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July 2008

GAMING

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

FEATURED INTERVIEWS



Tjeerd Veenstra
*Executive Director,
De Lotto, Netherlands*



Dr. Rolf Stypmann
*Managing Director,
Toto-Lotto Niedersachsen
GMBH, Germany*



Nathalie Rajotte
*Managing Director,
Ingenio*



John Melton
*Managing In-House Attorney
West Virginia Lottery*



Robert Ayotte
*President, Lottery Operations,
Loto-Quebec*

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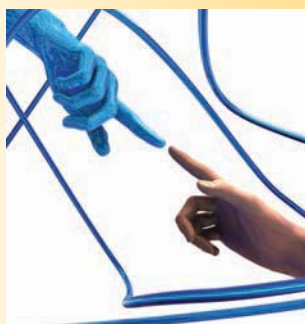


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Our industry news gets reported here as soon as it hits the wires. If it's lottery and gaming news you need, you can surf the web yourself to find it, or you can come to our website and get all your industry news in one place.

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



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Public Gaming International (ISSN-1042-1912) July 2008, Volume 34, No. 3. Published monthly by the Public Gaming Research Institute, Inc., 218 Main Street, #203, Kirkland, WA 98033, (425) 935-3159. ANNUAL SUBSCRIPTION RATES: United States: \$145. Canada & Mexico: \$160(US). All other countries: \$225(US). POSTMASTER: Send address changes to Public Gaming International, 218 Main Street, #203, Kirkland, WA 98033. SUBSCRIPTION REQUESTS: Send to same address. NOTE: Public Gaming International is distributed by airmail and other expedited delivery to readers around the world. ©2007 All rights reserved. Public Gaming Research Institute.

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SOMETIMES THE DEVIL IS IN MORE THAN THE DETAILS



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From the Publisher

By Paul Jason, CEO, Public Gaming Research Institute

PGRI is on a mission, dedicated to organizing and delivering news and editorial that makes a difference, and we appreciate your readership and support. Your feedback as to the topics most important to you and the ways in which we deliver the news and commentary on our industry are guiding our efforts. We especially want to thank all of the industry leaders who have contributed their time and hard work to make this be an issue that is bursting with ideas and insights. These extensive interviews cover a range of topics and so are difficult to summarize in a two or three sentence introductory description. You will likely recognize the names and hopefully be confident that we stretch to address the most interesting and important topics of the day. You do need to go to www.publicgaming.com to read the entire interview. In fact, the vast majority of the content is not contained in this magazine - you'll need to go to the website. I promise you will be glad you did. These are yours and our friends, our colleagues, and industry leaders whose perspectives can help us understand a gaming industry that is not getting any less complex or problematic.

Clearly, we can expect change to be exponential, with the next 5 years far outstripping the past 5 years. This change and dynamic flux is creating opportunities as well as challenges. Our editorial purpose is to understand the challenges and focus on the opportunities. We're trying to sort out the meaning and implications of all varieties of demographic, technological, cultural, and political trends for the purpose of revealing those opportunities and how to convert this understanding into success strategies that apply to our own individual circumstance.

We've heard it said that "all politics is local". All jurisdictions are different in some ways, perhaps in many ways. There is no universal template that can be applied to gaming and lottery all around the world, or even to two jurisdictions that are close to each other either geographically or in the manner in which they operate. In spite of those differences, we endeavor to find the common threads to the issues we face. We try to point out commonalities that may not be readily apparent. More accurately, we prevail upon our interviewees and editorial contributors to find those threads and to help us understand how the problems and interests of gaming operators all around the world inter-relate. For instance, the ways in which technological change is intersecting with demographic evolution to produce a whole new player experience is a global phenomenon, even though this phenomenon is realized in quite different ways throughout the world. Many factors - cultural, political, economic, and otherwise - weigh in to create wide differences and so therefore the specific solutions and strategies may not be readily translated from one jurisdiction to another. In spite of that, we propose that individual approaches should be informed and enlightened by an awareness of how these issues are unfolding in all parts of the world.

Likewise the political and regulatory environments that are in such dramatic flux all around the world. It is not just because Internet and mobile communications penetrate jurisdictional boundaries that we need to pay attention to events that occur on the global stage. The financial structure of the gaming industry is being formed in younger

market-driven economies like China and it is being transformed in the more mature markets of Europe and the U.S., with profound implications for our industry and for the public. Europe is now truly the flashpoint where issues like monopoly versus free-market competition, free and open borders versus national rights to self-determination, international regulatory policy pertaining to Internet and mobile gaming, and much more are being so hotly debated. We do not presume to have the answers. We're not even sure we are asking the right questions. But asking the right questions is what we are trying to do, to reach out to operators, regulators, legislators, and shapers of public policy ... to enlist the leaders of the industry to contribute to the body of knowledge that will hopefully inform and enlighten the process and the decisions that will have such dramatic impact on all of us and the public whom we all serve.

Smart-Tech 2008 was a wonderful experience for us and we want to thank everyone so much for joining us there. Special thanks to Ernie Passailague and the fabulous South Carolina Lottery team for their dedicated efforts as co-hosts of the conference. Look to our website for a photo gallery (and to page 29 of this magazine for a mini gallery) and also the transcripts of the panel discussions and presentations. In fact, look to www.publicgaming.com for a whole raft of new features. We are in the process of updating it with the goal of delivering an ever increasing portfolio of features and resources. Already, most of what we do in the way of interviews and editorial appear only on the website and not in this magazine. So in addition to being the most organized and comprehensive resource for gaming and lottery industry news, that's where you'll find a wealth of compelling original commentary providing context and insight to the news.

Thank you all for your support. We need it and depend upon it and are dedicated to working hard to earn it. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at pjason@publicgaming.com. ♦

Paul Jason

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An Interview with Tjeerd Veenstra

Executive Director of De Lotto in The Netherlands.

(See this interview in its entirety at www.publicgaming.com.)



Tjeerd Veenstra

The significant majority of this interview is continued on-line. Please go to www.publicgaming.com to see this interview in its entirety. Too, please look for the follow-up article in the October issue of Public Gaming Magazine for an update on the progress of the implementation of their on-line lottery contract. This is a unique collaboration between two competing lotteries, De Lotto and Nederlandse Staatsloterij, to have one supplier for

online lottery services.

Paul Jason, PGRI (PG): *Please tell us a little about your background. Mr. Veenstra.*

Tjeerd Veenstra (TV): My background is in health care, especially mental health care. I have worked as a psychotherapist and had several management positions. After that I did a lot of consultancy and interim management. But in 1994 I was asked to become executive director of De Lotto. Furthermore I am a member of the Executive Committee of European Lotteries since my election in 1999 in Malta. Since 2001 I have been serving as the chairman of the legal working group. So it's true, I have been immersed in almost all the legal discussions we have and in the lobbying activities that we do in Brussels to sustain the model we try to defend so vigorously. And I am also currently a member of the Strategy Committee of European Lotteries. The Strategy Committee deals on behalf of the Executive Committee with all the strategic issues at a political level. We have to deal a lot with an increase of issues that are coming up in Brussels, or the problems that rise from judgments of the European Court of Justice and all the issues that rise from the national courts in the different member states of the European Union, et cetera. It's very complicated, actually.

