partner at the Washington DC and Brussels office of Foley & Lardner. He is a Member of the firm’s Anti-Trust Practice and the International Business and automotive Industry Teams. He counsels and represents Corporate clients in international and domestic trade regulation laws, multinational mergers and acquisitions, international antitrust, distribution and franchise matters, transfer & license of IP and technology, and EU law.. His e-mail is HFogt@Foley.com

**Annick Hubert** was previously a State Attorney of the Belgian Department of Foreign Affairs, legal representative of the Belgian Government at the Court of Justice of the European Union and the European Free Trade Area Court. She joined the EU law practise group of Vlaemminck & Partners this summer. Her e-mail is A.Hubert@Vlaemminck.com

mitted under the heading “Other recreational services” unintentionally also “gambling and betting services.”

Confronted with the demand from Antigua and Barbuda, the US invoked among others art. XIV GATS to avoid that the cross-border supply of gambling services into the territory of the United States would undermine the Federal and State policies on gambling. While the original Panel expressed doubts about the right of the US to invoke art. XIV GATS, the Appellate Body reversed the Panel findings and admitted that the United States measures were “necessary” to protect public morals or to maintain public order. However, the Appellate Body found, upholding albeit on a narrower ground the Panel findings, that the United States had failed to show that the 3 Federal Acts

enough to allow Antigua to request the DSB to suspend concessions or obligations under the TRIPS Agreement.

Although the Arbitration decision is a very extensive document which requires an in-depth analysis, it is already worth to mention here a few elements of the decision.

The Arbitrators stated that “while Article 3.7 of the DSU does provide that the objective of dispute settlement proceedings is usually the withdrawal of the inconsistent measures, we do not read this provision to mean that this is in all cases the only possible outcome (...)”. This confirms that the Arbitration decision does by no means affect the choice made by the United States to withdraw its commitment and to offer appropriate compensation. Art. 22 DSU does explicitly mention that the concerned Member can “otherwise

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*Antigua claimed the right to retaliate for an annual amount of U.S. \$3.44 billion.  
They were awarded U.S. \$21 million.*

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involved, and especially the IHRA did satisfy the conditions of the criteria of art. XIV GATS. As a result the United States was obliged to take the necessary steps to comply with these rulings. According to the art. 21.5 DSU Panel ruling (the compliance Panel) it was not enough for the US to clarify its policy and to explain this to the Panel since it is not the purpose of a compliance Panel to reassess the same matter.

In a last attempt to pressure the United States to open up its market for cross-border gambling services, instead of withdrawing its commitment, Antigua and Barbuda initiated a further procedure. Art. 22 DSU provides for the right to request compensation or the temporary suspension of concessions until the Member concerned brings the measure found to be inconsistent into compliance or otherwise complies with the rulings and recommendations. Being rather small states, Antigua and Barbuda did not have much leverage to retaliate. Therefore, Antigua asked for the right to retaliate under TRIPS as it was previously done by Ecuador in the case European Communities - Regime for the Importation, Sale and Distribution of Bananas - Recourse to Arbitration by the European Communities under Article 22.6 (WT/DS27/ARB/ECU).

On December 21, 2007, the Arbitration decision was publicly released. It is interesting to note while Antigua was claiming the right to retaliate for an annual amount of US\$ 3.443 billion, the Arbitrators awarded Antigua the right to do so for an amount not exceeding US\$ 21 million! The Arbitrators admitted that the circumstances were serious

comply with the rulings and recommendations of the DSB”. That is precisely what the United States are doing. In the end of the day, the message of the United States is very clear: gambling services are too sui generis to be subject to unconditional free trade rules.

A second aspect of major interest is the statement of the Arbitrators that, given the particular circumstances of this dispute, Antigua was not entitled to “ignore” the failed US defence under art. XIV of the GATS (public order) in order to claim that the US was assumed to comply with the rulings by providing unrestricted access to all sectors of its remote gambling market.

Most of the discussion took place about the data to be used to calculate the annual level of nullification or impairment of benefits accruing to Antigua. Clearly all data produced by Antigua were unreliable and out of proportion. The Arbitrators deplored that Antigua did decline to provide explanations on how it proposes to apply such suspension. The Arbitrators added that the US may have recourse to the dispute settlement procedures if the level of concessions or other obligation suspended by Antigua exceeds the level of nullification determined for the purposes of the Arbitration award.

On the same day the USTR issued an extended statement reaffirming the U.S. government’s expectation that this matter would be resolved amicably and consistent with WTO obligations. However, in the interim, USTR warned other trading partners not to seek to complicate resolution of this dispute by seeking to broaden the suspension of concessions beyond the GATS to include IPR. ♦



Matt Mansfield

# The Future of Lottery Gaming

Demand for more games through more channels is growing.

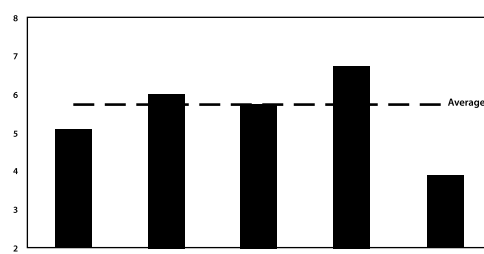
By Matt Mansfield, Vice President, Product Marketing and Design, GTECH Corporation

Traditional draw games like Lotto are not enough. More draw games are not enough.

Now instant games, aka printed products, may not be enough anymore.

At least that's the direction sales reports over recent years for some North American, European, and even a few Far Eastern lottery jurisdictions appear to indicate. It's not so much that sales are declining but, like the players, they are definitely maturing.

Amount Spent Last Time Buying Lottery Tickets  
United States, 1998 (\$)



In fact, a real concern is that Baby Boomers may actually be passing beyond their prime lottery spending period in the U.S., as they reach traditional retirement (next year, at age 62 the

Boomers can collect their first Social Security checks). According to 1998 data (National Opinion Research Center and National Gambling Impact Study Commission), peak spending years on U.S. lottery games are estimated to be between 50 and 64.

