

LOTTERY INDUSTRY HALL OF FAME INDUCTEES:



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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.

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From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

The California Lottery delivered a 13% sales increase in the fiscal year ending in June of 2011. My discussion with Acting Director **Linh Nguyen** touches on the legislative changes that give the CA Lottery Commission more flexibility to manage prize payout structures. However, the real story about the CA Lottery goes much deeper than that. The focus of the California Lottery is on sustainable growth and there is a detailed vision for how that will be achieved. Included in that vision is the migration towards a relationship-driven strategy to build the brand and the market. As **Alan Eland** and **Steve Saferin** both point out in two of our feature interviews, the future of our business depends upon building that dynamic, interactive relationship with the consumer. The consumer is demanding a different kind of playing experience, and the business of selling lottery tickets is changing to meet those expectations. Loyalty programs, extended-play formats, other new game styles, and integrated customer user interfaces are transforming the whole lottery playing experience. The internet is a key component, not because of the i-gaming revenues that it may produce, but because of the connection to the socially-networked consumer that it enables. World-wide, lotteries have literally hundreds of millions of customers; that is, consumers who have bought a lottery ticket at a retail store. It's an extraordinary thought, really. Now lotteries are taking that massive consumer connection to the next level, doing what other industries have been doing for many years with great success - Turning those customers into a community of fully engaged enthusiasts.

Flexibility to use new media like the internet and mobile is key to making that consumer connection. The good news, **Mark Hichar** explains,

is that state lotteries absolutely have the legal right to sell over the internet. The bad news is that high-ranking politicians are deliberately trying to deny that right to lotteries and disenfranchise lotteries from the internet gaming space. There is tremendous lobbying firepower pointed directly at states' rights to regulate internet gaming. And lotteries stand to be the big loser. Big Casino and Tribal gaming interests have a huge amount to gain if they can convince people like Senators Kyle and Reid to promote bills to federalize the regulation of i-gaming. And, as Mark's article points out, they are explicitly attacking lotteries, trying to convince their congressional colleagues that lotteries should not be allowed to sell over the internet! It's outrageous, really. All these operators will need is a small head-start. That enables them to grab a critical mass of market share that will be virtually impossible for others, like lotteries, to compete against or to ever catch up. The i-gaming market is all about liquidity, momentum and scaling up. The big get bigger, preventing the second tier operators from ever gaining any traction. This isn't just theory. This is exactly what has happened in markets where commercial interests were allowed to gain an early advantage over lotteries.

The problem is not just that lotteries may lose out on i-gaming revenues. As the battle lines have formed in Europe, i-gaming is proving to be the integral component to forging the connection with the consumer that is crucial to preserving the business of traditional games. I-gaming is the key to migrating the customer from a transaction-driven business to a relationship-driven business. And relationships will be the foundation upon which all business is built. If i-gaming operators are allowed to hijack that relationship, the traditional lottery games become vulnerable indeed. Loyalty programs and second-chance draws are a powerful foundation upon which

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"Our overall business was not at the level we expected, and we wanted to improve our revenue contribution to education. Because GTECH knows all the variables that impact player behavior — game launches, instant ticket allocations, prize structures, odds, and more we asked them to help us develop a strategy to increase sales. They reviewed



to build that crucial socially-networked relationship with the consumer. Now we just need to extend them to robust loyalty programs and beyond, as discussed in our interviews with **Linh Nguyen**, **Steve Saferin**, and **Alan Eland**. And we need our legislators to defend the rights of lotteries to pursue this track and build on it. And to not turn it over to our competitors who give so little back to the public welfare.

The issue of jurisdictional authority over gambling regulations has evolved much further in Europe. Read **Philippe Vlaemminck**'s article to see just how mixed-up it can get. The good news is that the EU Commission, and by extension the EU Court of Justice, is pushing the pendulum back towards empowering the Member States with the right to determine regulatory policy for their nation. Unfortunately, it becomes hard to build a solid foundation of consistent case law to establish exactly what the EU requires of its Member States to stay compliant with EU trade and commerce laws. They are trying and the political trend is towards favoring Member State control so that is good for European lotteries.

I have discussed at length with Philippe and Jean Jørgensen (and Friedrich Stickler, Tjeerd Veenstra, Risto Nieminen, and others too) about the need for an international framework to enforce the regulatory laws of each jurisdiction. Part of the trick of it is for lotteries to develop a more collaborative approach internationally, to work together to create a global consumer awareness about government gaming and the tremendous public service it provides. The grand mission would be to build a global Brand Lottery that would capture the imagination of consumers everywhere. We're already half-way there with the most trusted brand in the industry. We just need to harness that positive public perception and convert it into political influence for the benefit of all our stakeholders, and ultimately for the

benefit of the general public. The executive director of the World Lottery Association, **Jean Jørgensen**, is evolving the mission of the WLA to work hand-in-hand with the regional associations to support the efforts that are best implemented at the jurisdictional level.

PGRI had the privilege of conducting a wonderful awards ceremony at the Indianapolis NASPL conference. The biographies of the 2011 Lottery Industry Hall of Fame inductees are included in this issue. Congratulations to **Henry Chan**, **John Musgrave**, **Jaymin Patel**, **June Roache**, and **Carla Schaefer**, and thank you for inspiring in all of us the passion and commitment to the mission of Lottery. And Congratulations to **Clint Harris** for a fabulous career and thank you for graciously accepting the PGRI Lottery Industry Statesman Award. Clint's bio' is included as well. Also recognized was the winner of the **Sharp Award for Good Causes, Western Canada Lottery Corporation**. The Sharp Award goes to the lottery with the largest increase in funds transferred to Good Causes, and Western Canada sure did deliver on that one with a 24.25% year-over-year increase!

We send out an electronic newsletter four times a week, dubbed the PGRI Daily News Digest. Please visit www.PublicGaming.com or e-mail Sjason@PublicGaming.com to be put on the distribution list. It's free. Too, visit www.PGRItalks.com to view presentations and panel discussions from PGRI conferences.

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best-in-class practices, analyzed our own efforts, and recommended a focus on instant and online sales for maximum impact. We saw a 10% increase in the first quarter of 2011 versus the same period in 2010. Our collaboration with GTECH really paid off."

Alice Garland, *Executive Director, North Carolina Education Lottery*

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Alice Garland

Linh Nguyen

Acting Director, California Lottery

PGRI Introduction: The California Lottery is on quite a roll. In fiscal year ending June 30, 2011, sales increased to nearly \$3.44 billion, which represents a 13 percent increase from last fiscal year's total of \$3.04 billion. "We're excited about how far we've come in such a short period of time," Lottery Commission Chair John Mass said. "We're proud to be able to provide more than a billion dollars to education for the 11th consecutive year, but we want to do more. With great new games, promotions, and a responsible business plan, the Lottery is poised to take its sales to new highs in 2011-2012." There have been significant changes that have fueled this outstanding performance. In 2010, a bill was passed that allowed the lottery to increase prize payouts. The CA Lottery itself reinforced those legislative changes with an ambitious 3-year plan to refresh the brand, streamline operations, and integrate everything into a sustainable long-term growth strategy. It is exciting to see what Team Lottery can accomplish when given the chance!

Paul Jason, Public Gaming: What do you think were the main factors behind your recent sales growth?

Linh Nguyen: There were two main factors. One is the prize payout flexibility we received from Assembly Bill 142 sponsored by Assemblywoman Mary Hayashi and the other is the hard work and dedication of our employees in the successful implementation of our three-year business plan.

Let's start with AB 142.

L. Nguyen: We had put together the 3-year plan with the hope that we would be able to increase prize payouts. We knew the plan would help us grow sales, but we also knew that an increase in prize payouts would help us grow sales substantially more. In April 2010, we got our wish when Assembly Bill 142 was signed into law. Overnight, we went from having one of the most restrictive statutes on prize payouts to one of the most flexible. AB 142 eliminated the 34% requirement for education and replaced it with a requirement that we manage our prize payouts in a way that maximizes funding for education. It reduced our administrative expenditure cap from 16% to 13%. It also has minimum performance requirements that, if not met, would trigger the repeal of our flexibility and revert to the old formula.

Increasing the prize payout percentage im-

proves the product's value to the consumer, provides us with a powerful message that gets consumer attention, and gives us a tool to drive sales and profits. A relatively small increase in prize payout percentage can be leveraged into a much more significant increase in top-line sales. Although the increase in prize payout percentage leaves a smaller percentage to be transferred to education, the total dollars going to our beneficiary goes up. And at the end of the day, you can spend a dollar, but you can't spend a percentage. So these changes have resulted in increased funding to education and that's what our constituents care most about and the reason the Lottery was created in 1984.

That seems like well-constructed legislation, giving the lottery some flexibility to put its money where its mouth is, but then also enabling the legislature to reassert control if the performance targets were not achieved.

L. Nguyen: I think it was very well constructed in that it did not establish a specific prize payout level or profit requirement. Instead, it trusted the Lottery Commission to set prizes at a level that would maximize funding for education. The minimum performance levels in the bill effectively protect the interests of the legislature, the voters of California and stakeholders in education. At the same time, it provides the lottery with the flexibility to quickly boost

performance in the short-term and build brand equity and sustainability for the long-term.