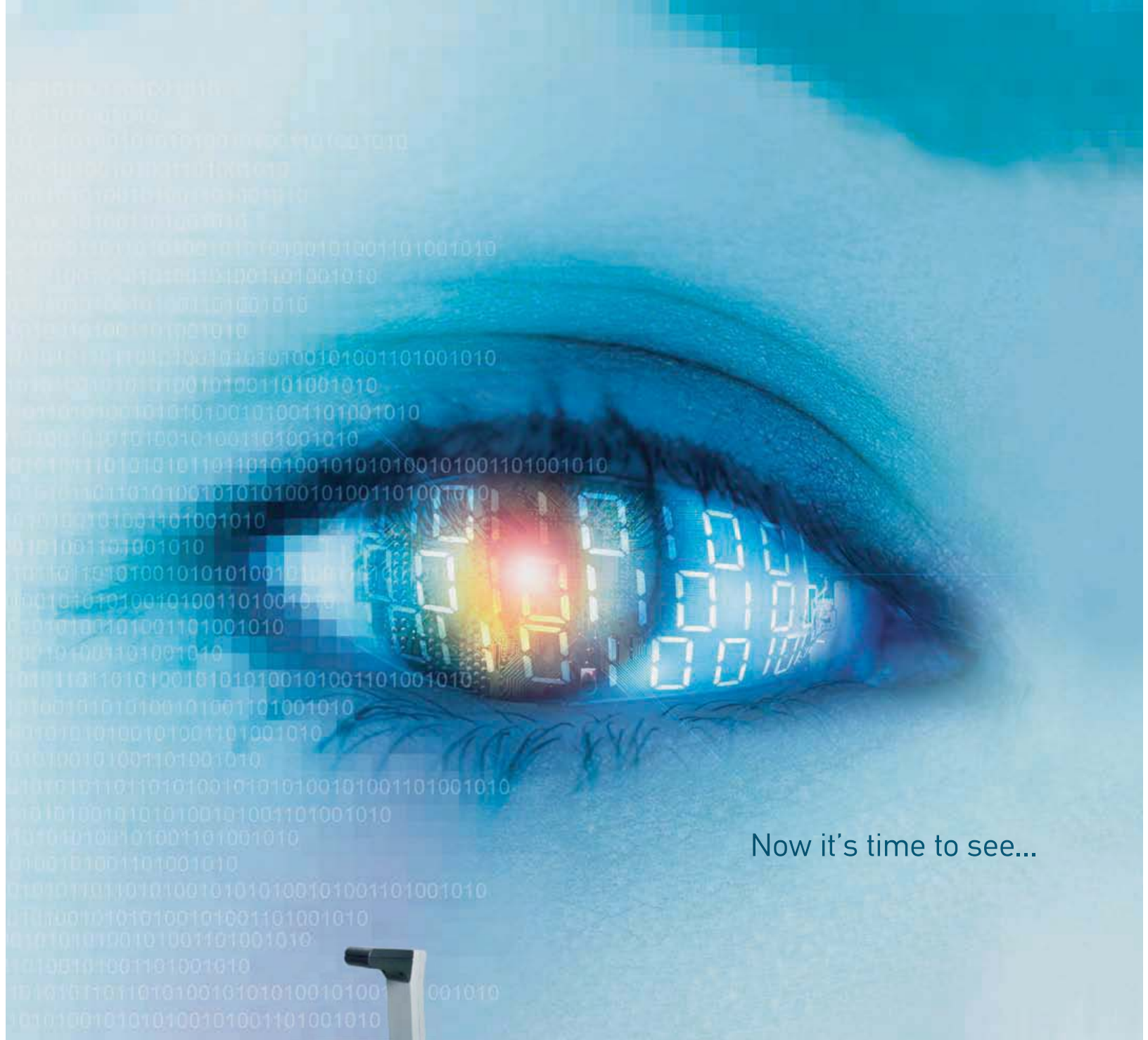
PG: *Different EU member states have different lotteries with different objectives, different challenges, all kinds of differences. Where is the common ground? To what extent do you share a common purpose with similar political agendas and political platforms.*

TV: Yes. First of all, what is Europe? Europe is a construction with member states, right? And Europe has decided that it is

acceptable that the member states retain a large portion of government responsibility to itself, for its own national government to control, including areas of lawmaking and law enforcement. It's called the subsidiary, also called subsidiarity, principle. This principle states that if laws or regulations can be better and more effectively enforced at a national level, and there is no compelling purpose to taking it to the EU level, then it is preferable to enforce and regulate at the national level and keep it at the member state level. A purpose of this principle is to respect cultural differences between member states. Europeans feel that it is important to allow for and accept our cultural differences in Europe. There are quite significant cultural differences throughout Europe and it would be foolish to think that we should all be alike, no? That reality becomes even more true as we expand membership to include more and more nations with more and more profound cultural differences.

Of course, our differences aren't just cultural. There are also economic differences as well. So while we are building an association of nations that has similarities to a federation of states, it is not a federal system like the United States. The impetus to work together to find commonalities between the member states is economics, mainly. We are trying to create a community based on economic drives. So while it is not limited to economics, one would have to say that economics is the primary purpose of creating the EU. So it is not the charter of the EU to force all member states to become alike in all ways. And, we contend, gambling activities should definitely be considered one of those ways "protected" by the subsidiary principle. Each country is entitled to protect its own identity except where it conflicts with an EU agenda that requires consistency throughout the Union. But just look at all the ways in which gambling activities are governed in all the different countries. Look at all the differences! The issues may be similar, but the ways in which each country handles them is different as you go from one country to the next. And there are good and important reasons for those differences. One culture may want to apply higher standards for problem gambling than another. Should they be forced to lower the standard in order to accomplish consistency throughout the Union? One culture may not have sports betting parlors on every corner. Should they be forced to open up their borders to free market expansion of sports betting and allow sports betting to open on every corner? One country may have a lower gambling turnover per capita.

Continued Online! The significant majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.



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An Interview with Dr. Rolf Stypmann

Managing Director of Toto-Lotto Niedersachsen GmbH, Germany.

(See this interview in its entirety at www.publicgaming.com.)



Dr. Rolf Stypmann

Paul Jason, PGRI (PG): *Could you please tell us a little about your background, Dr. Stypmann?*

Dr. Rolf Stypmann (RS): I come from Schleswig-Holstein, the most wonderful part of Germany. I was living in Kiel, a city on the Baltic Sea, north of Hamburg, working there as a public prosecutor and then as a judge. And then in 1989 they convinced me to run the lottery business in Schleswig-Holstein. Six years ago

there was a head hunter who forced me to move to the lottery company in Lower Saxony.

PG: *He forced you?*

RS: Yes. He knew I would move if he paid me more money so he ruthlessly exploited that vulnerability.

PG: *That shameless manipulator. I'm sure there's still some bitterness, but it appears that you've adjusted quite well.*

RS: Yes, it's worth it. Every weekend I drive from Kiel back to Hanover by car, about 250 kilometers.

PG: *That's a relief. 250 km, 170 miles, that should only take you five minutes or so on the Autobahn, right?*

RS: There is no speed limit on the Autobahn, so the only speed limit is now my winter tires, which only allow 210 km/hour. Normally it's 250. But it does take a little more than 5 minutes. It's a 2 hour drive, actually.

PG: *You don't really drive 250 km per hour, do you?*

RS: Yes, of course. On summer tires. My winter tires don't allow me to take more than 210. Got to get back to my sailboat in Kiel.

PG: *Could you describe the way the Germany lotteries are organized?*

RS: There are 16 federal states, which means Schleswig-Holstein and Lower Saxony, there is Mecklenburg-Western Pomerania, Hamburg, Bremen, Berlin, Brandenburg, Saxony, Saxony-Anhalt, Thuringia, Bavaria, Baden-Württemberg,

Rhineland-Palatinate, Saarland, Hessen, and the biggest one, of course, North Rhine-Westphalia where 18 million inhabitants are living. There are a total of 82 million people living in Germany. The U.S. is around 270 million, so you can see we are a much smaller and much more densely populated country.

The German lottery companies are working together in the so called "German Lottoblock". We are playing certain games together, for example Lotto, and we all then agree on the same regulations.

By constitution the right to regulate the market by legislation is with the federal states, not with the central government. Last year the federal states came together and accepted a so-called "Glücksspielstaatsvertrag", which means that within all the 16 federal states more or less the same regulations are applied.

For instance, our governments have agreed that beginning January 1, 2009, none of us can offer Internet Gaming of any kind. Not just Internet poker, but any kind of sales of any gaming or lottery product over the Internet. And it always takes a unanimous agreement to offer a new game. If even one state says no, then it is prohibited.

PG: *So you're not allowed to have any Internet gaming. Can private companies offer Internet Gaming in Germany?*

RS: No, but they will likely offer it anyway, be sued, litigate in court, but continue to operate while it winds its way through the courts, which can take years.

