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PUBLIC GAMING™ INTERNATIONAL

Featured Interviews:

Dr. Winfried Wortmann
Managing Director,
Westdeutsche Lotterie GmbH

Jan Stewart
CEO, Lotterywest

Art Macias
Executive Director,
Arizona Lottery

Lynne Roiter
Vice President, Legal Affairs
and Corporate Secretary,
Loto-Quebec

Constantinos Antonopoulos
CEO, INTRALOT SA

Bo Flindt Jorgensen
Marketing Coordinator,
Danske Spil A/S

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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.com.

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GLOBAL SAMPLING

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From the Publisher

By Paul Jason, CEO, Public Gaming International Magazine

The NASPL Conference was, as expected, a great success. An action-packed three days of visiting with friends, colleagues, clients, and potential customers. The educational seminars were better than ever, pushing into edgy and forward-looking issues. The suppliers are a tremendous resource of 'revolutionary thinking,' creating products and strategies that will take us into the future.

Next up is the World Lottery Association (WLA), which is convening its bi-annual conference in Greece October 19 to 24. This is the biggest international conference for the lottery industry, is always hugely fun, and I hope to see all of you there. Their website address is www.wla2008.com.

A few of important themes were in evidence at the NASPL show and are also reflected in this month's feature interviews. First, no matter what products and games we sell, we need to understand our customer. For instance, if the younger player is playing Internet games, glued 24/7 to their Mobile, and spending time on social networking sites, we need to analyze their behavior in those activities that do engage their interest. The fact that certain games are not allowed in our own jurisdiction does not prevent us from learning about what interests and motivates our player. The insights we gain will inform the way we brainstorm questions like how to make lotto more exciting for the next generation of player.

Second, there is lots of innovation in retail strategies, terminals that distribute lotto and scratch-offs, and traditional lottery products that are exciting and innovative. Achieving incremental increases in those areas that are the backbone of the industry is ultimately what matters most and our major lottery industry suppliers are delivering the products that happen.

Third, political and regulatory questions are ongoing. Dr. Wortmann addresses issues most pertinent to the European political and regulatory environment, and the way this unfolds in Europe will significantly impact the entire world of gaming. Art Macias discusses the way that the lottery is tied directly into a bond issue that will raise a billion dollars. This is a super interesting and important initiative for U.S. lotteries because of the way that this raises the bar on the lottery's financial performance (and creates a more open-minded and entrepreneurial approach to improving financial results).

Special thanks also to Jan Stewart, Lynne Roiter, Constantinos Antonopoulos, Bo Flindt Jorgensen, and Philippe Vlaemminck for their participation. They all worked hard to address provocative topics in a straightforward and genuinely interesting way. Please go to www.publicgaming.com to see these articles and interviews in their entirety.

Announcement to our international readers:

Our website www.publicgaming.com now has an automatic translator for eleven different languages. Just look for your national flag in the right side column and click on it. We would welcome feedback as to how well it works, how accurately it translates everything.

Some reasons to check out our website www.publicgaming.com for "up-to-the-minute-news" that does not get covered by the print magazine:

We are reporting on a most interesting twist on Internet gambling regulatory law that is evolving as this goes to press. The Kentucky Justice and Public Safety Cabinet is bringing suit against operators of 'illegal gambling devices". The crux of it is this: It is virtually impossible for a jurisdiction to prevent access to illegal websites offering illegal Internet gambling. For this reason, the federal UIGEA focuses on preventing the fund transfers necessary for Internet gambling. However, the Internet companies themselves (i.e. owners of the websites and domain names), have the ability to restrict their offering geographically. They just need to be properly motivated to do so. The lawsuit in Kentucky attempts to provide such motivation by requiring them to defend their illegal operations in court. The state is suing for control of 141 domain names associated within Internet gambling companies offering an illegal product in the state of KY. A number of these companies have already notified the state that they are henceforth restricting residents in Kentucky from having access to their sites, seeming to confirm that they do have the capability to restrict access geographically. The implications of these legal proceedings could be quite interesting. Check in with www.publicgaming.com for more on this and other "Hot Issues".

Another topic of ongoing discussion that we are taking to a new level:

"Securitization," "monetization," "privatization" of government owned lottery revenues. While it is true that politicians have batted around the word "privatization" in ways that cause us to roll our eyes at the topic, it is also the case that it is not an "issue du jour" and is not going away. This is a financially complex topic. We welcome all varieties of views on this topic. Excerpted responses to a Public Gaming question on privatization and the cost of money:

"Of course, your question is at the heart of the "privatization" debate, and you're not "missing" anything! The critical insight for understanding lottery economics is realizing that it is not, for the most part, a cost-driven business. Revenue growth trumps all, and revenue growth is largely a function of the regulatory environment. Typical private sector efficiency-based management initiatives have relatively less impact in the lottery business. So yes, a private sector owner would have fewer options for expanding profitability in order to generate a shareholder return…"

Another respondent: *"Your question covers the obvious most important hurdle for a private operator. The analysis could be a bit more complicated than the scenario you laid out but your question gets to the heart of the matter. First, a private operator is not likely able to obtain 40 year interest only financing. There will have to be amortization of principal…"* Visit us at www.publicgaming.com to read more, (and find out exactly who's saying what about that!).

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 Dr. Winfried Wortmann

Managing Director of Westdeutsche Lotterie GmbH, Germany
President of the European Lotteries Association

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

Dr. Winfried Wortmann

Following is as in-depth yet concise an analysis of the European legal, political and regulatory environment as it relates to the gaming industry as you will find anywhere. Dr. Wortmann is on the front lines of advocating for a prudent approach to evolving the gaming industry. On the other side of this pitched battle are the proponents of liberalizing the markets, opening them up to free market competition and cross-border selling, with minimal regulation and taxation. In the middle are the shapers of regulatory and public policy. These are complex issues and Dr. Wortmann does not "dummy down."

While it may seem that the debate over how gaming should be regulated in the European Union involves factors that are unique to Europe, it truly is not the case. First, the trade-offs between the economic efficacy of free market capitalism and the channelling of profits for public benefit; the balancing act of minimizing social costs while optimizing financial return; the convergence of public and private interests on the doorstep of legislators and regulators, and the fact that the financial stakes involved are gigantic…these issues are quite fundamental to our industry no matter where you are on the planet. Second, geopolitical boundaries are simply no defence against economic imperatives. Ours is quickly becoming a global and borderless industry that requires an international perspective and an internationally collaborative approach to regulation. These issues and challenges really do belong to all of us, even if Europe is blessed with the privilege of wrestling them down first.

Paul Jason, Public Gaming: *A couple of overarching questions are simply, what is the best way for gaming and gambling to be managed from a public policy point of view? What system, what public policy, serves the best long-term interests of society? What is our justification for insisting that the EU respect the prerogative of individual member states to control gaming, even preserve the monopolies, when the EU has forced all other economic sectors to open up to free market competition and free and open borders?*

Dr. Winfried Wortmann: These are indeed important questions that call for careful consideration. Gaming is not just any commodity like any other. Uncontrolled gambling can be a source of considerable risk in terms of addiction, fraud and criminality. The issue of gambling regulation is, first and foremost, a social policy challenge and therefore falls primarily within the jurisdiction and responsibility of the member states.

To sharpen people's understanding for this, it is important to look at the development of gaming and gambling in the individual European member states. Based on specific historical conditions and culture traditions, the citizens' attitude towards and the organisation of gambling differs in Europe from one country to the next. Gambling regulation is therefore an integral part of the social policy of each European country of the European Union.

Right from the word go, the countries of the European Community saw gambling as requiring very strict regulation, chiefly out of concern about the dangers of social destabilization. In most European countries, the state monopoly has proved itself as a stringent model for regulating gambling, whereby the levy that is imposed on the stakes – which serves as a central lever for curbing gambling and must be a key instrument of all state regulation – automatically produces high levels of revenue. In all European countries – and not only there – this revenue has always been used for good causes.

In its decisions so far, the ECJ has explicitly permitted the member states to implement strict regulation of the gambling market in pursuit of their regulatory and social policy objectives, up to and including the imposition of a monopoly. Further important decisions of ECJ are to be expected in 2009.

However, it is only a small step from there to the view that the regulation of gambling is done not out of social responsibility but (exclusively) out of fiscal motivations. And that would mean a violation of the concept of subsidiarity – it would mean: abuse.

Public Gaming: *How must national gambling regulation be seen within the European context?*

Dr. Wortmann: Forgive me if I answer this question at somewhat greater length. But I think that is necessary if we are to have a proper debate.

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An Interview with Bo Flindt Jorgensen

Marketing Coordinator, Danske Spil A/S, Denmark

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

Bo Flindt Jorgensen

Following is a discussion that touches on some of the hottest topics of gaming. The lifestyle and interests of the younger generation have always been different from previous generations. But to think this next generation of player will "grow in to" the profile that conventional games are now targeting is almost certainly a mistake. Cultural and lifestyle evolution is now happening at warp speed. The generation raised on virtual reality games, connected to the Internet and Mobile 24/7, confronted with a multiplicity of options in every aspect of the life…this generation is used to a life and recreational experience that is quite different from even a half generation past. Furthermore, this generation expects the world to adapt to them and not vice-versa. Of course, not all jurisdictions are able to launch multi-player, skill-based, money games over the Internet. But we do need to understand what is happening in this most progressive realm of gaming. Read on for a peak into the mind of the player who is your future customer. And that 'future' is upon us now.

What better product or medium is there than games to enable people to interact with each other for the purpose of having fun.

Paul Jason, Public Gaming: *When exactly did you first launch the multi-player games?*

Bo Flindt Jorgensen: The first games were launched in April of this year.

Public Gaming: *Has the response exceeded what you expected?*

B. F. Jorgensen: Yes, significantly. Frankly, our forecasts have been blown away. It is more popular than we ever dreamed it would be, and that's with a limit amount of advertising compared to other product launches. Even so, we can now see how important it is to continue to deliver new features to the customers, because the players must never get tired or bored with the games. These customers expect variety and stimulating additions all the time, so it is a challenge to fulfill that expectation for new products and new features. We're finding that the players want us to expand the community features on the site and to be given the flexibility to explore and experiment with new features on their own. It is important to make it inviting and engaging to get the player involved and interested. These players need to feel like they are in control and not being directed or led by us or anybody else.

Public Gaming: *Let's begin at the beginning and ask you to explain exactly what 'Multi-player, Community-based games' means?*

B. F. Jorgensen: The selection of games that we have always offered in Danske Spil is where the customer plays against us. On sports betting we set the odds and they play against us, try to beat the odds. In Lotto, they pick out their numbers, and then we draw the numbers and the player finds out if they won or not. What we came to recognize, though, is that in the future people will want to not only play against us, but play against their friends, play against other players, expand their gaming activity and not to only play in a static type of game where you place a bet and then wait for the result. So the games become a more interesting and stimulating reflection of how good you are compared to others. We feel that is what the next generation is going to respond to better than games of pure chance. They want the excitement and entertainment value that comes with games that are interactive, that give dynamic and real-time feedback as to how their play and decisions measure up against other people.

Let's compare it to other forms of gaming and wagering. If you buy a lotto or scratch-off ticket, or even place a bet on the outcome of a sporting event, you make that one decision to place that wager and then wait for the outcome. In a multi-player game, you are also playing a game in which there is a decision to make as a player and a result from that decision. The similarity ends there, though. In a multi-player game, you make many decisions, one after another, so it creates a completely different dynamic, a completely different level of excitement, engagement, and player experience. The outcome depends on a variety of factors, such as what decisions the other players make, for example. You get instant real-time feedback as to the results of the decisions you as a player have made. You're actually playing a game with many factors interacting in a dynamic way to produce a result. You're not just placing a bet with a limited number of potential outcomes.