Is there anything that you would have liked to have seen in the legislation that was not there?

L. Nguyen: Not in terms of prize payouts, because of the real flexibility it gave us. AB 142 really created a win, win, win ... win situation. Players receive more prize money and more entertainment value. Retailers receive more commission. Education receives more total lottery funding. And our organization now has the opportunity and increased motivation to improve performance across the board.

In terms of other legislative changes, I think the next hurdle for lotteries is determining their future on the internet. After all, this is where consumer shopping habits are trending and we need to be ready to meet consumer demand. For now, AB 142 enables us to serve our stakeholders well and to deliver sustained growth for the next several years. In that regard, we are in better position for growth than lotteries that have a more mature instant product.

AB142 set the stage for changes in prize structures. How did you change your approach as a result?

L. Nguyen: The first thing it allowed us to do was to keep a \$5 ticket on the street at all times. In the past we had offered a \$5 ticket maybe one or two quarters out of the year because we couldn't



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afford the higher prize payout in those games. You can't put out a higher price-point ticket without giving players something in return, such as better value through a higher prize payout percentage. In fact, all states have tickets priced higher than \$5, but we really weren't able to consistently offer a \$5 ticket because of the payout restrictions. Now we have four to five \$5 tickets on the street at all times. This is a huge improvement in our product offering. It's what's driving our current sales growth. We've also increased prizes in all of our other price points as well to make all the games more appealing to players. But we make sure to wring every ounce of promotional impact out of any improved value we deliver! Having established the \$5 price point as a permanent part of our portfolio, we recently launched a \$10 ticket. In fact, we are the last state to offer a \$10 ticket so we knew based on other states' experiences the \$10 ticket would be successful.

How is the \$10 ticket performing?

L. Nguyen: It's been out for a week and has already exceeded expectations. We projected about \$7.25 million in sales for its first week, so we were happily surprised when sales shot up to \$12.5 million. It has also lifted overall instant sales. We had been averaging about \$42 million a week, but with the launch of the \$10 game we had a \$53 million week.

Is there research or evidence that measures the responsiveness of players to increases in the prize payout percentage?

L. Nguyen: In the history of the California Lottery, we've been able to significantly increase prize payouts only twice before, both times being funded by redirected cost savings. We measured the impact and saw a 7-1 return in sales, and a 2-1 return to education for every \$1 we were able to put towards prizes.

A net ROI of 100%. Spend \$1, get \$2 in return.

L. Nguyen: Right. In developing our own strategy and projections, we did not rely solely on our own limited experience. We also analyzed the more recent experience of other states. And we look carefully at all the details of promotion and implementation to ensure we optimize the long-term impact on funding to education. Long-term sustainability is a central theme to everything we do.

California may have benefited from being late to the game of higher prize payouts because we were able to learn quite a bit from the experience of other state lotteries and their best practices. For that we owe them a debt of gratitude. We were able to study the experience of others, and be counseled by others on their experience. Having the benefit of seeing the effects of different ways of going to market helped us

sharpen our approach to effectively build brand equity and consumer awareness for a more exciting Lottery. Based on our assessment of the long-term impact of different approaches, we focused on building a sustainable growth strategy. And so we didn't drastically increase prize payouts right away, by increasing the number of \$5 games followed quickly by a \$10 game even though that would have generated a higher increase in sales in the very short term. Instead, we wanted to implement the increases strategically over time so that we could maximize our return over the long term rather than just a one or two year boost followed by a leveling off period. So we established the \$5 game as a permanent part of our portfolio before introducing a \$10 game.

On the flip side though, sustainable growth doesn't mean having a low-key approach to marketing. We boosted the prize payouts of all Scratchers by three to six percentage points to provide enough added value to capture the attention of the consumer. We also dramatically increased our advertising effort against the Scratchers product – something we hadn't done in a long time. So sustainable growth strategy doesn't translate into having a conservative approach to sales and marketing. It means having a measured and calculated strategy to optimizing long-term transfers to our beneficiary. That means maximizing the ROI of every dollar spent on increased prize value and marketing. And ensuring that consumer expectations are managed such that we stay on their radar as an exciting product that delivers a great playing experience while at the same time leaving room for us to grow with our customer and continue to exceed expectations long into the future. So we're very careful about that, and I think that our sales results over the first year show that we got it right.

An important aspect of managing for sustainable growth is to recognize that prize payout is just one product attribute. We want to manage the long-term development of an entire portfolio of products and integrate the attribute of prize payout into a broader plan of building brand equity into each product, establishing some core games around which we build specific sets of product attributes, and differentiating those core games from each other. So, we want to create value for each product and each set of core games based on a variety of product attributes, only one of which is prize payout. For instance, we developed a win for life game, we called it 'Set For Life', and we established a price point with advertising and marketing and that synchronizes with the type of value that a player wants from this type of game, which is a much different profile than the player who runs out to buy lotto tickets when it reaches giant jackpot levels. We wanted to create a core game that could be

a relatively permanent part of our instant portfolio. The long-term sustainable growth approach means thinking about all the component parts of the business and the products and making sure that we can meet consumer demand and expectations now and in the future.

To what extent would you attribute your 13%+ sales increase to the flexibility you were given to manage prize payout structure?

L. Nguyen: Flexibility to manage prize payout is vital, because without it marketing can only take you so far. But even so, it is still just a part of the overall action plan that includes many other things. Without a holistic and strategic approach towards thinking of prize payout as but one part of a broad palette of product attributes and management and marketing tools, the short-term sales increase would have been less, and the long-term growth would definitely not realize its full potential. Managed improperly, increasing prize payout percentage can result in nothing more than a short-term spike in sales with a flattening out and little room to maintain ongoing growth.

The real key for us was to fundamentally change our business practices to make the most of the opportunity AB 142 provided. That's where our 3-year business plan and change management effort came into play. We called this effort the "Renew" project. At its core, the Renew Project is a renewal of our innovation, drive, and commitment to maximizing funding for California's public schools.

It was really the hard work and dedication of our staff that has made the difference. Without them, making real change is impossible.

To what extent did Camelot contribute to your success?

L. Nguyen: Getting the flexibility to manage your prize payouts comes with a new responsibility and a lot of work to make the most of it. We knew this was a huge undertaking and we leveraged all of our resources. There's the old saying that failure is an orphan and success has a thousand fathers. The truth is that we sought advice from all of our key vendors and industry experts. Our senior management team did an outstanding job of vetting all of this information to develop and implement the business plan. Our sales force did a tremendous job of focusing on the activities that truly drive sales at retail. Our sales force is the face of the lottery with our retailers and they have really risen to the occasion. My hat is off to them for their ability to focus despite the economy and state budget crisis. It is a true testament to their dedication to growing our contribution to public education.

Managing change and boosting morale were also extremely important. And the key is com-



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munication. These are activities that our communications team tackled without using vendors. Employees want to know what is going on and how they can contribute. We now inform staff of our plans for the year and they receive weekly sales updates and advanced notice of advertising campaigns and significant events. We've also created opportunities for them to work as a team and interact like never before. And it's paying off. Morale and productivity are higher than I have ever seen it.

How has your Internet strategy evolved?

L. Nguyen: We're transitioning from a typical government entity website that provides information, to one that has become a core piece of our player loyalty efforts. We are launching a new website before the end of this calendar year, and are very excited about that. One of the key features of the website is our second-chance program. It's modeled after what Rebecca Hargrove implemented in Tennessee. So we're thankful to her for her help and assistance in our program, which will make our website much more valuable to our players.

But you are already ramping up quickly, aren't you?

L. Nguyen: Yes. Our second-chance programs have given away nearly \$8 million so far since May 2009. Our quarterly Replay pool draws are now attracting more than 25 million entries. And since 2009 we have had nearly 175 million Scratchers tickets entered for a 2nd chance to win. We have almost 2 million registered players, which grows at a rate of 3% a month. And now the new website includes a true loyalty rewards program where players will be awarded points for participating in various casual games for fun.

That's amazing. You are clearly doing a lot of things right. The 3% per month growth rate will level off a little at some point, won't it?

L. Nguyen: We do not think that it will. Our programs are staged to roll out with the clear objective to keep it fresh and changing. I frankly expect the growth rate to increase. The second-chance draws and loyalty programs are hugely popular with the consumer. We just need to stay connected, keep it fresh and engaging by

evolving it to stay in step with changing consumer tastes and trends. And that is what we are going to do. Attrition rate for membership programs are, on average, high. The consumer loses interest quickly if the program is not constantly evolving to maintain consumer interest.

You incentivize the players to register by awarding points that can be redeemed for lottery tickets or merchandise?

L. Nguyen: Exactly. The player must register in order to enter non-winning ticket numbers into drawings. The challenge is creating awareness, in just letting more people know about the program. Right now we are only doing scratchers. Next up is to expand the second-chance program to draw games.

Well, that would be huge. A whole new group of consumers. I can see why you are confident that the 3% monthly growth rate is sustainable. Why isn't everyone implementing second-chance draws for lotto as well as scratch-offs?

