

GAMING

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

FEATURED INTERVIEWS:

Hansjörg Höltkemeier

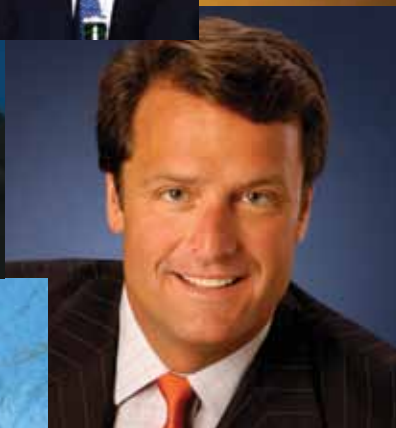
Patti Hart

JUDr. Ales Husák

Scott Bowen

Ernie Passailaigue

Steve Saferin



Clockwise from left: Hansjörg Höltkemeier, Deutsche Klassenlotterie – Lotto Berlin; Patti Hart, International Game Technology (IGT); JUDr. Ales Husák, SAZKA, a.s., Czech Republic; Scott Bowen, Michigan Lottery; Ernie Passailaigue, Arkansas Scholarship Lottery; Steve Saferin, Scientific Games Corporation

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PGR Institute is much more than a news aggregator. We follow-up on the news to deliver the perspective and genuine insight you need to understand the gaming industry and how it is likely to evolve. Any questions or comments, e-mail Paul Jason at pjason@PublicGaming.com or call U.S. + 425.449.3000.

Thank you!



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Features

Feature Interviews

- 8 Hansjörg Höltkemeier**
Managing Director, Deutsche Klassenlotterie – Lotto Berlin
- 10 Ernie Passailaigue**
Executive Director, Arkansas Scholarship Lottery
- 12 Scott Bowen**
Commissioner, Michigan Lottery
- 14 Patti Hart**
President and Chief Executive Officer, International Game Technology (IGT)
- 16 Steve Saferin**
Chief Creative Officer, Scientific Games Corporation
- 18 JUDr. Ales Husák**
Chairman of the Board and General Director of SAZKA, a.s.
- 32 Keith S. Whyte**
Executive Director, National Council on Problem Gambling

Feature Articles & Editorials

- 6 Paul Jason: From the Publisher**
- 22 Extending the Functionality of G2S® to the Distributed Gaming Market**
By Don Doucet, Vice-President, Business Strategy, Products and Marketing, SPIELO
- 31 Kentucky Lottery & Others Jump on Twitter Bandwagon...Web 2.0 Here We Come**
- 34 Update on the UIGEA and the Relevance to the iMEGA Court Decision**
By Mark Hichar, head of Gaming Practice Group for the law firm Edwards Angell Palmer & Dodge LLP

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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

We give a lot of attention to the European regulatory environment, how it is changing, and how those changes impact the state-owned lottery and gaming operators. That's because these regulatory changes have a dramatic impact on the competitive landscape throughout the European Union. But just as importantly, the issues they are dealing with in Europe are fundamental to our industry and apply to all regions and markets throughout the world. The conflict in its most basic form is between the rights of individual jurisdictions to determine regulatory restrictions and tax rates and the rights of private operators to compete in a free-market and open-borders pan-European economy. Do EU member states have the right to decide what is the best regulatory model for their people? What rights do US states have to control gambling when their interests conflict with the sovereign rights of Indians? And who decides these issues – The European Union Commission, the US federal government, or the individual states? And if it's the states who decides, how are their decisions enforced? We're talking about Europe and the US. But **June Roache**, the CEO of South Australia Lotteries, has just been explaining to me how all these issues are very much front and center in Australia. And now, Internet gaming is providing a whole new layer of complexity to these challenges for everyone everywhere.

Germany has been the most steadfast at insisting on the right to control gambling at the jurisdictional level and resisting pressure to open their markets up. Most of the other EU countries are attempting to open up their markets to some degree. While these other countries are trying to preserve the basic regulatory model that protects "public order" (minimize problem gambling, fraud, money laundering, etc.) and preserves the higher tax rates that produce the much needed funding for Good Causes; countries like France, Italy, the UK, Scandinavian countries, are attempting to change the industry model to be more open and competitive and allow for multiple operators to compete for the business, much like all other industries operate. Hearing a panel discussion at the European Lottery Association conference in Istanbul last June, I was struck by the compelling arguments made by **Hansjörg Höltkemeier**, the managing director of Lotto Berlin. We explore the legal and political rationales for the German approach and the direction that regulatory policy is moving in Germany and in Europe.

Our next SMART-Tech conference will be held in Midtown Manhattan in the middle of March of 2010 (check in at www.PublicGaming.com for updates). **We want this to be a breakthrough meeting that mobilizes lottery operators all around the world to collaborate and create the most powerful brand in the global gaming industry. Let's call it Brand Lottery.** Governments everywhere are waking up to the incredibly important role that lottery organizations play in society. That is evidenced by the recent high Court decisions in Europe and the expansion of video lottery in the US. This is an auspicious time for lotteries to come together in force, to consolidate their position with a clear and emphatic mission. The cross-selling of Mega Millions and Powerball in the US and the progress towards a "World Game" are huge steps in the right direction. What if we could harness this momentum and channel the knowledge and vision that is driving these collaborative initiatives?

Our constituents and stakeholders, our legislative leaders, our own organizations, the players, the public ... they all want Brand Lottery to be the cornerstone of a global gaming industry that has as its primary focus the support and funding of Good Causes.

The public gaming sector is rapidly moving into electronic games and video lottery. This is great news for IGT, Spielo, Bally, and ACE Interactive. IGT CEO **Patti Hart** addresses my questions about how this market differs from traditional commercial casinos, what are the commonalities, and how IGT is positioning its customers for optimum success in this fast-changing industry.

The Arkansas Scholarship Lottery launched in record time and proceeded to beat expectations handily. Director **Ernie Passailaigue** took some time from an intense schedule to reflect on the weeks running up to the September 28 launch, assess the meaning of the early-stage results, and explain the thought process that went into the bold decisions to launch so quickly and implement a pioneering internet player registration initiative.

A follow up Q & A with **Steve Saferin**, Chief Creative Officer of Scientific Games, turned into a more expansive discussion about internet-based programs that connect the lottery operator to the player in new and wonderful ways.

It has been a very busy year at the Michigan Lottery. Commissioner **Scott Bowen** describes the "Best Practices" makeover that was initiated at the same time as they were undergoing a GTECH conversion of the online lotto system. We talk about the future of their Player City website (second biggest city in MI with over 250,000 registered players), the innovative performance-based retailer commission plan, and how the Lottery achieved a sales increase in the state hardest hit by the recession.

Like many sectors of our industry, sports betting is in a more mature stage of evolution in Europe than elsewhere. The internet is making the business of regulating sports betting more difficult. I couldn't think of anyone with a better insight into these problems and the potential solutions than **Aleš Hušák**, CEO of SAZKA, the Lottery of the Czech Republic.

It's cheap, it's easy to implement, and it connects you instantly to your customer: It's **Twitter**. Lots of lotteries have quite extensive Twitter applications. It's getting exposure for the lottery to young adults and it's positioning those lotteries for more rapid deployment of new internet strategies.

Don Doucet, Vice President of Spielo, discusses some of the difference between traditional large casino facilities and the new style of distributed venues. The technical challenge to migrate to open system architecture and inter-operability in a distributed environment is completely different than it is for a large casino. This is especially important because most states are opting for larger numbers of small venues (i.e. the "distributed" model) to place video lottery systems.

Mark Hichar brings us up to date on UIGEA. There are some important legal precedents being set in recent court cases, and there are two bills pending that could transform the gaming world once the US federal government clarifies its position on internet gaming.

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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Hansjörg Höltkemeier

Managing Director, Lotto Berlin

Public Gaming: *The European Court of Justice recently ruled in favor of the right of*

Portugal to determine its own regulatory and tax policy. The ruling was against the internet gaming company Bwin, which is based in Gibraltar and contended that their Gibraltar license entitles them to operate in all EU member states.

Hansjörg Höltkemeier: This was a very good decision for the gaming industry in Europe. It brings us much closer to having a stable and manageable industry, one in which laws are enforceable. The problem has been that the EU Commission was approaching gaming and gambling just as it has approached all questions relating to trade and commerce. The primary mission of the European Union is to create a dynamic and prosperous economy for all the member states. They have tried to do this by eliminating barriers to free cross-border trade and commerce, and eliminating barriers to free market capitalism and open competition.

The problem is that gambling is an industry that simply must be regulated at the national level. There are two main concerns that require this industry to be controlled and regulated at the national level.

First is the preservation of 'public order.' To treat gambling as other products would be to allow competition to motivate companies to deliver a better level of service, a better quality product, right? Well, is it a "better" level of service to allow off-shore companies to use high payout-ratios, psychologically optimized game-design, and aggressive marketing tactics to enhance the appeal of gambling? In other products, the simple measure of quality and service is whether the consumer likes it and buys it. If you apply that to gambling, you create a model that the gambler may like so much that problem gambling and other social costs go up. That is not a desirable objective for society. This kind of competitive environment with multiple operators and less regulation also increases the possibility

for fraud, corruption, and criminal activities associated with betting. This is what is referred to as "public order." It is the rights of individual member states to take whatever precautions they want to avoid these undesirable consequences and preserve public order that the ECJ – Portugal – Bwin ruling reinforces.

Second, the determination of tax rates and the collection of those taxes must be performed at the national level. Otherwise you have the ridiculous situation in which all the operators locate in states like Gibraltar where they pay less than 1% tax. Then all the gaming revenues generated all over Europe flow to these small principalities, enriching only the private operators and the governments of those principalities. That's tens of billions of euros in gambling revenues. That is great for the operators and great for the little principalities like Gibraltar because it effectively redistributes those billions of euros in taxes away from the markets that generate the revenues, away from the public welfare causes that those billions have always supported, over to private interests based in Gibraltar, Malta, and the other low-tax states. Over the past decade, for instance, the UK has allowed the market to expand on the basis that the commercial gaming operators pay tax on the revenues. The revenues are getting to be quite large, and the markets more competitive, so now those firms that were willing to pay taxes in the beginning are now moving to places like Gibraltar to avoid having to pay the tax.

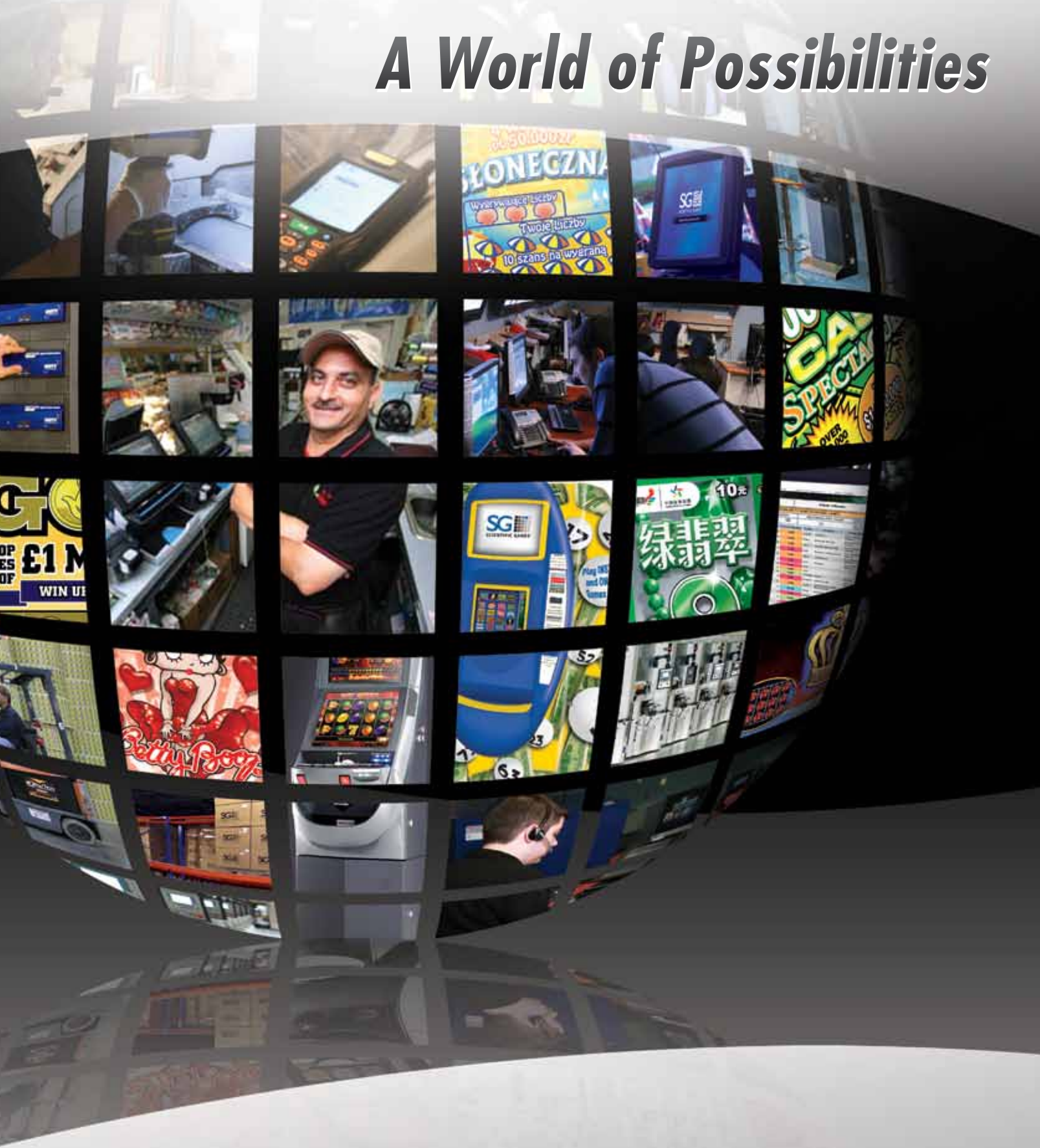
One of Bwin's and others' primary objections is that they are legally licensed to operate in Gibraltar. As Gibraltar is an EU state, they argue, that they meet the regulatory standards of Gibraltar, and therefore should be allowed to operate in all EU member states. The ECJ ruling states clearly that the regulatory standards and the enforcement of those standards are the concern of each individual nation-state and that a license to operate in one state does not entitle the operator to do business in all states.