PG: *Is there any recourse for you, any way to fight back?*

RS: No. Probably starting from the first of January all operators will operate from outside Germany mostly in London, Gibraltar, and Malta.

Plus the conditions have stiffened up a lot also in the retailer stores. So we are now only allowed to offer sport betting with a so called "customer card". Before it was free to go to an agent and place your bet. These customer cards are now checked against an addiction database system. We are all set up with a system that enables us to keep track of addictive gamblers. The casinos send to us the list even though these people are not prohibited from playing lotto, only the faster games we offer, like "Quickly". There are only a few people in Germany that I know of who have self-excluded from our games, while there are roundabout 20,000 people now excluded from casino games.

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An Interview with Nathalie Rajotte

Managing Director, Ingenio.

(See this interview in its entirety at www.publicgaming.com.)



Nathalie Rajotte

Mark Jason, PGRI (PG): *Could you tell me about what Ingenio is and what Ingenio does?*

Nathalie Rajotte (RJ): Ingenio is a Loto-Québec subsidiary that's celebrating its 10th anniversary this year. Its mandate is to conduct research and development for all of Loto-Québec's gaming activities, which means coming up with new products and marketing and distribution vehicles for the lottery, casino and bingo sectors, both

locally and internationally.

While creating new products and commercial vehicles, we also need to explore the fundamentals that lead to the understanding of gaming trends, mathematical models and new business models. Ingenio is part of an organization that oversees the operations of all forms of gaming in its jurisdiction. This makes for a very unique situation that offers a holistic vision of the fundamentals of gaming. Even though the offer is varied, we're always discovering links and common elements between them. We have the privilege of viewing the organization from both inside and outside the operating reality. Having been in the industry for almost 19 years, I've personally witnessed a trend toward a more content- and entertainment-driven industry, as well as indications of convergence. It's somehow more obvious to us here in Quebec, as we all work together closely, literally under the same roof.

But as the whole gaming environment has evolved over the years, so have our ways. When we were doing R&D in the 1980s, and even in the 1990s, there were still a lot of untapped markets. We could conduct research, create innovative games and approaches, run consumer tests, launch market pilots and measure both behavioral and financial results, all without creating a social or political situation. Today, a mature and diversified market with increased awareness and sensitivity sometimes fears and misunderstands the goals of innovation, which are fundamentally to update the product. This represents an additional challenge for the entire R&D process. We are not trying to increase the gaming offer; we are merely trying to rejuvenate it, which is a very different goal. We have an aging consumer base, combined with a consumer environment undergoing a complete transformation,

much to the benefit of other forms of entertainment and social interaction. To keep pace with the business environment, we now have to adapt the methods we use to develop and test new products, and explore new marketing and distribution vehicles. Partnering with other important industry players and fellow lottery corporations has enabled us to launch a number of innovative initiatives rather effectively. But doing so remains an ongoing challenge we can't afford to ignore.

PG: *Everyone is wrestling with the aging of clientele. In your opinion, does this indicate that the younger demographic is gambling less, or gambling in ways that are different than what is being offered?*

RJ: Ms. Rajotte: If you look at the demographics, the baby boomers represent a significant portion of the population. In Quebec, while the 40+ segment represents 51% of the population, the 20-39 segment represents 27%. So basically, the percentage of consumers in that portion of the population is lower. Add to this the fact that their consumer habits are different, and you start to reveal a very big dual challenge. How does the younger crowd spend its entertainment budget? Lottery products are not at the top of the list. In fact, the word 'lottery' seems to suffer from a lack of appeal to people in their twenties. Therefore, both content and positioning need to be readdressed, yet without alienating existing customers along the way.

PG: *You've actually said two important things there, one of which tends to be overlooked. The entire population is aging, so the aging of the lottery player in part represents the demographic of North America. The other side of it, though, is about engaging the interest of the 20-39 market. Would you say a similar demographic exists in the traditional games and the slots player?*

RJ: It's not quite the same consumer profile. There are differences between the lottery consumer and the casino consumer. For that matter, even within each area, you'll find different consumer profiles: table games versus slot machines, or scratch games versus sports betting... As we watch the gaming industry evolve, we realize it's becoming less of a mass market and more of a multiple-niche market. Today's consumers expect an experience that fits their unique entertainment and pleasure needs. So we slowly segment the gaming offer into different segments, and it's the sum-total of the products we market that will constitute the overall offer. From one product for everyone, we are evolving

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An Interview with John Melton

Managing In-House Attorney, West Virginia Lottery



John Melton

John Melton, Managing In-House Attorney, West Virginia Lottery. *The significant majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.*

Mark Jason, Public Gaming: As I understand it, there are four different statutes under which the Lottery operates, beginning with the initial legislation in 1985. Are there any interesting aspects to the initial legislation that you could go into? For instance, I've

heard that there is a \$5 maximum wager limitation.

John Melton: There are actually two \$5 limitations. The first is a \$5 maximum bet in the racetrack video lottery legislation, applying to the video lottery [slot] machines at the racetracks. The second is a \$5 limit in our instant games "legislative" regulation, but the Director can exceed it for special purposes. When we had our 20th anniversary celebration, we printed a \$20 ticket.

Public Gaming: Video Lottery legislation was passed in 1994.

Mr. Melton: Let me give you a little history behind that. A fellow named Bill Blair was the owner at that time of a racetrack called Mountaineer Park. Mr. Blair went to South Dakota, and maybe to Montana, and he saw they were retrofitting old slot machines to print tickets rather than pay out money into a hopper. He also apparently went on an Atlantic voyage and checked out the application of this kind of device on cruise vessels. He came back and settled on trying to do video lottery at his racetrack. For this, he began negotiations with the head of the Lottery at that time, our friend Arthur Gleason. Yes, the same Arch Gleason of WLA fame, and currently President of the Kentucky Lottery Corporation.

Mr. Gleason started to negotiate with Bill Blair about these Video Lottery Machines. At that time, I believe 1989, online lottery service at the West Virginia Lottery was provided by Scientific Games. Scientific Games was at that time, or had been recently before that time, associated with Bally. That's how they got some gaming machines for use at Mountaineer Park. When they started, there were about 135 machines. This was controlled by a small on-site computer supplied by Scientific Games. In mid-July of 1990, the Lottery signed a contract with Mr. Blair to have a three year trial of video lottery terminals at that one racetrack.

The original lottery enabling statute from 1985 actually used the term 'Video Lottery' in its text. The Lottery's task was to make the finances work within the existing Lottery statute. The way lottery

pays out, and the way lottery providers and participants make their money, is a lot different from the way GTECH, Intralot and Scientific Games are paid to provide services, and the way the vendors and the states they service make their money. To make adjustments, there were a certain number of calculations and assumptions that were necessary in order to make that fit.

Public Gaming: You're referring to the 'take' and the percentages of the take, as they are disseminated to the racetrack, the management organization, the lottery.

Mr. Melton: Right. The games in those days were going to pay out around 88%. So you had a 'take' of roughly 12%. For ease of calculation, let's call it 90%/10%. At that time, a lottery retailer got a 5% sales commission. The way that had to be worked was to structure it that they got 5% of the cash-in. For hypothetical, let's take a single machine as an example. Someone plays, and they win 90 cents on the dollar. They replay that 90 cents, and win 81 cents. They replay that and come back to 72 cents. Mr. Blair thought that, with the 'churn' down to 72 cents that he would come out okay. He was paying Scientific Games a fraction of that percentage. The way it turned out was that people didn't 'churn down' as much in his racetrack as they would in a normal casino environment. Because of this, there wasn't anything left over for the racetrack after Scientific Games got its money. Eventually, Mountaineer Park requested to renegotiate the contract in order to receive a bigger portion of the net win.

Arch Gleason temporarily left the Lottery in January of 1990 to serve as the Secretary of Transportation. He returned to the Lottery in the spring of 1994. By that time, I was here. His plan was that I would write regulations that included all four tracks, not just the one. Also in the spring of 1994, the three year Mountaineer Park contract was ending. Mr. Gleason wanted to extend that contract to cover an interim period of time until the new regulations were approved by the state legislature, but there was and still is a legal requirement that a state contract has to be approved by the Attorney General as to form. The Attorney General would not approve the contract extension.