According to projections by Deutsch Bank, while the compound annual growth rate for combined lottery and casino gross gaming yields will be up by almost 4% over the next few years, the big driver will be casinos at over 5% as they have become more accessible...and the casino player age profile is not dissimilar to lottery players.

In the meantime, potential lottery players – the elusive younger age group, including the Baby Boomer children (Echo Boomers) – are also very much involved with gaming – just not lottery games – for “free” and through virtual experiences on the Internet, not to mention the more dubious claims for online wagering at offshore sites.

Simply put, regardless of age, players are able to choose from a greater selection of games in a variety of rich presentation styles, whether in or out of their homes. They are more sophisticated in their play and expectations.

This has not gone unnoticed.

Some retailers are already exploiting the space between “convenience” lottery stops and “entertainment” lottery destinations

Separately, GTECH has just completed a worldwide in-depth interview survey with members of 17 different lotteries, which asked opinions about industry trends and product development expectations. Leading the results by a wide margin were:

- Internet games;
- New/better games/designs;
- Technology enhancements (handheld, mobile); and
- More self-service enhancements.



Lottery “destination” retail



Lottery “convenience” retail



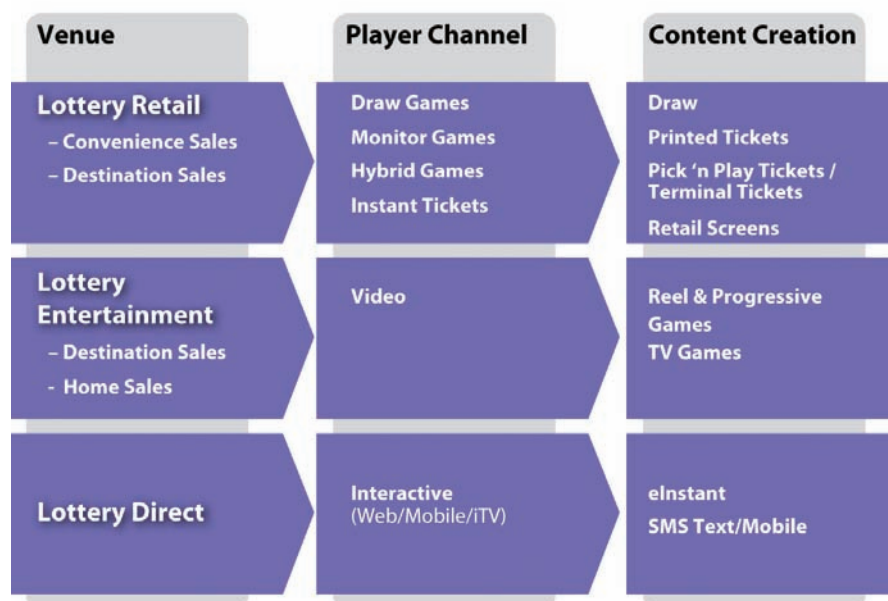
Lottery “entertainment” destination

to create a new player experience: the “retail lottery destination” offering not only traditional draw and instant games but also extensive seating arrangements for patrons to spend time with a choice of games and monitors as well as self-service convenience such as ticket checkers.

As non-lottery gaming marketers in Europe expand their legal Internet menus in addition to wagering on sports, and video gaming offerings grow in North America as well as the rest of



## Market Structure Evolution



the world, a more complex gaming market is emerging: one with multiple channels, as players experience them, and a need to fill these channels.

This growing appetite for content is already happening for U.S. lottery printed products with multiple monthly game launches. The pattern is the same for Internet gaming, according to GTECH subsidiary Finsoft, a sports betting and Internet systems developer and game supplier in the U.K. This view is echoed by another GTECH subsidiary, Spielo, which is a Canadian-based developer of video gaming machines, systems, and content for lottery and non-lottery customers.

It is evident from these trends that lotteries are rapidly facing new challenges:

- How to engage players who have more gaming options to choose from and, as a result, growing expectations;
- How to offset the production and presentation values of alternative gaming; and
- How to balance growing demand for games with responsible playing controls.

The potential for convergence, especially in the area of gaming presentation, is just around the corner. For example, in retail or other “age controlled” locations enhancing game themes, play styles, even interactive promotional elements is quite possible with more sophisticated animation through video or Flash on PCs or monitor walls. These new media games can complement the traditional draw and printed offerings and build on the great strength of lotteries – local convenience.

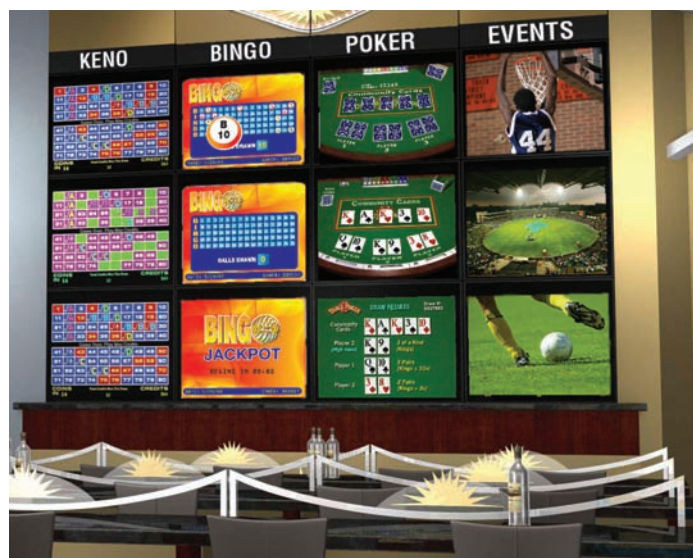
At the same time, the need for new game designs underscores the importance for finding creative talent outside of conventional lottery sources. Leveraging interactive and video channel experience for lottery games in the draw and printed product areas – and visa versa – promises fresh resources. And, like the motion picture industry, single game releases in multiple channel formats may deliver larger aggregate sales for lotteries.