H. Höltkemeier: Exactly. In our last conversation, we talked about how there were signs that the EU Commission was beginning to recognize this and the now the ECJ is carrying on to recognize the validity of our position on this issue. The European parliament affirmed a few months ago that the member states were almost unanimous in their support of allowing this industry to be controlled at the state level, and not the EU level. It's called the 'subsidiarity' principle. Now the ECJ has ruled again, that as a matter of law the states should have the authority to determine the kinds of games they want to allow and how to regulate those games. It very clearly expressed that it is not just and reasonable for one state to be factually regulated by another state, as there is no European standard on this issue. And this would be the case here: The foreign operators are licensed in smaller states like Malta and Gibraltar, which have nearly no indigenous market to be protected from unrestricted offers. That enables them to concentrate on the business side of gaming and gambling. This particular model can't be allowed to set the level or be the master plan for our sensitive industry. Preservation of public order is the vital concern of all member states. The only way that can be assured is for the member states to have the right to control and regulate gambling at the state jurisdictional level.

We talked about the 'controlled opening' being attempted by France and Italy. Basically, the concept is to open the markets up to multiple licensed operators, but control them with very strict standards of performance and a higher tax rate than the private operators would like to have. A couple months ago the EU Commission sent a letter to France requesting that they provide more information to justify the high taxes and certain conditions like requiring that the servers that process the internet transactions be physically located in France. I was surprised because it seems to me

...continued on page 20

A World of Possibilities

A large, curved collage of various images related to the gaming and entertainment industry. The images include slot machines, arcade games, people playing games, and various gaming-related graphics. The collage is set against a dark background with a light-colored curved surface at the bottom. The title "A World of Possibilities" is written in a large, stylized font at the top right.

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Ernie Passailaigue

Executive Director, Arkansas Scholarship Lottery

Public Gaming: I'm confused. When I talked to you before, you mentioned that one

of your goals was to build on the success strategies that worked so well in South Carolina, to try to do better than you did in SC. That's a tall order because your per capita instant sales in SC were among the very best in the world, in the top six or seven in the world. But it looks to me like you accomplished that goal in the first three weeks of operation! \$10 million per week extrapolates to over half a million a year in sales, with only a small part of the products in play. I suppose you get an initial bump for the excitement and novelty that comes with the launch of the new state lottery. On the other hand, you've just gotten started with only four scratch-offs, and those at the lower price points. How much will your sales increase when you add Powerball®, your Arkansas lotto, and a broader portfolio of instant?

Ernie Passailaigue: I like your enthusiasm, Paul, but let's not get carried away. The people of Arkansas have responded positively to the lottery and so we are very pleased with that. Sustainability is another question and it may be a little premature to base long-term projections on the first three weeks of sales. That being said, yes, we are very excited. The launch has gone very well. We are in fact optimistic about the future and confident that the people of Arkansas will be very proud of their state lottery. They have rallied to our support and the beneficiary of whatever success the lottery has is the Scholarship fund which is our ultimate mission.

I talked a few days ago with Julie Baldrige (director, public affairs and legislative relations). Part of your secret sauce must be to assemble an incredible great team like David Barden, Ernestine Middleton, Kevin McCarthy, Carolyn Cabell, Julie Baldrige, and really the entire staff of the Lottery.

E. Passailaigue: That's true. But let's point out that over 90% of the lottery staff are Arkansans. They're wonderful people. Obviously, being able to recruit the critical members of

the team to Arkansas from South Carolina was important. These people were instrumental in South Carolina obtaining a No. 5 ranking in the world in terms of instant sales per capita, so bringing this foundation to the team would be very advantageous.

When I left South Carolina it was ranked No. 7, so the people that helped grow that business and helped cultivate it, the people who knew what they were doing – specifically David Barden and Ernestine Middleton – became a priority in recruitment to join me in Arkansas. Then South Carolina's assistant product manager, Carolyn Cabell, joined us as product director. And a guy named Kevin McCarthy, who worked for me in South Carolina, is here with us now and has helped immensely. Kevin's a great talent and he helped train not only our staff but our retailer base. I was very fortunate to attract all of them here. Having a strong team that understands what it takes to get the job done is essential to creating and maintaining a strong business. In today's business environment you better have a staff that wants to figure out how to get the job done or you will not meet your financial goals. We brought some knowledge about lottery but they're the ones who made it all work and deserve the credit for making everything come together like it has. And so that's who we want to thank along with everyone in this great state.

It wasn't always smooth sailing, though. It was impressive, the steady hand and cool resolve that you and your whole team showed during the past few months before the launch. When things got difficult and controversial, you just maintained a singularly focused message. "Here's what's happening, here's what we're doing, these are the results we'll create, trust me for now and assess our performance in three months."

E. Passailaigue: That's true. We never doubted what we could do given the opportunity to do it. You have to remember that the voters here voted in a 2 to 1 landslide last November for a scholarship lottery. So the voters were very clear on what they wanted. When we got out into the state and talked to them

and to the retailer base and got close to the people that are really the backbone of Arkansas, they all got it. They just wished us well and wanted to see us do a good job and get down to the business of creating funds to help the students of Arkansas. And so I learned very quickly just to take Rebecca Hargrove's and Tom Shaheen's advice. That was to not be distracted by things you can't control. Instead, just focus on doing the job. So that's what we did.

Julie commented that when discussing who should be doing what, everyone was very clear on one thing. Job description: September 28, Sir! I'm still amazed at the per capita penetration that \$10 million a week with four scratch-offs reflects.

E. Passailaigue: We did have some advantages. One, we'd developed a good game plan in South Carolina. We knew what we wanted to do and how to do it. But still, we had no idea how it would work because this is a completely different market. Here, we are surrounded by lottery states and then Mississippi has riverboat casinos. We had 1,500 brand new retailers, with just four games priced at \$1, \$2, and \$5 per ticket. But again, I have to credit the people and especially David, who not only understands the instant product but also understands the need to keep players involved and the necessity of providing extra value. This was going to be our next challenge in South Carolina. Carolyn also feels strongly about providing extra value to players. We think the future is doing more for players, and this is our goal. But we had a plan and we executed and we had the support of the people of Arkansas.

It is astonishing. The positive things you have going forward would seem to support an increase on the \$10 million a week in sales. Arkansas may well become the highest per capita sales lottery in the world.

E. Passailaigue: I think that's entirely possible. You know, when we came out here people didn't think we'd start before 2010. We put out the instant ticket and online RFP on

...continued on page 24

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Scott Bowen

Commissioner, Michigan Lottery

Public Gaming: Michigan Player City was one of the earliest lottery player websites. How do you

see your internet initiatives evolving?

Scott Bowen: As a matter of fact, we will be re-doing our entire platform for our interactive player affinity site in the next 12 months. And we're making a substantial investment in it. Of course, we will stay well within the parameters of the law, but we do have to be prepared to be where the customer is, and to evolve with our customer.

So you're revamping the MI Lottery's Internet platform to position you to move forward when regulatory constraints are changed.

S. Bowen: Of course we're doing that, but there are Internet initiatives that are contributing to revenues right now. For example, second chance drawings we have allow players have another shot at winning, a replay of sorts. We're also using the Internet for special promotional opportunities to create more fun and deliver more value to the player. Frankly, we're just scratching the surface of ways to use the Internet to add value to our products and engage the interest of the players. We'll fall behind if we don't act quickly to capture and retain that Internet audience, which, with today's technology, is everyone. The "population" of our Player City makes it one of the largest cities in the state of Michigan! Even so, we really want to evolve our player Web site to be a stronger marketing asset.

How do you measure the ROI of your investment in Player City?

S. Bowen: It's difficult to measure in conventional ways that quantify results. A lot of the return is intangible, with little direct connection between the dollar invested and the effect on our revenues. But

we do know that we are connecting by the activity on the Web site. And we know that building on this online relationship with our players is vital to our ongoing success. It's also becoming clear how this medium enables a level of interaction that will help us to know and understand our customers much better. Our Web site enables us to test new product and promotion ideas with our most active customers, target specific player profiles to test innovative high-risk ideas, and basically create a feedback cycle that informs and enhances our overall marketing efforts. So while we can't necessarily make a direct connection between investment and return, we can quite clearly see the return in the ways that it helps us understand our players, our markets, and how to optimize performance in off-line areas of the business. And honestly, to spend only a dollar or two annually to talk to your core players and keep them engaged is a great investment.

You've heard the maxim 'if you can't measure it, it didn't happen.' We know the importance of measuring things, but I've wondered if people might embrace it too literally.

S. Bowen: I think the problem is that you can always measure it, but it's just that sometimes you don't have the right yardstick. Just because we may not be able to measure it in ways that satisfy auditing and accounting folks doesn't mean we shouldn't measure it. There's always measurable dynamics for any kind of business or economic activity. I would have to say that measuring everything is absolutely imperative. For instance, if we use our Web site to test an idea that informs our marketing strategies in the off-line market, we still need to use whatever tools we can to quantify the affect of that Internet-based market testing. Our accountants and auditors do understand that some things produce results in indirect ways. They would

still exhort us to do what we can to assess the impact of every single dollar we spend, even if the tools we use are not perfect.

You achieved a sales increase in the most recent fiscal year.

S. Bowen: We just closed our fiscal year books and achieved a year-over-year sales increase of approximately 2 percent.

That is quite impressive, given that Michigan is probably the hardest hit state in the country economically. In light of Michigan having more challenges with respect to high unemployment and an ailing auto industry, were there any initiatives or special drivers that helped you accomplish that?

S. Bowen: We focused even harder on best practice surveys and implemented a lot of best practices in the area of instant ticket promotion, sales and marketing. Connie Lavery O'Conner of GTECH and Donna Preziotti of Pollard helped us a great deal in Michigan to implement the best practices team. And then we got our vendors together with our marketing sales team and we put on a full court press in the best practice area for instant products. So we're up about 2 percent in instant games. And that is organic growth, same-store sales growth. We also have IT-VMs, and new equipment with GTECH. We went through a conversion of online systems this year in early spring. We have a new sales program with 10 additional marketing salespeople on the ground. We implemented a stronger incentive pay plan for salespeople. We've adjusted our Instant ticket rollout schedule. Basically, we have implemented a whole array of best practice initiatives that have led to greater sales numbers, especially in the area of instant tickets. The end result is we've maintained our sales in a very challenging economy.

...continued on page 26

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Patti Hart President and Chief Executive Officer, International Game Technology (IGT)

The market for video lottery games is changing quickly. Expansion into electronic gaming machines is providing much needed revenue to state governments and the good causes funded by state lotteries. Governments all around the world now recognize the tremendous revenue potential that this sector represents. Whoever is not already implementing a video lottery program is likely to be exploring the benefits of doing so. IGT has been providing innovative solutions to this market since its inception. So we turned to Patti Hart to help us understand how the video lottery markets differ from traditional casino-style markets, what are some of the commonalities, and how is IGT helping to position lottery operators for optimal success in this rapidly changing competitive landscape.