L. Nguyen: It's like with any product and promotion in the lottery business. You have to



decide how to best use your prize funds. The prize funds for the second-chance programs have to come from somewhere. The business has to make decisions about whether the funds are best allocated towards second-chance draws, or to fund another prize tier in a draw game, for example. But based on our experience we believe that second-chance programs are an incredibly powerful marketing tool, they result in converting the customer into a registered member, and so funding it is simply a top priority for us.

So your in-state lotto game, Super Lotto Plus, will have a second-chance program?

L. Nguyen: Yes, that is the plan. It also differentiates our in-state game from Mega Millions since they are both priced at \$1. We feel that getting our players to become registered members is one key to long-term growth, so we want our lotto players to be registered as well as our instant players.

Are you thinking of adding Powerball?

L. Nguyen: We are currently evaluating the \$2 Powerball game. We are conducting research

at this time and have not made a decision regarding Powerball. Right now, we have a marketing calendar that is queued up with advertising for Scratchers, Mega Millions, a new website, and holiday promotions. We want to make sure \$2 Powerball is the right game for us, that we are able to market it properly, and that we launch at an ideal time. I think the key to a successful launch of a \$2 Powerball game is how well the game can be differentiated and marketed within our lotto portfolio. We are anxious to see how the game performs in other states. Looking at our growth curve, Scratchers are taking us to another level and we are determining whether \$2 Powerball will help us get to yet another level.

It makes sense that when Powerball was opened up to the Mega crowd that you passed on it because you already have two really strong \$1 lotto games. Now that PB is at \$2, you've got a product that is differentiated and perhaps does contribute to the portfolio of lotto products in a way that yet another \$1 lotto wouldn't have done.

L. Nguyen: Right. For us, differentiation is the key. We learned that from the introduction

of Mega Millions. The marketing strategy was to encourage players to play both Super Lotto Plus and Mega Millions. It makes sense – the addition of Mega Millions gave players another jackpot game to play on different days of the week. However, it did not play out that way. It launched well, but combined sales of the two games not only leveled off, they actually fell to a point that was below the level of Super Lotto Plus prior to Mega Millions. There was much larger cannibalization of Super Lotto and some players simply left the lotto category altogether. We are very sensitive to the need to manage an entire portfolio of products for optimal overall results. Expansion of products without a well-conceived and executed strategy can be counter-productive. At this point, we are assessing how \$2 Powerball fits into our portfolio of lotto games.

Insofar as Super Lotto has been declining, and Powerball now has a price point that is different from Mega, why not just replace Super Lotto with Powerball?

L. Nguyen: That's the question. Keep in

...continued on page 33

JCM Wins Resorts World New York

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Jean Jørgensen

Executive Director, World Lottery Association

PGRI Introduction: The World Lottery Association (WLA) was formed in 1999 with the mission to advance the interests of government-authorized lotteries. This global professional association includes government lottery and gaming organizations from more than 80 countries on 6 continents. Member revenues exceed \$200 billion U.S., with the majority of the net proceeds going towards the support of Good Causes. Government gaming operators share many common purposes. Among other things, they all offer the consumer a safe and secure place to play games of chance, protect the player and promote responsible gaming, and endeavor to channel the economic benefits of the gaming industry back to society. And all members adhere to the strictest standards of social responsibility, responsible gaming, and security and risk management.

The world is in a period of significant change and evolution. The tremendous social, political, and economic changes are catalyzing change both in the way business operates and on the regulations that have dramatic impact on our industry. We need leadership with a vision towards how each of us can contribute to the most positive outcomes for the beneficiaries and stakeholders of government gaming. The values of the WLA—responsibility, integrity, professionalism, and innovation—are well known to all of us (and you can read more about the activities of the WLA at www.world-lotteries.org). But the manner and methods of accomplishing its objectives are evolving too. The goal is to work with the regional associations to implement an agenda that makes a real difference, one that supports and helps its members to achieve their vision for their own businesses, their own communities, and their stakeholders and beneficiaries.

Having just come off of the biggest industry conference in North America, NASPL (held this year in Indianapolis, Indiana – congratulations to everyone for producing such a fabulously successful conference!) it's not too soon to start promoting the biggest event ever to be held for the government gaming industry, which is the World Lottery Summit 2012. This will be a combination of two separate symposiums (the global biennial WLA conference and the annual NASPL conference) into one giant convention and trade-show of unparalleled depth and quality. The theme for WLS 2012 is "a world of opportunities à la Montréal", reflecting the world of opportunities arising from the rapid pace of change in the lottery industry, and the world of opportunities that awaits you in multicultural, cosmopolitan Montreal. For more information about WLS 2012, see the convention and trade show web site at www.wls2012.com. We look forward to seeing you in Montreal, September 9–12, 2012, for the World Lottery Summit.

Paul Jason, Public Gaming: Looking Ahead: Where will we be in ten years?

Jean Jørgensen: The challenge will be to protect the exclusive province of traditional lotteries. The threat to the basic model is not only from regulatory change. It comes also from the increase in gaming options, and the technology that is enabling easy consumer access to the explosion in gaming options. The problem is that operators in all the other gaming categories are envious of the one thing that lotteries have and they do not, which is high profit margins. So, as operators strive to develop their businesses, they will be looking for all manner of ways to get the lottery customer to move their lottery spend over to them. Regulatory change is but one of their weapons. Another weapon they have is capital resources and the ingenuity to create more and more gaming options, to employ more and more sophisticated customer acquisition strategies and loyalty incentive programs, and to implement an array of customer user interfaces through all the different media channels that will, over time, become very difficult for the consumer to resist. Even though lottery revenue results do not now reflect major inroads from these competitors, we can see this happening already. That's why we need to communicate with our political constituents, shapers of public policy, and with the general media about the importance and validity of the lottery model that depends on exclusivity.

It has been explained to me that most of the non-lottery gaming operators are not making much money in European markets where the competition has intensified. Internet operators are being forced to abandon their B2C consumer-facing model and try to develop B2B strategies.

J. Jørgensen: That may be true. However, the commercial community is starting to innovate, developing new products and approaches. For example, the traditional sports-betting space used to be owned by the lotteries in Europe. Fifteen years ago, nobody thought that would ever change. But change it did, so that there became lots of operators—typically operating out of tax heavens—and new forms of betting like in-play betting developed. Now extrapolate this one little corner of the betting world across all categories and imagine how similar innovations could attract more and more of the recreational gaming dollar. Lotteries need to be at the forefront of this technology development to remain relevant. I'm glad to report that many are.

We fight the regulatory battles. How do you see this going?

J. Jørgensen: Defending the lottery model from regulatory change is and will continue to

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be a top priority. Without market exclusivity, the business disappears, for the simple reason that there is no tax in existence that comes close to the margins that lotteries command and that are needed to maintain funding for the Good Causes supported by lotteries. The benefits accrued to society by this exclusive model are so compelling that we have good reason to believe they will continue to be upheld. But constant and effective communication is needed to make sure legislators and the general media understands what is at stake and the need to preserve it.

Do you see that as being part of the mission of the WLA: Communicating with the shapers of public policy to defend the lottery model?

J. Jørgensen: Our role is to facilitate communications up and down the line. It is not our role to engage politically at the local or national level. That is the purview of the regional associations or the national lotteries. But the WLA acts as a communications hub, facilitating access to the people, data, and research that can help lotteries accomplish their objectives. The WLA magazine, website, and staff are dedicated to sharing information with our members, helping all of our members understand our industry from a global perspective, and trying to connect our members with each other in ways that will reinforce the power of Brand Lottery throughout the world as well as helping one another with our specific challenges and issues. The dedication of lotteries to player protection, responsible gaming, integrity and security of games, and in particular respect for the laws of the land in general, is what separates us from the offshore commercial gaming community. That is an important message and we need to make it known.

Why doesn't the WLA position itself to be the business intelligence resource for its members all around the world? Somebody should organize all relevant information in such a way as to turn this data into positive action. The trick of it is that for it to be most powerful, this business intelligence resource should integrate the information from lotteries all over the world into one giant data-base. That somebody should, it seems to me, be the WLA. Nobody else is in as centrally connected position to succeed at turning a vision like that into a reality.

J. Jørgensen: That is on our agenda, and we already serve this purpose in part. I will give just one example. Recently, the WLA debuted a new business intelligence initiative, the WLA Quarterly Lottery Sales Indicator (QLSI). The QLSI provides WLA members with a timely and accurate summary of lottery sales around the globe. With this regular digest of sales, the WLA aims to provide member lotteries with a barometer for trends in global lottery sales, as well as with a gauge to calibrate individual lottery performance. Issued every three months to WLA members in the form of a quarterly report distributed by e-mail, the QLSI consists of a news bulletin and

accompanying spreadsheet. The press release summarizes regional and global lottery sales of participating lotteries over the last quarter, while the spreadsheet comprises the actual quarterly sales data for participating lotteries together with an elementary descriptive statistical analysis. All WLA members and WLA associate members receive the summary news bulletin. Lotteries participating in the QLSI also receive the sales data and statistical analysis. The advantage of participating in the project is that the collected sales data is only made available to the participants. Currently, some thirty WLA lotteries from four continents are participating in the QLSI, with the resulting compendium accounting for fifty percent of total lottery sales globally.