This is why GTECH is positioning to provide gaming content development capabilities to satisfy customer demands for more than draw and printed products but for multiple gaming channels, including monitor, web-based, mobile, and video.

Drawing on its network of international companies, GTECH has been building an extensive pool of creative talent and game portfolios to respond quickly to the requirements of filling

different channels. Through the combined resources of IGI Eu-roprint, Spielo, Atronic, Finsoft, as well as its in-house printed products and traditional draw game talent, the company offers portfolios of almost 50 traditional draw games, including ones on monitors, 200 for instant tickets, over 35 for media and mobile style games, over 80 for Internet gaming, and well over 400 video games for lotteries and non-lottery customers

Driven by player demand and expectations, the future of lottery gaming is now...which means having enough to offer has to be planned for now. Having quality game development resources that can get the job done on the current platforms is paramount...now. ♦



Media game monitor wall.

## New York Lottery – Fremont and Miller



Pat Fremont

**Pat Fremont discusses security and operations of on-line games.**

**Mark Jason of PGRI (MJ):** *Pat, who do you report to?*

**Pat Fremont, Director, On-Line Games (PF):** I report to Gardner Gurney, Director of Operations. Our unit interacts with the vendor running the on-line system, which is GTECH, in the duties that they have running the on-line network. They supply the on-line network in selling tickets, as well as shipping and keeping track of the instant tickets that are shipped to all our retailers. GTECH maintains the accounting aspect of that. We also interact with the retailers, if they have any questions or issues we can help them with. We also interact with our six regional offices, located throughout the state. We assist them as well with any questions they may have, or any that retailers have asked them. We can research through our own on-line system, or through that of our vendor.

**MJ:** *So does your role focus on the logistics of the on-line games, rather than the marketing side?*

**PF:** Yes, more logistics. We do interact with the marketing side, if they have new ideas for promotions or new games. We'll work with the vendor to make sure they can do it, and that when they produce the software to do it we can test it, make sure it works, and that it's implemented through the retailer properly. So it's more about the logistics of getting games up and running, and then that they run efficiently and effectively on a daily basis. We do a daily audit of the vendor. We run all the information that goes through the GTECH system through our own in-house system as well on a daily basis. We verify the number of transactions that they report, that everything is in balance.

**MJ:** *So GTECH operates the central controlling system that records the processes of the games.*

**PF:** Yes, they record all the information that is registered at the retailer terminals. That information is then passed on to us. GTECH then passes that information on to us throughout the day, so that we can also process it.

**MJ:** *We just witnessed the test run of the midday drawing. I was very impressed with the redundancy, the manner in which everything is done in triplicate to guarantee security. In particular, I liked that the bags were sealed. In fact, Brad mentioned one situation in which there was*

*...continued on page 23*



Sue Miller

**Sue Miller discusses the evolution of NY Lottery's Internet initiatives, and how the medium has become integral to every aspect of the business.**

**Sue Miller, Special Responsibility in Retail Development (SM):** (Shows Mark a website.) This was our first iteration, in 1997. The more flashy, animated stuff we could put on this page, the happier

we were. We wanted bells and whistles, we wanted things moving. All of the things you see move; this is just a screen shot. The issue that we discovered, however, is that we still weren't communicating well. People were still calling and asking for numbers, twentieth century things. We were trying to get people to access the website for information. The only winning numbers that were on the homepage were the most recent drawings. People had to go two and sometimes three clicks down to find it. We were so concerned about selling them on everything that we did that we neglected one of the major reasons why people come to the website, which is to find information.

Fast forward now to 2004, and we migrated to this (pulling up a different site). We decided that we would move to a communications platform, something that was more straightforward. Give them the information, give it to them fast, make the information easily accessible. Winner information, all the numbers for all the games in a stylized PDA format that looks sort of like a blackberry. A little bit of promotional room around the sides was left to make sure they know about the newest things. Underneath that, we've got all the additional information.

Now, with Web2.0 and all of the things that are going on with interactivity, VIP clubs and such, we're looking at a redesign to sort of get us half way between the two. The first was all flash and fluff graphics, the second 'give it to them straight' informational. We now are looking in the next year to merge the two, combining the two types of platforms into something that can not only communicate quickly and easily to the players, giving them the numbers, payouts, all the things they want, up front, but also provide them the information on, for instance, a mobile phone. Have RSS feeds. All the neat stuff that newspapers do, we want to be able to do with our next iteration. So we're looking at printing out an RFP very shortly to have a redesign of the website.

In the meantime, we keep trying to retrofit what we have to



accommodate some of our latest marketing. You can see the bubbles coming up there (shown on the screen). One of our recent brand spots for MegaMillions is the 'Dream Bubble' campaign. Everybody's got their own dream inside that bubble. And this is part of the television ad, which is a guy sitting on a stoop, just buying a ticket, and he's dreaming. So this serves as a complement to the television ad.

Rather than trying to turn our site upside down for a short-term promotion, which we did with our two raffles-to-riches promotions, in which we tried to fit pages in which the website was not quite equipped to do. After all, we are still a government agency, and we do have to adhere to certain standards. We're doing something called a 'micro-site'. (Shows Mark the site) A little bit more of the marketing, of the fun, of the flash and animation that all of the state's rules for accessibility try not to allow us to do anymore. We push the envelope sometimes, but every state has rules, and we have to adhere to them. So, we're doing the 'micro-site', and having it connected not only to our own website but also to on-line advertising. So there's on-site advertising, which points to 'perfectstockingstuffer.com'. We'll do more of that for a limited time, with game watches, promotions, that sort of thing.