Public Gaming: *How is IGT helping lotteries in the video lottery market?*

Patti Hart: Through IGT's innovation and considerable investment in research and development initiatives, where we have committed \$1 billion over a five-year period, we have developed numerous technology firsts which help the public gaming sector "level the playing field" between video lottery jurisdictions and traditional casino markets.

Today, there is very little difference between the ways our games play and look in video lottery jurisdictions from those in the commercial casinos. This is true in the CDS (Central Determine System) markets and the New York Lottery's embrace of this technology is a great example. This has been made possible through our development efforts and the cooperative efforts of the lotteries, other technology providers, and the facility operators. In addition, IGT has an in-house game design and development studio, Four Kings Studio, which has dedicated resources for creating products specifically for the video lottery markets and their unique regulatory and legal nuances.

In these tough economic times, it is important for our lottery customers to know we will not waver on our commitment to service or our commitment to providing the very best products. With the reality of today's economy, we've had to make some difficult choices, as have our government customers, but we continue to develop outstanding games that excite players and innovative products and systems that pro-

vide solutions. Across the board – from Mega-Jackpots®, to spinning reel and video slots, to video poker and electronic table games – we make the games that players want to play, all designed to improve revenues.

We recognize it is more important than ever to maximize revenue and provide value to our government customers so that they may maximize essential funding to education and other vital programs. We understand that great games, customer service and uninterrupted game operation are critical to our customers.

What has been IGT's history in this market?

P. Hart: IGT has been involved in video lottery markets since 1989, when South Dakota was the first state to implement this type of gaming program under the auspices of the Lottery and to utilize Central System technology to monitor the video lottery terminals. Since then, a video lottery program has been defined by these standards and IGT has worked with every video lottery market that has been created. IGT is extremely proud to be the only gaming company that still provides machines in every video lottery market in the United States. This history and unmatched experience in the video lottery market helps IGT provide a wealth of knowledge and expertise to the regulators and operators.

What is the future of expansion in this market?

P. Hart: We have recently seen an expansion of video lottery markets in the United States primarily due to the current state budget shortfalls

and favorable political climates. Many states have elected to expand gaming through the existing lottery structure, as in the states of Maryland and Kansas. Future expansion through the lotteries could also occur in Ohio, Kentucky, and New Hampshire.

Can you provide some specific examples of how IGT is "leveling the playing field" for these video lottery customers?

P. Hart: It is IGT's priority to make more, even better games for the gaming industry – including the video lottery markets. By offering the latest, specifically tailored products, we are able to help our lottery customers compete with traditional gaming markets and border state competition.

IGT's games are more interactive and entertaining than ever before. And only IGT can offer some of the most recognizable themes that players love to play such as Wheel of Fortune®, Star Wars™ and Indiana Jones™.

An example of one product that is new to the video lottery markets this year are IGT's Multi-PLAY games. It's the only video slot product in the industry to give players the option of playing their favorite game up to four times with individual outcomes – all on the same machine. MultiPLAY features a host of proven player-favorite themes including Wolf Run® and Lil' Lady®. Each game has four equal-sized game screens and bonuses that play one after the other and can be initiated on up to all four games at one time.

This past year, IGT introduced 3-D games

...continued on page 28



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Steve Saferin

Chief Creative Officer, Scientific Games Corporation

Public Gaming: *The Arkansas Lottery was the first jurisdiction to implement the comprehensive 'Properties Plus'™ program, correct? What is 'Properties Plus'?*

Steve Saferin: Properties Plus is a robust, multi-faceted initiative that is designed to create, for the first time, a one-to-one marketing relationship between the lottery and their players. When I say multi-faceted, I mean that Properties Plus has several different elements that lotteries can and are implementing independently. Those elements include: A Players Club; Play It Again; Points For Prizes; and access to Licensed Games from MDI's portfolio.

Arkansas has become the first state to commit to implementing the entire program and it is off to a fantastic start. The way the different parts work together and mutually reinforce each other is creating a powerful result. Let me try to explain each piece:

Players Club: In cooperation with our lottery partners, including Arkansas, we are developing and in some cases, helping administer, a variety of robust lottery player clubs where players can go for entertainment, information and social engagement. A great example of this type of Players Club is Michigan's Player City which we have been working with the Michigan Lottery on for over five years and is closing in on 300,000 registered users.

Play-It Again: This is a program that was originally designed as a litter prevention program but has evolved into a program that helps lotteries contend with the issue of the last top prize being sold before the game is closed. Simply, the lottery allocates one top prize from the game and withholds it for a drawing to occur when the lottery determines to close the game. Players enter the drawing by registering

non-winning tickets, thereby getting tickets off the street and also allowing lotteries to continue to sell the game after the last instant win prize is won since the lottery has reserved a top prize for the final drawing. The program first rolled out nearly two years ago in Tennessee and has been successful in achieving both benefits.

Points-For-Prizes: This functionality gets into one of the distinguishing features of Properties Plus. Points-For-Prizes gives lottery players the opportunity to set up an internet based loyalty account where they can register all non-winning tickets (instant only for now). Each non-winning ticket has a point value that is revealed when the ticket is registered. The players build point totals and can then redeem them for a variety of merchandise and experiential prizes.

Licensed Properties: All US lotteries and an increasing number of lotteries worldwide use various properties from MDI's extensive portfolio. Properties Plus give lotteries the opportunity to have unlimited access to our entire portfolio for no additional cost, with some exceptions for top merchandise and experiential prizes. It also uses these properties as a valuable tool in building the entire Players Club that is the platform for Properties Plus.

For nearly a decade now MDI has been a leader in helping lotteries identify ways to utilize the internet as a marketing tool within the various legal boundaries that exist both nationally and on a state-by-state basis. Properties Plus takes these initiatives to the proverbial next level.

We all know the benefits of having the players register online. It creates a direct connection with your customer much the way frequent flyer clubs do, only more so. In the gaming industry, this is an especially powerful concept. Our business is so rich with potential to build a more dynamic re-

lationship than exists with customers who just go in to a store and buy a lottery ticket like it was any other commodity product. And we all know that the next generation of gamers will demand that we build those relationship bridges online. It's really the necessary first step towards delivering a player experience that excites and delights our customer.

Our goal with 'Properties Plus' is to redefine the lotteries' relationship with their customer around a set of tools that include the internet (to the extent permitted by law), bring them together and create a dynamic and engaged dialogue. The Players Club with the system of redeemable reward points redefines this internet-based initiative because we now have something that truly excites and engages the player.

Rewarding your core players for playing more would seem a critical part of any growth strategy, or at least to preventing the erosion of the player base.

S. Saferin: I think the primary benefit of this program is to create player loyalty with a Points-and-Rewards program that has not existed until now. It's worked great for other industries and we expect it to work even better for the lottery industry because of the special nature of the product. Combining games that are fun and entertaining and social with the hopes and dreams of imagining how the lottery changes lives is truly a uniquely fertile foundation for building a marketing relationship.

Creating that internet-based relationship with the players would seem to be a key part of any strategy to expand the player base.

S. Saferin: Exactly. But, you know Paul, it's not just about the next generation of player which you have focused on so much. Now, everyone is on the internet, including all age groups and core players. These

...continued on page 29

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Preserving the Integrity of Sports in Light of the Globalization of Sports Betting

JUDr. Ales Husák

Chairman of the Board of Directors and General Director of SAZKA, a.s.

The globalization of sports betting has been accelerating in recent months. Betting exchanges like Betfair are delivering internet simulcast broadcasting of events from all over the world to all over the world. These same sites offer all varieties of betting options. You can play poker, you can bet on a team, horse, dog, tennis player, chess or golf match. You can place bets for a team/player to win or you can bet against them to lose. And if you don't like the odds, you can propose different odds and see if anyone is willing to accept your wager. And it's not just about sports. They're already taking bets on who is most likely to win the 2012 US presidential election. (Obama at 2:1, Romney at 10:1, McCain 140:1, or you can choose from over thirty others.) Betfair does block residents of the US from registering and participating. France just outlawed at least a portion of Betfair's offerings but I am not sure which portions or how it's enforced.

The reality is that Sports Betting is a global phenomenon and the internet is creating a platform that is driving exponential growth. The action of simply prohibiting it and hoping that it will go away is probably not the best

way to protect either the public or the integrity of the sports themselves. Too, there is the foregone tax revenue of this huge underground economy.

I attended a seminar that was quite interesting for its heated disagreements over how to regulate sports betting. The issue in Europe and the world outside of the U.S. is not so much about whether to allow sports betting, it's how to regulate and control it. The fact that millions of people are betting on sports events and competitions whether it is legalized or not has led European countries to look for ways to make sure that the betting is honest, prevent cheating, and ensure that competitive sports do not become corrupted by attempts to manipulate the outcomes of the competitions.

SAZKA, a.s. is the operator of the lottery and many other games, including sports betting, in the Czech Republic. Since its distribution network includes all media including internet and mobile, SAZKA is very tuned in to the importance of protecting the public, assuring the honesty of sports betting for the players, and preserving the integrity of the sports themselves. JUDr. Ales Husák has been Chairman of the board and Chief Executive Officer since 1995, and is the chair of the Public Order Committee for the European Lotteries Association which promotes a stable and effective regu-

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latory environment for betting and wagering throughout Europe. As a sidebar, in a study done by the European Brand Institute which examined more than 3,000 business brands in 24 countries and across 16 different economic sectors, SAZKA was determined to be the most valuable brand in the Czech Republic.

As the discussion below reveals, there is no easy solution to ensuring the integrity of sports betting. But there is much that can be done and needs to be done to ensure that sports betting does not lead to corruption of the games themselves.

Public Gaming: *Is it possible to have an effective international system (or at least pan-Europe system) to assure the integrity of sports and sports betting? What mechanisms or systems do you recommend to deal with the problem of corruption in sports and sports betting?*

JUDr. Ales Husák: For such a solution to be efficient it would have to be really global and all entities would have to participate in it – governments, betting companies, their respective international associations, international sports federations, national federations, clubs, as well as professional sportspeople. Clear rules would have to be laid down for each of those entities. At the governmental level, this means a coordinated policy of its investigators and police bodies. Within the industry, this means information interchange and withdrawals of suspicious events from offers. Federations and associations would have to exactly determine whether and under what conditions the sportspeople, coaches or officials may place bets, and define the rules for ownership interests in clubs, if any, held by betting companies and their owners. In addition, I think that even the coordination at the European level is not enough in this case, as plenty of betting scandals lead to outside of the European Union, to Asia or to international crime, which operates globally.

Insofar as what you describe, a truly global and concerted effort by all different organizations, is currently not being implemented and may be impractical, what would you recommend as a practical and realistic objective for minimizing corruption in sports betting, or at least reducing the likelihood of cheating? Is there something that would be easy to implement, or at least realistically possible, that would help to control integrity and enforce honesty in sports betting? Not something that would be perfect or guarantee integrity, but something, anything, that would just improve the ability to enforce integrity in sports betting.

A. Husák: I do not think it is impossible to find a solution. Global projects do exist. For example, many international and national associations collaborate with governments to battle against doping. The success is not, and cannot be, absolute, which does not mean that we should or must give up on finding a solution to the problem. Several steps have been already taken in the area of sports betting, for example on the level of UEFA and European Lotteries. The activities in the process at the moment are monitoring of the odds development, exchange of information and suspicious matches warning.

Do you think that the recent ECJ-Portugal-Bwin ruling is decisive and conclusive in stating that individual EU nations have the right to regulate internet gaming within their own borders?

A. Husák: Yes, I believe that with this judgment by the European Court of Justice, national governments including that of the Czech Republic have received a clear mandate that the legislation governing the betting and lottery industry lies within their competence and that they can intervene against illegal cross-border operators. Now it will depend on the governments how they will use this power. ♦



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that the EU Commission would be pleased and impressed by France's efforts to open its markets and wouldn't 'raise the bar' like this.

H. Höltkemeier: The problem is that, from our point of view, there is really no in-between middle ground. Either the member state has the authority to control and regulate gambling within its borders or the EU does with an overall accepted regulative framework. As mentioned before, the Portugal-Bwin decision affirms that there is no such framework and it is the right of the individual member state to control and regulate gambling within its own borders.

You might say that this controlled opening is closer to the principles that the EU Commission is attempting to apply. But what difference does a matter of degree make if you do not have a way of reconciling disputes? The private operators will always have something that they will want to dispute. The bottom line is...who decides, the EU or the member state? The Commission can not decide what is best for each individual jurisdiction. And the Commission is not able to enforce the rules and regulations. So how can the Commission decide the rules and then not enforce them? That does not make sense. The rules, regulations, terms, and conditions to operate gambling must be decided by the same governing authority that is responsible for enforcing those rules.