This impasse resulted in a lawsuit filed by Mountaineer Park. The court ruled that video lottery was constitutional, but that the mere mention of video lottery in the original State Lottery Act was not

sufficient authorization from the legislature for the State Lottery Commission to approve this distinctly different type of lottery.

Public Gaming: *That wasn't so bad, because the reality was that the Lottery and Mountaineer Park were having trouble wedging the finances into the Lottery legislation anyway. So it had to be re-written and re-legislated anyway.*

Mr. Melton: That's correct. It was not a perfect fit. After the state supreme court ruled that what Mountaineer Park was doing was not authorized by statute, Mountaineer Park went back to the court and received a series of stays for the court's order, in order for the legislature to enact a statute that would specifically allow the State Lottery Commission to have this kind of lottery.

The Constitution says that you can't have a lottery or a 'gift enterprise' and the legislature cannot authorize one by statute. Then, in 1984, the exception to that general prohibition was that the legislature could authorize lotteries that were regulated, controlled, owned and operated by the state of West Virginia in a manner provided by general law. If you look at the Kansas state constitution, for example, it will say something similar.

The legislature enacted the Racetrack Video Lottery Act in 1994. It provided for how the money was to be divided, how it was to be spent, what the basis of taxation was to be.. The basis of the dollars was net-of-prizes. This is different from regular lottery, which is based on gross sales or, in our case, gross sales less retailer commissions.

Public Gaming: *That of course addressed the problem. In the video lottery world, the 'gross sales', or play amount, doesn't mean anything. A player could start with \$100, and after playing for three hours have actually 'put in' \$2,000 to the machine, and end up with \$80. That \$2,000 number is meaningless. The 'take', the \$20 net, is the only meaningful number.*

Mr. Melton: That's right. And there is one of the big math differences in Video Lottery. If you take dollars played versus dollars won, the net is x. If you take credits played, which includes all the churning that you were referring to, minus credits won, you come to the same number. Total credits played minus total credits won will give you the payout number. The statute says that these machines must pay out not less than 80%, no more than 95% over the expected life of the game. If you take just money in and money out, it's going to be a much lower percentage. In order to get to that particular percentage, you have to eliminate the 'churn' from the calculations.

Public Gaming: *You mentioned the 'gray' machines that were all over the state. In fact, someone commented to me earlier that South Carolina 'pulled the plug' on the 'gray' machines in that state, and many of those machines were shipped up here. At the time, were those machines legal?*

Mr. Melton: There were a series of West Virginia cases in

Continued Online!

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An Interview with Robert Ayotte

President, Lottery Operations, Loto-Quebec.

(See this interview in its entirety at www.publicgaming.com.)



Robert Ayotte

Mark Jason, PGRI (PG): *Could you describe your responsibilities?*

Robert Ayotte (RA): I am president for Lottery Operations. This would encompass instant and online games, sales, draws, prize claims, the entire operation. I've got offices in a few locations in the Province, with a team of 250 employees.

PG: *How many retailers have you got?*

RA: Right now we have roughly 9,500 retailers. That will change in the next few months. All but roughly 1,000 have a terminal. These retailers just sell the passive and instant games. We are one of the very few jurisdictions selling the passive games, and we're doing well with that. In the coming months we'll be moving toward having all retailers have terminals. So every retailer who wants to sell lottery will need to have a terminal. I would say that by the end of May we'll have reduced the number of retailers to 8,700 or so.

PG: *Could you describe what passive games are?*

RA: You buy a ticket with a number on it. You buy a ticket, and we have a draw. The ancestor to this would be our Mini-Lotto. The ticket is 50 cents. The grand prize is \$50,000. With the evolution over the years, we have developed Special Event games, passive games with an instant part, like our Celebration, a \$20 traditional games that comes back at the end of every year with the drawing of a Millionaire live on TV during a 90 minute reality show featuring top Quebec performers. And we are doing very, very well with this game. When it started, it was sold across Canada. The other jurisdictions decided to offer different games, so right now it is sold only in Quebec.

PG: *With multiple ways to win, the game is that much more entertaining. What about sports betting?*

RA: Sports betting is also part of the Lottery Division. We are not allowed to have head-to-head betting, so what we offer involves betting on a minimum of three events and a maximum of six. The game doing the best in this category is called Mise-O-Jeu (it's a Wine, Lose, or Tie). We also have Total (the Over/Under). We added a game recently with a list of different propositions or questions regarding the performance of players during

a match or the performance of teams during a playoff series. For each proposition, Loto-Quebec assigns odds that are used to calculate potential winnings. To win, all player predictions must be accurate.

For us, the most important aspect of this category is that it doesn't follow the typical lottery demographic. It's a younger, more educated crowd. So it's very important in drawing a new group to play lottery. When you look at the overall sales figures, this is actually a small portion, but it is increasing year to year. There was a decline the year of the NHL strike, because hockey is by far the most popular sport in Quebec.

Last year, our total sales for the Lottery Division were One Billion, eight hundred forty two million. Our objective for this year was One Billion, Nine hundred and three million. This would be a record, and I'm sure we will exceed our target.

PG: *So even though sports betting is a small dollar relative to the overall numbers, there are two important aspects to this category. On the one hand, it is increasing, and on the other it reaches a demographic that other lottery games do not. Is the revenue from your instants and online games pretty flat?*

RA: Strangely, no. Our Instants Games were declining. Like everywhere else, we were looking at increasing the payout. But we have to be very careful with that. Once you increase the payout, you cannot come back from that. There was also a big obstacle to that. Our regulations stipulated an overall maximum of 55% payout for instants and passive games, though we were allowed to go up to 75% in the online games. We asked to have the same level on all games, the 75% maximum payout. It took a few years, but we got that.

It's an act of faith to increase the payout. Western Canada was the first one here to do that. When we did that, our target was 60%. We probably ended the year in the range of 58% to 59%. This not only stopped the decline, but we now have a steady increase in the instants category. Not only are we doing very well, but the forecast over the next two years is to keep increasing our payouts. We will be very careful and monitor it very closely, but it does work.

Last June we changed the prize payout. Right away we saw a change, from a slow decline to an increase. I don't believe it will flatten again, either. We have bonus draws with our big lotto games. We just launched a \$100 ticket, a mix of passive and instant game. So we are doing many things to keep the trend line increasing.

PG: *It works in terms of increasing revenue, but it is a very thin line. You need to get that much more revenue to make up for the increase in payout percentage.*

RA: You're absolutely right. That's why I say it is an act of faith, and why we monitor it so closely. It has worked everywhere else, and it is working here in Quebec.

The prize category that is doing the best here is the \$3 ticket. Our \$1 games are flat, the \$2 games are going down a bit. But the \$3 ticket is very popular. The reason is that there is an added entertainment value. There is more play, more to scratch. It's not just about the result. We have crosswords, bingo, various games like that on our \$3 ticket.

PG: *A couple of years ago the \$2 ticket generated almost twice the revenue of the \$3 ticket. You think the dramatic change has less to do with the ticket price than with the additional entertainment value associated with the \$3 ticket?*

RA: We're sure about that. We pretest all our games, with focus groups and such. And we do significant research while the games are being sold. So we're pretty sure that the increase in the \$3 ticket is about the added entertainment value. In fact, a couple of years ago the revenue generated by the \$2 price point was almost double that of the \$3 ticket. This year, the revenue

from the \$3 ticket almost equaled that of the \$2 ticket.

We are right now half way through the presentations of the business plans for the next year. Every year, my director of marketing, my director of sales, and I meet all our employees, all our business partners. This meeting is open to all Loto-Quebec employees, so that they can know what's going to happen in the next year. For this year, we started this process last week. The three of us travel throughout the province to have these meetings. There are still three meetings to go at this point.

Our distribution goes through wholesalers. These wholesalers are in charge of distribution to the retailers, promotions. Through these wholesalers, we visit all our retailers every week.