We're also thinking in moving this redesign, as some of the states have already done, (We move slower than dinosaurs sometimes, being a state agency, with so many different rules and regulations.) to providing more information to our retailers. A couple of other states have fully built out their retailer section, with manuals, copies of point-of-sale posters that they can print on their own computers. Every study we've done of our own retailers doesn't indicate that there is a huge percentage of retailers that even have access to on-line stuff, probably only around 40%. Whether it's just that they don't have it at the shop, or don't do it at home, or don't want to be bothered doing lottery stuff on-line, that I don't know. But I think we've got to get to the point where we have the information on-line and available. Just put it on there. This is the sum total of everything that we are, whether it's on-line games, retailers, customers, numbers, drawings, marketing, press, this is the one spot where the entire process comes together. And that's what it has got to reflect.

Traci is web staff. Traci's it. We don't have an in-house designer, we don't have a technical staff, we use a vendor. This was very cumbersome to manage, because every time we wanted to change something out, there was no such thing as doing something on the fly. It took a long time to get something done. So when we went to the current format we instituted a content management system, which I believe a lot of the other

lotteries have done. The content management system allows our regular graphic artist, who does the art for point-of-sale and is used to working with different media to design some of the stuff, and make it a JPEG or a GIS. Then Traci can go through and put it on the operative pages, where we want it to go. That we can do in a heartbeat. So, we wanted quicker access to be able to do some of the things we wanted to do. We're still not there yet. Our content management system is decentralized. The drawing unit is responsible for putting in the drawing results. The press office is responsible for putting in press releases. The marketing office is responsible for all of the marketing stuff, the instant games, graphics that we need, all of the things that we need with respect to that side, and of course any promotions. The payouts are verified and uploaded by our on-line games office first thing in the morning. We had to do this, lacking a centralized web staff. So we're pretty decentralized, and everybody's got a little piece of it.

...continued on the web. To see this article in its entirety go to [www.publicgaming.com](http://www.publicgaming.com).

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# China: An Exciting Adventure

*By Paulo Guttler, Sales & Marketing Manager, Editec Lottereries and WinTV*

This fantastic and creative country where many important inventions first appeared, such as paper money, silk and the umbrella, is believed to be the origin of the first lottery game dated around 200 BC. The first signs of a lottery can be traced via ancient Keno slips which are believed to be dated from the Han Dynasty between 205 and 187 B.C. Ancient Chinese scrolls indicate that Cheung Leung introduced the game we now call Keno around 200 BC. Since then the lottery has helped to finance major governmental projects such as the construction of the Great Wall of China and has become a great industry in which we all are involved.

China has a huge lottery market, which was regulated 20 years ago. The central government, which controls China's lottery business, has so far allowed only two kinds of lotteries to be held around the country, namely the Sports Lotteries and the Social Welfare Lotteries. However not everything is rosy in the fast-growing Chinese lottery industry as many scandals have spoiled the market over the past years. In 2000 China started computerizing its lottery system and handing out cash awards to stamp out fraud in an effort to address the problems. Since then, lottery ticket sales have rocketed reaching sales of over 80 billion yuan (US\$11 billion) in 2006.

Nowadays most international companies recognize how important it is to be present and involved with the Chinese market. China has become a very important country in the international landscape and in a fresh sign of the country's financial strength, with a leap in share values of the Industrial & Commercial Bank of China – ICBC became the world's biggest bank by market capitalization, overtaking US giant Citigroup last July. This demonstrates how strong and economically powerful China has now become. Next year the Chinese will host the Olympic Games in Beijing, and this will certainly be the perfect opportunity for the country to show its place under the spotlights as a new big world potency.

EDITEC/WinTV is delighted to be deeply involved in the recent developments reached by China in the lottery industry. After an initial and successful experience supplying drawing machines to the provincial welfare lotteries, EDITEC through its Drawing Machine Division WinTV was requested to once more



Middle: Paulo Guttler

supply a new range of drawing machines, this time to the giant China Sports Lottery – CSL. Following successful projects with the Sichuan Welfare Lotteries (2001), the Shanghai Welfare Lotteries (2001 & 2002), the JiangXu Welfare Lotteries (2002), the Liaoning Welfare Lotteries (2002) and the Shenzhen Welfare Lotteries (2004 & 2005), this new project was certainly a new challenge.

The Chinese culture remains very strong and usually products have to be widely adapted and modified to meet the tastes of Chinese consum-

ers. The CSL project in China was a new challenge and the brief was to produce and deliver, in a very short deadline, four customized Venus drawing machines based on our latest concept in order to be used to draw their new national Super Lotto game 5/35+2/12 (similar to the Euro Millions).

The new game was created to support the promotion of the next Olympic Games to be hosted by Beijing in 2008 and the project for the new national Super Lotto game was carefully managed by CSL, with every detail carefully scrutinized to reflect such big event, so even the drawing balls were produced in the five brand colors of the Olympic rings. The new CSL Super Lotto game was widely promoted in China and a national press launch was scheduled for the official presentation of the new machines to the public and media in Beijing, in which WinTV was invited to attend. News about the new Super Lotto game and the Venus drawing machines spread across the country creating a very exciting atmosphere for the public and the press, followed by the inaugural draw which was broadcasted live on TV from the CSL studios in Beijing with national coverage and great excitement.

Thanks to its latest developments, once again EDITEC/WinTV has successfully achieved another challenge in China, reinforcing its presence and introducing drawing machines at a technological level never previously reached in this very unique and emerging market. We hope to return again soon and we gladly wish all the best for our Chinese friends during the next Olympic Games, looking forward to continue supporting the local lottery industry aiming for higher levels of drawing operations according to the latest requirements of the international gaming industry. ♦



## New York Lottery – Fremont ...continued from page 20

possibly a slight nick in the tape sealing a bag, and that entire set of balls was immediately disqualified and sent to Weights and Measures for testing. It was a very impressive security system.

**PF:** We try to keep not only the drawings but the entire on-line network at that same level of security. Security is our number one goal. We need to make sure that what we are producing is guaranteed to be completely secure.