An important aspect to the multi-player games is the experience of community, of social interaction. Of course, the player can win money. But the fun and enjoyment of the games is based just as much, possibly even more, on the fun of interacting with friends and competing against other players, seeing how your per-

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An Interview with Jan Stewart

Chief Executive Officer of Lotterywest, Australia; Senior Vice President of the World Lottery Association (WLA); Chairman, Communication Committee; Member, Responsible Gaming Committee; Member, Strategic Development Committee; Member, Security and Risk Management Committee

(The majority of this interview is continued online. Please go to ***www.publicgaming.com*** *to see this interview in its entirety.) Also, see Jan Stewart's feature,* Gaming in Australia: Then and Now, *on page 26.*

WORLD LOTTERY ASSOCIATION (WLA)

Jan Stewart discusses the important role of the WLA in the industry today, on the lottery market in Western Australia, and on events at Lotterywest.

Mark Jason, Public Gaming: *You have said that you regularly receive requests for information from international colleagues. What types of challenges within the industry do you believe cry out for the most communication among industry colleagues?*

Jan Stewart

Jan Stewart: I think that simply transmitting and communicating information in the broadest sense is important. Providing a vehicle for the members to share ideas about how we each manage different aspects of our business is a critical role for the WLA and our magazine. We have much to learn from each other. Our business is a very important one for the communities in which we operate. I think we need to work together to help each other to provide the best quality lottery we can, that communication and interaction can help to optimize the performance of our lotteries and to be as prepared as possible for the likely increase in competition.

When you look at the percentage of market share that Australian lotteries have on the east coast, it's about 3% of the total gambling market. Here in Western Australia we have somewhere between 12% and 15%. Your can only account for that through the differences in competitive environment.

Having said that, my response to requests for specific information about how we market our products or promote the brand of our lottery is that first and foremost everyone must evaluate the market in which their own lottery operates. What works here in Western Australia might not work in the United States, for example. I think it probably wouldn't, for a range of reasons – demographic, historical, cultural, perhaps for legislative and public policy reasons. But it is very interesting to have a look

GENERAL DISCUSSION ABOUT THE BACKGROUND AND THE OVERALL GOALS OF LOTTERYWEST

Mark Jason, Public Gaming: *Prior to joining the lottery industry, you were a social worker.*

Jan Stewart: That's right. As far as I'm concerned, I still am a social worker, at least in the sense that I use the communication skills I learned in my clinical work every day in my management responsibilities, and also more particularly in terms of our role at Lotterywest in relation to the community and charitable sector of Western Australia.

Public Gaming: *How would you say that prepared you for your work in lottery?*

Jan Stewart: The lottery business is like any business. It's about managing people. I quickly discovered when I became a senior executive in this business that the skills that I learned in social work, how to engage, motivate, and inspire people, are exactly the same skills that you need to run a business effectively. Ultimately, you succeed in business because you can effectively relate to and motivate people to work together to achieve the business goals which you have set. So I discovered that those skills were absolutely transferable.

And then, of course, I did have to develop my skills in more business related areas such as in finance, in project management and marketing, as well as understanding the way the lottery industry actually operates. These are skills and knowledge which I continue to develop, but I do believe that if you haven't got the basic capacity to engage with and relate to people, I don't think you can manage any business very successfully.

So that's one side of it. The other side is that it is very important to understand that the lottery business in Western Australia is set up effectively as a very big fund-raising arm for the community and charitable sector of our State. We contribute directly a considerable portion of our revenue to community and charitable organizations in Western Australia, which is where my professional origins lie. So over the years, Lotterywest has taken a lead role in community development, not only

Continued online. The majority of this interview is continued online. Please go to **www.publicgaming.com** to see this interview in its entirety. **To see the Jan Stewart feature on *Gaming in Australia*, please go to page 26!**

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An Interview with Lynne Roiter

Corporate Secretary and Vice President, Legal Affairs for Loto-Quebec, Canada; General Secretary of the Montreal Office for the World Lottery Association (WLA); 2008 Inductee to the Lottery Industry Hall of Fame

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

Lynne Roiter

Canada has evolved a highly sophisticated approach to managing the gaming industry. The provinces have almost complete authority to regulate gaming as they choose and many have chosen to expand into all forms of gaming. A guiding principal, though, is to place as high a priority on social and public welfare as the need to raise money. The operators have great flexibility in how they manage their businesses, but are all held to the highest standards of corporate social responsibility. Lynne Roiter has been at the center of the regulatory and legislative changes that have shaped the Canadian gaming market over the past 10 years.

Legal and regulatory matters have been center stage at the World Lottery Association in recent years especially. Mrs. Roiter's active role in the WLA has influenced the WLA's international approach to these matters and her deep engagement with the legal and regulatory issues of jurisdictions all around the world has in turn informed her perspective on the complex regulatory environment that we all now face. She brings to the fore a deep appreciation for how some legal and political issues are universal to our industry but also how each jurisdiction has priorities and agendas that are unique to it.

Public Gaming: *Canadian federal law basically prohibits all gambling except that which is authorized by and controlled by the province. Is that correct?*

L. Roiter: Yes and no. Under the Canadian Criminal Code the general rule is that gambling is an illegal activity. The Code does provide for a few exceptions. The principle one being that a province, in accordance with its own legislation, can conduct and manage a "lottery scheme," alone or in conjunction with other Canadian provinces.

The Criminal Code also permits charitable and religious organizations to conduct lotteries. They provided they have a license to do so from the competent provincial authority and if all proceeds go to charitable or religious causes.

Under the Criminal code all money games of chance or of mixed chance and skill fall under the definition of "lottery schemes." Consequently the term covers not only traditional lotteries but also slot machines, VLT's and all casino table games.

There is, however, a further restriction in the Criminal Code whereby it is only the provinces that can offer games on or through a computer, video device or slot machine.

This is why in Canada it is only the provinces through their agents, and not charities, that can offer terminal games such as lotto and number games or Internet gaming and electronic games (slot and VLT,s).

The provincial legislation governing charitable gaming varies from province to province. For example in some provinces there were charitable casinos that basically operated 12 months a year in the same location with the same operator. It was just table games that were operated and different charitable organization had their license for different days and received the profits for the days corresponding to their license.

Public Gaming: *Why is it that horseracing is treated separately from other gaming in both Canada and the United States?*

L. Roiter: Horseracing is one on the oldest sports. There are written records of chariot and mounted horse races gaming back to 638BC, but it is believed that the origins are from Central Asia where Nomadic tribes domesticated the horse in prehistoric times.

The origin of modern horse racing is in 12th century when English knights returned form the crusades with fast Arab horses. You can see in our Criminal Code, and probably in other jurisdictions as well, that horseracing is under agriculture. It was an industry that relied on horses. There were horses of all different levels and calibers, such as working horses and riding horses. The riding horses were bred, first out of necessity and then as a sign of wealth and power. Horseracing was called 'The Sport of Kings' for this reason.

All the casinos are owned and operated by Loto-Quebec. All the casino/hotel and restaurant employees are employees of the SCQ, a subsidiary of Loto-Quebec.

Public Gaming: *So in effect, horseracing began due to the very real significance of horses, both in agriculture and in combat.*

L. Roiter: And in transportation. Horses were a means of survival wealth. Horses were a true part of the economy, the social fabric. Now obviously they are not in the same way, but the sport part has survived.

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KEBA KeWin micro:

The tiny lottery terminal that offers colossal performance.

From KEBA's point of view, it is highly appropriate that the WLA Convention and Trade Show is to be held in Rhodes from October 19-24, 2008. For just as the island was once the home of one of the wonders of the ancient world, the 30m-high statue of the god Helios known as the Colossus, it will now provide the backdrop for the debut of the KEBA KeWin micro, which constitutes a tiny "wonder" for the modern lottery world.

The KEBA KeWin micro lottery terminal has been developed specifically for use in limited spaces, e.g. supermarket cash points by retailers with low to medium ticket volumes. The "micro" is suitable for scanning, printing, communications, display and operations with betting slips up to a size of DIN A6. Moreover, together with the high-speed KeWin multimedia, the KeWin micro forms a terminal family, which employs identical functionality and thus allows mixing.

During the design of the "micro," KEBA placed a special focus on footprint size. Accordingly, the terminal consists of a single housing containing the user interface, system control, printer, communication solution, barcode and betting slip scanner, integrated into one logical unit, measuring just 158x266x209mm (WxDxH). Moreover, the KEBA KeWin micro's high quality, standard industrial PC components allow exact customization without additional development work, thus ensuring attractive, time-to-market and costs, as well as the safeguarding of investment in the case of functional extensions.

The new KEBA KeWin micro is the smallest terminal on the market capable of offering a full range of functions, from betting slip scanning and network communication, to printing receipts and user interaction via various displays. In fact, the "baby" in KEBA's KeWin family really does provide "grown-up" performance.

"Eureka!" The advantages of the KeWin micro at a glance

- A full range of lottery terminal functions in combination with a minimal footprint. A modular structure that protects investments and enables flexible adaptation.
- Open PC architecture, which allows the application of various communication solutions.
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An Interview with Art Macias

Executive Director of the Arizona Lottery

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

Art Macias

Groundbreaking legislation passed in Arizona clears the way for a bond issue of $1 billion dollars tied directly to future revenue and profit increases generated by the state lottery. Director Macias discusses the legislative changes required to enable the lottery to generate the revenue and profits needed to fulfill those increased expectations.

Art Macias was appointed Executive Director of the Arizona Lottery in November 2005 by Governor Janet Napolitano. Prior to this appointment, he had served as the Governor's Director of the Arizona Department of Weights and Measures since July 2003.

The Arizona state budget enacted last spring (at the urging of Gov. Janet Napolitano) calls for using increased lottery revenue to repay money borrowed for $1 billion for renovation and construction projects at the universities. In order to enable the Lottery to do this, the legislature relaxed some restrictions, notably in advertising and distribution methods.

Legislative Changes

Mark Jason, Public Gaming: *There are a number of tools that could be used to increase revenue and return, such as an increased advertising budget, increased dollars available for incentives, increasing payouts, and the use of self-serve vending machines. Have all of these been proposed to the legislature? Have some, or all, been approved?*

Art Macias: Fundamental to the increase in revenue and return is the ability to adequately market the product. We introduced thirty-six to forty scratcher games every year, and have not been able to place virtually any advertising behind the product that generates slightly more than 56% of our revenue here in Arizona. So we started advocating for removal of the cap on our advertising budget. The legislature had put in place a hard-dollar cap on the advertising budget, a cap that remained static over the last six years. We were not successful in the 2007 legislative session. In the 2008 session, the Governor came out clearly identifying the Lottery as an underperforming asset, and identified areas needing increased funding. We have a need to stimulate the economy, today and tomorrow, by addressing deferred maintenance across the university system, and building new buildings to help educate our workforce and help grow the economy. The Governor had asked the Lottery what it could do to maximize revenue, and at the same time a private/public coalition formed to advocate for a billion dollar investment in the university system. The Governor had to force the issue by 'marrying' these two initiatives. So that is what happened at this last legislative session. We had been advocating for certain changes to the Lottery, the ad cap first and foremost. After all, it doesn't do much good to change the payouts and offer more games if you cannot advertise these changes to the public, the potential players.

In this last legislative session the legislature did pass, and the Governor did sign, a budget that removes the advertising cap. It does make changes that allow the Lottery to raise the payouts on the scratcher instant products as well as other products, and does provide an appropriation for the implementation of an incentive plan for Lottery employees. It also allows for the deployment of additional technology and vending machines.

The legislature gives authority to the Arizona Board of Regents to issue bonds up to a billion dollars, with the lottery funding up to 80% of the debt service. So that was approved.

Public Gaming: *Was there also attached a revenue bond on future lottery revenue, to generate the funds now for investing in and upgrading the university system?*

A. Macias: The legislature gives authority to the Arizona Board of Regents to issue bonds up to a billion dollars, with the lottery funding up to 80% of the debt service. So that was approved.