The QLSI is a good example of business intelligence that the WLA is uniquely placed to offer, because of the global focus of the Indicator. To be even more effective in our provision of business intelligence services, however, we need to be still more comprehensive and include data from all the lotteries. This is a function that would complement the role of the regional associations, some of whom do collect this data. Our ultimate goal is to enable all of our members to systematically identify and replicate the best practices of lotteries throughout the world. Lotteries and shapers of public policy are all trying to understand their businesses, the markets, the trend-lines, and the potential outcomes of different kinds of decisions, policies, and new initiatives. Strategy that will determine the future success of their businesses depends on business intelligence that is truly comprehensive, encompassing our entire industry. The industry is now global. The data and statistics that describe our industry should therefore come from all over the world. The business model of lotteries that sell the traditional products of Instants and Lotto is quite similar throughout the world. And yet lotteries and their markets are all in different developmental stages, and other external circumstances also vary throughout the world. What a tremendous opportunity this is to learn from the events and experiences of others. Our mission is to quantify that information to help lotteries have greater visibility into the future. It is a huge task, of course, but well worth the effort.

The WLA is organizing the data about revenues, both aggregate and broken down by product category, funds transfers, correlated with demographic data and such?

J. Jørgensen: The WLA is trying to organize data collected by the regionals into a global resource that can be made available to all the members. Again, our mission is to complement what is being done by the regional associations to add value to our membership.

What does the WLA do that the regionals don't do?

J. Jørgensen: That is an important question. To some extent the business of clarifying that is

a work in progress, and will always be a work in progress. The basic mission of the WLA is to serve its members. But that does not exactly answer your question because the membership of the WLA is made up of lottery operators that are also members of the regional associations. There are five regionals, NASPL in North America, EL in Europe, APLA in Asia-Pacific, CIBELAE in South America, and AALE in Africa. We serve our member lotteries but we strive to also serve and work with the regional associations. So it is partly a matter of clarifying how we can best coordinate our mission with the mission and objectives of the regionals.

California is the most recent U.S. lottery to earn the Level 3 certification for Responsible Gaming, and I know they are convinced that the certification process has helped them systematize best practices in every area of business.

J. Jørgensen: The process has been fine-tuned over the past three years. It includes reviews by a world-class panel of experts from outside of the lottery industry. These experts are from the fields of marketing, operations, and government relations. The certification processes for Responsible Gaming and Security are highly valued by our members because they in effect promote a best-practices approach to the business. Responsible Gaming and Security are central to the business model of all lotteries and, we feel, a key to differentiating lotteries from all other operators. Responsible Gaming and Security are both focused on the protection of the consumer, both are associated with the brand value of lotteries, and both are critical to the shapers of public policy.

Education and training are such a vital part of both your charters. But that is also true for the regionals. How do you coordinate who does what so you don't end up competing for the attention of the member lotteries?

J. Jørgensen: First, the WLA would never compete with the regionals. We design our services to complement those of the regional associations. In this as in all areas, our mission is to serve the membership and help them in whatever ways we are able. If the regional association is meeting the needs of the membership in a particular area of education, then we have no reason to duplicate those efforts. And the one who decides if the need for education and training should be met is the regional association. In other words, we take direction from the regionals and work with them rather than compete.

We are working with all the regional associations to clarify a way forward for us to contribute to their goals, to help our members optimize their business. As you point out, the WLA is in a unique position to serve needs that are best met on a global scale. Creating a higher level of service and helping the lotteries optimize their business and build a sustainable approach to serving their stakeholders is the goal of all the lottery associations. ♦



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Alan Eland

Senior Vice President & Chief Operating Officer
GTECH North America

PGRI Introduction: When we look at year-over-year growth rates for lotteries in North America, the difference between the high-growth lotteries and low-growth lotteries does not seem to be very big. The cumulative effect, though, adds up to be quite significant.

The difference in levels of market penetration varies widely. Removing the skewing variable of VLT revenues, sales per capita range from below \$100 per cap (18 or 19 lotteries in that category) to over \$200 per cap (13 or 14 lotteries in that category). Six lotteries have a market penetration of over \$290 per cap. There is even a wide difference between lotteries that offer the exact same portfolio of products, with some lotteries having literally twice the sales per cap as others that sell the same range of products. It should be acknowledged that in some cases the lower sales per cap may be a public policy choice. But I would think that at least in some cases, this variance in market penetration would represent a huge potential to increase sales and funding to Good Causes. This issue inspired a conversation with Alan Eland in which we explore the drivers of growth and the application of the Player-Centric model. The Player-Centric model provides a blueprint for migrating from what is essentially a transaction-driven business, i.e., selling the "hope and dream," toward a relationship-driven business based on delivering a genuinely engaging game-playing experience.



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Paul Jason, Public Gaming: By most conventional standards, the lottery industry is in the mature stage of its life cycle. And yet GTECH seems to be doubling down on the prospects for growth, the kind of investment strategy that would be more reflective of being in the earlier stages of the lifecycle. How do you see the traditional products getting back into high single-digit growth, and what factors will drive that growth?

Alan Eland: Let me start by saying that we view the opportunity to work with our customers on growth potential as having to be earned. In my role as COO of North America, my priority is to first ensure that GTECH delivers on its commitments with the highest levels of service. And only when we exceed customer expectations on the quality of products and services that we provide do we have the privilege of working with them on things like sales growth initiatives. I think of that as being the foundation upon which we can enable our lottery customers to achieve what-

ever objectives they set for themselves.

I absolutely see that there's potential for traditional lottery products, online and instant, to produce significant growth in both the near and the long term. Today, there are lotteries that are experiencing very strong growth: high single digits or even double digits in some cases. And most interesting, the high growth is occurring in some of the more mature lotteries. I am talking about organic growth within the traditional products. Now, some of the growth is partly driven by legislative changes that give a lottery more control over things like prize payout percentages. But there are other states that are experiencing similar growth without such regulatory changes. So, higher growth rates are being achieved.

From a business management point of view, that raises two simple questions: What are these lotteries doing differently, and can this be replicated in other jurisdictions? By this I don't simply mean, can we transfer best prac-

tices from one state to another. Each lottery is different and faces its own challenges and opportunities for growth. The key to seizing on these opportunities is to first understand exactly what is happening inside the respective jurisdiction. It starts with analyzing the data and transforming it into information that can be shared across the entire lottery organization. That information enables us to develop knowledge about what is happening across the business and out in the field. This knowledge can then be used specifically to develop insightful strategies to grow sales and profits based on unique opportunities identified within each individual jurisdiction. The drivers in each jurisdiction may be different, but the underlying principles for how you identify and develop executable strategies based on those insights are consistent across any jurisdiction.

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Steve Saferin

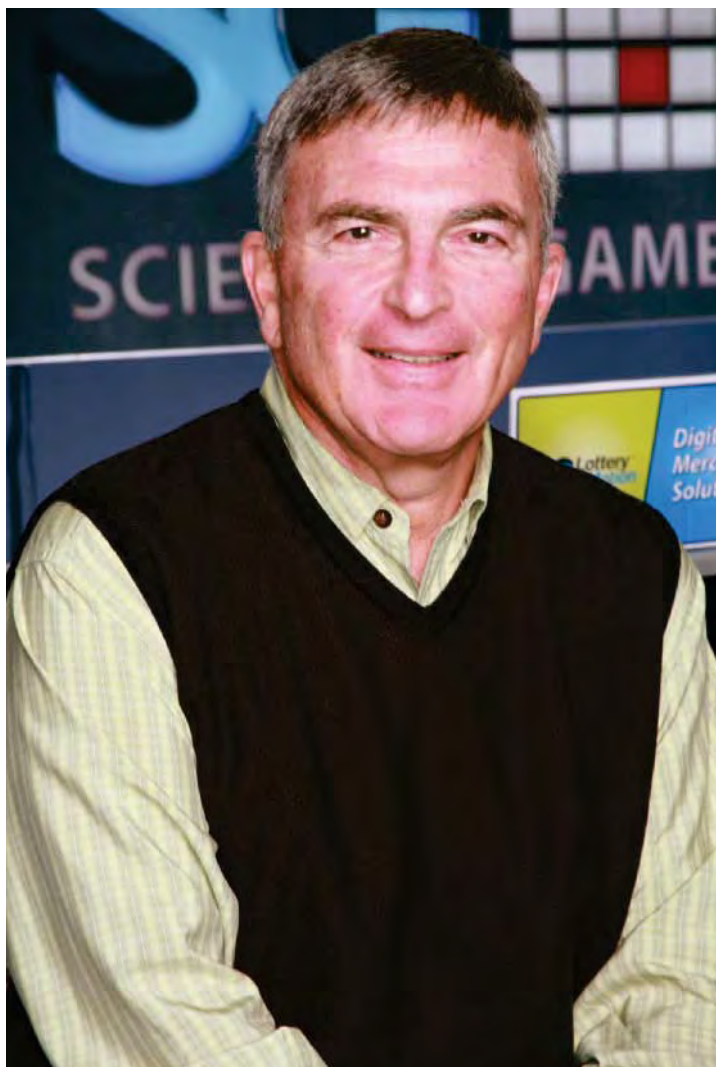
President, Properties Group
and Chief Creative Officer
Scientific Games Corporation

PGRI Introduction: It has sometimes seemed as if lotteries were playing catch-up with other sectors of the broader industry that include recreational gaming, wagering, and gambling. Not anymore. Much has changed over the past few years. We could perhaps peg the start of the transformation with the launch of the first 2nd Chance internet website in 2001, accelerated with the launch of the Michigan Lottery Players Club in 2005. This was followed by other lotteries that built websites to engage their players in internet-based relationships. Some lotteries then began to sell tickets online. 2nd Chance interactive games exploded on the scene in 2008. MDI Entertainment and Scientific Games played a most formative role in the development of this multi-channel approach to building a more dynamic and engaged relationship with the consumer.