**MJ:** Does marketing often have you speak with GTECH about ideas, things they want to do?

**PF:** Oh yes. That's constantly evolving, especially in the promotions area. They have an idea how they can promote a game. We make sure we can run it in a timely manner. If there are any questions we'll do a test run.

**MJ:** Brad said the ball machines are supplied by SmartPlay. He also said that the Lottery is sticking with the ball machines, rather than an RNG system.

**PF:** Yes. There are a number of reasons for that. We have personalities that do the drawings, and our players are very comfortable with those people.

**MJ:** So someone performing a drawing for 30 or 45 seconds becomes a celebrity in their own right?

**PF:** Yes. In fact, a little story: my son goes to college. One of his coaches learned that I work at the Lottery, and asked if he could get an autograph from Yolanda.

**MJ:** So you would say that the media presentation, the marketing of the ball machines, is just fun and interesting for the public.

**PF:** That's certainly been our experience. There are always changes in even the games we've had for a long time. They are constantly evolving. The Operations area does work hand in hand with Marketing, sometimes to keep them in check so they don't go too wild with what we can put out there and what we can do. We are constantly looking at games to see if we can put additional add-ons that the customer might like, the ability to make an extra wager that might add to their winnings. We do some test marketing, and also work with our vendors to design new games. It is a constant, evolving system.

**MJ:** Do the retailers provide much feedback regarding game changes.

**PF:** Part of our marketing plan is that we have reps visiting the retailers every other week. Part of their job includes inquiring as to how existing games are going, as well as asking for ideas about other games the players might want to see. A lot of the minor changes come from the retailers themselves. It might not be a change in a game, but a change in the processing, to increase efficiency or make things easier for the retailer. One idea that was brought up was a

way to better process the instant tickets. As the games have grown, the retailers have complained that validating the tickets was taking more and more of their time. The retailers asked if there might be a way for the player to validate the ticket themselves. We came up with what we call 'autocash', a process through which certain tickets at the low end of games automatically provide a ticket to the retailer so they can go ahead and pay the ticket. There are a number of security features. The system will ask for certain information, and if they can't put that in properly that will be recorded. If that happens too often the retailer loses the right to have the 'autocash' system in their store. Retailers who have lost it have been very sorry that they did.

**MJ:** What type of data? Player data?

**PF:** No, information directly off the instant ticket, to verify that it is a good ticket. There's information under the latex that can be used for security purposes, and that information is required on tickets that are above a certain threshold.

**MJ:** What's the top end of the autocash?

**PF:** Right now it's twice the price point of the ticket. A \$2 ticket will allow for a \$4 win to cash automatically. This generally works out to about 50% of the tickets qualifying for this. It streamlines the retailer, saves him a few seconds on each of these cashes. When you're doing thirty or forty cashes a day, it saves a little time.

**MJ:** GTECH central operating system covers all the traditional games, and MultiMedia covers the VLT?

**John Charlson, Director of Communications (JC):** Correct.

**MJ:** Any other interesting comments that I missed?

**PF:** When you go down and see the rest of the drawing, you'll see that there is an interaction with my unit. My unit actually puts the winning numbers into the central system that allows the retailers to pay out on prizes from the winning drawings. The drawing studios send us the winning numbers. We then verify the information with both the programmer and the auditor. The studio also sends a copy of the winning numbers to GTECH. This duplication verifies that everything happens correctly. Any discrepancy stops the process, and a complete review occurs.

**MJ:** Has a discrepancy ever happened?

**PF:** One time there was a typo by the in-putter. This was immediately caught and corrected.

**JC:** One of the more interesting pieces of security is on the customer end, with the ticket checkers. This is of particular interest to those of us in the PR business. We are constantly reminding people who buy the on-line games to sign the ticket. But

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*New York Lottery – Medenica, Gurney, Charlson* ...continued from page 6

business, and NASPL as my graduate school education. It was a super intense learning experience.

**MJ:** *How did it happen that, not having any experience in lottery other than discussions with Ed, you even considered talking with the Governor about taking over the Lottery?*

**GM:** It's a fairly simple story. Paul Francis, who as of this morning is now the Governor's Head of State Operations, and just yesterday was the budget director, I've known for twenty years as neighbors in Pelham, New York, on a friendly, casual, kids and local community service kind of thing. It was sometime earlier in the summer that Paul and I were just chatting, comparing notes on having commuting jobs. I was driving to Philadelphia on Monday mornings, home Friday nights. He was doing the same to Albany and back. So we were just sort of kidding around with one another about him driving two hours north and me driving two hours south. In the course of this conversation, I just happened to mention that I thought Governor Spitzer was a fascinating guy, and I asked what it was like working for him. So we had a conversation in which he was filling me in on some of these things. I commented that at some point in my life I'd like to think about public service. Paul absorbed that, but it was just sort of a casual comment. Somewhat out of the blue a couple of months later Paul got back in touch with me, and said we have an opening in the Lottery. He wasn't sure that's what I thought about regarding my comment about public service, but would I consider it? Just from having this anecdotal exposure to lottery stuff through Mahlman, I told Paul I'd think about it. Paul had also said that it was very much in Governor Spitzer's plan to inject 'business DNA' into state government, and that was very much part of their plan to make government more efficient. So the fact that I had a career in business, in the private sector, was probably a plus. And the fact that I had no lottery experience to speak of, I think their thought was that I'd just have to get up to speed quickly.

**MJ:** *So your wealth of experience outside of the lottery and gaming industry may be a positive thing insofar as it brings in a fresh perspective.*

**GM:** Right from the beginning, I've told everyone that I'm here to run this as a business. We are in the business of maximizing revenues, dealing with our customers, being creative, and ultimately maximizing profit, which to us is the return to education. Unique to lotteries among state agencies is the process of managing that is much more like a business than a government bureaucracy. So the notion of running a lottery like a business, while not a foreign notion, may be somewhat different than it's been run in the past... thinking more like a business than a state agency.