The Lottery enjoys broad support from the Arizona legislature. The recognized need for support of the University system simply adds to this.

Assuming that we are able to deliver, and I am confident that we can and will, that performance will solidify the support the Lottery receives at a legislative level. This gives us the opportunity to fulfill specific needs, and really demonstrate that we can be held accountable for generating additional revenue.

Public Gaming: *What's it like to go from a department like Weights and Measures to a marketing organization, as the lottery clearly is?*

A. Macias: It's distinctive on a number of fronts. The meetings with retailers are a little different. People are a little more receptive to receiving a commission check as opposed to a penalty. So that changes the dynamic a bit. But, at Weights and Measures I worked with many of the same retailers that the Lottery now has as its sales

force. So there are similarities from that perspective. We really did take a 'compliance through partnership' approach during my time at Weights and Measures, and worked closely with the retailers.

But the difference is distinct, for sure. My predecessor called after I was appointed to wish me luck, and to let me know that in her opinion directing the lottery is the best job in state government. And I can honestly say that's what it is.

We also need to more effectively develop our subscription e-mails, a Players' Club, and use the interactive as a distribution channel.

Public Gaming: *The return goes into the General Fund?*

A. Macias: We actually have nine different beneficiaries, quite a cross-section of programs that we fund. The general fund is certainly the largest recipient, with public health programs in second place.

Competitive Environment in Arizona

Public Gaming: *It seems as though the Arizona legislature has an awareness that relaxing restrictions is a necessary component of increased expectation for return, so that's what I'll focus on. Let's start with the competitive environment.*

Obviously, gaming in Arizona is impacted by proximity to Nevada, with Laughlin and Las Vegas within easy driving distance. To clarify, are there racinos and/or Indian Gaming offerings in Arizona?

A. Macias: Absolutely. We have a number of Indian Gaming casinos that are in close proximity to both the Phoenix and Tucson metropolitan areas. It is estimated to be a $2 billion industry here in Arizona.

The focus of this group isn't on gambling per se, but on gaming. Wii and X-Box, video gaming: How do we marry the feel, involvement and emotion of that type of play with lottery products.

Public Gaming: *Do you believe that lottery competes against casino offerings, slots in particular?*

A. Macias: I think there is some competition there, some overlap. But we also find that the markets and customers are distinct, the players are different. So, while there is some competition there, it's by no means a head-to-head competition.

Public Gaming: *So it's more about competing for discretionary entertainment dollars, rather than players making a choice on whether*

...continued on page 34

An Interview with Constantinos Antonopoulos

CEO, INTRALOT SA

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

Constantinos Antonopoulos

INTRALOT is on a bit of a roll, implementing new networks and contracts, increasing revenues and profits, finding creative solutions to all manner of obstacles, pioneering new business operating models...Mr. Antonopoulos' indefatigable optimism drives INTRALOT's tenacious push into new games and new markets. But it takes more than a positive mental attitude to conceive of and execute this kind of high-octane growth strategy. Let's allow Mr. Antonopoulos to explain...

Paul Jason, Public Gaming: *The financial performance of INTRALOT has been quite extraordinary. Posting a 44% increase in sales this past fiscal year; averaging 38% annual sales growth over the past four years; maintaining consistent profitability while investing in that rate of top-line growth.*

Constantinos Antonopoulos: As we become a leader in this industry, the size of the contracts get bigger, the size of the projects and jurisdictions that we support have grown significantly. Our top-line has increased at a sharply higher rate than net profitability. That's to be expected, with forward looking investments and start-up costs for new contracts affecting short-term profitability. We expect that to improve in the near future.

We managed to implement this start-up in record time. But the need to assess operations, adapt to real-time feedback, and quickly evolve the most effective course of action, these challenges play to our strength.

Public Gaming: *I notice that you invest 12% of your technology sales back into research and development.*

C. Antonopoulos: In terms of numbers, a significant part of our revenues comes from sales of technology. The other part of our revenues comes from operating lotteries. The amount we spend on technology as a percentage of sales is definitely on the high end compared to our peers, not just in the lottery world but also in the technology world. We are committed to developing new products, new platforms, new content, improved business processes and we fund that commitment with significant investments of capital and human resources. That's what is driving our growth.

Public Gaming: *Your ability to innovate and the results of your focus on innovation is evident in the products that you've developed, things like Mesh Radio, Winstation, B-On, the microLOT terminal, and now Photon with the new "icon digital imaging technology." Your focus on innovation is also evidenced in business processes, and ways of thinking and going to market. You and Tom Little have been talking for years about the concept of enhancing retailer performance with a restructuring of retailer compensation that requires a buy-in, say $10,000 per year, and then complementing that with a much more rewarding commission plan for the top performers. And now you are implementing that in Victoria, aren't you?*

C. Antonopoulos: Yes. We have established a very big network in Victoria, Australia. INTRALOT is now the biggest network in Victoria. You are very correct in saying that the rewards and the incentives that drive a good retail network is a vital component to success and performance. After the license to operate, the most valuable asset that a lottery has is its retail network. The compensation structure is the performance driver. If it is too small or not structured properly, then people do not care. Perhaps surprisingly, if it is too large and not structured in a way that forces people to earn it, then you end up paying more and inadvertently are just training people to be lazy. Structuring an effective retailer compensation plan is an extremely sophisticated process, and what works best will vary from one jurisdiction to another. There has to be a balance, it has to be perceived as fair and logical, and most importantly, it has to motivate them to pay attention to you and sell more product. And yes, as you point out, we are innovators in this area as well.

Public Gaming: *'The Luck Factory' in Australia, is this a new branding concept? Are you trying to implement sort of a localized branding concept? If so, are you doing that in other places and what does that mean for the INTRALOT brand? Or am I misunderstanding it altogether?*

C. Antonopoulos: 'The Luck Factory' is a branding concept, which is local, only for Victoria and Tasmania. This is something that has been developed in Australia for the Australian society. It's not something that is a global approach. INTRALOT is our corporate branding in Australia and the rest of the world and will continue to be.

Public Gaming: *In reading about Victoria, some of the smaller retailers complained that they shouldn't be charged the same amount as the larger retailers, that perhaps there should be a tiered system, charging less for lower volume retailers than for higher volume retailers.*

C. Antonopoulos: Victoria is a new startup. At the beginning, nobody knows for sure who is going to be the larger retailer. Maybe the under-performers just needed a financial incentive. But think about it. We are a new operator who is penetrating a market that has had the experience of one single operator for the past 54 years. And we managed to implement this start-up in record time. But the need to assess operations, adapt to real-time feedback, and quickly evolve the most effective course of action, these challenges play to our strength. That is what INTRALOT does and does well. We are extremely happy with the size of the network we have established. The technical and distributional side of the Victoria implementation is doing well. We are focusing on providing more and better content to the players. In the short-term we are evaluating the existing games, and changes will be made. We are listening to the customers, listening to the agents, establishing an interactive way of communication. The results we are achieving in Victoria are in line with expectations, and we are very optimistic about the future.

We have faced some challenges in Australia, but clearly this is good for the industry, this is good for the market in Australia. INTRALOT is introducing a new way of doing things and a new way of thinking to Australia. Now you have everyone thinking about how to improve, how to make tomorrow better than today.

The important differentiation is not between state ownership versus private, the important distinction is between the government licensed world and non-government licensed world.

Now everyone really has to listen to each other, pay attention to their business partners and especially to the players themselves. That's what happens when you introduce competition into a marketplace and it's a good thing.

Public Gaming: *Changing from a totally monopolistic and operator driven market to a customer driven business is a dramatic change*

...continued on page 35

GTECH Unveils Powerful 2008 World Gaming Survey Results

Global survey lends valuable insight into the attitudes and opinions of lottery players.

The 2008 World Player Survey, a powerful new study of 8,000 lottery players from around the world, was commissioned this past summer by GTECH and the results are being released this fall. The preliminary report is stunning, both in terms of the data mined from a broad cross section of international players and in terms of the trends it helps to identify on a global basis.

GTECH retained Ipsos Reid, one of the world's leading marketing research agencies, to conduct a survey of 8,000 self-identified lottery players who have played in the past year and could participate in this survey through the Internet. From 10 countries around the world, the survey included equal-sized player samples from the U.S., Mexico, Canada, the United Kingdom, Italy, Sweden, Poland, China, Taiwan, and Australia. At least 2,000 of the total 8,000 survey sample was comprised of the 16-34 age demographic, lending valuable insight into the attitudes and mindset of a class of players that has been at the core of lottery debate for many years.

The objectives of this research were to identify current attitudes and usage patterns in lottery play, Internet, and other non-lottery gaming; anticipate future gaming opportunities; assist the lottery industry in identifying brand maturity levels and competing gaming forces; provide insight into core participation levels and spending; and generate data for use in best practices.

The data fuels GTECH's ongoing best practices and reinforces our current efforts to provide the marketplace with the bestsolutions available. In addition, the World Player Survey provides GTECH with market data to further develop and solidify the strategy behind its New Media and Sports Betting Division. The invaluable insight into interactive gaming trends, new and younger player draw, and sustainability will be leveraged for current international lotteries and the eventual adoption of interactive, Web-based gaming in the U.S.

Collected over a two-week period in late May 2008, a few of the key findings include:

- The study confirmed that the most appealing features of lottery games for players around the globe include:
  - A multi-million dollar grand prize (76%).
  - A game where you know immediately if you have won (75%).
  - A game where the jackpot grows if it is not won (74%).
- Many of the features that received lower scores of appeal were those that would change the nature or style of lottery play. Only 30% of people found it appealing to have a lottery game that played like a video game while approximately a quarter found it appealing to have a game that feels like a casino game (28%).
- While 44% want to play at home on the Internet, less than 1 in 5 are interested in playing games on a video screen or on a mobile device. These results vary considerably depending upon Internet gaming penetration.
- Purchasing raffle tickets has the highest past participation rate of non-lottery gaming activities, with 72% of players having played. The next highest is participation in sports pools (42%).
- Single visit and past four-week median spending on non-lottery games exceeds that for lottery games; and on a single visit, players' median spend is approximately 50% more on non-lottery games. And the younger demographic past four-week spending is also significantly higher for non-lottery compared to lottery, indicating potential for lotteries to attract some of those gaming funds.
- Although past four-week spending for men is higher than for women on both lottery and non-lottery gaming, this difference is more pronounced for non-lottery gaming.

Findings reveal player participation in terms frequency of play by game type, of games ever played (within past year), past six months, and past four weeks. In addition to the combined respondent results, playership profiles for each of the 10 participating countries, as well as the age and demographic groups, show interesting variations among countries and player segments.

This survey provides us with tangible, actionable data to support our strategic and tactical recommendations to our lottery partners.

Please contact your respective Regional Marketing Directors for more information about GTECH's World Player Survey.

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Team Betware discusses creative approaches to keeping up with your customers' changing lifestyles and game preferences.

It is crucial for any business to cater to its customer needs. After all, each product is only successful when it grabs the customers' attention. In a constantly evolving world this is a challenge – customers' preferences and needs continue to grow and develop.

In the gaming industry this challenge is even more demanding. Technology changes constantly, requiring that operators continuously develop new products. Modern players easily get tired and bored with the games and they expect new additions and new features. To remain competitive, the lottery has to develop games which offer more than just the excitement of winning money. The trends show that players demand a combination of competition with the pleasure of meeting and interacting with people within a group. Community based games are the answer.

Being an owner of an active and committed community provides the operator with a loyal base of dedicated participants. Research shows that social sites users on average spend approximately 1 – 1.5 hours a day online. Usually participants are equally distributed between men and women between the ages of 25 to 49, which is a very attractive target group. Access to this large amount of online time commitment not only provides a lottery with plenty of targeted advertising opportunities, but also results in increased enrollment and sales coming from other game categories.