We have a three-year planning process. Each year we look at the coming three years, look at the whole picture. The two biggest challenges to the Lottery Division not only next year but in the coming years have to do with protecting the integrity and reinventing the Lottery category.

Of course everyone knows what's happened in Canada regarding retailer wins and integrity threats. We must guarantee the integrity of the games. Not only because of what's happened, but because this is what we do, what we promise to our people. Over the next couple of years, however, we will have to make sure, be extra-vigilant regarding security and integrity.

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The Fallout of the WTO Internet Gambling Case: The Trade Barriers Complaint of the UK Remote Gambling Association Against the USA

By Philippe Vlaemminck & Annick Hubert



Philippe Vlaemminck



Annick Hubert

On 20 December 2007, the UK remote Gambling association (RGA) introduced a complaint at DG Trade of the EU Commission under Council Regulation 3286/94 (the so-called Trade Barriers Regulation- in short TBR):

"The complaint asserts that the US Department of Justice (DOJ) is in violation of international trade law by threatening and pressing criminal prosecutions, forfeitures and other enforcement actions against foreign online gaming operators while allowing domestic US online gaming operators, primarily horse betting and state lotteries, to flourish. Such actions violate WTO rules, enshrined in an international treaty signed by 150 nations, including the US, which prohibit its signatories from engaging in protectionism."

Under the TBR one or more EU enterprises, or an association, acting on their behalf, which or continues to suffer adverse trade effects as a result of a trade barrier imposed by a non-EU country may lodge a complaint.

The RGA represents a small group of British remote gambling operators who did breach US laws and are prosecuted in the US courts. Remote gambling services are representing not more than

5% of the EU gambling market. The involved companies claim that the legal situation in the US prior to the withdrawal of the US commitments under GATS (WTO) was unclear (sic!). They ask the European Commission to intervene with the sole purpose to stop the prosecution in the USA against them. If not, they ask the European Commission to take a new WTO case against the USA.

According to the European press in a letter sent recently by EU Commissioner Mandelson (UK), responsible for Trade, to US Trade Representative Susan Schwab, it seems that Mandelson has requested for a suspension in the US authorities' campaign to prosecute the concerned British remote gambling operators pending the outcome of the EU inquiry. Such intervention by the competent Commissioner, pending the investigation, could be considered by some people as questionable.

As a TBR action can only be initiated insofar as the complaining party does prove that there is an adverse trade effect for the EU industry going beyond their own commercial interest, it is very unlikely that the TBR complaint can be accepted.

Parties primarily concerned by the outcome of the procedure can intervene in the TBR investigation. Upon the initiative of European Lotteries, the WLA and NASPL decided to intervene along side European Lotteries to defend the values promoted equally by the European states and the USA, and to intervene in support of the US Government.

Recently the Commission did hear European Lotteries, and one day later the WLA and NASPL, as they made a written request for a hearing showing that they are a party primarily concerned by the result of the procedure.

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The Commission services (DG Trade) intend to explore the issues further in the course of the summer. It seems that the European Commission still has doubts whether the gambling policy of several US States is compatible with the public order principle invoked by the US in the course of the WTO dispute. By questioning this, the European Commission denies the legal value of the WTO dispute settlement rulings.

When it has concluded its examination the Commission shall report to the Advisory Committee. The report should normally be presented within five months of the announcement of initiation of the procedure, unless the complexity of the examination is such that the Commission extends the period to seven months. The report is now expected in October 2008.

What are the risks that a further WTO fight is opened regarding remote gambling?

The Commission can only act if this is in the interest of the EU (the "Community interest" principle) to do so. Where commercial policy measures are envisaged, the EU can only take such measures in accordance with the International rules and proce-

dures (including the WTO dispute settlement rules).

According to several intervening parties it is difficult to consider that any further action, connected to the withdrawal of the US commitments under GATS, could be in the interest of the EU following the compensation agreement between the United States and the European Union. Besides, as the vast majority of the EU Member States pursue the same public order policy as the USA, it is hard to imagine how acting against the USA could be in the "Community interest".

Finally the whole complaint is based upon the allegation that the USA is discriminating against the involved British remote gambling operators by prosecuting only EU operators for violating US laws on gambling , and not prosecuting US citizens. The reality seems very different as, according to US sources, no discrimination is taking place in this regard.

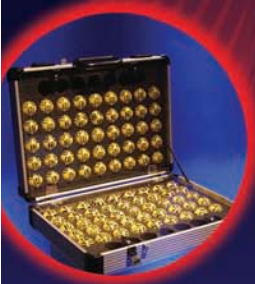
It seems hard to believe that the complaint could lead to a further WTO dispute, but the decision is not yet taken.

Look for follow-up to this article in PGRI's September issue ♦

Philippe Vlaemminck is the managing partner of Vlaemminck & Partners, a Belgian law firm specialising in EU & WTO law and for more than 20 years substantially involved in defending the cause of lotteries at all levels (internet, privatizations, regulatory approaches,...). His email is Ph.Vlaemminck@Vlaemminck.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 is a partner of the EU law practise group of Vlaemminck & Partners. Her e-mail is A.Hubert@Vlaemminck.com

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Q&A session with **Gerhard Burda**, Senior Vice-President, Gaming Solutions, GTECH Corporation and **Victor Duarte**, Chief Operating Officer, Spielo, a GTECH company . . . on the integration of Atronic with Spielo and GTECH and enhancing GTECH's portfolio of product offerings.

This Q&A is continued online. Please go to www.publicgaming.com to see this article in its entirety.



Gerhard Burda

This session explores the reasons behind GTECH's recent acquisitions of Atronic and other gaming companies, and how and why these acquisitions enhance GTECH's value proposition and ability to serve its customers.

Paul Jason, PGRI (PG): *In January, GTECH® acquired a 50 percent controlling interest in Atronic and announced its intentions to acquire the remaining 50 percent. That came to fruition in May when GTECH announced that it had completed*

the final stage of the two-part transaction, thus gaining complete ownership of Atronic. I would like to explore some of the implications of GTECH's acquisition of Atronic and your strategies going forward.

Gerhard Burda (GB): Let's start with GTECH's acquisition of Spielo®, which began in April of 2004. That was GTECH's first step toward establishing a position to cover all gaming verticals. If you look at the different gaming channels – GTECH has instant and online lottery games, Spielo has video lottery games, and now with the recent acquisitions of Finsoft, Boss Media, and St Minver, GTECH also covers the Sports Betting, Internet, and mobile offerings. That left the commercial gaming business, in which Spielo also operates. However, the Atronic acquisition solidifies our position in this market.

What all of these recent acquisitions have in common is a convergence of content and brands.

I'll give you an example: Deal or No Deal™, is a very successful game show in the United States at the moment. It's one of the most successful brands that Atronic has in its recurring revenue business – in its profit sharing business in U.S. casinos. GTECH has this same licensed brand in the online lottery business. Spielo will, most probably, be able to use it in the video lottery space, while Atronic continues to use it in the casino space. So the same brand, Deal or No Deal, works across all gaming verticals. Obviously there are different gaming concepts behind the one brand, there are significantly different mathematic models behind the application of the brand across different verticals, and there's different technology. But the brands still work and cut through all of those different channels. This provides a tre-

mendous opportunity to leverage the value of such brands, either licensed or proprietary. We hope to leverage these convergent elements, the brands and different businesses, products, marketplaces, etc., to learn more from each other.

Even though we operate different businesses and under differing conditions, we all want to learn more about our players and develop strategies that can be leveraged across multiple gaming channels. This could also lead us to effectively leverage a successful lottery brand to create a casino game out of it. Convergence can happen both ways, you know. In Rhode Island, West Virginia, Oregon, and now Kansas, the power of the lottery brand is augmenting a comprehensive gaming strategy.

So that's really what we are trying to do. At the moment we have two very independent companies that have different technologies, different structures, and some overlap where there is commonality. Going forward, my vision is to maintain the brands and the offerings with Spielo in the government sector and Atronic in the commercial sector. But with regard to things like research and development, game design, operational efficiencies, and much more, we will become one company, thereby enhancing the value that each division brings to the customer. This does yield significant efficiencies and cost benefits to make us financially stronger commercially. That's important to the customer because it frees us up to allocate more resources to focus on optimizing and driving their business forward.