Assessed as isolated initiatives that contribute to the success of lotteries, these are impressive steps forward. Thinking about this sequence of innovations as all part of a bigger picture, the transformative impact of these innovations promises to put Team Lottery on the leading edge of the broader gaming and wagering industry. Team Lottery is transforming from a transaction-driven business, operating as a monopoly that sells a limited number of products through a massive network of land-based retailers, to a multi-faceted business that sells a broad portfolio of products through multiple channels and media. As players clubs, loyalty programs, and multi-state collaborative initiatives overlap to create more exciting ways to engage consumer interest, the potential impact of a fully-integrated approach would seem to be immense. In 2003, Steve Saferin was appointed President of Scientific Games Ventures. That position evolved to his current position as President, Properties Group and Chief Creative Officer for Scientific Games.

MDI Entertainment, LLC, the company Steve founded in 1986, is part of his portfolio and is now a wholly-owned subsidiary of Scientific Games. MDI is the leader in providing branded entertainment and promotions to the worldwide lottery industry. Steve's emphasis is on emerging growth and new business opportunities tied to the deployment of intellectual property.

Prior to founding MDI, Steve was Director of Program Acquisitions at ESPN, and active in cable television franchising as a Vice President with Viacom Communications and Warner Amex Cable. In addition, he was an Attorney-Advisor at the Cable Television Bureau of the Federal Communications Commission and a member of the law department of Viacom International, Inc.



“What separates a regular players club from a loyalty club is the rewards. Instead of a transactional relationship with the customer (players club), a loyalty club fosters an emotional relationship with the player.”

Paul Jason, Public Gaming: Let's first get some background on the history and current state of progress in each of these areas, starting with players clubs. They started with modest ambitions

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WHY SENATORS KYL AND REID ARE WRONG ABOUT STATE- AUTHORIZED INTRASTATE INTERNET GAMBLING

by Mark Hichar,
Partner, Edwards Wildman Palmer, LLP
MHichar@edwardswildman.com

I. Introduction

In their July 14, 2011 letter to Attorney General Eric Holder, Senators Jon Kyl and Harry Reid noted with alarm that certain state lotteries had indicated that they intended to move forward with plans to offer lottery products on the Internet on an intrastate basis. Regarding such Internet gambling, where the player purchasing the lottery

product and the lottery server accepting the purchase are located in the same state, they wrote:

[W]e have heard that at a major conference in May, several officials from various state lotteries boasted that they have obtained the Department of Justice's effective consent by writing letters of their plans that stated that if no objection was received they would proceed with their Internet gambling plans — and no objection has been received despite many months or years.

In light of the lotteries' intention to proceed, the Senators urged the Department of Justice ("DoJ") to "reiterate the [DoJ's] longstanding position that federal law prohibits gambling over the Internet, including intra-state gambling (e.g., lotteries)." The Senators reminded the DoJ that the basis for the DoJ's position "has been that all forms of Internet gambling are illegal — including intra-state Internet gambling, because activity over the Internet inherently crosses state lines, implicating federal anti-gambling laws such as the Wire Act."¹

While Senators Kyl and Reid accurately described the DoJ's position regarding intrastate Internet gambling promoted during prior administrations, they were wrong to urge the DoJ to adhere to it — especially with respect to non-sports intrastate gambling conducted in accordance with the intrastate Internet gambling safe harbor contained in the Unlawful Internet Gambling Enforcement Act of 2006 (the "UIGEA").² This is because the DoJ's historic position — although not entirely without support — is unlikely to prevail when tested in court.

Contrary to the view historically espoused by the DoJ, intrastate Internet gambling should not be found to violate federal law, where the wager (i) does not relate to a sporting event (subject to certain exceptions for pari-mutuel wagering on certain events), (ii) is made and accepted in the same state, (iii) is authorized by that state's law, and (iv) complies with the intrastate gambling exception to unlawful Internet gambling contained in the UIGEA. (Such gambling is hereinafter referred to as "State-Authorized Intrastate Internet Gambling").

II. The Federal Laws Usually Cited by the DoJ are either Inapplicable or are Intended to Assist State's Enforcement Efforts, Not Thwart Their Policy Decisions

The primary laws cited by the DoJ in support of its past position regarding intrastate Internet gambling are the Wire Act, the Travel Act of 1961 (the "Travel Act")³ and the Illegal Gambling Business Act of 1970 (the "IGBA").⁴ For there to be a violation of the Travel Act, there must be an underlying violation of state or federal law, and a violation of the IGBA requires an underlying violation of state or local law. Thus, the IGBA does not apply to State-Authorized Intrastate Internet Gambling, and the Travel Act would apply only if the gambling activity were to violate a different federal law — i.e., the Wire Act.

However, State Authorized Intrastate Internet Gambling would not violate the Wire Act. The only federal appeals court to examine the applicability of the Wire Act to non-sports gambling held that the Wire Act applies only to wagering on sporting events.⁵ (The U.S. District Court for the District of Utah held otherwise, but this lower court decision has precedential value only in Utah.⁶)

Even if the Wire Act were applicable to non-sports gambling, however, it would be contrary to the purpose of the Wire Act for it to be used to prohibit State-Authorized Intrastate Internet Gambling. To make such gambling illegal merely because the wagering transmis-

1) The "Wire Act" refers to the Wire Wager Act of 1961, at 18 U.S.C. § 1084. 2) 31 U.S.C. § 5361 et seq. 3) 18 U.S.C. § 1952. 4) 18 U.S.C. § 1955. 5) In re MasterCard Int'l Inc., 313 F.3d 257, 262 (5th Cir. 2002). 6) United States v. Lombardo, 639 F.Supp.2d 1271 (D. Utah December 13, 2007).

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sions, although sent and received in the same state, might be routed outside it (because they were carried on the Internet), would be contrary to the purpose of the Wire Act. As stated by the U.S. District Court for the Northern District of West Virginia, in a case decided in the year after the Wire Act was enacted:

The purpose of [the Wire Act] is to assist the various States ... in the enforcement of their laws pertaining to gambling, bookmaking, and like offenses and to aid in the oppression of organized gambling activities by prohibiting the use of ... wire communication facilities which are or will be used for the transmission of certain gambling information in interstate ... commerce ...⁷

More clearly, the Court stated: “[T]he objective of the [Wire] Act is not to assist in enforcing the laws of the States through which the electrical impulses traversing the telephone wires pass, but the laws of the State where the communication is received.”⁸

Thus, it would defy common sense if the DoJ were to apply the Wire Act to prohibit wire transmissions between points in the same state, where such transmissions constituted wagers authorized by that state’s laws. Use of the Wire Act to prohibit such intrastate gambling authorized by a state would actually thwart that state’s laws, directly contrary to the Wire Act’s stated purpose.

III. The UIGEA Excepts Intrastate Internet Gambling from “Unlawful Internet Gambling”

The UIGEA makes clear that Congress intended that State-Authorized Intrastate Internet Gambling (other than on most sporting events) not be unlawful under federal law. In the UIGEA, Congress explicitly excepted Internet gambling from “unlawful Internet gambling,” where:

- (i) the bets or wagers are placed and received exclusively within a single state;
- (ii) the bets or wagers and the method by which they are placed and received is expressly authorized by and placed in accordance with the laws of such state;
- (iii) the state law or regulations include (a) age and location verification requirements reasonably designed to block access to minors and persons located out of the state; and (b) appropriate data security standards to prevent unauthorized access; and
- (iv) the bets or wagers do not violate any provision of:
 - (a) the Interstate Horseracing Act of 1978;⁹
 - (b) the Professional and Amateur Sports Protection Act;¹⁰
 - (c) the Gambling Devices Transportation Act;¹¹ or
 - (d) the Indian Gaming Regulatory Act.^{12, 13}

Whether the electronic packets constituting the bets or wagers may be routed out of the state before returning does not affect whether the gambling is excepted from “unlawful Internet gambling.” The UIGEA states: “The intermediate routing of electronic data shall not determine the location or locations in which a bet or wager is initiated, received, or otherwise made.”¹⁴

Although the UIGEA does not amend any previously-existing federal (or state) gambling law¹⁵ (the UIGEA merely facilitates enforce-

ment of otherwise unlawful conduct), the above intrastate exception to “unlawful Internet gambling” demonstrates that Congress did not intend that such intrastate Internet gambling would be prohibited. Moreover, previously-existing federal laws do not prohibit non-sports intrastate Internet gambling which has been authorized by the state in which it occurs. The Wire Act, as aforesaid, applies only to wagering on sporting events, and the other federal laws historically cited by the DoJ in support of its argument that intrastate Internet gambling is unlawful – i.e., the Travel Act and IGBA – require a separate local, state or federal law violation, and there would be no such violation where the intrastate Internet gambling were authorized by applicable state law (given the above-demonstrated inapplicability of the Wire Act).