Not all operators, however enjoy the benefits of offering community based games, due to legal regulations which prohibit internet gaming. Yet, following the constant changes in gaming industry is a crucial element of staying competitive. Recognizing this trend, Betware offers lotteries an option to implement this new age entertainment as promotional games. By doing so, a lottery can position itself for the gaming future and still stay compliant with the laws and regulations of its jurisdiction. Implementing multiplayer games as a non monetary gaming option permits the lottery to create a community of satisfied customers, attract a new generation of players and technically prepare for possible political changes which would allow the option of money gaming.

Through its multinational presence and many years experience, Betware has become a thought leader in the industry. The company constantly implements changes and improvements which create a new dimension of performance.

The combined experience of Betware and Certus (Danish multiplayer games developer, owned by Betware) along with the Danish Lottery (Danske Spil) resulted in creating a first multiplayer range of games offered by a state lottery – Zezam. The first four games available as part of this project were selected due to their known popularity. The success exceeded even the most optimistic expectations.

Betware provides a range of Multiplayer Games in different categories, each of which offers a unique possibility to play against other users in real time. The games are grouped into:

- Card games
  (e.g.: Hearts, Whist or Casino)
- Board and dice games
  (e.g.: Backgammon, Battleship, Checkers or Yahtzee)
- Action games
  (e.g.: Blockwar, Mars Attack, Battle Ocean)

This variety caters to the players' broad range of preferences. Moreover it allows them to enjoy the same games they have played with their friends in real life, now through the accessibility of modern age communication media. All games provide community features such as chats (room, game or private), invitations, private messages, bonuses, game statistics and user management amongst others. These functionalities enable interaction between players and offer the possibility to make new friends or participate in tournaments. Multiplayer Games build community support and entertain at the same time.

The main advantages of Betware's platform are its flexible nature and scalability for new functionalities. Its components can easily be adapted to different looks, languages and gaming traditions. Flexibility comes from the modular design. Each service can be customized to the individual client's needs while keeping the same "core" for all clients, ensuring synchronized updates. The platform offers complete security for both the player and operator. Working on a Secure Application Server through encrypted and multi layered communications ensures maximum safety.

Developing lottery solutions and services since 1996, Betware is a pioneer in the online gaming market. It supplies a highly flexible gaming system also running sports betting games, number, instant, casino and horse betting on multiple channels. Betware is proud to cooperate with clients, which include the largest and most innovative in the world lottery industry.

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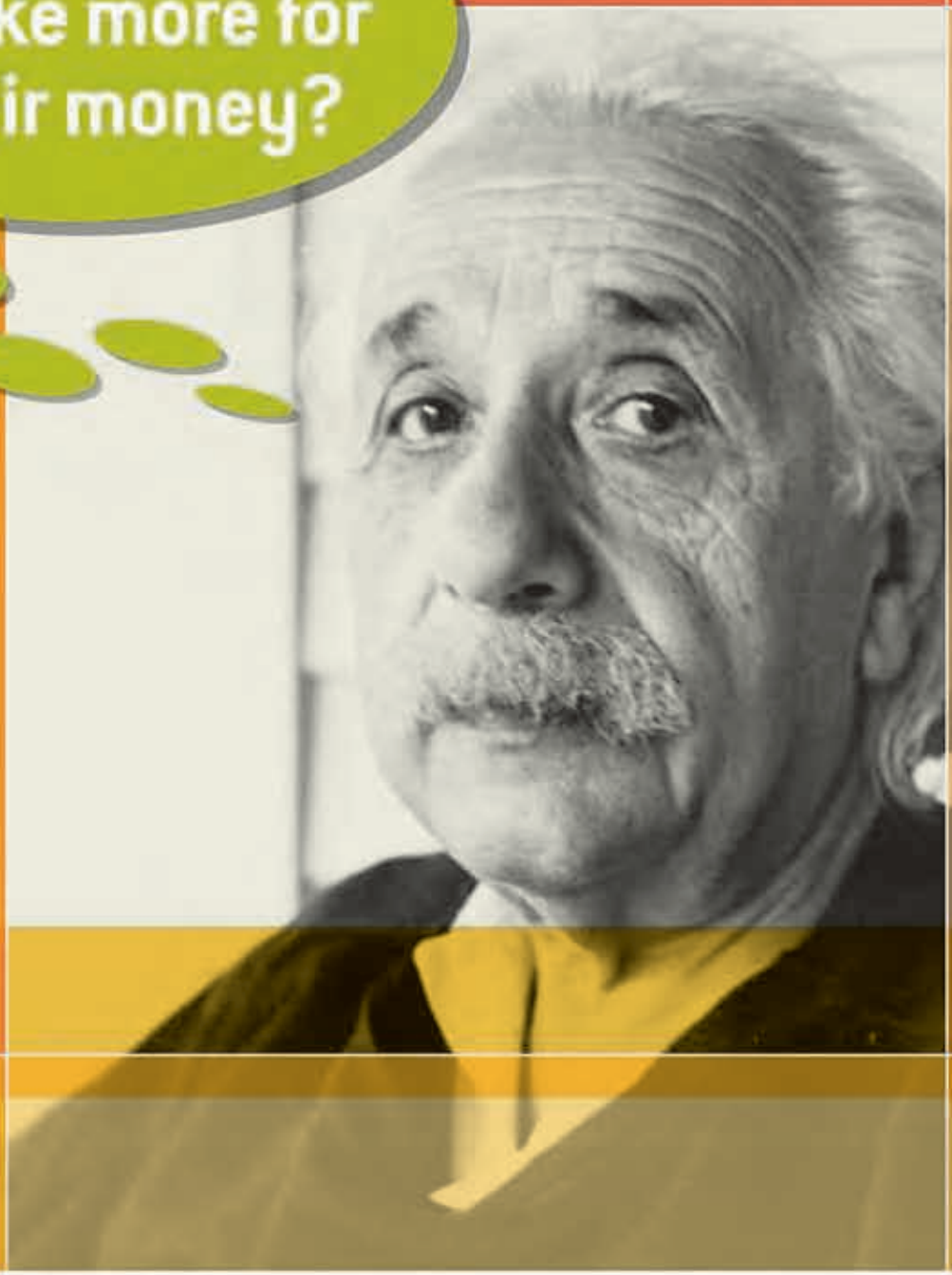

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GSA Protocols:

How and Why They are Important and Relevant to Lotteries and Lottery Operations. *Part 2 of a 3 part series.*

By Marc McDermott, Technical Director, Gaming Standards Association (GSA). www.gamingstandards.com.

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

Marc McDermott

In part one of this series, we discussed the GSA organization and its mission statement – the development of standards for the gaming industry. We also discussed some of the advantages of open communications and looked at some of the benefits it provides for lottery operators. In part 2, we will dig deeper into GSA and its protocols to see, in more specific terms, what benefits GSA protocols offer and how they apply to lotteries and lottery operations.

GSA protocols address the three fundamental "A"s: Authentication, Accountability, and Agility. These three concepts are at the heart of the protocols. It is because of a concentration on the three "A"s that the GSA protocols can provide the gaming industry with the communications technology capable of supporting it for the foreseeable future.

To see exactly how this works let's start with the first "A": **Authentication.**

Authentication, in this sense, is the ability to ensure that the software on the floor, or in the games, is exactly what was approved to be there and is free of tampering. This concept applies to large, casino style, lotteries and, even more so, to wide area lotteries where small numbers of gaming terminals are in numerous, small, and in many times remote, locations. It is these small, remote operations where: the surveillance is limited or non existent, the proprietor of the location containing the terminals is the least sophisticated in gaming and the ability of the lottery operator to physically check the terminals is seriously limited, that the highest level of risk occurs. To address this concern as well as to address the requirements of the larger operations, GSA included the GAT functionality in the G2S protocol.

Gaming Authentication Terminal or GAT, provides a means of verifying the software in a gaming terminal from the back offices of a large casino operation or from the lottery offices for any type of location. GAT is not a software package and requires no third party equipment to be installed or used. GAT is simply a set of commands that have been incorporated in the G2S protocol that, if supported by the terminals and the querying system, can provide a powerful authentication capability that exceeds, from a security aspect, all but a very thorough on-site inspection.

The G2S GAT, while much more sophisticated then the original GAT, still follows the same basic principles for validating software on a gaming terminal. GAT allows an operator to command a gaming terminal to run a hash over its internal software and to return the answer to the querying terminal. The operator compares the returned hash answer to the hash answer on file and, if it matches, the software in the terminal is correct and unchanged from when it was originally approved and installed.

As an additional security measure, and to prevent an attacker from learning the hash answer and returning it, the G2S GAT supports several different hashing functions including CRCs, MD5 and several variants of the SHA hash algorithm. The algorithm type that the terminal is supposed to run is sent with the command to run the verification. Each verification algorithm will return a different hash value. In this way multiple hash values may be checked and verified to be correct. Beyond that, the G2S GAT also allows a "salt" and/or "seed" value to be sent with the command to verify the terminal's software. These values are used to add a starting value to a hash algorithm or to adjust the initial components of the hash algorithm. The result is a hash answer that is completely dependant on the seed or salt value issued as indicated in figure #1. The seed or salt values can be determined immediately prior to the verification so that the likelihood that someone would know them and be able to fake a correct answer is extremely remote. The result is an extremely high confidence level validation of the terminal's software.

Because the GAT capability is based on sending specific commands to, and receiving information from, a gaming terminal, the GAT function can be conducted from anywhere there is a secure connection to the terminal. In a G2S network, for example, all the data is encrypted using TLS/SSL encryption. A security certificate is supplied specifically by the venue operator or the lottery operator and is required to be able to communicate on the network. Without the certificate, information cannot be encrypted or decrypted and so no intelligence can be gained from the information. So, from inside the gaming venue, communication from the GAT server to the terminal targeted for software validation requires that both the GAT server and the gaming terminal each contain a security certificate. Also required is that both the server and the terminal have implemented the G2S GAT protocol. Once these security and protocol requirements have been met, the GAT commands are sent, the results are received and compared to the master file and

the basic verification is complete. As mentioned above, additional hash functions may be used, provided they are supported by the terminals, and seed/salt values may be used in further GAT verification commands if the operator feels it is necessary. Additionally, this function may be automated so that many machines may be instructed to authenticate software simultaneously.

GAT operation from a remote location is basically the same as from the gaming operation back-of-house offices except that additional security measures, such as firewalls and VPN (Virtual Private Network) connections, are established between the lottery offices and the venue where the targeted terminals are located. The basic layout for both the back of house and remote GAT connections are described in Figure 2. Note that the Figure 2 is intended to convey basic function and does not include all the network equipment necessary.

The thoroughness and complexity of the GAT functionality shown in figure 2 is an indication of how important the verification process is to our member companies. GSA sees this capability as a fundamental requirement as it provides those responsible for the proper operation of the machines a serious means to ensure themselves and their constituents that the games are being conducted in a fair and responsible way.

Serious authentication capability is not the only way GSA protocols assist those responsible for the integrity of the games.

Accountability is the second "A" in GSA's 3"A"s program.

Accountability is at least as important as authentication. However, there are many forms of accountability. The most obvious is the correct and proper reporting of information from the EGM to the back of house system. Basically, does the information get from the machine to the accounting system, is the information correct when it gets there and does the information provide a complete report of the machine's performance.

Another form of accountability is that of the government regulatory agency and the lottery operator to its constituents and patrons. This type of accountability is more in regards to the integrity of the games, and the integrity of the lottery operation. The fairness of the games, what software is actually installed, can a patron actually win, these issues are critical to the success of the lottery as they speak to the most basic concepts of the games and to the reason that the governing body is involved.

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

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Is It "Crunch Time" for the Online Lottery Sector?

One thing is certain, lotteries must improve game content.

By Tim Green, Vice President, International, Lottery Dynamics Corp.

Tim Green

Against a backdrop of economic uncertainty in the U.S. and elsewhere, it would be a brave lottery director who would not confess that times ahead could well be uncertain for the lottery sector.