PG: *So game content is becoming the primary driver for an effective business strategy. And technology, even sophisticated technology, is becoming commoditized faster and faster?*

GB: That's definitely the case. The technology more and more becomes a commodity. Content – and we're not just talking about games, content is where creativity really adds value whether it is in games, applications, or innovative ideas of applying technology to different market segments, content is really about ideas and creative output of all kinds. That's what is driving the business forward.



Victor Duarte

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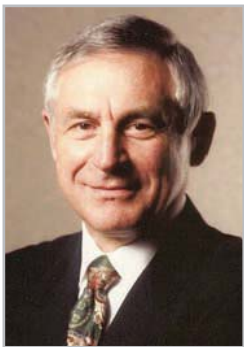
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Keynote Speech by Tom Little

President and CEO, INTRALOT USA.

(The significant majority of this transcript is continued online. Please go to www.publicgaming.com to see this transcript in its entirety.)

I was asked by many people for this transcript, so here it is! What follows on this page is a selected passage from the transcript of the Keynote Speech given by Tom Little, President & CEO of Intralot USA, a subsidiary of INTRALOT SA., with headquarters in Athens, Greece. Like all of our interviews and articles, you need to go to www.publicgaming.com to read the entire presentation. The vast majority of this speech is not printed here – you do need to go online to read it. As with the other interviews and articles contained in this issue, it is well worth it! Thank you.



Tom Little

...Now I'd like to talk to you for the next few minutes about some shifts that are taking place in the marketplace. All of us are aware that dramatic things are happening, but haven't necessarily given it a lot of thought. For instance, did you know that one in eight couples that were married last year met online? It's probably now closer to two in eight who met each other online. How many people in here belong to My Space or are registered on My Space? Only one

individual - really, Gordon Graves? That surprises me. Nobody else here is on My Space. That should kind of tell you something, since this is where our new customers are coming from. There were 106 million members as of September, 2006. As of September 2007 there are 230 million users on My Space. So today if My Space was a country, it would be the fifth largest country in the world between Brazil and Indonesia. And there are 250,000 new users added every day to My Space. The average My Space site is visited 30 times a day. This is where our new customers are, folks.

The other thing is technology. That curve you see on the bottom, this curve right here, the pink spot going up. The far left is today, and that curve you see is about a three year timeline curve. That's where technology is going. This is almost like sitting on the dock in New Orleans and somebody tells us that at noontime tomorrow Katrina's coming. And that is exactly what's happening. It's gonna have a huge impact on our industry, all industries as a matter of fact. 2.7 million searches on Google. Now who answered these questions before Google? The number of text messages sent and received every day exceed the population of the planet. A week's worth of The New York Times, the information found in just one week of The New York Times contains

more information than you'd be likely to come across in an entire lifetime in the 18th century. It's estimated that 40 exabytes of unique information is generated worldwide every year. That's more than in the previous 5,000 years. And that amount of technical information is doubling every two years. That means that a college student pursuing a four year degree, that what he's learned in his freshman year is outdated by the time he becomes a junior. By 2010 this amount of data is going to double every 72 hours. Third generation fiber optics carry 10 trillion bytes per second on a single strand of fiber. None of us can even begin to comprehend what it's going to be like to collaborate, work, and communicate just three or four years from now. This has been code-named "Internet 2" or "the grid." How many of you have heard of the grid? The grid is going to be turned on towards the end of this year, and the basis for the grid, what got it going, necessity being the mother of invention, is a new super collider in CERN Switzerland. That super collider, which is being used to find the origins of the universe, will generate enough data that if you put them on CDs and stacked them up it would go 40 miles high. 40 miles. That means the projected information couldn't be used on the Internet as we know it today because it would bring the current Internet to its knees. So this new grid that's coming out is going to change the way we work, and live. It's going to change our industry tremendously and it's coming at us fast and hard. I think a lot of us know it, but it's almost like Katrina, we're just waiting for it to hit us. And it's going to hit hard. Again, that's 1,900 CDs or 150 million phone calls every second, and that amount of information is tripling every six months and will do so for the next 20 years. By 2013 there's going to be a \$1,000 supercomputer that has the capability of the human brain. And while it's difficult to predict things out more than 15 years, they're actually predicting that by 2049 a \$1,000 computer will have more computing power than the entire human race. That's unbelievable. What this means is that shift

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INTRALOT's Award-Winning Technology Takes Company to New Heights



They used to be known as the Lottery vendor with a large international presence, but now, the US Lottery and Gaming Industry is taking notice of INTRALOT, the world's leading innovative game content and services provider. With current US Lottery Contracts in Idaho, Montana, Nebraska, New Mexico, South Carolina and the most recent win in Ohio, this company is on a mission to increase its US presence, while also increasing their global footprint.

One could ask for the secret to this success story that is still being written, but INTRALOT USA's CEO, Tom Little, says, "It's simple. Providing great customer service and the most innovative technology is the key to our success. INTRALOT is always working on pioneering solutions and creating efficient and secure lottery systems that help to maximize the net benefits for our Lottery partners and their beneficiaries. Building efficient, socially responsible and technologically advanced Lottery and betting operations has been INTRALOT's mission since the company's inception."

INTRALOT must be on to something because their technology is turning heads and winning awards. For three years now, INTRALOT

products have received first place honours at PGRI's annual SMART TECH Conference. This year, INTRALOT's Mesh Radio based Online Lottery Network design

communicate with any other radio within range, providing seamless coverage. Each radio is engineered and strategically placed to communicate with at least two other radios on the network. Network failure is unlikely, but should one radio fail, adjacent radios would always be in communication with one another, eliminating single points of failure.

In addition, this system eliminates the need to hard wire terminals in retailer outlets. Instead, the system can be placed on parking and traffic light poles and billboards, which helps to expand network usage.

INTRALOT has also found that industries outside of the lottery and gaming systems have a need for Mesh Radio. This system can also provide high-speed wireless access to consumers, fire, police and other emergency personnel. In fact, Mesh Radio is currently being used by more than 500 U.S. cities. Consumers use the technology for high-speed Internet access, while public entities use Mesh for public safety services roaming, automatic meter reading and security and traffic cameras.

Cutting-edge network systems are not the only high-tech solution working in the company's favor these days. Their innovative terminals are also making an impact on the market. Second prize winner, the iRis Modular Terminal is the newest member of INTRALOT's family of lottery terminals. This multi-functional, high-performance lottery terminal features automated operations that seamlessly support all game types, including numerical, instant and sports betting. Deemed affordable and cost effective, the iRis utilizes peripherals common across the terminal family and is also capable of streaming multi-monitor multi-channel video-over-ip.

The iRis utilizes a revolutionary document reader called EyeLOT, which works similar to a digital camera. The EyeLOT incorporates Icon Digital Imaging technology that replaces the need for traditional document scanners and barcode readers. This technology eliminates the use of moving parts and therefore maximizes functional reliability at all operational levels.

Top-notch technology, a stellar reputation for excellent customer service, and a growing roster of clients could leave one asking "What's next for INTRALOT?" Company leaders say their main goal is to continue on the same path by maintaining the highest levels of service while researching and developing revolutionary technology that will minimize costs and maximize efficiencies for their Lottery partners.

You can learn more about INTRALOT and their revolutionary products and services by visiting www.intralot.com. ♦



took home the top prize and their latest edition to high-performing terminals, the iRis terminal, tied for second place. Last year, first prize went to INTRALOT's microLOT terminal that was designed for retailers where complete functionality is required with a much smaller footprint than traditional terminals. The year before that, their B-On' gaming platform was judged to be the Product of the Year. B-On' expands traditional Lottery sales channels by supporting alternative sales networks and offering a variety of games with user-friendly features.