While the statute clearly excepts State-Authorized Intrastate Internet Gambling from prohibition, regardless whether the bettors are wagering from their home computers, the UIGEA Conference Report strangely suggests otherwise. That report discusses the UIGEA’s intrastate gambling 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.¹⁶

Thus, the Conference Report suggests that the UIGEA’s intrastate Internet gambling exception is meant only to create a safe harbor for intrastate Internet gambling where the wagering occurs from retailer terminals and not from home computers, and where the bets or wagers do not cross state lines. This is inconsistent with the plain language of the UIGEA’s intrastate Internet gambling exception, and if upheld as a correct interpretation would make the exception almost meaningless. The UIGEA’s intrastate Internet gambling exception is an exception to the term “unlawful Internet gambling.” If the exception were intended to relate only to gambling that does not involve the Internet, as the Conference Report suggests, then the exception would be redundant, since, by definition, “unlawful Internet gambling” must “involve[] the use, at least in part, of the Internet.”¹⁷ In addition, to claim that the exception “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,” would read out of the statute entirely the language of 31 U.S.C. § 5362(10)(E), which makes the intermediate routing of electronic data irrelevant as long as the bet or wager begins and ends in the same state.

In any event, the confusing UIGEA Conference Report is not rele-

7) *Yaquina v. United States*, 204 F.Supp. 276, 279 (N.D. W.Va. 1962) (quoting from Attorney General Robert F. Kennedy’s letter to the branches of Congress dated April 6, 1961). 8) *Id.* (emphasis added). 9) 15 U.S.C. § 3001 et seq. 10) 28 U.S.C. § 178. 11) 15 U.S.C. § 3001 et seq. 12) 25 U.S.C. § 2701 et seq. 13) 31 U.S.C. § 5362(10)(B). 14) 31 U.S.C. § 5362(10)(B). 15) 31 U.S.C. § 5361(b). 16) 152 Cong. Rec. H8026-04, p.8; 2006 WL 2796951 (Cong.Rec.) (emphasis added). 17) 31 U.S.C. § 5362(10)(A). 18) *Bedroc Limited, LLC v. United States*, 541 U.S. 176, 124 S.Ct. 1587, 1595 fn. 8 (2004) (citations omitted). 19) Lottery ticket subscriptions – essentially lottery play purchased in advance for a period of time six-months or longer in duration – are sold over the Internet (to persons located in the state) by the state lotteries in Illinois, Minnesota, New Hampshire, New York, North Dakota and Virginia. 20) Indeed, such activity arguably is not “interstate commerce” within Congress’ plenary power under Article I, Section 8, Clause 3 of the United States Constitution (the “Commerce Clause”). A discussion of Congress’ power under the Commerce Clause is outside the scope of this article. 21) Similar letters include those sent, in 2001, to the United States Virgin Islands Casino Control Commission, and in 2002, to the Nevada Gaming Commission. 22) 18 U.S.C. § 2. 23) Some state lotteries, however, have proceeded to sell their products via the Internet – albeit in a limited fashion. Lottery subscriptions – essentially lottery tickets for a period of time six-months or longer in duration – are sold online (to persons located in the state) by the state lotteries in Illinois, Minnesota, New Hampshire, New York, North Dakota and Virginia.

vant to the interpretation of the UIGEA's intrastate Internet gambling exception, because the language of the UIGEA's intrastate Internet gambling exception is clear and unambiguous. It is one of the fundamental rules of statutory construction that "resort to legislative history [is permitted] only when necessary to interpret ambiguous statutory text ... Where a law is plain and unambiguous, whether it be expressed in general or limited terms, the legislature should be intended to mean what they have plainly expressed, and consequently no room is left for construction."¹⁸

IV. To find that Federal Laws Prohibited State-Authorized Intrastate Internet Gambling would wrongly imply that existing Intrastate Gambling Activity was Also Illegal

Finally, if one were to accept the argument of Senators Reid and Kyl in their July 14 letter – that intrastate Internet gambling is unlawful, "because activity over the Internet inherently crosses state lines" – then businesses in Nevada and lotteries in states that utilize interstate communications networks to facilitate gambling that is otherwise intrastate would be subject to possible prosecution by the DoJ. By way of example, many state lotteries utilize satellite communication technology to transmit bets and wagers from retailer locations in the state to the lottery data center located in the same state. Such communications inherently cross state – and national – boundaries, before returning to the same state. More significant, at least six state lotteries allow persons within their states to purchase lottery ticket subscriptions over the Internet, an activity legally indistinguishable from purchasing individual lottery game-play online.¹⁹ Congress could not have intended that such activity be prohibited, when authorized by the law of the state in which it occurs, merely because an interstate communication facility was utilized to carry the wagering transmissions between points within the same state.²⁰ Were this otherwise, it would require state lotteries and other licensed intrastate gambling businesses to use "closed-loop" communication networks whereby all wagering transactions were transmitted not via the most efficient path available, but rather via a path that never traveled across the state's boundaries. Such a restriction would serve no policy purpose whatsoever, and would needlessly restrict the ability of states to conduct lawful gambling within their boundaries.

V. The DoJ should Remove the Cloud over Intrastate Internet Gambling

Notwithstanding the above legal analysis, the intimidating effect of the DoJ's historic contrary position cannot be denied. Letters such as those written in 2005 by United States Deputy Assistant Attorney General Laura H. Parsky to the Illinois Lottery have intimidated states from authorizing or conducting State-Authorized Intrastate Internet Gambling, even though the weight of legal authority indicates that the DoJ's position is unlikely to succeed when challenged in court. The Parsky letter, and those like it (all from prior administrations),²¹ typically threaten with prosecution not only the state operator, but also its vendor – the latter under the federal "aiding and abetting" statute.²² It is not surprising, then, that state lotteries and their vendors have been reluctant to proceed with State-Authorized Intrastate Internet Gambling.²³

Thus, it seems that until the DoJ clarifies its position on State-Authorized Intrastate Internet Gambling, or is challenged in court on the issue and loses, states' further expansion of their lawful wagering games on the Internet will occur under a cloud – i.e., there will be at least some risk of federal law enforcement action. While



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SSAE 16 REPLACING SAS 70 ADVANTAGE TO THE LOTTERY INDUSTRY

by Neil S. Gonsalves, Director, A-align CPA's, LLC

OVERVIEW

The AICPA's Statement on Standards for Attestation Engagements No. 16 (SSAE 16), Reporting on Controls at a Service Organization was issued in April 2010. As of June 15, 2011, the SSAE 16 effectively replaced the long standing SAS 70 as the U.S. standard for reporting on a service organization's internal controls. SSAE 16 is also referred to as Service Organization Control (SOC) Reporting 1. The focus of SSAE 16 is on controls at a service organization likely to be relevant to user entities' internal control over financial reporting. The SAS 70 has been used as the de facto standard for the Lottery industry for close to 20 years now. For service organizations that currently have a SAS 70 service examination ("SAS 70 audit") performed, changes will be required to effectively report under the new SSAE 16 standard.

APPLICABILITY OF SSAE 16 TO THE LOTTERY INDUSTRY

If you are a company directly providing services to the various Organizations that run the Lottery programs or are a vendor associated with companies that provide the Lottery industry with services such as electronic funds transfer and as such have a direct or an indirect impact on the end customers' financial statements the SSAE 16 will be applicable to your company. Organizations that outsource their gaming and transaction processing systems to services providers require independent assurance that the provider has adequate controls in place so as not have an adverse impact over the controls related to and the accuracy of its financial statement. The SSAE 16 report is the perfect vehicle for Organizations to obtain that level of assurance and for services providers to provide that assurance to them.

WHY THE CHANGE FROM SAS 70 TO SSAE 16

Globalization of business process outsourcing drove the need for a common global standard. SSAE 16 was issued to align with International Standards on Attestation Engagements (ISAE) 3402. There was also the need for increased emphasis on the service organization rather than the auditor. SAS 70 was more focused on the auditor rather than on the service organization. Companies reporting under SAS 70 had several misunderstandings in that SAS 70 was thought to be the implementation of best practices and that it was a certification. SSAE 16 clarifies these misunderstandings.

TWO TYPES OF ENGAGEMENTS

SSAE 16 will continue to enable a service

...continued on page 37

Why Senators Kyl and Reid are Wrong about State-Authorized Intrastate Internet Gambling ...continued from page 25

the lotteries in some states and in the District of Columbia have stated that they intend to move forward with plans to offer gambling products on the Internet on an intrastate basis notwithstanding the DoJ's historic position,²⁴ a DoJ clarification of its historic position – in line with the weight of the law – clearly is desired. As stated by United States Assistant Attorney General Michael Chertoff in his August 23, 2002 letter to the United States Virgin Islands Casino Control Commission:

As a general rule, the Department of Justice is limited by statute to providing legal advice within the federal government and the Criminal Division does not issue advisory opinions with respect to the legality of specific gambling operations. This allows the Department to defer the resolution of legal questions until it is confronted with a concrete situation requiring action in a judicial forum.