The conundrum is how do you continue to drive net returns against a backdrop of the credit crunch, increasing prices across the general cost-of-living indices, recession in the housing market, fuel prices continuing to erode disposable consumer income, plus several other barometers of the economy all pointing to onward inflation and recession.

Looking at the on-line game product segment, the traditional tools available to any lottery to increase revenue have been focussed on the following: ticket price increases, increases in the prize payout percentage to players, or matrix changes (which invariably increase the average jackpots at the expense of lengthening the odds of the game.)

Such options may all be viable (especially in favourable economic conditions), but have generally failed to generate sustainable long-term growth in the on-line product category. Moreover, how much can we really expect from players during difficult economic circumstances?

Let us examine these traditional ways of increasing revenue in turn.

There is no doubt that online ticket prices have fallen behind those of even the instant ticket sector where it's the norm to have different priced scratch tickets all offering largely similar style game content, albeit with different prizes.

Those lotteries that have taken the opportunity to increase online pricing in the last few years have seen positive results in the knowledge that a reduction in bet volume can be offset by overall revenue increases.

With today's economic conditions, the climate is very different and the outcome of imposing price increases on discretionary consumer products is far from certain. Is now the time to be telling your players that instead of spending £1 or €1 on a ticket, they must spend £2 or €2?

In the instant product segment, the sometimes short shelf life has allowed operators to test the market with higher priced scratch games, but it is not quite so easy to do this with a game like lotto that is often the centre piece of a product category. And even among lotteries that offer a full range of instant game price points, it is important to note that $1 games still have an important place in the instant product mix.

The next popular "strategy" for increasing revenues has involved increasing the percentage prize payout. Whilst a successful strategy in the past (especially in the instant ticket sector), does it necessarily follow that such a strategy will maximize on-line game profits, and is now the best time to be considering this option within the online sector? At a time when on-line lotto sales are showing no signs of long-term growth, it would be risky for any lottery to rely on this strategy without considering the full consequences on revenues over time.

A third popular historical choice has involved a matrix change. This strategy in normal circumstances may be worth considering, but consumers should be expected to be even more value-conscious in these troubled economic times. Any changes making it harder for players to win, therefore, should offer added-value in other ways (perhaps in frequency of winning) to offset longer odds

None of the above alternatives offer an ideal solution, especially now when players really expect and demand more value for their money. So what seems to be apparent is that lotteries have to look beyond the traditional tools used to increase revenues, especially in today's climate. Without doubt operators need to increase sales and produce increased net returns, but how can this be done?

One answer lies with game content. The instant ticket market has moved with the times in this regard, but content involves so much more than just paying a premium for brand equity.

Lotteries have to look at incorporating content into their on-line product portfolio that gives today's demanding consumers 'choice' and 'value' without alienating more traditional players who don't want change. By 'choice' I mean offering players of jackpot games the ability (like in scratch) to spend $1, $2, $5 or even $10 to win prizes that increase as one spends more (but again without disenfranchising or alienating core players who don't want change.)

On-line lotto games should allow players to play instantly as well as by the traditional draw-based method. New games must have content that excite players, and offer instant gratification and frequency of winning experiences that makes even the occasional player want to be part of the excitement.

As part of this strategy lotteries should embrace new branding opportunities (similar to the way the vendors have successfully developed strategies for the instant ticket market). Operators should consider on-line lotto games that offer co-branding opportunities for the retailers, supermarkets, petrol stations etc., so that on-line games create a closer relationship between the operator and the retailer. After all, pressure is already extreme enough on retailers to make acceptable margins from selling lotto, so in response operators should consider developing ways to attract the retailer to the on-line games category with joint marketing / branding opportunities, or prize redemption models that involve and benefit the retailer. Linked to this strategy could be promotions with special themed draws or 'holiday' draws building off the success of 'raffle' style game content (again in association with retailers), all designed to drive lottery sales and retail sales.

The combination of player choice (giving players the ability to bet more to win more), coupled with really exciting game content offering exciting prizes, all designed to maintain margins and maximize net profits, is our collective challenge for the future.

Obviously, many other factors come into play including legal, policy and other jurisdictional issues that all have to be considered in determining how quickly lotteries can embrace such new opportunities. Additionally, sometimes new opportunities are viewed with resistance , but it is clear that lottery operators have to be open minded in recognising a need to embrace change.

Game content can play a vital role in driving revenues back into lotto play and breathing new life into our highest margin product category, especially during these uncertain economic times.

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Gaming in Australia: Then and Now

An interview with Jan Stewart, Chief Executive Officer of Lotterywest, Australia

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

Mark Jason, Public Gaming: *Do the individual states in Australia control gaming policy within their own jurisdictions, or is gaming policy a federal issue?*

Jan Stewart: We're not dissimilar to the United States in this regard. We are a Federation. Under our Federal Constitution, the states control their own legislation in relation to gambling. As a consequence, each state in Australia has developed very differently. That's why we've got such interesting differences in the way our various lotteries are structured.

I will say, though, that several years ago the Federal government became increasingly alarmed at the expansion of internet gambling. So we have an Interactive Gambling Act, which effectively limits the opportunity for the setting up of internet gambling in Australia. So only those operators who were operating at the time that they introduced the moratorium which preceded the Bill becoming a law are allowed to operate. So for example the Australian casinos don't have an internet presence which sells casino products. The lottery industry can only sell their current land-based products (mainly Lotto) on the internet. Some of my colleagues in the eastern states, namely Tattersall's and Golden Casket, which are actually one and the same now Tattersall's have purchased the license to operate the Golden Casket Lottery Corporation which runs the Queensland lottery, offer this service to their customers. None of us in Australia sell the sports lottery products which some of the European lotteries do, though. It would be against our federal law. But federal law does not control land-based gambling in each state. That's entirely a matter for each state.

So the Australian lotteries can offer subscriptions to online games lotto over the internet, for instance. But we cannot offer, for instance, poker or sports betting (other than the one game we sell, Soccer Pools over the internet).

Public Gaming: *So federal law for the most part prohibits internet gambling. How does it enforce this prohibition?*

J. Stewart: All of the Australian Lotteries as state authorized organizations are bound by this law so there is no need for the Federal government to enforce it in relation to us. I don't really know how they enforce it in relation to unauthorized operators but certainly they would not be permitted to set up a presence in Australia. As you know, it's very difficult to stop people accessing unauthorized online gambling sites if they wish to do so.

Public Gaming: *You mentioned some interesting jurisdictional anomalies from state to state. Could you elaborate on that a bit?*

J. Stewart: Well, I don't know if you'd call them 'anomalies', but there are certainly differences from state to state. We have six states in Australia, and two territories, one being the Northern Territory and the other being our equivalent to your Washington D.C., the Australian capitol territory. When Australia became a federation, none of the states could agree on who should host the capital. So they created this small territory, called the Australian Capital Territory, and created a town called Canberra, which is now our capital city.

Let me begin with the oldest lottery, Tattersall's. Tattersall's was established in the late nineteenth century s, set up as Tattersall's Sweepstakes by a gentleman named George Adams. If you look at Tattersall's website, you'll see that their logo is actually a photograph of George Adams. George somehow got the license to run the lottery originally in Tasmania, a relatively small island state to the south of Australia. Subsequently, he obtained the license to operate in Victoria and the Northern Territory. Tattersall's also now holds one of the two licenses in the Australian Capital Territory (the other is held by the New South Wales Lottery Corporation). When George Adams died, he left a will which established Tattersall's as effectively a private trust which would continue to operate the lottery in the states and territories where he had held the license. For many, years Tattersall's was operated by four trustees, one of whom was the great-nephew of George Adams. George died without any children.

As I understand it, George Adams left a very interesting will, leaving the profits of the business after all the various taxes on the lottery business were paid, to his descendents and to the employees of Tattersall's, as a kind of profit sharing. I believe his will also provided that some of the money go to charity at the discretion of the Trustees.

Up until 1992, Tattersall's had run the lotteries in the areas I mentioned above. In 1992, they extended their business operations when they were awarded one of two licenses issued in Victoria to run what we call in Australian 'poker machines' (or 'pokies'). You'd know them in the USA as Video Lottery Terminals or E.G.Ms.. They moved into the poker machine business at this point. Of course, that business grew hugely, to the point where the lottery business is probably in the order of 10% of Tattersall's total business.

Four or five years ago, the trustees of Tattersall's made a decision that they should apply to have the Trust arrangements changed because they wanted to float the company which has now happened. Tattersall's are now a company listed on the Australian Stock exchange.

Public Gaming: *So Tattersall's has always operated as an independent company, government regulated but not government-controlled.*

J. Stewart: That's right. To the best of my knowledge, Tattersall's was the only lottery globally that has operated under a private trust. They have always operated under license to the Victorian government, so they have always had to deal with a regulator.

From here, it's not an easy story to explain. About three years ago,

the Victorian government made a decision that the lottery license in that state should be open to bid. To the best of my knowledge, until that point the Victorian government had always simply reissued Tattersall's a new license. However when Tattersall's license expired that time the Victorian government issued an open invitation to bid for the license. Tattersall's obviously bid, as did Intralot. I don't know whether any other company actually put in a bid as well.

The Victorian government then went through an extraordinarily lengthy and quite complicated process of deciding how to respond to the bids. The end result came last year, when they announced that they would split the lottery license. Tattersall's retained the right to run Lotto (Bloc products only) games. So they lost the license to run instant lotteries, and lost the right to sell a couple of relatively minor products sold only in the states where they held a license, one being a daily Keno game and another numbers game. Intralot then were awarded the right to run other games, as well as instant lotteriese. My understanding is that their license also allows them to form 'bloc' arrangements, if they can form partnerships to do so.

Intralot launched their lottery on the 1st of July. It's been interesting watching the news services. Intralot has negotiated with a number of retailers, 700 altogether, which includes a number of retailers currently selling Tattersall's products. So we have the interesting scenario in which a retailer has the Tattersall's terminal and very strong Tattersall's branding on one side of their shop, and an Intralot terminal and instant lotteries on the other side of the shop. Some of them seem to be really struggling with this. The Tattersall's counter for their instant products was quite sizable. And Tattersall's has made it very clear that Intralot products cannot be sold out of the section of the shop from which that Tattersall's other products are sold. So we have in Victoria a number of shops that are both Intralot and Tattersall's retailers.

So that's been a really interesting and unusual development here. So that's Victoria. Intralot has also been given a license to operate in Tasmania where Tattersall's also hold a license on the same basis as the way it operates in Victoria.

Public Gaming: *Intralot has no involvement with the poker machines, correct?*

J. Stewart: That's right. The Victorian government is still talking about the poker license and what they are going to do with that in terms of when that will be open for bid. It's a different license from the lottery license.

Continued online. The 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 Lynne Roiter ...continued from page 13

Each type of gaming has its own different roots in history and society. So the significance of horses in history explains why horseracing is treated separately from other types of gaming and why racetrack licenses are given by the Minister of Agriculture.

There is a restriction in the Criminal Code whereby it is only the providences that can offer games on or through a computer, video device or slot machine… a province can offer internet gaming within its jurisdiction.

Public Gaming: *Does Canadian law today outlaw any specific types of games?*

L. Roiter: The Canadian Criminal Code still outlaws certain types of gaming. Gaming was initially permitted in Canada for the federal government and the provinces. In the federal/provincial negotiations that followed, federal government left gaming activity to the provinces, but there are still certain types of games that are illegal. Games like three-card monty, punch boards and betting on a single sporting event are prohibited. Other than that, each province is left to decide what types of gaming it will allow.

In Quebec, Loto-Québec offers a wide variety of games such as instant games, televised games, passives games with pre-printed tickets (our first lottery offering), terminal games like Lotto 6/49, sports betting games and multimedia games. In addition the lottery corporation operates a lottery video network in bars, casinos, gaming centers known as Ludoplex and satellite bingo. All the profits from satellite bingo goes to charitable organizations.