And let me point out one other thing. In the discussions mentioned above, the private operators show their real face as they accept the more liberal aspects in the new models but refuse the strong regulations and the even moderate tax rates. They do not willingly accept an in-between on their own; they press the states with the threat of offering the services from outside Europe.

Are you saying that while the controlled opening might appear to move in the direction of liberalization, that from an EU Commission point of view the controlled opening is really no better than the more strict German approach?

H. Höltkemeier: The EU Commission would say that the controlled opening is much closer to what they want than our strict German approach. I am just saying that the problem of disputes between the private operators and the member states is not solved by getting "closer." The disputes persist. I would contend that they

will persist until the private operators prevail, get the lowest regulation, and pay less than 2% tax. Is a system of multiple operators competing for the business and paying lower taxes "closer" to the principles that the EU Commission has been pushing for? Of course it is. But look even beyond the question of taxes. As you know, there are ways to design games and advertising that will appeal so much to the players that it creates too much excitement and increases problem gambling. Who decides what is acceptable and what is not acceptable when it comes to game design and advertising? You can be sure that the private operators will be testing the limits. Who will make those decisions about what is acceptable? Is the EU going to arbitrate every complaint about overly promotional advertising or game designs that speed up play or otherwise create an unhealthy degree of excitement? My point is that everyone should recognize that the EU can not be the one to make all those decisions. In fact, I would say that part of the strategy of the private operators is for the EU Commission to be put into that position because they know full well that the EU can't address everything they can come up with. Disputes that are unresolved effectively default to the private operators' benefit. But the member state governments can deal with these issues quite effectively and that is not actually what the private operators want. That's why, as a purely practical matter, it makes no sense to put the EU Commission in charge of managing this industry.

Am I wrong in thinking that one of the reasons German "Länder" (i.e. German states) do not want to expand into internet gaming is that it might open the door for everyone, including illegal internet gaming operators, to enter the market?

H. Höltkemeier: That's originally the idea and the thinking of the Länders. It makes the entire issue a very simple and straightforward picture. As long as there is no technical (and jurisdictional) solution to regulate the offers and to prevent vulnerable players from the risk of these games, Internet gaming is illegal, forbidden, period. We all know that it is the communication channel and the medium of the future and – to be honest, we as the lottery companies are looking for solutions to re-open the Internet. But this has to be in line with the

monopolistic framework, as we described before. Of course, the ECJ – Portuguese decision is a very good one for us and perhaps opens the door to new possibilities.

The Bavarian Court ruling against Bwin. A different Bwin legal case in Germany. If I understand it correctly, Bwin was technically licensed to operate in what used to be called the German Democratic Republic (GDR), what was also referred to as East Germany? And as a result of re-unification, they are claiming the right to operate throughout all of Germany. How will this issue be resolved?

H. Höltkemeier: From my perspective, it is mostly resolved. Bwin and others used the Constitution and laws supporting the re-unification process to build a lucrative business in all parts of Germany. They bought licenses from betting-shops in one German state and then argue that these are also valid in other German states and for internet business. The courts are now making firm decisions that are enforceable. The higher Bavarian court decisions in Munich as well as in Northrhine-Westfalia are very important steps towards enforcing the laws against the illegal operation of betting shops like were operated by Bwin. Bwin was hoping that the ECJ would rule in their favor in Portugal. That did not happen. So their recourse with the European Union Commission is not likely to be helpful to them either. The higher court decision, combined with the ECJ-Portugal ruling, is very helpful to Germany in its efforts to preserve stability and order in the gaming market.

Won't Bwin now try to petition the highest German Constitutional Court, the National court, to overturn the Länder Court, the Bavarian Court?

H. Höltkemeier: I do not know what they will try to do, but I am confident they will not succeed. There are several decisions that indicate a clear ruling in the direction the provinces are already going. I am not naïve to think that companies like Bwin will just leave Germany. They have to fight as this is their mandate from their shareholders, but I believe that gaming is a part of public welfare and that the broad range of stakeholders in this are more relevant than the shareholders of a private company. ♦

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Bridging the G2S® Gap: Extending the Functionality of G2S® to the Distributed Gaming Market

By Don Doucet, SPIELO Vice-President, Business Strategy, Products and Marketing

Many gaming manufacturers refer to “open protocols” to suggest an industry shift that will allow gaming operators to gain more benefits from their products. They paint a picture of a future where products from all manufacturers will work together seamlessly, where operators’ game libraries will grow exponentially, and where operators will control gaming content on a whim.

The Game to System or G2S protocol is an XML-based open communication protocol overseen by the Gaming Standards Association (GSA). G2S provides the protocol messages needed for gaming terminals to communicate with gaming systems, which include meter collection, security events, and cashout validations. G2S also includes messages to support networked gaming features like remote configuration, player services, and software downloads. The protocol was designed to be extensible so it can be easily upgraded and updated to meet evolving gaming and operational requirements.

The G2S protocol was initially driven by casino manufacturers, suppliers, and operators. As a result, the standard didn’t take into account the fundamental differences between commercial venues and distributed government-sponsored gaming markets.

Only a few manufacturers fully understand the complex distinction between commercial casino and government-sponsored, distributed gaming. Unlike commercial casino operations that usually function under one roof, Electronic Gaming Machines (EGMs) in distributed gaming markets are physically scattered throughout a regulated jurisdiction, often with just a few machines per location among thousands of sites.

Most manufacturers haven’t been compelled to invest the effort into making the changes needed to extend the functionality of the G2S protocol for the distributed space. That’s why the manufacturers who understand the specific needs of the distributed gaming market are best suited to provide those solutions.

In June 2009, the GSA approved the first-ever manufacturer-submitted extensions designed specifically for the distributed gaming market. GTECH® developed an extension of EGM operating hours to ensure that distributed market operators can meet jurisdictional legislation governing hours of operation. The extension ensures that EGMs store operating hours locally so they can self-disable during non-operational hours. Over the next year, GTECH will be submitting even more extensions in order to make the G2S protocol fully supportive of distributed market operations’ needs.

Operators also play a key role in supporting those efforts. By becoming an active member of GSA and its technical committees, your support can help advance the cause for distributed operators and ensure that distributed-market extensions are accepted as part of the G2S open standard.

Why Distributed is Different

Distributed gaming operators are well aware of the new capabilities that G2S offers. Out of necessity, they’ve been early adopters of downloadable game technologies. Remote and centralized operation is a fact of life for successful distributed gaming networks. Distributed markets are more than ready to embrace G2S technology because it’s simply another step using an already familiar approach to managing their games.

In a casino, local servers enable data collection, and in many cases a local slot management system assists in the management of the casino floor. All

this typically happens under one roof.

But in distributed gaming environments, EGMs scattered throughout a geographic area are controlled through a remotely-located central system. The system often communicates through the most cost-efficient communication option available. That’s often a basic dial-up connection using a local site controller based in distributed retailer locations.

Under these constraints, an operator with a low-bandwidth network can use the G2S protocol by “tuning” the protocol to convey only the information the operator needs, rather than the information he desires.

Yet the demand for more information is outpacing the ability to deliver it affordably through existing communication solutions. Many distributed operators are just as interested in knowing how their games are performing during normal and peak operating hours as their counterparts in casinos.

Distributed operators’ hunger for information comes from a desire to collect game play data at a more granular level. In the past, a daily summary of cash won and cash played per terminal might have been enough. Today, though, operators are asking for this information at the game level and at small intervals throughout the day.

In order to report on the data, you need to collect it at a granular level. In order to collect it, you need a communications network to support it.

Therefore, in order for operators to gather data in real-time, they need a more robust communications network.

But investing in a high-speed network upgrade may be too expensive for most distributed operators, and may not yet be available in some locations. Unlike a casino, where a high-speed network can easily be deployed and maintained, distributed operators need to consider the upgrade costs to support as many as thousands of sites across many different communication networks. Operators also need to assess whether or not their legacy terminals support G2S requirements. Those requirements include Ethernet communications support, memory and processor support for a more verbose, XML-based protocol, and a gaming framework to support the new protocol. Operators may need to upgrade or, at worst, completely replace legacy terminals in order to use G2S, adding a significant expense to their communications costs.

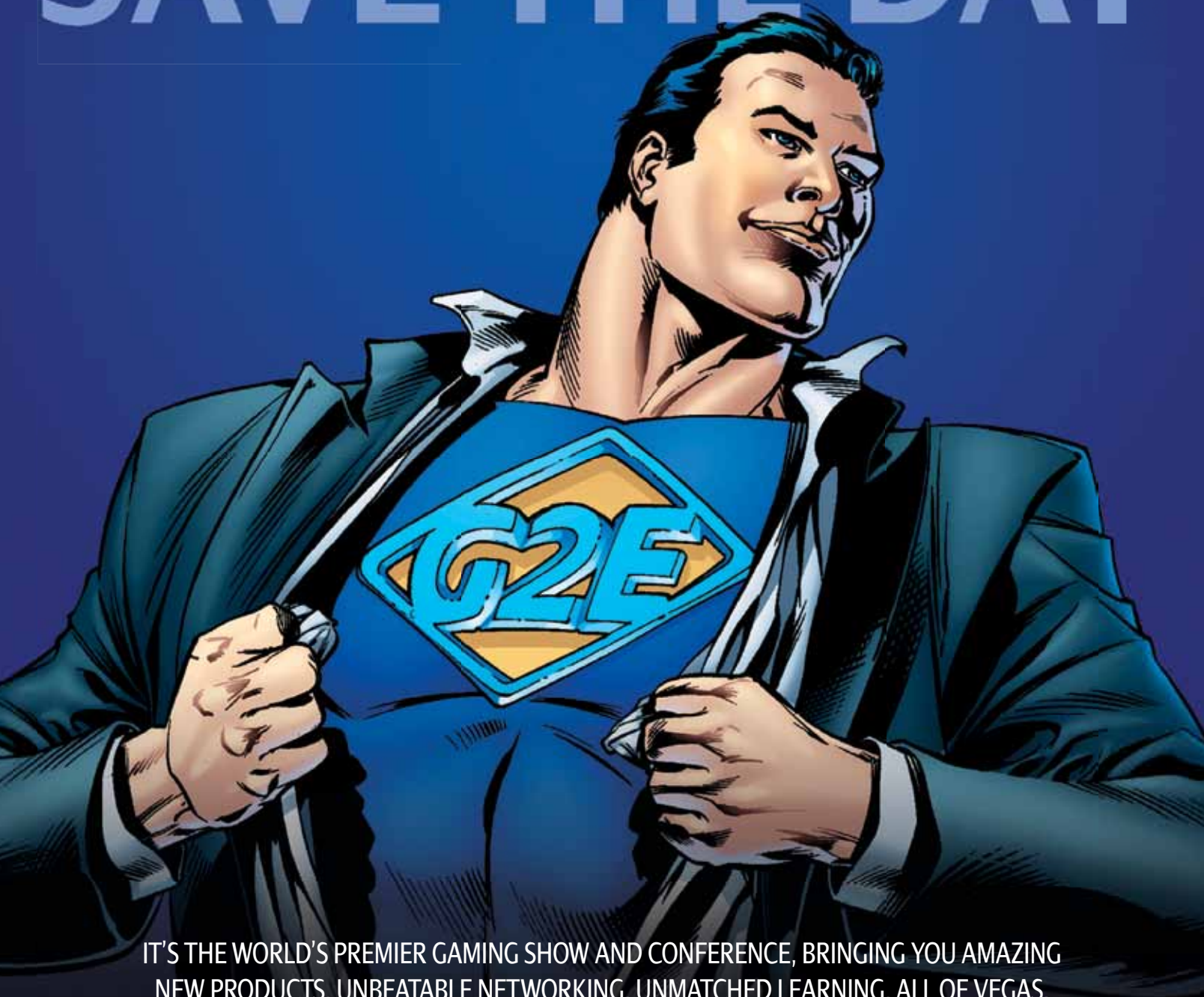
While distributed operators have to consider how they can support existing G2S requirements, their operations could also require specific functions not available with the current G2S protocol. Examples of these functions include setting Video Lottery Terminal (VLT) operating hours, and allowing remote VLT master resets without the need for an on-site technician.

Making G2S work in distributed markets

There are strategies you can put in place right now to prepare your distributed operation for open standards. Most importantly, your central system should be field tested and proven in the distributed gaming market. But there are other steps you can take to make sure your move to open standards allows you to realize its full advantages.