We may, however, provide general guidance as to relevant statutory provisions that are applicable to Internet gambling.

It is hoped that the DoJ will provide such general guidance now, and indicate that State-Authorized Intrastate Internet Gambling is not prohibited under federal law.

VI. Conclusion

In these times of extremely challenging state financial circumstances, states should not be foreclosed from pursuing lawful means of generating revenues. The position espoused by Senators Reid and Kyl regarding intrastate Internet gambling is against the weight of legal authority and should not be adopted. The DoJ should make clear – pursuant to its ability to provide general guidance – that State-Authorized Intrastate Internet Gambling is not prohibited by federal law. ♦

24) The District of Columbia passed the "Lottery Modernization Amendment Act of 2010," which was a part of the "Fiscal Year 2011 Supplemental Budget Support Act of 2010" (codified at D.C. Code § 3-1313). It authorizes the D.C. Lottery and Charitable Games Control Board to offer both games of skill and games of chance via the Internet. See: <http://www.dclottery.com/pdfs/igaming/iGaming%20FAQ%20Final.pdf> (last accessed October 8, 2011).

We Speak Lottery



The Lottery Industry Hall of Fame was founded by in 2005 as a means of honoring those who have done the most to make the world lottery industry the great success that it is today and their efforts to promote excellence and integrity in our industry. These five inductees were selected for this recognition by the current membership of the Lottery Hall of Fame. PGRI, the members of the Hall, and all of our friends and colleagues in the industry extend our heart-felt congratulations to the 2011 Inductees of the Lottery Industry Hall of Fame.

We invite you to visit www.lotteryindustryhalloffame.com to read about the Hall of Fame and its membership.



HENRY CHAN
 Executive Director, Betting, The Hong Kong Jockey Club (HKJC)

Henry Chan is responsible for the Hong Kong Jockey Club's betting business, including horse race betting, football betting and the Mark Six Lottery, which generated a total turnover of US\$16 billion in the 2010/11 season. HKJC is one of the largest racing organisations in the world. The Club's mission 'Racing for Charity' is realised through a unique, not-for-profit business model whereby its surpluses go to charitable and community projects. The Club's average donations of over US\$128 million every year make it the largest non-government charity donor in Hong Kong. Drawing comparison with the US foundations, the Club's annual donations rank it in the top 20 US philanthropic foundations, the top 5 US corporate foundations and the top 20 European foundations.

Since joining HKJC in 1974, Henry Chan has taken leading roles in a number of major projects of the Club. He was responsible for the design and implementation of customer facilities and betting services at the Sha Tin Racecourse opened in 1978, the second racecourse in Hong Kong and one of the finest and best-equipped in the world, providing up to 85,000 spectators with leading-edge racing and betting entertainment.

One of his proudest achievements is the successful launch of a new football (soccer) betting service in 2003, again at government's request as the growth of live TV coverage had spawned a huge illegal market in football betting. Not only did this involve recruiting some 4,000 new staff and training a further 6,000 existing employees within an incredibly tight timescale, it also meant a fundamental change in the Club's operations, as it was now offering fixed-odds betting in contrast to the pool betting system that had always been adopted for Hong Kong's horse racing. He played an important role in urging the authorities to enhance the Club's ability to fight against illegal gambling by introducing regulated football betting in 2003 and revamping the betting duty system for horse racing in 2006.

Henry has also played a significant role in the industry's development elsewhere in Asia, having been a driving force in the setting-up of the Asia Pacific Lottery Association (APLA) in 2000. He was elected Vice Chairman of the Asia Pacific Lottery Association at its founding in June 2000 and was appointed to the New Media/Cross Border Committee of the World Lottery Association in March 2001. He was elected Chairman of the Asia Pacific Lottery Association in September 2004 and re-elected for a second term in November 2006. He has been a member of the Executive Committee of the World Lottery Association since 2004 and elected as Vice President in October 2008 and Senior Vice President in November 2010. Henry has contributed his expertise to the establishment of WLA's Responsible Gaming Framework. The HKJC has been active in this area for a number of years, having implemented a wide-reaching Responsible Gambling Policy throughout its operations.

Married for 35 years with three daughters and three grandchildren, Chan's devotion to his family is well-known among HKJC colleagues, though he still finds time to engage in charity work on a personal level, for example through his 20-year membership of the Rotary Club.



JUNE ROACHE
 Chief Executive of the Lotteries Commission of South Australia (SA Lotteries)

Appointed to the position of CEO in 1995, June Roache's experience in the gaming and wagering industry goes back even further. Prior to her appointment at SA Lotteries, June was a senior executive at SA TAB, the off-course wagering business. June has also held the position of Chief of Staff to the State Minister of Transport, the Arts and Status of Women (in South Australia).

Professional Qualifications and Associations

June is a Certified Practicing Accountant (CPA), holds a Bachelor of Accounting from the University of SA as well as a Graduate Certificate in Management from Mt. Eliza Business School. She is a Fellow of the Institute of Company Directors, a Fellow of the Australian Institute of Management and a Member of CPA Australia, as well as being a Justice of the Peace. Her current Board memberships include Business SA (The South Australian Chamber of Commerce and Industry) and the Flinders Medical Centre Foundation. June is also a member of the Adelaide Rotary Club.

Lottery Industry Achievements and Contribution

June has been a long time contributor to the lottery industry and continues to play an active and influential role in lotteries' industry leadership. June is currently Chairman of the Asia Pacific Lottery Association (APLA) and is the regional representative on the Executive Committee of the World Lottery Association (WLA). Her Chairmanship of APLA comes at a time when Asia Pacific is the fastest growing lottery region. June is very well regarded by all APLA members in a region of diverse cultures and with lotteries at different stages of development. June also previously made a major contribution to the international lottery industry when she and SA Lotteries hosted the very successful WLA 2002 Convention and Trade Show in Adelaide.

One of June's key areas of interest is corporate governance and social responsibility. This has been applied at local level through SA Lotteries, as well as internationally through her work with the WLA CSR Committee, which developed and launched the WLA Responsible Gambling Guidelines and Accreditation Scheme. Under June's leadership, SA Lotteries is one of the lotteries to have achieved the highest accreditation level (level 4) in the WLA Responsible Gambling Certification Program. At the national level in Australia, June chairs three of the national lotto blocs and is a signatory to the Australian Lotto Blocs Industry Code of Practice.

June's leadership of SA Lotteries has delivered sustainable sales growth over an extended period and across a wide portfolio of lottery products including lotto games, instant tickets and Keno. She is focused on the mission of SA Lotteries "to benefit the community of South Australia through the responsible promotion and conduct of lotteries" and at all times operating under the values of integrity, accountability and respect.

The major benefactor of SA Lotteries' operations, the SA Hospital's Fund received almost \$100 million in fiscal 2010 to support the provision, maintenance, development and improvement of Public Hospitals (more than \$2 billion since the commencement of SA Lotteries in 1967).

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Unleashing the potential of lotteries

Hall of Fame Inductees John Musgrave, Jaymin Patel, and Carla Schaefer honored in a special ceremony at the NASPL Conference in Indianapolis on October 25.



JOHN C. MUSGRAVE
Director of the West Virginia Lottery

John C. Musgrave has served as Director of the West Virginia Lottery since being appointed by Governor Cecil Underwood in April 1997. He has been re-appointed by Governors Bob Wise and Joe Manchin, III and has served in the administration of Governor Earl Ray Tomblin – a long time in “lottery years”. Since becoming Director, West Virginia Lottery sales

have grown from a little over \$245 million to as much as \$1.5 billion - a six-fold increase (509%). Most of the resulting net profits have gone to support public school buildings and university buildings construction, economic development projects, tourism promotion, senior citizen programs, as well as to the public pension debt reduction, and to local governments for capital projects.

Prior to overseeing the state's Lottery, John held several executive-level, administrative positions with the U.S. Department of Agriculture, including Associate Administrator of the Rural Development Administration and Director of Farmers Home Administration. John also served as Regional Director of the Rural Development Administration for the seven-state, Mideast Region. John has also been privileged to receive the honor of being designated as a “Distinguished West Virginian” by two different governors.

With a strong finance and leadership background and more than four decades of public service experience at the federal, state and local levels, John was appointed Deputy Secretary of Tax and Revenue by Governor Bob Wise, and assumed the title of Acting Cabinet Secretary in November 2003. This appointment was followed by with John being appointed Acting Secretary of Administration for Budget in 2004, directing the operations of the Budget Office including the Tax, ABCA, Banking, Racing, Municipal Bonds, Insurance and the Athletic/Boxing Commissions – all while he continued to serve as Lottery Director. John served in both positions again in late 2010 and early 2011.