As mentioned, charitable organizations have always been able to offer certain types of gaming. But with the introduction of satellite bingo, Loto-Québec has provided to them a product that they cannot offer themselves. Remember, charitable organizations are prohibited from offering any computerized or electronic types of games. The bingo halls could not do a satellite bingo, because they could not offer a product in which the bingo halls are linked. So we offer a certain number of bingo rounds to these halls coming through a linked satellite system. And we return 100% of the profits to the charitable organizations.

In the rest of Canada, some provinces such as Ontario and British Columbia do not have video lottery machines in bars. They do however have casinos and racinos. In Quebec we don't have a rapid Keno, offered through what is called the hospitality network (bars). That product is offered in certain provinces. However we have a Keno game (Banco) offered through our lottery retail network with a daily draw as well as rapid Keno in our casinos.

So it is up to each province to decide what types of gambling will be offered, and the manner in which they are offered. In Quebec, Loto-Quebec operates all gaming in the province other than horse racing and charity games. Some provinces, although the province still conducts and manages the gaming activity have contracted out the operation of their casinos to private enterprise.

Public Gaming: *So Loto-Quebec actually owns and operates all of the casinos?*

L. Roiter: Yes. All the casinos are owned and operated by Loto-Quebec through its wholly owned subsidiary, la Société des casinos du Québec inc. (SCQ). The SCQ also operates the hotel and convention center at our Lac-Leamy casino. All the casino/hotel and restaurant employees are employees of the SCQ. In Ontario, the destination casinos are operated by private enterprise under contract with the Lottery. But what they call "charity casinos" in Ontario as well as racinos, which are operated by the Ontario Lottery. In Nova Scotia, where they have two casinos, it's the same. Private enterprise operates the casinos, under contract with the Nova Scotia Gaming Corporation.

Public Gaming: *Has the direct operation of casinos by Loto-Quebec vs. the sub-contracting by other provinces been based more on legal consideration and factors or business and economic factors?*

L. Roiter: These are decisions taken by each provincial government.

Public Gaming: *Is internet gaming allowed in Quebec?*

L. Roiter: Under terms of Criminal Code a province can offer internet gaming within its jurisdiction. The British Columbia Lottery and the Atlantic Lottery Corporation do so, but in Québec we don't offer transactional gaming over the internet.

Public Gaming: *Is there any type of gaming that would be prohibited by provincial law?*

L. Roiter: By provincial law, Loto-Quebec controls all gaming other than horse racing. There is also certain charitable gaming offering, but for all intents and purposes it's Loto-Québec. However before offering a new type of gaming product the general rules and conditions must be adopted by a regulation of our Board of Directors. The regulation must then be submitted to the Cabinet for approval and it is published in the Official Gazette beforehand.

Loto-Quebec has adopted a series of regulations for each type of gaming system it offers. Our traditional lottery products are offered under two primary regulations. Then we have another one for satellite bingo, a regulation for casino gaming and one for lottery video machines in the bar network. The poker machines that we just added to the casino offering are considered slot machines, and therefore come under the casino regulation for this type of equipment. To be able to introduce poker tables, however we had to modify our casino table game regulation to include the rules for these games.

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An Interview with Dr. Winfried Wortmann ...continued from page 6

National gambling regulation models and national legislation have to be considered in the light of EU law. However special a service it may be, gambling falls under the EC Treaty. Therefore, the provisions of Art. 50 of the EC Treaty relating to services also apply to the gambling and gaming sector. Therefore, in principle, any restrictive intervention in this area by a national parliament constitutes an obstruction of the basic freedoms within the EU Internal Market (Art 43 – freedom of establishment, Art. 49 – freedom to provide services). However, these basic freedoms may be restricted by the national states for compelling reasons of general interest.

On this point, the European Court of Justice (ECJ) has, through its decisions over a period now running to 14 years, provided contextual clarification and defined a contextual framework.

The appearance of German Klassenlotterie tickets in Britain, which at that time had no national lottery of its own, marked the beginning of the dispute over European law. Still today, the ECJ has not abandoned the position it developed at that time (Schindler decision of 1994). In a series of subsequent rulings, it has dealt with this issue from various angles and in the course of doing so has gradually drawn an increasingly clear and sophisticated overall picture. According to this, the paramount standard for justifying any restrictive national regulation of gambling – up to and including a monopoly or a general ban on specific games of chance or gambling in general – is preventing or fighting gambling addiction. Combating money laundering, fraud and other associated crime, are other justifications accepted by the ECJ, although in practice it seems more difficult to justify a monopoly solution motivated by regulatory considerations this way.

Just look at the dramatic differences between the U.K. market and, say, Germany. To force the markets to all be regulated in the same way would be detrimental to everyone, but especially so for those member states that choose to have a less liberal approach to gambling.

The ECJ has therefore never questioned the exclusive national right of the individual states to regulate the gambling sector. In its decisions, it has granted the member states a considerable margin of discretion in determining their gambling policy to take account of the differing socio-cultural background of gambling and gaming in the individual European states.

Public Gaming: *So is everything fine, then? Does this mean that the countries with a state monopoly on gambling as their preferred regulatory model are in fact complying with the directions of the ECJ and can therefore live happily ever after…*

Dr. Wortmann: Most European countries do indeed prefer a monopoly on gambling as a practice-proven regulatory model.

But I do understand what you are getting at. The countries with their gambling monopolies naturally do not live isolated from the rest of the world. There are third parties with strong economic interests who would like to see gambling liberalized in Europe and worldwide. There are large amounts of money involved. The debate is conducted on a very broad thematic base. Catchwords such as customer supremacy, product diversity, attractive product design, convenience, service, growth, competition and jobs as well as the European freedom to provide services and the freedom of establishment are all employed as arguments by the proponents of liberalization.

And it is indeed an impressive raft of arguments, that at first sight appear highly convincing and in any context other than gambling would be hard to refute. However, gambling is no ordinary commodity. Gambling is a source of considerable dangers. What matters with gambling is the dose, and the where, when and how.

As I already touched on, the gambling market is seen by many companies as a lucrative source of earnings. Without adequate government regulation and levies, money can be earned quickly and easily with the product "gambling." A clear and impressive example of this process is provided by the market behaviour of the remote gambling providers. These firms mostly operate from so-called low-tax jurisdictions such as Gibraltar, Malta, Alderney, Kahnawake, Costa Rica and so on. Because of the lucrative framework conditions in these countries/special territories, the firms only have to pay very little in the way of gaming levies and corporate taxes. The money that in the case of a state gambling monopoly would be skimmed off in the form of a levy and used for good causes, thus benefiting broad sections of society, is able to be invested by the private gambling operators in penetrating the market with aggressive gambling products (sports betting, casino games, poker) with extremely high payout rates, ultimately with the goal of earning high business profits through the generation of corresponding growth.

The customary approach is for the social costs in the shape of gambling addiction, fraud and criminality to be played down, ignored and dumped in the lap of the countries where the private gambling operators illegally offer their products. In general these operators will set up business in whichever state offers the lowest gambling levies and the lowest company taxes.

As far as these "low-tax countries" are concerned, their regulatory regimes are not motivated by a desire to strictly regulate gambling but to generate business and tax revenue from the companies operating from there. It is remarkable to see how this purely economic approach is protected. But looking at it only

from the economic angle is just one-sided.

Public Gaming: *What typical methods do private gambling operators use for pursuing their interests in the member states and in Europe in general?*

Dr. Wortmann: The methods used by the private gambling operators in the pursuit of their interests in terms of liberalization of the gambling market are well-known.

From the point of view of the private gambling operators, the primary goal of the court cases and actions is to maintain and foster the speculative force of legal uncertainty. Their aim is to gain time.

Their comrades-at-arms are the sectors that stand to profit from marketing the gambling business. They all have a natural interest in the liberalization of the gambling market. But it is not for them to answer the question – it is up to our Parliaments.

A second, and in my view highly important, pillar in the pursuit of their interests are the legal actions resulting from and provoked by the market activities of the private gambling operators. They are an integral part of the growth strategy of the private gambling operators.

In the lawsuits conducted at national level in the administrative courts and civil courts, the opposing party uses the alleged incompatibility of national gambling laws with European law as its weapon, constantly repeating it like a mantra and challenging the consistency of gambling regulation under European law from various angles.

In its decisions so far, the ECJ has, as I already indicated, explicitly permitted the member states to implement strict regulation of the gambling market in pursuit of their regulatory and social policy objectives, up to and including the imposition of a monopoly. Further important decisions of ECJ are to be expected in 2009.

A development can also be observed, however, whereby a kind of media jurisdiction has sprung up with regard to the interpretation of national and European court decisions in connection with gambling. In the first wave of interpretation, the media tend to highlight deregulation measures in their reporting. Arguments that reinforce the regulatory position are hardly mentioned. These only emerge once the spectacle of the ruling has waned. Governments and state gambling operators have always been and still are faced with the problem that a regulatory view of things is evidently not in keeping with the zeitgeist. By whom and by what interests this zeitgeist is formed is a question I will leave open at this point, though the answer is not too difficult to guess. Incidentally, reliable public opinion surveys in Germany show that the population – and by this I mean the great mass of the people – is highly satisfied with the strictly regulated gambling sector as it currently stands. This finding is apparently unwelcome at the present time and is therefore studiously ignored by the private gambling operators and partially regulation seems to be out of favour even by the media. The message is presumably at odds with the much propagated zeitgeist.

But let me return to the court actions in relation to gambling. These naturally take time until a final and unappealable decision is handed down. Proceedings are sometimes suspended until questions have been decided at European level. There are interdependencies between individual fields of law that have to be considered by the highest courts, including questions such as which takes precedence, regulatory law or competition law, etc.

From the point of view of the private gambling operators, the primary goal of the court cases actions is to maintain and foster the speculative force of legal uncertainty. Their aim is to gain time – time, firstly, to be able to carry on operating the activities for the time being. And time, secondly, to influence the political and social opinion-forming process in their favour. This is the environment in which the state-licensed gaming operators have to improve.

There is a multibillion euro infrastructure of publicly beneficial causes and organizations that would be devastated if they lost their funding that government sponsored gaming provides. And you can be sure that is exactly what would happen if markets were opened up and operators who paid less in taxes were allowed to compete directly with those of us who are required to pay a higher percentage towards taxes or good causes.

On the whole, it can be found that in the pursuit of their interests, the private gambling operators primarily play the European card, claiming that the European freedom to provide services and the freedom of establishment must also apply to gambling.

Through my talks with political decision makers in Germany and Brussels (Europe), it has become clear to me that the complexity and special nature of gambling, the need to protect the customers while they gamble, and the social ramifications of gambling are often not immediately obvious to them. In our opinion, a lot of information work needs to be done, especially in Brussels, to highlight the special character of gambling and its position in the member states and thus put the discussion on a more ordered track. Only facts and figures really help and convince.

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

An Interview with Bo Flindt Jorgensen ...continued from page 8

formance measures up to others', as it is based on the potential to win money. The amounts of money wagered are relatively small compared to the amount of time the players spend on the games, which is the whole idea of it from our point of view. The games become a vehicle for people to meet and visit with one another over a game of Hearts or Yahtzee. These games function in many ways like the Facebook website, facilitating social interaction and helping to bring people together and get to know one another. Players can chat, of course, but they also can list their interests and ask other players about the interests and activities that they've indicated in their player profile page. Nobody is forced to be more involved socially than they want to be, but it provides an opportunity for people to chat and get to know each other if they want to. It's all about entertainment and just having fun and making it easy for people to interact with one another. Everyone is so busy that it is sometimes hard to schedule a visit with friends, drive over to meet people somewhere, or spend an evening at a party. But we're all always on the Internet and it is not so difficult to take a half hour out to play a game. You don't need to rearrange your schedule to enjoy a little recreational game online. Of course, the fact that you can win money also makes it fun, providing a sense of excitement and purpose. But the real purpose is actually fun, entertainment, and social interaction.