**MJ:** *There's a lot of discussion about what may be the optimal model for running a lottery. I assume New York Lottery, having started so long ago, is a state agency. You have the quasi public corporations, the newer lotteries, that aren't necessarily subject to some of the state decision and*

*approval processes that may inhibit decision-making. Then there's the Camelot model. There are completely independent organizations. There is the Canadian system. What do you see as the optimal model for maximizing lottery goals?*

**GM:** That's the \$64 million question. It is the question everyone is struggling with. One of the breakout sessions I really wanted to go to at NASPL was on privatization. I was curious as to what the issues were, and had been reading things in the press before I started here. The real eye-opener there, and what I think helped me get some insights into this issue, is that you could almost separate the ownership issues, which is the question you're asking, from the regulatory environment. The Camelot example is a great one. This is being touted as 'privatization', but my sense is that they are as regulated, if not more so, than other lotteries with different ownership structure that 'look like' they are closer to the government. So, in this kind of discussion I have to ask for a clarification of the regulatory environment. You could have independent private businesses that have heavy regulatory issues. For example, the automobile industry is heavily regulated, on design issues and all kinds of other technical parameters. So, your question is: What is the optimal ownership structure? I would add: What is the optimal regulatory structure? And to what extent do those things intersect? I don't know if there is an optimal one, because I don't think you can separate the ownership issues from the regulatory issues. I think 'privatization' is in many cases a misnomer. Monetization, recapitalization, in other words, what is the financial structure of the organization that best serves it. I haven't seen an example of one that is obviously better than others. To a large extent, we are 'privatized'. We are a \$7 billion organization with only 350 employees. The fact is that most of our work is done by our partner vendors in the various areas. SciGames, GTECH, IGT, all provide enormous functions that are done outside of the lottery itself.

**MJ:** *It seems as though what you are alluding to when you say that you are 'privatized' is that the discussion, and even the use of the term, becomes a radically over-simplistic construct because there are so many different facets in the spectrum, all the way from regulation to ownership of a given machine. For instance, in the Video Gaming, you do have regulatory control. But you don't own a machine. They are all leased on the basis of a percentage of the return. So, could that be said to be 'privatized'?*

**GM:** I couldn't have said it better myself. That's a great example. In fact, early on in one of the discussions with Gardner, I said 'Explain to me why we account for traditional lottery in one way, and the VLTs we account for differently'. In the traditional lottery, you have revenue, you have prize payments, you have expenses, and you

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*Illinois Lottery – Winnett* ...continued from page 10

also, obviously. But certainly our growth, like many other lotteries, is coming out of the instant games.

**MJ:** *Is the \$20 ticket your highest price point?*

**JW:** It is, and this summer, for the first time, we had two \$20 tickets in the market at once.

**MJ:** *So you're watching the \$50 raffles very carefully; some lotteries are winning big, but some are losing big as well.*

**JW:** Yes! It has been really interesting to see the experience across the country. Michigan has been wildly successful. Indiana, right next door, has struggled. Our second raffle didn't sell out as quickly as the first, but it did in the end.

**MJ:** *You mentioned instant tickets. There's a huge amount of discussion keeping up with the technological demands of the youth, and the challenge of the low-tech scratch tickets. And yet, instant tickets are the highest growth area.*

**JW:** Obviously, no one plays until they are over 18. I think there are many more mature adults who are just getting into the instants, are attracted to the instants. And we're trying to make the instants more interesting, extending the play. But we're also looking very carefully at some of the new formats coming out. You were at NASPL, and we had staff at NASPL. There are games coming into the market and being proposed that are more of that 'video-game' feel. As the video generation comes up in age, how do we attract them to lottery? How do we keep the experience exciting and fun-filled? Part of that is that you do have the chance to win money. But it's also video game competition. I understand that now they even have tournaments for these video games. You can get online and play with players all over the country and the world, and there are prizes associated with that. How will we compete with that

in the future? And again, that's one of those things that makes us consider government ownership. Can we anticipate and respond to those sorts of challenges quickly enough? It's not the world the government lives in. Can we even see them coming?

**MJ:** *What are some of the most important current initiatives that the Illinois Lottery is involved in now?*

**JW:** Refocusing on-line games, and how players perceive those games and relate to those games, both players and non-players. Driving more traffic, more purchases, to and through our retailers. Being well-positioned to take advantage of that impulse buy when they're at that counter. Signage in the retailers' location, and education of the retailers and the sales clerk, making sure players understand how to play. I think that's another aspect that we need to keep up on. As the years go by, new groups of people turn 18, and are eligible to play the lottery. Do they understand how to play? I myself at first was a little confused and intimidated by all that was going on at the counter. How can we translate that for players? Continuing to attract new players, upgrading our subscription,. How can we make it easier? The Lottery is very much a paper process today. How can we improve that? New games, new concepts, managing our raffles, really continuing to look at everything we do. Looking at other lotteries, both in the United States and abroad.

**MJ:** *In Michigan they have a player forum on the internet. They don't actually play, but there is interaction, players can learn things about the lottery and easily provide feedback. Do you have anything along those lines now or in the planning stages?*

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*Public Gaming Research Institute's International*

# MORNING REPORT



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*North Carolina Lottery – Shaheen* ...continued from page 8

less the retailer's commission, when we deliver it. In order for them to sell, and us to raise maximum revenue for the state, we have to give them a little bit of time to sell those tickets, and then return the funds to us. I don't remember the exact details, but we had to review several state laws, and I believe we found an area wherein we would be able to do this, as long as we had a controlled plan in place.

**PG:** *Did I read that your advertising was specifically limited?*

**TS:** No. There was a legislative bill introduced to restrict us from doing any sponsorships with high schools and colleges. I explained that we don't, and never intend to, do any sponsorships with high schools. But we are doing sports sponsorships with the universities. The piece of legislation did not go through. But then the head of the university system came out and said that they were not going to accept any sponsorship money from the Lottery.