For more information about how to take full advantage of open standards in the distributed gaming market, contact SPIELO for your copy of “Bridging the Gap: the Viability of the G2S Protocol in the Distributed Gaming Market” by sending an e-mail to lottery.gaming@gtech.com. Please include “G2S White Paper” in the subject header. ♦

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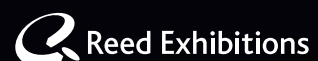
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the same date, June 19th. Technically, I didn't even start until June 29th. Contracts with INTRALOT and Scientific Games were signed on August 15th and 18th, so you're talking about just a little over a month after those contracts were signed that they actually had a lottery up and running, and not only up and running, but in terms of security and integrity, as good as it gets. And so you have to credit our partners Intralot and Scientific Games. They wanted to be a part of this record start-up, they said they could do it, and they did it. Yes, I do think we are poised to increase our sales, increase the percentage of population that is engaged with the lottery, and per capita penetration should be pretty high.

Yeah, well, I saw photos of the facilities taken just two weeks before the launch date. Looked scary.

E. Passailaigue: Of course, the final run-up to the launch is scary. But frankly, it's always nerve-racking no matter how much time you give yourself.

I'm wondering why you needed to launch Sept. 28 instead of Oct. 31. It would seem like a prudent risk/return analysis would have yielded the conclusion that it would simply be better to give yourself a less ambitious launch timetable. I know the basic reason is lost sales, but still...

E. Passailaigue: That is the reason. Those are funds for scholarships you lose by delaying, and you can't get them back. But there's actually another reason too. The energy and excitement that is created with an impossible mission produces amazing results. Knowing in your gut that every team member has to deliver 110% creates a sense of mission and purpose that's very powerful. I think if you talk to our lottery team you would find an unusual level of excitement and that comes from this sense of shared mission and purpose, of being in the foxhole together and overcoming formidable obstacles to accomplish our goals.

Our culture is that work is fun and people enjoy coming to work. It's not a job to them; it's a career, a profession. Our people love this business. We have a little over 70 people on our payroll statewide. They're excited and look forward to coming to work.

Those of us on the outside could feel it too. And I suspect that the people of Arkansas, the players and non-players alike, also would feed off of that energy and excitement. Your start-up kind of captured the attention of people all around the

state, all around the country for that matter. You got everyone thinking "I hope he makes it, I hope they do it, I hope nothing goes wrong."

E. Passailaigue: We were very fortunate also to get some help from people in the industry. I mentioned Rebecca and Tom, but really the entire community of lottery directors were so supportive. Colleagues in neighboring states like Louisiana, Oklahoma, Missouri, and some of my old colleagues in South Carolina, they all helped with various aspects of our business, getting it up and running. Of course, David Gale and the NASPL team were always available and a big help. A great thing about this industry is that you have a lot of people who really wish you well. They're all professionals and we all want to see everyone succeed because it reflects well on the lottery industry as a whole.

I'm wondering if all that media focus, which wasn't always positive, turned out to contribute to the drama and excitement that built up around the launch of the lottery. In spite of negativity, didn't all that attention result in a positive public relations boost for you. Or is that overstating it?

E. Passailaigue: Everything has fallen into place nicely. And no, you're not overstating it. We didn't necessarily realize it at the time, a few months ago, but the media attention turned out to be all good. It was an incredible amount of free publicity. It turned our launch into the highly anticipated media event that we wanted it to be. By the time they were through with us, everybody knew that the lottery was starting in September in Arkansas! We saved a lot of money and received a ton of free publicity. The fact that the newspaper may have thought it was negative or hurting us does not really matter. The fact is also that the people of Arkansas, our real constituency, didn't feel that way when they got to know us better and the publicity helped them to get to know us better. So, yes, it did contribute to our PR agenda and so I guess I need to thank them for that! But seriously, we're on good terms with everyone now and they cover our stories in a very professional way. We appreciate that and want to nurture that positive relationship with the media.

You're doing some very interesting and even pioneering things with the Internet. The Play-it-Again games, the points-for-prizes rewards programs. You not only set a super ambitious launch schedule for the traditional games, you piled on the added task of implementing projects that are

somewhat new to the industry. And amazingly, Julie mentioned that over 50,000 people have registered already.

E. Passailaigue: It's unbelievable. Well, we knew from our South Carolina experience that we had to have a plan to give our players added value, an incentive program to keep our players interested in our instant tickets. We also wanted to incorporate second chance drawings into all of our instant ticket games. But we never achieved nearly this level of success in South Carolina because of some policy limitations that restricted our ability to advertise effectively on the web. Scientific Games gave us the opportunity to do a program called Properties Plus. I'm not sure, but I think we may be the first lottery to incorporate the entire program into our instant ticket marketing plan.

In fact, David and I were discussing this before we came here. We realized that our instant ticket model would need to be energized and more innovative for us to maintain our sales numbers in South Carolina. But we are doing the entire program here and it is working great. The bottom line is that your business model has to evolve or you get left behind. One part, that other lotteries have been doing too, is to keep one of the top prizes out on the instant ticket until the game ends and then having a second chance draw. That enables us to promote the top prize throughout the entire life of the game. That is a part of the Properties Plus program with Scientific Games. But the Properties Plus program is a lot more comprehensive and includes a 'Play-It-Again' feature. This feature enables the player to take their non-winning ticket and register online to play again. Players can accumulate points to get merchandise, like promotional items and are entered into a second chance drawing for the top prize on each game even if they do not join The Club. Scientific Games handles this entire procedure so we don't have any of that overhead in dealing with the mail-in tickets, the drawings, and the security over the drawings. And it has the ancillary benefit in the green economy now of keeping litter off the street, because players take their tickets home and register their tickets and dispose of them properly. So it's a win-win-win situation. The players get added value, society doesn't have to deal with the litter problem, and the lottery gets all this done with minimal burden on our staff and resources. That last is important,

since we're only 70 people statewide.

In just three weeks, we have over 61,000 registered. And we really haven't given it the publicity we want to give it because we're just still in a startup mode and not able to give it much attention quite yet.

Julie Baldridge was also describing how it is reaching out to establish a more direct and personal relationship with your customer. Creating that more interactive and dynamic personal relationship with the player would seem to be key to success.

E. Passailaigue: Yes. That ongoing dialogue with our customers will be a vital component to all our future marketing efforts. We'll know who our customers are and can now integrate their input into every aspect of our business operations. For instance, Arkansas is a beautiful state, lots of natural beauty. We will have an instant ticket called Scenic Arkansas. Our plan is to invite our players to give us suggestions by way of this players club as to what the different types of tickets they'd like to see, or the types of scenes they'd like to see on the tickets. Whether it be the mountains, the Ozark Mountains, the capitol, Little Rock, the delta area...there's so much to choose from and we think it will be a great way to get everyone involved. The players club will be a tool to get our players involved and perhaps even get non-players to take an interest in the lottery.

Young gamers expect to be a part of the business of creating their own experience. They don't want to adapt to what you create, they want to be directly involved in the process themselves.

E. Passailaigue: Exactly. We all know that our core lottery market is aging and we need to create a more interactive experience to interest the younger players. It's been a fun opportunity to start fresh and be in a position to implement the more forward-looking concepts like Properties Plus, players clubs, interactive internet initiatives, and reward points programs. We had the latitude to be innovative and we are taking advantage of it. We think these programs will be very helpful in cultivating some of the younger folks who traditionally don't play lottery. Our goal is not to just sell a lot of tickets. Our goal is not to have a few people buy and spend a lot of money. Our goal is to have a lot of people spend a little bit of money. To do that, you need to relate to your audience on their terms. That means provide gaming experiences that are fun and entertaining over the Internet.

I would think that a brand new start-up would focus all its resources on implementing the more traditional and basic things in the beginning, then move into the more forward-looking games in stage two. Why wouldn't you stagger the roll-out so that the more innovative initiatives, like Play-It-Again and the reward points and registration programs, would launch a month or two after you got your basic games up and running. Or do you think that including the internet components in the initial launch enabled it to ride that wave of publicity and energy that went with the launch and would not have been there had you waited a couple months?

E. Passailaigue: I think that's true. In fact, if you look at our website, we don't even have the information about the prizes you can win in the Players Club. All that people are doing now is registering based on the promise that the points they accumulate will be redeemable for these prizes. So that's the amazing thing. We just haven't had the time to flesh out the program and market it yet. But we just thought it was important to move forward with it in conjunction with the initial launch. Scientific Games agreed and so it was done.

Like your other question about why do a fast launch, you're asking why implement an innovative concept in the beginning of the start-up. The thing is, Paul, our business is about selling the idea of taking a chance, being willing to take a risk by buying a ticket even though you probably won't win but maybe you just might. We need to have some of that spirit of adventure in the way we do business. Of course, the lottery is very big business, so it's not as if we make decisions in a casual or uncalculated manner. But we embrace the opportunity to take calculated risks. Even though we operate within the structure of state government, we need to operate more like a well-run commercial corporation. We have to embrace the opportunity to take smart risks if we want to deliver the optimal results to our stakeholders. The greatest risk of all is not taking one. That'll guarantee that you'll miss all the best opportunities to grow the business.

Being the first lottery to implement this Property Plus concept from Scientific Games in its totality may have seemed like a risk at first. But once we analyzed it, realized we would have the website up before the lottery launched, and recognized the potential it had to deliver results that we wanted, we did not consider it to be much of a risk. Of course, it is paying off in a much bigger and

faster way than anyone could reasonably have expected.

You've created a corporate culture that has a spirit of adventure, of optimism, a willingness to step up and act with confidence. I'm wondering if that culture is becoming part of your brand, your image, and that your customers and the people of Arkansas feel it just like your team of 70 lottery associates do.

E. Passailaigue: I'd like to think so. It's been an amazing odyssey we've been on since Day One out here, and it all starts off with a mindset that we've got a mission, we're going to achieve the end result, we're all part of a world class team, we're creating an environment where work is fun and with a small number of people doing a huge job and loving it. And that attitude rubs off on each other. Of course it would please me if the people of Arkansas see that in us.

What about the lotto side of the business?

E. Passailaigue: We'll start with Powerball® on Halloween. Our first in-state game will be Cash 3 in December and Cash 4 shortly after. We'll utilize a random number generator and do a webcast of our game with animated drawing as opposed to paying for a more elaborate infrastructure to televise or otherwise broadcast the drawings. It is exciting that Tom Shaheen and Rebecca Hargrove and Margaret DeFrancisco and the other lottery directors completed the agreement to cross-sell Powerball® and Mega Millions. We hope to be selling Mega Millions in Arkansas by the end of January. And we're discussing a national lottery game with a higher price point ticket. Another thing we would like to do at some point is a lotto game with some of the other southern states.

Based on your experience, what would you advise the person who is launching a new lottery or a major new initiative?

E. Passailaigue: For one thing, we would certainly be willing to share our experiences with them and help in whatever ways we can. But one of the things is what we've just been talking about. That is to be willing to take calculated risks. Consumer behavior, player behavior, technology, and so much about our industry is changing. It is imperative that we change too and that means taking risks on doing things that have not been done before. You put together a great team, you make work be fun and create a genuine sense of mission and purpose, and then you implement your plan with the confident expectation that you will succeed. ♦

Best practices can apply to all areas of the business, can't it?

S. Bowen: Yes. Our vendor partners, GTECH and Pollard, helped us engage in a 'best practices' team that implemented this plan. It included everything that we could come up with. Whatever could be found in other jurisdictions that would improve results if we were to do it in Michigan, we set about implementing here. It was really sort of a war room mentality, in which we hashed out all the ideas about how we could improve and then did it.

It sounds like you kind of took advantage of that period of instability with the conversion to go ahead and look at lots of ways that you could reassess all the different things you were doing?

S. Bowen: I wouldn't quite put it that way, Paul. It was more like we pushed ahead with ambitious plans to update and improve operations in spite of being in a conversion process. Doing the conversion at the same time didn't necessarily help the application of a 'best practices' agenda. We just didn't feel we had the time to do things sequentially. We needed to do them in parallel tracks and just do the best we could. And it's all worked out well.

I am pleased to hear about the positive impact that incentive pay had on your productivity and performance. When asking other directors about implementing incentive-based compensation, I've been told that it is difficult because of state rules about pay and compensation. Did you have those constraints?

S. Bowen: We sure did. It took probably over a year to address those constraints and civil service rules about bonuses. There really isn't an animal in the state government like a lottery, though. Where else in state government do you have a sales and marketing organization competing in the marketplace for over \$2 billion in sales? It's a foreign concept for almost everyone in state government. So, yes, it can be a challenge to get approval to operate in ways that really optimize results. Like having incentive pay for salespeople.