We don't think of it as taking big risks, we think of it as good business to see where the trend lines are taking your customer and work hard and run fast to try to be there where your customer needs you to be. If you wait for everyone else to blaze the new trail, you'll be too late.

So, for us, developing these multi-player games was a natural step in delivering a new and different kind of product to the market. When we made these games it was like sort of a new game universe that we were opening and entering. There were no implementations in the gaming world that we could look to for guidance. We were starting from scratch and analyzed how social sites and online communities operated. We researched the methods of sites like Facebook, My Space, and the dating sites to figure out what worked and what didn't work, and tried to really understand why. We analyzed trend lines to make sure we were catching a wave with accelerating momentum and not something that is hot one minute but not going to have staying power. But we knew one thing from the beginning...we wanted to deliver a product with which our customers could socialize with each other and at the same time play entertaining games. That was the objective that led to our development of these interactive products and to expanding our product portfolio.

Public Gaming: *Do people actually make new friends online? Do they get to know each other online by playing in a game? Or does it remain pretty anonymous?*

B. F. Jorgensen: It's up to the players themselves, how they want to present themselves and whether they want to find new friends. We just give them the opportunity to meet other people, to chat, to get in contact with them. In fact, we will be adding new features to our site to facilitate more social interaction, to make it even easier for people to contact one another if they choose to.

If you analyze why people are playing the World of Warcraft or Counterstrike online, you will find that they're playing it for the excitement of just having fun. At the same time, they are chatting, laughing, and exchanging information. World of Warcraft is sort of like a whole new business that just came out of nowhere. They started the game and now people are trading and buying all kinds of different products that are related to that game. Companies are advertising on the games themselves. These games take on a life of their own which has nothing to do with winning money. That is the kind of playing experience that we are trying to create for our customers. We want them to feel that they are the game, that they are the most important thing in this game, that if they weren't here, the game wouldn't exist. It's not just their buying a ticket or placing a bet that drives the game, it becomes a much more personal experience about them and who they are and who they want to be. The game is really about the decisions they make and how they interact with the other players, how they want the game to evolve. It becomes a product very much of their own creation.

We want to support the customer shift from retail to online. First, there is a greater growth potential for the online category...much more potential to be creative and offer new and different and more exciting games. It's where the future of gaming is most interesting for both the player and for us, the operator.

Public Gaming: *So, some years ago you recognized certain trend lines relating to lifestyle and the way people play and interact with each other and determined to see how those trends might apply to our own gaming industry...But since nobody else was doing this, you had no examples to learn from or model after?*

B. F. Jorgensen: That's right. We felt that if we continue just to

deliver only games of pure chance that did not appeal to people's desire for social interaction and more stimulating entertainment value, then we would begin to lose our players. People are so busy now that the thing that is getting cut out of our schedule is time to interact with other people in a social environment. That's what people really are missing and what they want perhaps even more than winning money! They need to connect with each other, with their friends, with new people making new friends, and our community-based games are a way to enable them to meet that need. And think about it, what better product or medium is there than games to enable people to interact with each other for the purpose of having fun, just enjoying our recreational time by playing a game but doing it with other people instead of playing against the 'house'? You have needs that aren't being met ... for social interaction, for a more dynamic and entertaining playing experience, for the stimulating challenge of playing with other people, and you build a product that meets those needs.

Look at the popularity that dating sites, and Facebook, and My Space, and these kinds of social networking sites have at the moment. For us it was an easy decision to develop games where they could both get the excitement of playing and winning money, and it was quite an easy decision for us because no other gambling sites have these type of games. So at the same time we could be the first in the world to do this, which makes it that much more rewarding for us.

Public Gaming: *I would expect that the need to develop new games and improve the playing and entertainment experience would be somewhat of a collaborative effort between you and your supplier? In the case of the multi-player community-based games, that would be Betware, wouldn't it?*

B. F. Jorgensen: Betware controls all the programming, programs the games, and there is also Certus, which is a division of Betware. They work with us to develop the games, community features, and so on.

Public Gaming: *Betware builds the technology and back office programming part, and then Certus is more the game design and development partner?*

B. F. Jorgensen: Yes, Certus does the games and we did the marketing. They are a big part in the game development process because they have a lot of knowledge in the multi-player games. But Betware controls the back end and all the programming. At Danske Spil, we just constantly shoot demands for additions and changes and all kinds of crazy ideas that they get to figure out how to implement. It's kind of like a big puzzle where they have to find ways to program our wishes, tell us where we may need to compromise, and hopefully at the end, together we can make it all into a good product. But that's a big challenge every time.

Public Gaming: *What would be an example of a challenging thing where you said to Betware, "We want you to figure out how to do this." And then they said, "Well, I don't know if we can do that exactly, but let's work on this to see what options we can come up with that deliver something close to what you want."*

B. F. Jorgensen: For example, the process of customizing the interface that you see when you look at the computer. Let's say you want your statistics to be on the top right side of the screen, your chat room on the right bottom section, and you put them there. Then, as we add features, it gets more costly to make changes and adjustments and reconfigurations. So we explore the costs and benefits to doing everything in different ways. It is a collaborative effort and has worked quite well.

Public Gaming: *So you need to be confident that you are working with somebody who is really good and can figure out how to translate your wants and needs into the very best possible result.*

B. F. Jorgensen: Yes. That is a big challenge. We are so dependent upon the technology to enable the entire development process and to deliver a good product. So a good collaboration is crucial because they have the technical know-how, so we need to work together and trust one another to be innovative and open-minded and persistent in finding the best technical solutions and keep the game platform new, fresh, and exciting.

I think we have arrived at a good understanding about what can be done and what can't be done. But it's a huge challenge every day. We're looking into new games and new features at the moment. We're looking into new community features and tournaments, and hopefully we can implement some of these things within this year. But some of our goals cannot be accomplished this year because we cannot overcome the technical obstacles or it will cost too much.

Public Gaming: *So now you have four games. And you would like to expand that to 20 or 30 or 30 or even 40 games?*

B. F. Jorgensen: That's our vision. Now we offer Hearts, Whist, Yatzy and Ludo. We'll expand the number of games as long as there's a demand for our products. But it is also important to realize that not every product that you launch is going to be a huge success. You have to assume an element of risk and sometimes launch a product where you are not sure it is going to become popular. It is important that you are willing to take some chances and just trust your instincts. For example, launch a game that did not perform well in your pre-tests. It might be that you have to remove the product from the market, but in the long-run you are better off taking some calculated risks and just try to be different and do the unexpected. In that respect it is important that you have a good R&D department that can assist you in making good predictions that can minimize the chance of failure.

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

An Interview with Art Macias ...continued from page 15

to purchase lottery or go to a casino?

A. Macias: Absolutely. We are both competing for discretionary dollars, that entertainment dollar.

General Discussion about the Arizona Lottery

Public Gaming: *Why do you think it is that the per-person play has been less in Arizona than it has been in other states?*

A. Macias: I think that it's partly because the base number has grown. Arizona has experienced significant growth. Educating that new segment of the population, that has just moved here, about lottery, has been a challenge. The diversity of the state has also increased during that time. So reaching those markets with a limited advertising budget has posed a challenge. Advertising costs have increased about 33% over the past five years. For example, the Spanish market, which makes up about 30% of the market, is dominated by Univision, which has a virtual monopoly and therefore charges more for advertising. That type of dynamic makes it very difficult to reach a diverse and growing population.

There are other factors as well regarding per capita sales. Our payouts, for instance, had to average out at 60%, which I believe places us in the bottom quarter of the industry. Players moving from other parts of the country have been disappointed at our payout rates.

The Lottery is a marketing and sales organization. We had in place only a very limited amount to offer to our sales reps, a pot of $50,000 to be spread among twenty sales reps. That doesn't enable us to create much incentive for a marketing organization that did $472 million in sales this past fiscal year. As we know in both the lottery industry and in the private sectors, marketing and sales organizations have been able to very effectively use incentive programs. We have not been able to do that. We have needed to address this capability of operating and offering a more significant incentive pool.

Another limiting factor has been the size of our retailer base. The use of technology, and deploying that technology in non-traditional lottery retailers, such as airports, where we could perhaps entice a corporate account to sell lottery by deploying full self-service lottery vending machines – that use of technology is key to expanding our retail base.

Distribution

Public Gaming: *Does the Lottery currently distribute through any of the national retail chains?*

A. Macias: We do. We're in Kmart, Krogers, Safeway stores. Circle K is our single largest retailer; they are a Canadian-based company.

Public Gaming: *Do you have to do anything different to distribute through these stores than you would through a 'normal' retailer?*

A. Macias: We have not had to as of yet. Entering the true 'big box' environment, we know that is a real challenge within the industry. Certainly the NASPL initiative to standardize accounting standards across the industry will help. Here in Arizona, we are seeing the expansion of Walmart into the grocery store environment. Stand-alone grocery stores have been a natural for lottery retail distribution. So it would make sense for us to be in that environment in Walmart. We are also introducing lottery to smaller, corner store environments. We know that we'll have to do some customization to accommodate, but as the big box stores expand into these environments, the competition from similar stores should create a bit of an inequity, and therefore a sales opportunity that we hope will add some leverage to the discussion.

Public Gaming: *What kind of revenue breakdown do you have between online and instants?*

A. Macias: This past fiscal year we were at 56.5% instants, 43.5% online.

Public Gaming: *Which do you believe the changes will impact more?*

A. Macias: We are projecting the biggest impact to come from the scratcher side. We have characterized the scratcher product as one that is 'at rest' from a marketing standpoint. We have not been able to leverage virtually any advertising behind the scratcher products. So we are expecting a significant lift from this, both from increasing the payouts on the scratcher tickets and from increased advertising.

We also see growth opportunity on the online side. We are actively pursuing the potential for the sale of online products 'in-lane,' at the checkout counters at grocery stores. Our focus is to make it easier to purchase our drawing game products.

We are also looking to new products. Last year, we had over a 3% increase in our return to the state. We were able to do that because we had two millionaire raffles. We are contemplating doing three of those, with a certain variation in one of the three, in the coming fiscal year. These were the first new products in over nine years at the Arizona Lottery. So it has been some time since we've modified the existing games. We need to do more of that, provide new and different products that appeal to our players. Fast Play is a new kind of instant online game which has contributed to additional revenue for us.

Public Gaming: *So new games and positioning for increasing the impulse buy have already shown some increases. And now with the relaxing of some of the restrictions you hope to see some serious increases.*

A. Macias: Yes.

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

An Interview with Constantinos Antonopoulos ...continued from page 17

for Australia. What is your long term plan in Australia?

C. Antonopoulos: Our strategy in Australia is not different from our global strategy. We are looking for opportunities. We are both technology providers and strong operators. So whatever path a government decides to pursue, INTRALOT wants to examine the opportunity to add value. INTRALOT is a government licensed vendor, both on the technology and the operations side. We are not trying to convince the government how or when to do anything. It's not for us to determine the policies that best serve the interests of the public. Our mission is to support and implement whatever a government determines as the best course of action. This is an ideal time to enter the Australian market as the benefits of opening the market to competition are realized. The strategy we follow in Australia as everywhere else is to be flexible and to examine all opportunities on a case by case basis.

Public Gaming: *The way you just described it sort of reflects an orientation of respect and sensitivity towards the aspect in which our industry is controlled by the government. I'm thinking that in Europe, for instance, there are some gaming operators and companies, who think that they can have a contentious relationship with regulators and legislators and shapers of public policy. And it seems like INTRALOT's goal is to always respect the way shapers of public policy decide things, and be pleased to comply with whatever the political and public policy agenda is.*

C. Antonopoulos: Paul, I think that there's a major issue now in our industry. For several years, we have said that the distinction between state-owned operators and private operators is really not the relevant one. The important differentiation is not between state ownership versus private, the important distinction is between the government licensed world and non government licensed world. Many companies are trying to do both and I think this is an extremely dangerous situation that is not consistent with the best interests of the public. Companies which build strong Internet gaming operations which operate across borders in ways that are not regulated or approved by the governments, are now also trying to become vendors and operators under government license, and vice versa. In the long term, all companies would like to get licensed by governments to operate legally. The problem is that in the short term, the most lucrative business opportunities may well be to also operate in the non government licensed world. We should all be required to take a position on this question and stay consistent with it. In all the talk about whether or not to 'privatize' the lottery, the real issue is whether or not to respect the right of governments to control and regulate this industry.