This year's first place winner, Mesh Radio, was incorporated in INTRALOT's network designs to provide increased bandwidth, solve service issues, and provide cost savings in areas of high retailer concentrations. Mesh Radio provides extensive network capabilities by creating a grid of service where every radio on a network can com-

Top Honors for Atlantic Lottery Women

The Canadian Business Press and PGRI celebrate the talent and leadership of three of ALC's female leaders. They have distinguished themselves in recent months by winning prestigious awards

Atlantic Lottery President and CEO Michelle Carinci has been named one of Atlantic Canada's Top 50 CEOs for 2008 by Atlantic Business Magazine. Senior Vice President of Customer Relations and Operations Adrienne O'Pray was named one of Canada's Top 40 Under 40 executives. And Public Affairs and Corporate Communications Director Paula Dyke accepted on behalf of her team a Gold Quill Award from the International Association of Business Communicators in the Crisis Communications/ Issues Management category for their work in 2007 around customer confidence.

Michelle previously received the Top 50 CEO recognition in 2003 and 2004. "I'm very honored to be recognized among such

a noteworthy group of successful CEOs," she said. "This recognition wouldn't have been possible, however, without the dedication and talent of Atlantic Lottery's leadership team and its employees. That's why I'm particularly proud of the honors to Adrienne and Paula. Not only are they deserving of these distinctions, but they demonstrate that Atlantic Lottery recruits top talent and provides that talent with opportunities to excel in the workplace."

Michelle also added: "Adrienne and Paula are among Atlantic Lottery's 650 motivated,

high-performing and passionate employees who put ALC's vision of making a difference in Atlantic Canadian communities into practice every day."

Adrienne was one of only three Atlantic Canadians named as one of Canada's Top 40 Under 40. She credits Michelle's desire to revitalize Atlantic Lottery as forming part of her decision to join the company in 2003.

"I was energized by Michelle's vision for Atlantic Lottery into the future. Staying abreast of gaming trends, offering innovative products and services to spur socially responsible growth, and focusing on the customer – these are just some of the things that will help Atlantic Lottery deliver the gaming experiences our

players want," said Adrienne.

While attending the awards ceremony, Adrienne was reminded of how much Atlantic Lottery has already accomplished. Guest speaker at the ceremony was Canadian philanthropist Craig Kielburger. Part of his presentation on corporate social responsibility and volunteerism included examples of strong corporate vision statements. "It was a powerful moment for me when a slide appeared with Atlantic Lottery's vision statement. It made me proud to work for a company that is making a difference," she said.

In June 2008, the Public Affairs and Corporate Communications team won the Gold Quill Award in the Crisis Communications/ Issues Management category for its handling of a customer confidence issue that began in the fall of 2006. In response to the industry-wide issue related to retailer wins, ALC launched a proactive and sustained issues management program to ensure that players, retailers, and the public had the information they needed when they needed. Public Affairs and Corporate Communications supported the organization as it implemented industry-leading changes to process.

"From the start, the principles of openness, transparency and accountability guided us," said Paula. "We ensured that Atlantic Canadians had the information they needed to play with confidence and that our retailers, and all stakeholders, were both consulted and informed. Winning the Gold Quill Award validated for us that our communications approach was the right one." ♦



Michelle Carinci
President & CEO
Atlantic Lottery Corp.



Adrienne O'Pray
Senior V.P. of Customer
Relations & Operations
Atlantic Lottery Corp.



Paula Dyke
Director of Public Affairs
and Corporate
Communications
Atlantic Lottery Corp.
accepting
Gold Quill Award

Pronosticos, the Mexican Lottery, Successfully Implements Dramatic Expansion. General Director Adolfo Felipe Blanco Tatto Discusses His Bold Response to Competition and Adversity in the Marketplace.

(Please go to www.publicgaming.com to see this article in its entirety.)

Sweeping, dramatic changes in the Mexican lottery competitive landscape over the past 12 months were converging in many forms. First, in early 2007, Mexican media conglomerate Televisa launched a privately operated lottery as a direct challenge to the government-chartered Pronósticos para La Asistencia Pública. Then, months later, Televisa announced a partnership with an existing sales force of some 3,000 mobile vendors to extend their reach in even greater ways. (EDITOR'S NOTE: In an interesting twist, the association of the mobile vendors announced in late June that they will not sell Televisa's products and they will continue to sell games and raffles for the benefit of the Mexican public.)



Adolfo Felipe Blanco Tatto
General Dir. of Pronosticos

Facing stiff new competition from powerful and well resourced private entities, Adolfo Felipe Blanco Tatto, General Director of Pronosticos, gathered his senior leadership at the lottery and representatives from their lottery operator, GTECH®, and told them exactly how he wanted to react to the challenge:

By embracing it.

"We welcomed it. Because we knew the more competitors we had, the better we would be as a lottery," Blanco Tatto said. "When the competitor entered the market, people thought this was a threat. But me and my team, we always knew that a competitor would be an advantage for us because then people would have a choice of lottery products to play. And we also knew that players understood the proceeds from our games go toward good causes. That was important."

That good causes element – proceeds from Pronosticos sales go to purchase food, education, and medicine for economically disadvantaged Mexican citizens – was the key differentiator in the battle for the lottery market share in Mexico. And it is a battle Pronosticos is clearly winning.

"Right now, in the middle of 2008, Pronosticos is the clear leader in number of online games and lottery sales in Mexico," Blanco Tatto reports. "What the competitor sells in one year, Pronosticos sells in one week when it offers a jackpot that ex-

ceeds \$100 million pesos. The prizes that the competitor gave out in the last year, Pronosticos gives out in one week. So we know that players see where the better opportunity lies, in addition to the fact that their money also goes to help those who need it the most in Mexico."

Perhaps the greatest driver in that impressive sales performance was the decision to expand the distribution by having Pronosticos team with GTECH to bring elements of the GTECH Lottery Inside solution to the marketplace. In May, popular Mexican retailer Soriana, a unique grocery, department, and retail chain with locations throughout the country, agreed to implement lottery sales directly into their existing cash registers, offering a quick pick version of the popular and successful Melate/Revancha lotto game, Melaticos.

"This is a new kind of lottery channel for us, and I believe unique in the world," Blanco Tatto said. "This places Mexico in a position to lead the world by taking lottery into the retail environment in a unique and powerful way and by opening up the distribution market for lotteries. While we are proud of our accomplishments in this area, GTECH was instrumental in developing this technology. We could not have done it without their expertise and technology."

Retailer reaction to the Soriana agreement has been positive, including from within the existing lottery retail network. However, there was some concern at first, but Pronosticos was able to explain that this initiative was, in many ways, like the well-proven anchor store concept. In malls, the large "big box" retail stores drive overall traffic and the smaller, specialty retailers benefit from these higher traffic levels. In this case, Soriana acts as the anchor store (taking into consideration that they only sell the quick pick option) and the existing lottery retailer (which has all the products included in the entire lottery portfolio) is able to benefit from this increased traffic to build overall sales.

With Soriana representing more than 450 stores comprising more than 9,000 new points-of-sale – as well as employing more than 83,000 Mexican citizens – Pronosticos is well on its way toward achieving the goal of having more players playing and learning about their products. Of course, the larger footprint also helps to meet the critical social goal of helping the people who

Continued Online! The significant majority of this article is continued online. Please go to www.publicgaming.com to see this article in its entirety.

Peter DeRaedt

President of Gaming Standards Association (GSA).

(The Significant majority of this transcript is continued online. Please go to www.publicgaming.com to see the transcript in its entirety)



Peter DeRaedt

Paul Jason, PGRI (PG): *Peter DeRaedt became the president of the Gaming Standards Association, also known as GSA and formerly known as GAMMA, in October of 2002. That was after serving as chairman of GSA since its inception in 1998. Peter's higher education is from the University of Antwerp in Belgium, and the University of South Africa. Peter started in the gaming industry in 1986 as systems manager and general manager for PCS in the UK. Peter joined*

Aristocrat in Sydney in 1997 as vice-president of technology. In 2001 Peter was appointed to the position of corporate VP of product development for the MIS Group of Monaco. Please join me in welcoming Peter DeRaedt. [Applause]

Peter DeRaedt (PD): Good morning everybody. Thank you, Paul, for providing me this opportunity. I apologize in advance for possibly using the wrong terminology as it relates to the public gaming sector of our industry. I am typically speaking to casino operators in the private sector and not the government sector and lotteries. I've been given 15 minutes, which is not enough time to explain everything about GSA, so we will focus on what we perceive the values of standards to be.