Given the positive results, will that open the door to doing even more creative things and

perhaps even increasing the leverage of incentive compensation?

S. Bowen: You're correct in that there's no doubt these things work. But state government doesn't quite work the way you're suggesting. It's not as if our success in some areas would predispose the legislature to green light other proposals. But even small allowances to operate entrepreneurially have made a big difference for us and our salespeople. In fact, I'd say the differences were critical to our end results.

How many ITVMs do you have?

S. Bowen: 1350. We're probably almost two-quarters deployed. We have another 500 that we're refurbishing for deployment by December.

Two questions. Does it appear that ITVM's will contribute to your sales results in the way that you want it to. The other question is, was there any regulatory challenge with respect to controlling the use of them. Are they in places where the use of them is visually controlled by clerks that are nearby, or is there something else that maintains the age restriction?

S. Bowen: Most of them are placed within stores where there's onsite clerk visibility. And then there are some that are required to have age verification, such as a swipe from your driver's license card to prove age. But we have had no trouble with that so far. I've had no reports of any minor purchasing tickets. At at this point, it does look like preventing minors from playing is something that will not be a problem. We are very careful where we put ITVMs and keep monitoring the situation because even a little bad publicity would be detrimental for sure, so we're continuing to be vigilant on that.

I read that you established a minimum level of performance that you accept from your retailers. If I understood it correctly, if a retailer has less than \$1,000 in combined sales a week, then the retailer is charged back \$70. Is that correct, and how has that worked for you?

S. Bowen: That's correct. We have a very strong ration of retailers to population so we thought we had some room to optimize the performance even if we lost a few weaker retailers. We're going to require

those who fell below a certain amount to pony up a little bit if they wanted to keep their machine and offer our services to at least cover our costs. There is another factor driving this. That is that there is a cap on the number of machines we will receive in our new contract. So we want to maximize the productivity of each machine, and we want to concentrate our efforts on helping the better performing retailers achieve the best results. With limited sales staff, we do not want our customer service efforts dissipated by underperforming accounts. And so the idea of charging the weaker retailers for falling below a minimum sales threshold causes them to either improve or drop out. If they can't or won't improve, then we should redirect our efforts on helping a new retailer achieve an acceptable level of performance.

The \$70 charge would exceed the commission that they make if they did fall below \$1000. So logically they wouldn't want to stay on if they didn't intend to sell over \$1000.

S. Bowen: Exactly. Some of them are under-performing simply because they've never been interested in selling the product. So this basically gives them the opportunity to decide if they want to get their act together and market the Michigan Lottery products. Of course, that's what we want them to do and are trying to help them to do. We don't particularly want to lose retailers and set up new ones. We'd much rather see the few underperformers get up to speed and meet our minimum sales. It's really for their benefit as well as ours. There's no sense in carrying a product that you're not selling.

I think it's a fantastic thing, a great example of the kind of thing that lotteries should be thinking about doing. Operating more like a private business. If the cost of maintaining an account exceeds the profit generated by the account, you sometimes have to fire your customer, right?

S. Bowen: Well, yes, but it's harder to fire them in an environment like a state government.

Another aspect of this plan is that we do not anticipate losing the business of the

weaker performing retailers. Our expectation is for two things to happen. One, the customers of the retailers who drop out will not stop buying lottery products. They'll simply buy them at a different store. Two, we expect that our more focused customer service approach will improve the performance of the stores which do try harder to market our products. And keep in mind that we are talking about a very small portion of our retailers who are at risk, maybe a few hundred. Even smaller in terms of sales. We're getting a lot of criticism from retailers who've been retailers for 20 years, and this is quite shocking to them. They're not used to having expectations be placed upon them. But like I said, our first goal is to help them raise their sales so they'll make more money and everyone will be happy.

It would be so great if lottery organizations could act more entrepreneurially like that. In a dynamic capitalist system, it's all about buyer and seller coming to an agreement, and if we can't come to an agreement, we don't do a deal. State governments need to free the lotteries up to follow these principles and dynamics that allow for the most efficient way to achieve the results. So I hope your bold initiatives succeed!

S. Bowen: You hit it right on, that's it. We are an anomaly in state government, an active business enterprise that is in the body of a state government.

Changes like this can be hard for everyone. You're talking about retailers who are our friends and they've been with us for decades. They call their friends who are also our retailers and express anger about being charged for under performance. These are methods that need careful consideration before actual implementation because the resistance to change can be more than you expect.

We're also working on programs to really help the retailers be more productive. I want to incentivize retailers on a regular basis, daily if possible. Why couldn't we be texting our top 5000 retailers that in the next hour anybody who sells 100 of product X can receive a bonus of some kind? We're exploring ways to use our player Web site, Player City, to drive players to the stores

and also dial in some retailer incentives to close the loop and drive sales. We're looking at having a point system that would be redeemable for things like trips, golf clubs, furniture, anything that they want. It'll operate something like American Express award points. The main idea is to use the best practices found in other industries that use incentives to create energy and focus on their product. There is a lot we can do to get our retailers excited about their lottery business.

Aren't there rules and constraints that interfere with your ability to do these things?

S. Bowen: Yes. I just happen to think that it's essential that we overcome those obstacles because we must engage our retailers better, particularly our most active retailers. These retailers are willing to get behind lottery but we simply must reward them for their efforts or they will lose the incentive to really sell lottery. As a percentage of sales or profits, we are talking about an infinitesimal portion that would effectively incentivize our more active retailers. And just as any sales manager knows, an incentive system really raises the level of everyone's sales, not just the top achievers. It creates excitement and energy and gives our salespeople a better story when they're calling on our retail customers.

Another reason we need to overcome those obstacles is that we'll need the flexibility to integrate Internet sales into the fabric of the distribution system and get retailers to see these new initiatives as being complementary to their own businesses. We need more flexibility in how we compensate. We'll need the cooperation and support of our retailers as new channels of distribution get dialed into the system. It won't even require that much in the form of financial rewards, it's more about having the flexibility to custom design compensation plans that will motivate and guide our business partners to all pull in the same direction. We need to create a system that promotes mutual support and cooperation between distribution channels, like our Web site and our retailers.

You know, there are retailers that are actively looking for ways to make more money or to capitalize on opportunities to increase

their compensation. They're entrepreneurial and anxious to put in the extra effort. But they won't do it if they are compensated in the same way as those who are just order-takers and don't do anything to push sales up. The reality is that it takes a lot of retailer effort to increase sales 10 percent, especially these days in Michigan. It's flat-out easier for them to just take what they can get without putting in that extra effort. We simply must give them a reason to do it or they won't do it. There really is an untapped potential to incent retailers to sell more. We spend so much money advertising and marketing our product, but if we could spend just a little bit more to compensate those strong retailers and basically reward good sales, we would get a huge ROI from that investment.

It sounds like you have plans to create a coordinated marketing effort, integrating your retailers into your Player City website, or is Player City just for players?

S. Bowen: Player City is just for players now, but you're exactly right, we are going to evolve an interactive home for our retailers. It is a whole new Internet expansion and investment, but we'll leverage our initiatives to engage the retailers through the same methods. We plan to create a system of rewarding retailers with points and prizes for achieving sales targets. We'll use the same platform for all our customer needs, and then include the retailers in that group. We've got micro-type incentive programs for our regular players, like getting a free dinner at a restaurant once you've registered for a certain number of second chance drawings. There are so many new and different kinds of things that can be implemented with the Internet that could never have been done without it. And our ability to integrate our marketing efforts so that we create a true synergy between our advertising and promotion, our retailers, our Web site, our sales people, now becomes a reality. The key to making it work, though, is having the flexibility to allocate incentives and prizes and rewards to motivate the behavior and actions that all work together and create a positive end result. ♦

featuring Multi-Layer Display (MLD®) technology to lottery markets in the United States. And the games have proven to be a huge success with players.

In Rhode Island, our 3-D games were able to bring players the closest thing to true mechanical spinning reel games as it gets in this jurisdiction. The virtual slot reels in IGT's 3-D games emulate the look, sound and feel of the older IGT 'legacy' mechanical reel counterparts. With true mechanical spinning reels not being allowed in all jurisdictions, including Rhode Island, IGT partnered with PureDepth™ to create our 3-D games with MLD® to allow the player the closest thing to a true mechanical spinning reel games in a video format.

The MLD® technology also provides operators with unmatched flexibility. Thanks to MLD®, multiple games can be housed on the same machine. Players are able to view and play a selection of their favorite games by switching from a 3-reel to 4-reel to 5-reel to video reel to poker within seconds – all on the same Advanced Video Platform (AVP®) machine. A player can also switch to and from a non-progressive feature to a progressive feature by just choosing another game on the same AVP® machine.

This technology, along with numerous other IGT firsts, helps "level the playing field" between video lottery jurisdictions and traditional casino markets.

With Central System technology being a key component defining a video lottery program; can you address IGT's position on Open Networks and protocol issues?

P. Hart: IGT has embraced the open network concept and fully supports the adoption of the Gaming Standards Association's (GSA) protocols, S2S and G2S, for all video lottery programs. The implementation of GSA protocols will prepare the video lottery markets for server-based gaming and use of "best of breed" products by multiple vendors. Once implemented, server-based technology will provide a video lottery jurisdiction with increased revenue by reducing costs and maximizing profits. This will be achieved by increasing flexibility, allowing for the ability to download new games and catering to the clientele on the floor. Adopting these standards in the video lottery market will prepare our customers for the future of gaming and will help "level the playing field" with the traditional casino market.

What makes the video lottery market unique?

P. Hart: The video lottery market is certainly unique in many ways, from the use of Central

System technology and resulting protocol issues to joint marketing efforts, to Responsible Gaming considerations.

There is also a diversity of programs from the local-area racino model to wide-area bar and tavern model. But what I think is most unique about this model is the role of the lottery which must serve not only as the regulator but also, in some instances, as the operator, marketer and machine provider.

We also understand the significance of a strong Responsible Gaming program when the government is not only the regulator but also the operator. IGT believes that it is crucial to take a pro-active approach to problem and underage gambling. Therefore, it is IGT's mission to promote responsible gaming to our employees, our customers and the public at large, and to support those agencies and programs committed to researching, preventing and treating problem gaming. Evidence of our commitment is the fact that IGT is the only manufacturer to have an executive dedicated to responsible gaming.

IGT certainly appreciates the unique regulatory nuances of each individual state's or province's video lottery market. And we try to cater to the unique framework and needs of each market, all while trying to maximize operators' revenues under the varied program rules.

Can you expand further on the different models used to procure Video Lottery Terminals (VLTs)?

P. Hart: In general, video lottery programs are primarily broken down into four different revenue models.

In the participation model, IGT owns the machines and acts as a technology provider to the Lottery and assumes virtually all of the risk. IGT also works with the licensed venues (racetracks, pari-mutuels) to promote and support video lottery operations. The gaming markets in Delaware, Rhode Island and New York are examples of this model. These states have contracted with IGT to provide machines and various levels of service for a percentage of the net revenue generated by our VLTs.

Markets where IGT either sells VLTs through a local distributor or by direct sale to the operator are considered operator markets. These distributors usually service multiple locations and split the revenue with the licensed locations (after the state receives its share). Examples include South Dakota and West Virginia (Limited).

The Oregon Lottery is as an example where the state purchases VLTs directly from an approved manufacturer, owns them and handles all aspects of the video lottery operation. West Virginia (racetracks) is an example of where

manufacturers sell their VLTs directly to the legalized locations. In addition, the manufacturers can provide certain machines on a participation basis. The locations are responsible for the purchase of their VLTs and perform their own servicing and game conversions.

What can we expect to see from IGT at G2E?

P. Hart: We're very excited about G2E this year. We're the only manufacturer that can help customers achieve new levels of dynamic casino and player management. Developing true innovations in gaming excitement for the player is IGT's top priority. IGT's goal is to help our customers realize superior value and performance.

Our focus is to continue to wow operators and players alike with our vast library of entertaining slot and video poker game themes. Our products on display at G2E will offer everything needed to create an exciting, engaging player experience.

IGT's MegaJackpots® line will debut a number of new games including the MegaJackpots® Center Stage Series. This revolutionary new platform offers unlimited content options from the premiere gaming product line in the industry. IGT's Core Products showing will consist of more 3-D and MLD®, more multi-game capability, and never-before-seen spinning-reel and video math. The ever-popular IGT Video Poker line will include the first authentic community bonus video poker game, a video poker wide-area mega progressive and more.

IGT Network Systems will feature a host of products including the downloadable game library, Service Window, the sbX™ Tier One package and many more compelling IGT Advantage® add-on products and services. IGT will also be showcasing our line of multi-player products which infuse the best of video gaming with the positive social aspects of wagering on a common outcome.