Public Gaming: *On this subject, there is much discussion in the Europe Union over whether to force individual member nations to open their markets up to competition. Do you have an opinion on that?*

C. Antonopoulos: My opinion is that all gaming suppliers and operators should comply with government laws and regulations everywhere.

The situation in Europe is complicated and it is not my place to decide public policy there or anywhere. INTRALOT's commitment is to be a good global citizen and comply with all laws and regulations and encourage all suppliers, operators, and business partners to do the same.

We are following the situation in Europe closely and do not know what will happen. I think that on the game side, there is a big division between the lotto and the sports betting. Sports betting is a competitive product on its own. Lottery is not. Look at the UK, which has a very open gaming market except for the National Lottery, which is a monopoly. But different countries have different systems. So it's a complicated process. It does seem that most of the newer members of the European Union have a more liberal approach to competition, with more open gaming markets, so that now the majority of member states in Europe have a liberal market. And all states are exploring the possibility of opening up certain sectors of the gaming industry, like sports betting. Again, INTRALOT is pleased to comply with whatever the governments decide is the best public and regulatory policy to have.

Of course, at the end of the day I believe that there should be a legal framework, consistent law (a Directive of the European Union). Today there is confusion over what the law should be in Europe. And the interests of the public are not well served by this confusion. The European Union and its member states should resolve to decide on and then implement laws that work and are enforceable and don't conflict with one another. For one thing, they need to get control of the non-regulated world of Internet and Mobile gaming. They really need to develop a coherent policy for both the health of the industry and the protection and welfare of the public.

Public Gaming: *I noticed that you acquired William Hill Codere in Italy. What synergies are there for INTRALOT to diversify into different sectors of the industry? Lotto, sports betting, scratch-offs in Australia – What synergies from a distributional or operational or branding point of view do you acquire by being involved in such a diversified portfolio of games and betting?*

C. Antonopoulos: I think, Paul, that the assets of the gaming operator are two things. One is the license to operate, and the second is the network. There are other values, but I think these are the two big ones. So, for instance, the license we have in Italy is for sports betting and horse racing, and it's not for anything else. The license we have in Victoria is for scratchers and numerical games. So it depends on the opportunity, and that will differ from one jurisdiction to another, and it changes over time as well. We pursue the opportunities that the governments provide when they open up different sectors to competition. In different jurisdictions, at different points in time, there will be different sectors of the market available to us to try to compete in. So that's what we do.

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

Internet Gambling: Legislation determined by jurisdiction. Regulation enforced by international agencies.

By Philippe Vlaemminck

Philippe Vlaemminck

Gambling services are currently still regulated on a jurisdictional level (e.g. national level in Europe and state level in the U.S.). As such, there is no reason this would be different for online Internet gambling services. Therefore, with regard to Internet gambling services, the jurisdictions need to be empowered to determine for themselves what level of consumer protection against crime and fraud should be applied in their jurisdiction.

However, since gambling has taken on a trans-national character, especially with Internet and Mobile, there is a clear need for EU and/or international legislative provisions to guarantee the judicial protection of the consumer and to supplement and support the national legislation. Under EU law this is the exact meaning of the so-called "subsidiarity principle". Regulate at the appropriate national/regional/state level whatever can be effectively done at that level, and refer to other bodies only those questions which require a trans-national answer or enforcement mechanism. In the EU, this is currently the subject of a six months exploratory debate set up inside the Council of Ministers of the EU and under the French Presidency. In December, the French Presidency of the EU will report to the so-called Competitiveness Council and raise the points of common interest. Hopefully, this will be the first step to proper regulatory solutions.

The challenge is to ensure that public and regulatory policy be based on the fact that Internet gambling services are in the first place gambling services. The fact that Internet gambling is distributed digitally instead of through physical points of sale does not mitigate the imperative for all gambling services to comply with the laws. This was confirmed in the WTO Dispute Settlement report in the WTO US-Gambling dispute[1], wherein remote gambling and lottery services are deemed to be 'like' non-remote gambling and lottery services, and so should be compliant with the laws pertaining to those non-remote gambling and lottery services.

Moreover, according to the WTO Dispute Settlement report (WTO case of 13 March 2003, United States – Measures affecting the cross-border supply of gambling and betting services, WT/DS285/AB/R, Appellate Body Report.), the remote provision of gambling services is to be considered to be a cross-border supply and not a consumption of those services abroad. This means that the point of supply of the gambling service is considered to be the country where the consumer has its residence and not in the country where the operator has its server. This is an important distinction. In the WTO dispute on cross-border gambling services, it was also accepted by the Appellate Body that the exception of public order can be invoked by the country of consumption, independently of the country of supply.

Furthermore, a British court has already acknowledged that cross-border gambling services are considered to be delivered in the country of consumption, regardless of the location of the supplier. This court also ruled that it is for the national authorities to determine to which extent they are prepared to expose their citizens to the risks posed by remote gambling services. (Case of 14 June 1999 of the UK High Court of Justice, Queen's Bench division, Secretary of State for Home Department ex parte International Lottery in Liechtenstein Foundation and Electronic fundraising company plc., EWHC admin 547.)

The specific characteristics and concerns of a remote supply of gambling services were emphasized by the WTO Appellate Body in the context of the WTO US-Gambling dispute:

- the volume, speed and international reach of remote gambling transactions
- the virtual anonymity of such transactions
- the low barriers to entry in the context of remote supply of gambling services
- the isolated and anonymous environment in which such gambling takes place

On 23 September, I chaired a panel discussing "Internet Gambling" at the annual conference of IAGR, the International Association of Gaming Regulators. I began by asking the different Panel members (the CEO of the UK Gambling Commission, the Chairman of the Nevada Gaming Control Board, the Head of remote gambling of AAMS and the senior adviser of the Norwegian Ministry of Culture) to respond to a number of questions regarding the need and possibilities to regulate Internet gambling. The result of that discussion demonstrates that we are still far away from an international consensus or solution on this matter. The views expressed on how to regulate remote gambling are extremely different from one another. It is acknowledged, though, that the Appellate Body of the WTO insisted upon the fact that the USA was perfectly entitled to decide upon its own public order without being obliged to negotiate with Antigua on alternative, less restrictive, solutions. Negotiating on an international scale is needed, however, to establish friendly cooperation among states to fight illegal and/or unregulated remote gambling. The WTO and the OECD could be the appropriate forum to build an international approach to enforcing jurisdictional laws.

Based upon this reasoning, it is difficult to argue (as the UK remote Gambling Association does in the EU Trade Barriers Regulation case) that the USA should not be allowed to prosecute the RGA members who did violate US laws, even if those laws do not entirely satisfy the former GATS commitments.

If we could agree on one common philosophy, it should clearly be that laws need to be respected, and that the law applies to operators in the Internet environment as well as everywhere else.

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Connections: Exploring Gaming's New Frontiers

Open standards or open nightmare?

By Michael Koch, CEO, ACE Interactive

Michael Koch

Mention 'Open Standards' at a meeting of gaming machine manufacturers or lottery executives and an awkward silence quickly envelops the room. Many attendees will nod knowingly but with hesitancy, others will force an uncomfortable smile, and a few will hastily head for the coffee station.

Take a deep breath…and relax.

Open Standards, in most respects, are a good thing. They drive innovation, lower the cost of production, facilitate the rapid evolution of technology and create positive opportunities for the spin-off of goods and services.

In contrast, proprietary standards and technologies have precisely the opposite effect, existing primarily as a weapon to create and preserve competitive entry barriers while maintaining a singular company's high level of profitability. These technological 'moats' often slow the pace of innovation because there may not be any incentive to disrupt an inherently lucrative (though transitory) business model.

Content-oriented industries naturally gravitate toward Open Standards in the most widely available platforms that support their specific content. Consumers – be they teenagers or gaming executives – want the greatest variety of content without investing in multiple platforms. A quick look around your home or office will reveal a multitude of 'Open Standard' devices…CD players, DVD players, Personal Computers, 'Blue Tooth' accessories. (The fact that console game manufacturers – namely, Microsoft, Sony and Nintendo – have avoided this market force is both unusual and surprising). Ultimately, Video Lottery Terminals (VLTs) are destined to join the 'Open Standards' consortium.

Gaming machine and content providers should take a lesson from the consumer electronic industry's long (and often painful) experience with Open Standards or, as philosopher George Santayana once mused, "Those who cannot learn from history are doomed to repeat it."

The untapped potential from the adoption of Open Standards by the gaming machine industry can best be illustrated by the open and freely available 'High Sierra' standard established in the 1980's for encoding of music on CDs. 'High Sierra' allowed seamless interoperability between CDs and CD players from any manufacturer, opening the door to an explosion of music content from a larger base of artists than ever before. This trend continues today with the open and universally-adopted 'MP3' standard which, coupled with the ability to deliver digital music files over the Internet, has created another quantum leap in the variety and quantity of music available to consumers. Easy and inexpensive access to devices utilizing these open standards has resulted in lower barriers to entry and greater innovation in the types of content available.

For the gaming world, much like the music industry, content is the most valuable and discriminating commodity. Gaming machine players clamor for access to the greatest variety of games and gaming experiences, selecting those that reflect their personal tastes and preferences.

In the past, gaming system providers designed platforms that required their own proprietary protocols to communicate with the gaming machines connected to their networks. Although these protocols were licensed for use by other gaming machine manufacturers, they remained proprietary intellectual property. The paradigm is that any changes to the protocol (ostensibly for the purpose of upgrading functionality, for example) could be made arbitrarily by the system provider who, effectively, controls the proprietary protocol. Such changes would obviously be for the benefit of the 'controlling' vendor, yet often to the detriment – intentionally or otherwise – of other gaming machine and content providers.

Implementing a new protocol, or adjusting to changes in an existing protocol, inevitably costs money. As a result, content providers primarily invest in developing games that support a certain set of protocols that will reach the widest possible audience; currently, the 'SAS' protocol is the de-facto industry standard. SAS's widespread acceptance has made it virtually impossible to deliver top performing games from all manufacturers to all markets largely because of the costly, parallel development efforts required to support multiple protocols. This hodge-podge of standards inevitably limits the content that lotteries and other operators can provide to their players and thus, hinders their potential to maximize revenues.

Today, SAS does not support the enhanced functionality demanded by operators (such as downloading) and has a limited set of command functions for remotely controlling the behavior of a gaming machine. To address these limitations, members of the Gaming Standards Association (GSA) – whose roster includes Aristocrat, Bally, IGT and WMS, to name but a few – joined forces to create a truly open and universal standard known as 'G2S'. As a result of this collaborative effort by the GSA, all major gaming machine manufacturers are now committed to adopting the G2S protocol as a replacement for SAS.

G2S and similar technical standards represent a truly transformational technology for the gaming industry. In addition to standardized and open platforms for player content, incentives to stimulate the actual development of new and innovative games for those platforms is essential. Gaining access to a larger community of developers is the key to such innovation.

Imagine a world where every gaming product can interconnect seamlessly with every other product. Lotteries and gaming operators would be free to adopt truly innovative products without worrying about artificial barriers to interoperability. This, in turn, would compel manufacturers to make strategic investments and compete on the basis of originality and creativity – instead of hiding inside a bunker of proprietary boundaries.

Innovation is a good thing…a powerful market force that will create new entertainment choices for players and drive new revenue opportunities for lotteries and operators alike. Open Standards are the key to unlocking those doors.

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