**PG:** *Any other restrictions to advertising?*

**TS:** Oh yes. We have advertising restrictions written right into the law. The law clearly states that no advertising may intentionally target any specific group or economic class. No advertising can have the primary purpose to induce persons to participate. No advertising may be misleading, deceptive or present any lottery game as a means of relieving any person's financial or personal difficulties. All advertising must include responsible gaming information. Out advertising dollars are limited to 1% of our total gross revenue.

**PG:** *The stipulation that advertising may not be intended to induce play. You've been at a number of different lotteries. Is that a normal stipulation?*

**TS:** It's not normally written into a lottery act. Some lotteries may have adopted a policy like that. Or, what I think most lottery do is establish standards, not necessarily as adopted policy but standards that the lottery adheres to. But, trying to create advertising while trying to figure out whether that advertising is inducing people to play is a very difficult thing to do. After all, the definition of 'inducing' becomes open to anybody's opinion. Very hard to do.

**PG:** *It seems to be a 'law' that at any point in time could be an impossible trap for you. After all, the point of advertising is to increase market share. In the case of lotteries, to get people to play.*

**TS:** We have define what are 'facts' and what is 'inducing'. When we do our advertising, that's what I have to look at. If we say the Powerball is \$300 million, we're stating a fact. In someone else's definition, that could be inducing. You're putting that big number out there, so you're inducing them to play.

**PG:** *I don't envy your marketing people. Every day they must have to*

*walk a thin line of trying to figure out exactly what how say what needs to be said without getting into trouble.*

**TS:** Oh, I have to be totally involved in it every day. I touch every piece of it.

**PG:** *So, in a nutshell, the specific difference between a lottery operating state agency and one operating as a corporation is that you need to read a lot of legal fine print, and possibly not find anything, thereby leaving a state agency lottery saddled with an inability to do something that lotteries might normally do.*

**TS:** Exactly. Sometimes, if it's not addressed anywhere, the answer may be that you can't do it.

### Starting a Lottery

**PG:** *In starting the lottery, I assume you had to literally do everything. Hire the people, find the location, negotiate the contracts, everything.*

**TS:** Yes. You show up on day one, and it's just you. You get a little piece of office space that was rented for you through state government. Prior to this, I had asked for three temporary employees, which I received. Basically, I walked in the door, the three of them were waiting, and I had to tell them what they needed to do. They were not familiar with lotteries, so they had no idea what they were getting into. They did have particular skills that were needed, as far as computer skills, financial skills. They were long-time state employees who had retired, so they were able to meander their way through the system to get what we needed to get. So, I walked in the door, we introduced ourselves to one another, I talked a bit about what we were trying to accomplish, then I provided each with an assignment. At the end of the day, we met to see how far along we were on those items.

I will tell you it was very scary. I knew I had a little over three months to get this done. The reality sets in on the first day you show up. The interview was great, I got the job, then I walked in the door on the first day.

**PG:** *When you've got a desk and three temps.*

**TS:** We didn't even have waste paper baskets. We were in the back of some other state agency which happened to have some vacant space. They made a paper sign that said "Lottery" on it, with an arrow pointing to our space.

**PG:** *How quickly did you start pursuing the retailers?*

**TS:** The first thing I did was write the major RFP's. We started dealing with the retailers around January 1.

**PG:** *So, the first thing you did of critical import was to set up*

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*New York Lottery – Iacabucci and Lex* ...continued from page 13

**TI:** Most of our facilities have been located in upstate New York, in rural areas. Yonkers, just outside of New York City opened up in October in 2006, and didn't really get going until after the first of the year. In our fiscal year-end number, only January through March numbers from Yonkers were captured. You'll see those numbers in this fiscal year.

**MJ:** Does per machine take vary much by location.

**TI:** Very much so. Saratoga right now is doing around \$227. Monticello was doing around \$118. Sullivan County has a very small population base.

**MJ:** Does Saratoga have significantly more local population base?

**TI:** The tri-city area is quite large. But it is unique in its area for entertainment options. People in Monticello can go to either Pennsylvania or they can go to Yonkers. Monticello has 1,570 machines, which is right around the same amount that Saratoga has, without the population base and with competitive entertainment options.

You will also see Saratoga peak around \$285 per machine when the Saratoga Thoroughbred track is open.

**MJ:** Is Saratoga considered a destination resort?

**TI:** I don't think any of the gaming facilities are considered 'destination resorts'. Saratoga does have people coming to it for the racing name, and because of what the community has to offer. However, these really are day-trip locations. They don't offer the golf courses and hotel stays that you will find at a full casino resort, or at Atlantic City or Las Vegas. People don't decide that they are going to take a four-day trip. They will stop in after work, for an afternoon, on a Friday night with their friends. It's an entertainment choice.

Finger Lakes is also in the \$200's, as is Yonkers. Buffalo is around the \$140's, Batavia around \$150. Tioga is in the \$150s, and Vernon Downs in the \$140s.

**MJ:** Do you own the machines?

**TI:** No, we lease them. The arrangement is that the manufacturers, of whom we have three (IGT, Spielo, Bally), receive a percentage of the net machine income earned on their devices. The machines, the bases, and the chairs are all owned by manufacturers.

**MJ:** Out of the total take, you have a percentage to the manufacturer, a percentage to the Lottery, a percentage to the facility and a percentage to the horsemen?

**TI:** The facility takes care of the horsemen. That is negotiated between the facility and the horsemen. The Lottery has a 10%

administrative percentage. For most tracks, education receives 50%, and the facility receives 40%. For the tracks below West Chester County, which would be Yonkers and any other track that may open, education receives 54%, the facility 36%.

The percentages are legislated as far as what the Lottery keeps, what the facility keeps, and what is returned to education. There are also legislated thresholds beyond which the percentages would change.