IGT DigiDeal® table technology will also be represented by a number of game themes and has been approved in some of the video lottery markets like Delaware and Rhode Island.

Any closing remarks?

P. Hart: IGT has a strong history of leadership in the video lottery market and will continue to be a leader for many years to come. We are proud of the partnerships we have developed with our existing lottery customers and will offer our experience, expertise and support to new emerging markets.

We will continue to develop those partnerships by providing the newest and best-performing games and systems and will continue to strive for solutions to "level the playing field." ♦

programs are designed to engage the core player just as much as the non-player or the young adult player. They are user-friendly and appeal to the impulse to want to get extra value for something you've already bought and paid for. That impulse is universal across age groups and cultures, too.

We think of this as a platform that enables us to work with the lottery to continually create new and innovative initiatives that will engage and delight the player.

I'll say. I talked with Julie Baldridge at the Arkansas Scholarship Lottery who told me that registrations are 56,000 and climbing every day. That's after three weeks, no real marketing to speak of for the Players Club, not even a catalogue of prizes posted yet, and in a state of less than 3 million people.

S. Saferin: Director Passailaigue and his team have done an extraordinary job. We are pleased to have played a role in helping them. But they are the ones who made the commitment to the people of Arkansas and who would ultimately answer to them. We gladly accepted the challenge to participate in the ambitious launch timetable. We knew that we could deliver, but it was up to Director Passailaigue and his team to ensure that every single component part of this launch come together in record time. It takes leadership to make that commitment. And then it takes leadership and talent to make good on it and they sure have done that. I think the people of Arkansas are impressed and the Scholarship fund is millions of dollars richer for it.

I know they respect and appreciate the job that their commercial partners have done as well. I think they are proud for being the first lottery to have taken the comprehensive Properties Plus package, bundling the Players Club, Points-for-Prizes, and Play-It-Again into a synergistic player loyalty program.

S. Saferin: Our industry is in uncharted waters in many respects. The economic challenges that players, lotteries and vendors are all facing really do create new opportunities to rethink how you do business. The marketing sands are shifting under our feet as the internet in all its capabilities becomes not only an important part of our overall strategy but also an in-

dispensable marketing element to be effectively and responsibly implemented. Properties Plus is Scientific Games' and MDI's best solution to a variety of business issues related to these challenges and opportunities. As licensed games have become an integral part of almost every lottery's instant ticket strategy, we have been researching and testing new business models to enable lotteries to take advantage of our complete portfolio on a more cost effective basis and with increased ROI. Lotteries like Arkansas that implement the full Properties Plus program have unlimited access to our licensed game library for no fee or additional charge, with some exceptions for top merchandise and experiential prizes. This enables lotteries to architect an instant ticket program plan that incorporates a full palette of licensed games without having to evaluate the cost of each individual licensed game. This should enable lotteries to use licensed games in the most effective manner, which is to energize the product and bring in new players.

It does seem to be a transformational concept in that the lotteries connection to the player and the public has always been mediated by advertising and the retailer.

S. Saferin: There is a lot you can do with advertising and points of sales displays and training of retail clerks, but ultimately the lottery is one step removed from the customer. This internet Players Club does create a one-to-one marketing relationship with the customer. And yes, we would like to think it opens up a whole new world of potential for building a dynamic dialogue with your players.

How does the lottery pay for these services?

S. Saferin: The model that we are proposing to lotteries is for them to take a small percentage of the prize fund of every game (between 1-2%) and dedicate that to funding the points for prizes element of the Players Club. Currently we are only working with lotteries on the instant ticket side but we are in discussions on how to implement this program across all lottery games. The lottery and its players will receive back what they invested in funding the program through prizes equal to at


least the retail value of their investment. In essence, the program has absolutely no incremental cost to the lottery.

Am I wrong in thinking that C-stores are supportive of this internet initiative since it does not poach on their sales? Theoretically, it should increase their sales since, at this point anyway, the tickets are not actually purchased over the internet.

S. Saferin: That's right. Insofar as the loyalty program gets more players thinking about lottery and hopefully buying more tickets, that only helps the retailers. And loyalty programs are booming in a down economy because people are looking for more value with every purchase. Lotteries don't really have direct competitors. And so it's a little bit different than a typical loyalty club. In fact, maybe we should call it an "engaged" player. I think that an engaged player who is anxiously awaiting the new games, new promotions, new opportunities, new prizes, new entertainment and chat options...that kind of player will help the lottery grow. Whatever it produces in terms of increased ticket sales does in fact get processed through traditional channels, like the C-stores.

This could create the bump in consumer demand that might motivate the big-box chain stores to want to get more into lottery. Generating the 'pull' from the customer side to put merchants in the position of needing to give the customers what they want.

S. Saferin: Finding the answer to the Big Box dilemma facing lotteries is a challenging task. Because it stimulates demand more than conventional advertising does, Properties Plus could be a part of the solution. We hope that Wal-Mart or Target would respond to that customer demand and give the customers what they want by selling lottery products. The fact that Arkansas is the first state to adopt the entire program and that Wal-Mart is headquartered in Arkansas could prove to be fortuitous. But only time will tell. ♦



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Kentucky Lottery & Others Jump on Twitter Bandwagon... Web 2.0 Here We Come

Finding out if you are a Power Ball winner is as easy as following @KYPowerBall, a special Twitter profile page created by the Kentucky Lottery that automatically announces the winning Power Ball numbers every Wednesday and Saturday night.

Using profiles on social networks like Twitter, Facebook and MySpace to reach an active audience is nothing new to businesses, celebrities and public officials. However new uses of these networks and proprietary third-party applications are allowing State Lotteries to dramatically expand their base of web-based fans, and position them for a big win with the next generation of interactive lottery products.

The growth in the fan base following the ten most popular State Lottery Twitter profiles (ranked by number of followers July-Oct 2009) increased by nearly 60 percent (59.7%) and now reaches a combined audience of more than 7,500 throughout the network. These top performing lottery profiles account for roughly 75 percent of the total audience following all known state lottery twitter profiles, which collectively grew at a slightly faster rate (62.0% overall audience growth vs. 59.7% top ten growth), to reach a cumulative twitter-based lottery fan base of more than 10,000 followers.

While this rapid audience growth is impressive, the lottery presentations reach only a sliver of the more than 45 million registered twitter users, which tend to be young and middle age adults with active lifestyles. And although it may look like a little step when compared to the behemoth audiences following celebrities and politicians, this step is a critical one for lotteries looking for ways to make progress towards web-based lottery transactions.

What Gets Measured, Gets Done

As Internet lottery presentations gain popularity, and lottery managers expand their experience in measuring the success between different types of web-based promotions a new generation of online opportunities will be identified.

Right now lottery profiles on social networks primarily provide up-to-date game numbers, jackpot prize updates, and winner announcements. Kentucky for example, manages six separate game profiles, and a main Lottery twitter page @kentuckylottery. Kentucky's strategy to create and maintain separate profiles for individual games has paid off with a dramatic expansion in followers that outpaced the overall average growth at 77 percent; and an expanded base following every one of the lottery's seven twitter profiles.

While the Kentucky Lottery team updates the main profile manually (from web), their six individual game profiles are automatically updated with a jtwitter application, that posts game results to KY Twitter game profiles as soon as verified drawing data is available.

Social networks can create and deliver a reliable source of traffic to a lottery home page, where web-based games or other services that are fun and allowable under existing laws can be provided to visitors. Even though lotteries may have to hold back on all the bells, whistles and other features that will eventually be included with the next generation of online lottery games, simple services like player loyalty or web-based subscription programs can be used to keep audiences engaged as the transformation takes place. Imple-

menting this kind of activity on the lottery web site, is an important step that lotteries can implement in their efforts to monetize the web-based lottery experience.

Capturing Value from Web-Traffic on the Lottery Home Page

"Lottery fans are clicking through social network pages to state lotteries sites in search of services, games or other features that deliver fun, entertainment or an otherwise valuable experience," says Ed Honour, President and Chief Technology Officer of MGT Lottery Technologies, a company that specializes in services integration. "Ideally, when a lottery player clicks through from Twitter or Facebook they would be greeted with registration information for a loyalty program, or even better some type of web based subscription service."

"Lotteries embracing the concept of a small-steps approach to web-based lottery products, are finding that vendor software provides fresh and interesting presentations that keep audiences engaged during the lottery's transition into web-based services," Ed added. "The three keys to a successful web-based programs are: Ease of use (for the lottery to implement and manage); Ensuring accuracy and compliance with all local and federal legal requirements, and; Engaging and expanding the participation of the audience using the product."

Whether it's a home-page subscriber or loyalty program, instant-play online tickets or hybrid adaptations that link in-store ticket purchases to online play on a home computer, software solutions will continue to play an important role in the evolution of web-based lottery products. Maximizing the value of social network traffic with a simple subscriber program is the next critical step lotteries need to take in their efforts to create the interactive web-based Lottery experience of the future," Ed concluded. ♦

Go to www.PublicGaming.com for the extended version which includes research sources and methodologies along with twitter audience data of other US lotteries.

The following chart tracks the growing audiences following ten notable State Lottery Twitter profiles over just three months, between 7/31/09 to 10/31/09.

FOLLOWERS ON DATE:	(7/31/09)	(10/31/09)
CA Lottery @calottery	834	2503
KY Lottery Multi Profile @Kentuckylottery	1391	1807
IA Lottery @ialottery	1211	1404
NH Lottery @NHLottery	252	336
MA Lottery @maLottery	249	323
VT Lottery @Vermont_Lottery	196	289
MO Lottery @MissouriLottery	201	286
CO Lottery @colottery	58	252
KS Lottery @Kansas_Lottery	122	241
MD Lottery @MDLottery	41	183
TOTALS:	4555	7624

Keith S. Whyte

Executive Director, National Council on Problem Gambling

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

Public Gaming: Part of your platform is that the federal government should allocate resources to the federal funding of Problem Gambling research and the development of prevention programs.

Keith Whyte: Correct. States need federal support for problem gambling programs just as they do for every other health issue. It's widely recognized that gambling addiction can be just as destructive as these other problems. But in the entire history of the United States, there's never been a single dollar of federal money that's been allocated to support the prevention of underage gambling or treatment of problem gambling. Our bill, the Comprehensive Problem Gambling Act, provides a little over \$14 million a year in competitive grants to state agencies, nonprofits and universities. This Federal support would allow for larger-scale and longer-term research on the causes, courses and consequences of problem gambling and point the way to programs that would reduce harm. All stakeholders will benefit from better information.

What will the catalyst be to cause more and better action to be taken?

K. Whyte: That's simple. We need leaders to step up. We can work together to create a better responsible gaming program than a regulator can impose. We have some people in the US lotteries who are doing it, but not enough. Scandinavia and Canada are leading the way, perhaps partly because they have been challenged by a hostile press and a concerned public to do so. But I would think it is pretty obvious that you do not want to wait for the media to attack you before doing everything you can to address problem gambling. The best defense is a good offense. NCPG is a resource for ideas and guidance, but we do not have the resources to develop actual evidence-based policies and programs. Of course, a great place to start is with the World Lottery Association (WLA) and their Responsible Gaming Framework.

It is the legislature that determines the relative priority of increasing the funds needed for good causes versus the amount of resources that should be channeled towards problem gaming programs. It's the job of lottery directors to execute the directives of the legislature. Don't you need to take the advocacy message of the National Council on Problem Gambling to the legislative and executive branches of government instead of the operator and the regulator?

K. Whyte: You have a point and, as I have said before, I do respect the fact that lottery directors serve at the direction of their legislature. NCPG and our 35 state affiliate chapters certainly need to increase our direct outreach to legislators. But it is appropriate to engage with operators and regulators. First, its implicit in your comment that responsible gaming programs need to be authorized by a legislature because they would either significantly cost the lottery, and/or would significantly diminish lottery revenue. Correcting that misconception will go a long way towards creating a more proactive approach on everyone's part to solving these problems. I think on the cost side there area tremendous amount of initiatives that can be folded into every aspect of lottery operations at literally no cost or very low cost. We're talking about the cheapest things in the world like adding text to a website; adding links to a website; messages on tickets, add-ons to the advertising and promotion that is already being produced; creating a little box around the responsible gaming message on a ticket to bring attention to it, hosting meetings with your problem gambling council. These are some of the most basic things that lotteries can do without legislative approval and for no or low cost that will help promote responsible gaming.

On the other side of the equation, if you look at all the responsible gaming initiatives NCPG has proposed over the past 37 years, we've never seen any of these programs that correlated with a drop in sales. There are so many things that can be done to promote responsible gaming that do not seem to negatively impact sales.