First of all, I want to point out some of the lottery industry operators and suppliers who are members of our association (British Columbia Lottery Association, GTECH, Intralot, MUSL, OLG, Oregon Lottery, Scientific Games). Currently the association consists of more than 70 members worldwide. They include some of the largest operators, Harrah's, MGM Mirage, Station Casinos et cetera. A detailed list of them can be found on our website. But these are the companies that are I think very active in the lottery business both on the operator and supplier side.

A little about GSA ... We were founded ten years ago as a non-profit standard setting organization. We solely focus on the development of the language or communication protocols between various devices and systems. And as you can see, we develop and encourage the implementation of open standards. This is what we do, this is what we try to evangelize to the industry. If you look around in the business world today, we've all heard from the previous panel we are in a very dynamic industry. The indus-

try moves faster and faster and there's almost not a single business in the world that does not use standards. Every single computer is equipped with multiple standards. It is how you function as human beings in this world, and yet, if you look at the gaming industry, believe it or not, there's a lack of standards. So GSA has tried to change that scene and we're getting to the point where that's about happening -- or it is happening as was demonstrated during multiple trade shows in Las Vegas, G2E Asia, the ICE Show in London, and on and on. So I've only got three topics today, and only about ten slides.

Benefits of standards which we perceive for the lottery industry, what are they? Industry adoption, where is the industry with adopting GSA technology? And the last thing, what kind of power do you have as directors of public gaming and lotteries?

First a few questions - How can we increase our portion of revenue that casinos are getting? How do we do that in the public gaming sector? I mean, I'm sure that's an important element considering the recent budget cuts everywhere. How can we do that? Second thing, game content and distribution, it's an element that you heard before, how do we quickly change games out? How do we, when a game's revenue declines, quickly move over to the next game? How do we do that? And as you know, it's going to be a lot more challenging developing games for the next generation of people who as my kids playing around on the Internet day in day out and they're used to content which today is not being provided for. So you have to think ahead and plan ahead and make sure you can enable that. The last element is you want anywhere -- anytime access.

So benefits of standards. It's very clear that standards allow you to make very smart prudent investments, and that I think is key. You want to invest in scalable solutions, solutions that you can grow when you want your business to grow. You want to make sure you can grow in different directions, when you want to grow in a certain direction, you can follow the market. You want to make sure, as I said to you before, you have the flexibility with respect to the game content. You want to make sure you have access to multiple game content providers and distribute the content to your audience whomever they are. And a key factor is faster time to market. How do I achieve all that? Open standards are the answer.

So the benefits, clear, it offers you flexibility from an investment perspective as well as from a technology perspective. It also

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Connections: Exploring Gaming's New Frontiers

The Semantics of Video Lottery

By Michael Koch, CEO, ACE Interactive



Michael Koch

The Semantics of Video Lottery

One of the more interesting aspects of Video Lottery is that things are not always as they appear to be on the surface. As a global industry that generates billions of dollars, euros, kronors and kroners, casual observers might assume that all Video Lottery operators/regulators speak a universal language when, in fact, nothing could be further from the truth.

In its earliest manifestations, Video Lottery in North America usually meant a 'player interactive' video-based gaming machine that dispensed paper coupons instead of coins or tokens. In 1985, Montana passed the "Video Poker Machine Act" followed four years later by South Dakota - the United States' first true "Video Lottery" program. Beginning in 1989, South Dakota's "Video Lottery Terminals" (or VLTs) offered electronic versions of poker, blackjack (21), keno, and bingo games, paying winnings via printed voucher which must be redeemed on the day of play.

At that time, the prevailing school of thought was that a 'softer' video screen would find wider societal acceptance than the operation of a mechanical stepper-reel device, principally in areas far removed from traditional casinos. Payouts in paper 'tickets' helped to contour the legal logic in jurisdictions where coin-spewing 'slot machines' were prohibited.

As the industry evolved, so did the perception (and definition) of what actually constituted 'Video Lottery'. For instance, Oregon and Rhode Island charted different courses for their programs (both inaugurated in 1992); Oregon offered a variety of poker games in numerous licensed locations across the state while Rhode Island chose to install VLT versions of poker and blackjack only in its two pari-mutuel wagering facilities. Within several years, both states expanded their video offerings to include versions of popular 'slot machine' line games as a means to attract a wider patron base.

Delaware jumped on the Video Lottery bandwagon in 1995, its legislature broadening the definition of a VLT to include devices that "may use spinning reels or video displays or both, and may or may not dispense coins or tokens directly to winning players", or in other words, traditional stepper-reel slot machines (albeit those connected to a lottery-controlled monitoring system). West Virginia followed Delaware's lead in 1999, amending its

VLT regulations to permit actual "slot machines" at four licensed racetracks that did not require "video simulation" and dispensed coins instead of vouchers.

Across the Atlantic, Video Lottery was taking on a different form. In Sweden, Svenska Spel began offering spinning reel-type VLTs under the name "Jack and Miss Vegas" in 1997 and is today designing a 'next generation' VLT that features games uniquely tailored to Swedish patrons and styled for placement in restaurants and clubs. Neighboring Norway went with a slightly different approach – permitting a variety of video games, including a derivation of SWP or Skill With Prize games (the winning of a prize determined only by the player's skill and with an element of chance) but no spinning reel variations. Soon, Norway will be unique in the Video Lottery fraternity by providing an interface to place traditional lottery wagers on its interactive Video Lottery Terminals – a bold concept bound to catch the attention of lotteries worldwide.



The North American Association of State and Provincial Lotteries (NASPL), today defines a 'Video Lottery Terminal (VLT)' as: "Electronic games of chance played on a video screen. They often simulate popular casino games such as blackjack, poker, or spinning-reel slot machines. Unlike slot machines, video lottery terminals do not dispense money. Rather, a winning player is provided a ticket that is redeemed by the retailer for prizes."

Yet, this 'NASPL' definition would seem to exclude both Delaware and West Virginia (racetrack) VLTs, and possibly even the

New York Lottery's "Video Gaming Machines" - interactive player terminals that display the outcome of an 'electronic instant lottery' game determined at the central system level. So, even the experts have difficulty in reaching consensus on what constitutes Video Lottery.

Recently, these terminology boundaries were blurred even more as several U.S. jurisdictions introduced 'Virtual Blackjack' tables within the confines of existing VLT legislation. What were once seas of blinking and beeping gaming machines are now interspersed with 'real' five-position gaming tables and personable video 'dealers' ... interacting with their 'live' clientele via a large display.

Lawmakers and critics alike grappled with the legal definition of these devices; however, the Rhode Island Attorney General's opinion seems to have 'reset the bar' once again, determining that "multi-station machines ... are not a different 'type' of gambling from that already approved. Indeed these machines are clearly Video Lottery Terminals (VLTs) ..."

Today, the accepted paradigm of a 'Video Lottery Terminal' may very well be "any form of electronic gaming device as defined and authorized by a legislative body." The nature of the device itself does not convey Video Lottery 'status,' this determination is made by lawyers and lawmakers - usually in the enabling legislation. As the public's acceptance of Video Lottery increases, jurisdictions often seek to enhance revenue by modifying and/or expanding their own official definitions - either legislatively or through updated interpretations of existing laws.

The introduction of Server-Based Gaming (SBG) will again challenge regulators, politicians and legislative architects to re-write the glossary of Video Lottery. Hopefully, future technocrats will work together to create a uniform set of SBG terminology or the end result may well be a new wave of conflicting definitions. In the gaming world, "different strokes for different folks" only leads to confusion ... we collectively need to convince policy makers that a common language is in everyone's best interest. ♦

Go to www.publicgaming.com to see complete photo gallery of the SMART-Tech 2008 Conference.

SMART-Tech



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