(Randall Lex joins the conversation.)

**MJ:** Given that the VLTs are leased, do you have the right to request that a machine be changed out if it's performing poorly?

**TI:** When manufacturers bid for the right to lease the equipment, there is an understanding that the lease per machine is for a six-month period. All the manufacturers compete for space throughout that six-month period, based on how much net machine income they make in relation to the percentage of the quota that they hold. So, a manufacturer that holds 25% of the floor would need to make 90% of that allocation, 22.5% of the total net win. If they fall below the 90% threshold, they may lose machines to another manufacturer's machines that are performing better.

**MJ:** And this can be a single machine, a group of machines, a 'family' group?

**RL:** The position on the floor. If the bank were five machines in a high traffic area not performing well, the recommendation may be to replace those machines. To your point about 'family' groups, we don't have that issue. The flexibility of the system of games that we have is such that we can change out that device with any other theme that's within that manufacturer's group.

**MJ:** You can, or the vendor can?

**RL:** The vendor can, at our direction. Their recommendation, our approval. We have that flexibility because of our system.

**TI:** We have over 400 themes right now within the New York video gaming program. At any time, just by changing a computer program and glass, we can change out a game.

**MJ:** I've heard that the themes in VLT can oftentimes be as important as the themes in instant games, where the level of excitement generated by a particular theme can make or break the daily take. Would you agree with that?

**RL:** That's an interesting point that you make. In the instant ticket world, you can have a great game that may draw more players into retail to buy that game. In the environment of a casino,

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*New York Lottery – Murray* ...continued from page 15

recommending that the legislature consider doing away with that sunset date, and making our authority to operate the game permanent. Another initiative that is not one of ours that is being put in front of the legislature is on behalf of the Video Game facility operators at the racetracks in the state, who are by law entitled to a certain percentage or share of the video game revenues, the net machine income or the drop. That amount that is available to the operators they believe should be higher, and they are recommending that the legislature consider changing the formula so that more of the income will come to them. We haven't taken a position on supporting or opposing that position, but we are aware, as the Video Gaming facility operators are, that the formula in New York is less generous to the facility operators than similar formulas in other states.

So those are two initiatives that we think will be in front of the legislature in 2008.

**MJ:** *So there's an extent to which you take a role of suggesting certain changes in gaming policy. Is that role limited to existing games or would you take a role in recommending or proposing important changes in general gaming policy?*

**WM:** I don't think there's a 'one size fits all' answer to that question. I think if there is something that we think needs the legislature's attention, we bring it to their attention. But more frequently it's the Governor's budget division, the Governor, or the Senate or the Assembly that initiates a policy proposal. They may ask us to comment on it, rather than our initiating it. There's no prohibition against the Lottery initiating a proposal. It just more commonly occurs the other way.

**MJ:** *Getting back to the notion of 'privatization' for just a minute, it seems as though your take is that the whole term encompasses such a vastly broad construct as to be a almost pointless term that appears to mean something but doesn't. Given that your role here is primarily facilitating and regulating that wouldn't change in the event of some 'privatization' initiative, what do you believe all this discussion is about?*

Getting back to the notion of 'privatization', doesn't it seem like there is a lot of unnecessary confusion over the meaning of this word and over the way in which business activities are simply divided between private and public sectors?

**WM:** I think it's people who haven't been as involved as we have in paying attention to the lottery over the last number of years who are newly paying attention and who think 'privatization' is a term that is helpful in understanding what they are talking about. What I talked about earlier regarding the division of labor between public and private employees is maybe a more long-standing view of what privatization means. The more recent view seems to talk not so much about the division of labor but about how the operation of lotteries is financed and capitalized,

how the cash flows and capital structure of lotteries work. The most recent talk about privatization has focused on that aspect of the business. Not so much the retail aspect, not so much who the workers are, but more about the financial engineering, where the capital comes from, where the financing for supporting the operation comes from, and how the profits are divided up.

**MJ:** *Are there any discussions you can tell us about regarding any types of gaming expansion within the state? Or about the implication of the expiration of the New York Racing and Wagering Board?*

**WM:** It's really not something that involves the Lottery directly. There is the law that has been in effect in New York since 2001 that provides for a Video Lottery Facility at the Aqueduct Race-track. Now we are six years down the road from that legislative authorization. The reason the Video Lottery facility hasn't been constructed and isn't up and operating is being attended to by the Governor and the Assembly and the Senate. It has everything to do with the state franchise to operate horseracing at that racetrack, and very little to do with the Lottery. We are aware that those discussions are going on, and that they are focused on the horseracing franchise. When those decisions are made by the Governor and the legislature on what's going to happen with the horseracing franchise, that won't require any change, at least in our opinion, in the law that governs the Video Lottery. That law is likely to stay the same, and when the franchise question is settled, we'll work with whoever the franchise holder is or whoever the Governor and the legislature decide who we should work with, and proceed to get that Video gaming facility up and running.

**MJ:** *So what makes the Aqueduct facility different from the other facilities that have been operational for a while?*

**WM:** In New York, the thoroughbred racing franchise, the three tracks, Aqueduct, Saratoga, and Belmont, have been regarded as something of the major leagues of horse racing. There are a number of other racetracks, such as the thoroughbred track at Finger Lakes, that have been regarded as in a different tier. The state has a policy of regarding and treating the franchise for Aqueduct, Belmont and Saratoga in a special category, and that's being handled by the legislature and the Governor. The others are regarded as not requiring such high-level attention; those others which were authorized for Video Lottery in the same 2001 legislation didn't have the same franchise questions that had to be resolved. So it was much simpler to put the Video Lottery systems into those other tracks and get them up and running. And they are up and running.

**MJ:** *Saratoga is up and running, though.*

...continued on the web. To see this article in its entirety go to [www.publicgaming.com](http://www.publicgaming.com).

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