The goal of enhancing the entertainment

value that the players enjoy is quite consistent with effective responsible gaming messages. The result can and should be a branded experience that includes the experience of fun, the possibility of winning money, and the ethos of free choice coupled with personal responsibility, and responsible gaming. It's not hard to build these four values into the overall player experience and the result is a business that grows sales in a sustainable and healthy way.

Advocates of a 'legalized and regulate' approach contend that it is better for governments to take proactive control rather than to drive the activity underground where the vulnerable players receive no help. Do you agree with that concept?

K. Whyte: Part of our answer is that we do not take a position on whether a certain form of gambling should be legal or illegal. What we focus on are programs to help prevent problem gambling. In the United States you have large numbers of people gambling in all sorts of venues that are a massively complicated patchwork of legal, quasi-legal, illegal or criminalized activities.. On the one hand, as you point out, bookies and illegal gambling operations provide little or no assistance for problem gamblers. Typically, they do everything they can to maximize profit with no regard for the welfare of the player. So that's not good. On the other hand, there are many state lotteries that still have non-existent or inadequate player protection and responsible gaming programs. Many states spend literally not on single cent on problem gambling prevention, education, treatment, enforcement or research. Enforcement of underage gambling laws needs to be improved in almost all states, especially those with unattended ticket vending machines. So state regulation does not automatically lead to good programs to minimize harm from gambling addiction.

Continued online. This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

as to whether or not the Wire Act overrides the IHA and thus prohibits interstate Internet wagering on horseracing. The language of the Leach Bill that preserved this ambiguity is now part of the UIGEA. It provides:

It is the sense of Congress that this subchapter [i.e., the UIGEA] shall not change which activities related to horse racing may or may not be allowed under Federal law. This subparagraph is intended to address concerns that this subchapter could have the effect of changing the existing relationship between the Interstate Horseracing Act and other Federal statutes in effect on the date of the enactment of this subchapter. This subchapter is not intended to change that relationship. This subchapter is not intended to resolve any existing disagreements over how to interpret the relationship between the Interstate Horseracing Act and other Federal statutes. [15]

Not only was this dispute as to the legality of interstate Internet betting on horse races well known at the time the UIGEA was drafted, but it was also well-known that there is general uncertainty as to the Wire Act's applicability to non-sports related wagering. The Department of Justice ("DOJ") maintains that the Wire Act applies to all types of gambling, although most legal experts maintain that its scope is limited to sports betting and the Fifth Circuit Court of Appeals so held in 2002. [16] The DOJ also has asserted that the Wire Act prohibits intrastate Internet wagering via the Internet even when all wagering-related communications begin and end in the same state and the wagering is expressly authorized by that state's laws. [17] Acknowledging these disputes while debating language in the Leach Bill that would have amended and clarified the Wire Act (which amending and clarifying language was removed before passage of the UIGEA), Representative Bob Goodlatte (R-VA) stated:

The legislation clarifies the Wire Act, the 1961 statute that made it a Federal felony for gambling businesses to use wire communication facilities to transmit bets or wagers or related money in interstate or foreign commerce. The Wire Act did not contemplate the Internet or wireless communications devices and is ambiguous as to whether it applies to only sports-related gambling or all forms of gambling. The bill updates the Wire Act to clarify that it covers all types of gambling and all types of communication facilities. [18]

Since the language that would have amended and clarified the Wire Act was removed before the final bill was passed, one may reasonably deduce that Congress preserved intentionally the ambiguity as to whether the Wire Act applies to non-sports related wagering or to the above-described intrastate Internet wagering.

Because the Wire Act is critical to the application of the UIGEA, Congress' careful and intentional preservation of these uncertainties as to the Wire Act's application make the application of the UIGEA correspondingly unclear. While these uncertainties will not create problems in states that prohibit all forms of gambling, there are only two such states – "[t]oday, every state except Hawaii and Utah has some form of legalized gambling." [19] Thus, the applicability of the UIGEA is unclear in almost every state. Specifically, because of the uncertainty surrounding the Wire Act's applicability, it is unclear whether "unlawful Internet gambling" under the UIGEA includes interstate wagering on horse races conducted in accordance with the IHA, non-sports related

Internet wagering carried out in accordance with state law, and/or wholly intrastate Internet wagering (except for the intermediate routing of the communications) conducted in accordance with state law and with state-mandated location and age verification controls. While many, including this author, maintain that the UIGEA's intrastate wagering exception was intended to allow states to authorize intrastate Internet wagering where in-state bettors wager over the Internet from their home computers, the Conference Report on the UIGEA suggests otherwise, further adding to the confusion. That report, written the day before Congress passed the UIGEA, discusses the UIGEA's intrastate wagering exception, stating:

The Internet gambling provisions [of the UIGEA] do not interfere with intrastate laws. New section 5362(10)(B) creates a safe harbor from the term "unlawful Internet gambling" for authorized intrastate transactions, if the state law has adequate security measures to prevent participation by minors and persons located out of the state. The safe harbor would leave intact the current interstate gambling prohibitions such as the Wire Act, federal prohibitions on lotteries, and the Gambling Ship Act so that casino and lottery games could not be placed on websites and individuals could not access these games from their homes or businesses. The safe harbor is intended to recognize current law which allows states jurisdiction over wholly intrastate activity, where bets or wagers, or information assisting in bets or wagers, do not cross lines. This would, for example, allow retail lottery terminals to interact with a processing center within a state, and linking of terminals between separate casinos within a state if authorized by the state. [20]

Thus, the Conference Report suggests that the UIGEA's intrastate transaction exception is meant only to create a safe harbor for intrastate wagering where the wagering occurs from retailer terminals and not from home computers. That seems inconsistent with the express language of the intrastate wagering exception, and if upheld as a correct interpretation would make the exception almost meaningless.

In summary, because of the intentionally preserved disputes as to the scope of the Wire Act, the applicability of the UIGEA is uncertain. This uncertainty will exist in every state that authorizes interstate Internet wagering on horse races and in every state that seeks to allow intrastate Internet wagering (subject to age and location verification measures) where bettors wager from their home computers. Under such circumstances, it is unfair to require gambling businesses and financial transaction providers to determine what constitutes "unlawful Internet gambling," particularly (as to gambling businesses) under threat of criminal liability. While the Third Circuit Court found the UIGEA clear in at least one application – where the gambling at issue is prohibited by state law – in many if not most other applications it will be unclear, and the likely result of this uncertainty will be that Internet gambling activities that are actually legal (i.e., a court would so rule) will be considered too risky to undertake. ♦

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[15] 31 U.S.C. § 5362(10)(D)(iii).

[16] *In re MasterCard International, Inc.*, 313 F.3d 257 (5th Cir. 2002).

[17] See letter dated Jan. 2, 2004, from David M. Nissman, United States Attorney, District of the Virgin Islands, to Judge Eileen R. Petersen, Chair of the U.S. Virgin Islands Casino Control Commission, and letter dated May 13, 2005, from Laura H. Parsky, United States Deputy Assistant Attorney General, to Carolyn Adams, Illinois Lottery Superintendent.

[18] 152 Cong. Rec. H4969-04, p. 5; 2006 WL 1896445 (Cong.Rec.).

[19] "Sports betting next target for some states," *Stateline.org*, updated May 8, 2009, at <http://www.stateline.org/live/details/story?contentId=398253>

[20] 152 Cong. Rec. H8026-04, p.8; 2006 WL 2796951 (Cong.Rec.), *emphasis added*.



Mark Hichar

The Applicability of the UIGEA is Uncertain, Notwithstanding the iMEGA Court's Decision that it is Not Void for Vagueness

On September 1, 2009, the U.S. Third Circuit Court of Appeals rejected the Interactive Media Entertainment and Gaming Association's ("iMEGA") claims that the Unlawful Internet Gambling and Enforcement Act ("UIGEA") [1] was void for vagueness and violated individuals' privacy rights. [2] In affirming the lower court, the Court left intact the UIGEA and the regulations promulgated thereunder, with which covered financial transaction processors must comply beginning December 1, 2009. Unfortunately, the decision does nothing to clarify the UIGEA, and in particular, it leaves uncertain the UIGEA's applicability to intrastate Internet wagering on non-sporting events and interstate wagering on horse races carried out pursuant to the Interstate Horseracing Act ("IHA"). [3] This is because the UIGEA intentionally preserves the uncertainty regarding the applicability of the Wire Act [4] to those activities.

The UIGEA prohibits a gambling business from knowingly accepting credit, electronic funds transfers, checks or various other financial instruments in connection with another person's "unlawful Internet gambling." [5] "Unlawful Internet gambling" is defined as "to place, receive, or otherwise knowingly transmit a bet or wager [using] the Internet where such bet or wager is unlawful under any applicable Federal or State law...in which the bet or wager is initiated, received, or otherwise made." [6] However, specifically excepted from the term is the "placing, receiving, or otherwise transmitting a bet or wager" where the bet or wager is initiated and received or otherwise made within a single state, where such activity is expressly authorized by that state's laws, and where state-mandated age and location verification controls are in place. [7] The UIGEA also requires certain financial transaction processors "to develop policies and procedures reasonably designed to identify and block or otherwise prevent or prohibit the acceptance of restricted transactions," [8] where a "restricted transaction" is a transaction or transmission involving credit, funds or financial instruments which the recipient is barred from accepting because it involves another's participation in unlawful Internet gambling. [9] Thus, knowing what constitutes "unlawful Internet gambling" is critical to knowing the applicability of the UIGEA.

The Court dismissed iMEGA's vagueness claim because iMEGA had not made the required showing that the UIGEA "is impermissibly vague in all of its applications," [10] noting that the UIGEA's

application is clear in states where all gambling is prohibited. Further, "the fact that gambling may be prohibited in some states but permitted in others does not render the Act unconstitutionally vague," even though this may result in conduct being lawful under the UIGEA in some states while being unlawful in others. [11]

The Court seemed to assume that any vagueness in the UIGEA would arise only as a result of vagueness or ambiguity in applicable state law. The Court stated:

It bears repeating that the [UIGEA] itself does not make any gambling activity illegal. Whether the transaction [involved when a U.S.-based gambler sends a bet to a foreign country where such betting is legal] constitutes unlawful Internet gambling turns on how the law of the state from which the bettor initiates the bet would treat that bet, i.e., if it is illegal under that state's law, it constitutes "unlawful Internet gambling" under the Act. [12]

Omitted from the Court's analysis, however, was the fact that federal laws critical to the application of the UIGEA are ambiguous, and further, that the UIGEA was purposely drafted to avoid resolving those ambiguities.

At the time the UIGEA was being considered, it was well-known to Congress that the applicability of the Wire Act to non-sports wagering and to interstate betting on horse races was in dispute. In debating the so-called "Leach Bill," the predecessor bill to the UIGEA, [13] Representative Jim Leach (R-IA) referred to this dispute – which arose after passage of a 2000 amendment to the IHA which seemed to legalize Internet betting on horse races. He stated:

The Executive Branch has taken the position that the 1961 Wire Act overrides the IHA, even though the IHA is a more recent statute, because neither statute expressly exempts IHA transactions from the Wire Act. The horseracing industry vigorously disagrees. [The Leach Bill] has been very carefully drafted to maintain the status quo regarding horseracing, preserving the ability of the Executive Branch and the horseracing industry to litigate the proper interpretation of these two statutes. The text of the bill is clear: "this Act does not change which activates [sic] related to horseracing may or may not be allowed under Federal law." [14]

In other words, the Leach Bill intentionally preserved the ambiguity

...continued on page 33

[1] 31 U.S.C. § 5361.

[2] *Interactive Media Entertainment and Gaming Association v. United States, et al.*, 580 F.3d 113 (3rd Cir. 2009).

[3] 15 U.S.C. §§ 3001-3007.

[4] 18 U.S.C. §§ 1081 and 1084.

[5] 31 U.S.C. § 5363.

[6] 31 U.S.C. § 5362(10)(A).

[7] 31 U.S.C. § 5362(10)(B). The UIGEA also provides that "[t]he intermediate routing of electronic data shall not determine the location or locations in which a bet or wager is initiated, received, or otherwise made." 31 U.S.C. § 5362(10)(E).

[8] 31 U.S.C. § 5364.

[9] 31 U.S.C. § 5362(7).

[10] iMEGA, at 116, citations omitted, emphasis in original.

[11] *Id.*

[12] iMEGA, at 117.

[13] The "Leach Bill," or H.R. 4411, was so called because its sponsor was Representative James Leach (R-IA).

[14] 152 Cong. Rec. H4978-03, p. 24; 2006 WL 1896448 (Cong. Rec.)

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