John was faced with a sizeable task in 2007 when the West Virginia Legislature authorized the state's racetracks to institute casino gaming under the oversight of the West Virginia Lottery. John and his managers quickly developed a new skill set in order to manage this next “lottery”, requiring the hiring and training of an additional fifty-six state workers for the enterprise. Phase-in came quickly, and by the fall of 2007, two of the four racetracks began casino card games, with true casino games, such as roulette and craps, following shortly thereafter. In 2008, the third racetrack began table games as did a small operation at the Greenbrier Resort. The Greenbrier's new underground casino and the new table game operations at the Hollywood Casino at Charles Town Races both began in early July 2009. Coordinating the staff for those simultaneous openings was daunting to say the least, with almost ninety tables going live at the Hollywood Casino, and with the national media attention drawn by the many celebrities attending the Greenbrier opening.

A graduate of the University of Charleston with a degree in Business Management, John is currently Past President of the Multi-State Lottery Association (MUSL) and has served as Chairman of the PowerBall and Video Lottery Groups for this Association. He also recently served as President of the North American Association of State and Provincial Lotteries (NASPL).



JAYMIN PATEL
President and Chief Executive Officer of GTECH Corporation

Jaymin Patel was born in Kenya, Nairobi. His grandfather first settled there after leaving his native India to work on the East African railroad. Jaymin's father was a grocery clerk and bank cashier in Nairobi before he decided to move Jaymin and his sister to London in 1970. Hoping to provide their children with a better life and education in England, his father became an accounts clerk while his mother took

a job as a machinist in a local factory. Jaymin's parents insisted he receive a formal education, and to that end, he would graduate with an honors degree in accountancy from Birmingham Polytechnic in 1989 and then go on to become a Chartered Accountant in 1992.

Jaymin had his first taste of the lottery industry when he was seconded from PricewaterhouseCoopers to work on the Camelot consortium that bid to operate the new National Lottery in the United Kingdom. Jaymin's role was to prepare the bid model and help write the business plan with representatives from the consortium companies including GTECH, Cadbury Schweppes, De La Rue, Racal, and ICL. After a successful bid, GTECH asked Jaymin to become the financial controller of the company's new subsidiary in the U. K. From there, he would go on to several positions in GTECH's European and African business and to lead some of the biggest transformations in both the lottery industry and at GTECH. He has been a leader in driving growth and innovation, and substantially improving the efficiency of GTECH to ensure its position as an industry leader.

From January 2000 to April 2007 Jaymin served as Senior Vice President and Chief Financial Officer of GTECH Corporation, and from August 2006 to April 2007, he also served as Chief Financial Officer of Lottomatica. During his seven years as Chief Financial Officer, Jaymin was instrumental in driving growth across the business, leading several mergers and acquisitions, cost optimization initiatives, and substantially improving the capital efficiency of the company.

In May 2007, he was named President and Chief Operating Officer of GTECH, and was appointed a member of the Lottomatica Board of Directors in November 2007. In January 2008, he became the President and CEO of GTECH Corporation.

Since taking the helm as President and CEO, he has implemented a new vision for how GTECH, and the industry, approach the customer. His vision of “Customer First” has set a new precedent within the industry, and consequently, has supported the company's lottery customers throughout the world to grow in a difficult economic climate.

The lottery industry continues to grow and change, and Jaymin has been at the forefront of those changes – most recently in Illinois. As one of the architects behind the bid by Northstar Lottery Group, this GTECH-led consortium bid successfully on a groundbreaking lottery private manager contract – the first in the United States. His determination to bring industry leaders together for this opportunity resulted in a stronger solution for the customer and the industry to move ahead and grow. Clarity of purpose and firm resolve to move the industry forward to generate more revenue for Good Causes has always been the driver of his vision; he continues to push both GTECH and the lottery industry to new heights with both perseverance and an unmatched work ethic.

Jaymin lives with his wife Kinnari and their three children in Providence, Rhode Island.

Lottery Industry Statesman Award

For Years of Service and Leadership that has Earned the Respect of an Entire Industry



CARLA SCHAEFER
Vice President of International Business Development, Scientific Games Corporation

Carla Schaefer brings more than 25 years lottery experience to the industry. She began her lottery career as a member of the Missouri Lottery start-up team, and carried her success to industry pioneers Dittler Brothers, BABN, Oberthur Gaming Technologies (OGT) and most recently MDI Entertainment and Scientific Games, where she now is Vice President of International Business Development.

Carla's tenure at the Missouri Lottery included a graduated series of positions, including Sales and Product Management, where she achieved consistent and substantial sales growth. As an Account Director on the FritoLay business with promotional and advertising giant DDB Needham, Carla was recruited back to the private sector of the lottery business.

In the years that followed, Carla not only demonstrated what it took to increase sales for her lottery customers using traditional best practices, but embraced true partnership and the introduction of creative approaches, as well as unique product ideas. Ask those customers in Louisiana, Ohio, California, Minnesota, New Jersey, Idaho, Oregon, or Luxembourg, Belgium, Australia and New Zealand. They will tell you one of Carla's greatest contributions has been her

ability to look at the business differently – that her ideas and innovation have been a driver of growth to a maturing industry, and that her can-do attitude and commitment to customers never fails. There is no better evidence of these contributions than her receipt of the prestigious Power's Award.

Carla went on to create the licensing division at OGT, and secure global brands such as Star Wars, Price is Right and the longest continuously running licensed game, Slingo. She invented and managed the "Dream Team," think tank (a model copied throughout the industry), authored several active industry patents and was responsible for bringing many "firsts" to customers and a business she loves.

Over the course of her lottery career, Carla has been instrumental in developing and launching initiatives that were not only successful, but changed our industry forever. A few of these are:

- MegaColor – Carla was on the development team and launched the first game in the US with Mega Color (1994), which received the Printing Industry's "Excellence in Sales Achievement"
- The first interactive games in the United States (Slingo, Tetris)
- The first 2-player instant game (a pop-up Battleship ticket)
- The first game in the US where every ticket was a winner (Missouri Fun and Fortune in 1992, and The Golden Ticket in 2000);
- The first game using the PDF 417 validation method for a game with a collection mechanism (Minnesota Monopoly);
- The first game with textured ink (1997).

Carla continues to help lotteries around the world raise money for good causes.



CLINT HARRIS
Executive Director of the Minnesota Lottery

When Clint Harris became Minnesota's second lottery director on October 11, 2004, he did so under circumstances faced by few others in the lottery industry. His appointment followed the death of George Andersen, the Lottery's longtime director, and the release of an audit critical of the Lottery's financial and marketing practices. While the initial response to the audit had fallen to Interim Director Mike Vekich, it was up to Harris to implement many of the recommendations, to re-energize a badly demoralized staff, and to continue the rebuilding effort.

"We are extremely fortunate to have found such an effective and responsible leader like Clint Harris to head up the Minnesota Lottery," said Minnesota Governor Tim Pawlenty when he announced his selection of Harris, and the Lottery's record bears out Governor Pawlenty's confidence. Harris' six years at the helm are the six highest for sales and revenue in the 21 year history of the Minnesota State Lottery. Yet Harris' path to the position was anything but conventional. He was born in New Jersey but spent much of his childhood in the Philippines, where his father worked as an Episcopal priest. When the family returned to the United States, he attended 8th grade in inner-city New Jersey and completed high school and his first year of college in Hazleton, a rural Pennsylvania coal mining community.

After moving to South Dakota to be closer to his family, Clint finished his remaining college education at Northern State University in Aberdeen, South Dakota, where he earned a Bachelor of Science degree. He later received a Master's degree in Business Administration from the University of South Dakota. While working on his undergraduate degree, he also began a 17 year career in the retail grocery business, working for a large independent grocery store in Aberdeen.

Harris joined the South Dakota Lottery in 1993 as a research analyst and later became director of administration. He was appointed acting executive director in 2000 and officially appointed to the executive director position in 2003. His four years at the helm in South Dakota resulted in four years of record transfers of revenue to the State.

Harris and the Minnesota State Lottery have become known as industry leaders in North America. Clint has served NASPL as President, Vice-President, Secretary, and Treasurer. He has also served as President of the Multi-State Lottery Association (MUSL) Board of Directors, Chairman of its Powerball and Hot Lotto Games Groups, and as Vice-chairman of the International Game Group. Under his direction, the Lottery hosted the 2005 NASPL annual conference and in 2007 played host to the WLA's Key Performance Indicators Academy. Harris has also been a leader in NASPL's standards initiative and continued Minnesota's leadership role in corporate social responsibility.

During Clint's NASPL presidency, he oversaw the conducting of the third joint conference with the WLA, World Meet '07 in Louisville, Kentucky, which was attended by 1400 lottery industry participants.

Along the way, Harris married his college sweetheart. Clint and Dawn (better known as Punky) have been married for 34 years and have three children: Eric, Chad, and Samantha, as well as 3 grandchildren: Katelyn, Karly, and Kelan.

Sharon Sharp "Good Causes" Award Western Canada Lottery Corporation

2010/2011

24.25% Increase in Net Funding
to the "Good Causes"

Honoring the Lottery with the Sharpest
Percentage Increase to Bottom Line Funds
Contributed to its Beneficiary

Presented by Public Gaming Research Institute
at NASPL, Indianapolis, IN, October 25, 2011



Government Lotteries have a special mission, quite unique really. Lotteries operate in a world of business and competition, but their mission is to create funding for good causes. And what a wonderful and special mission that is ... Generating many *billions* of dollars world-wide for Good causes that serve the interests of the general public. That is an extraordinary notion, one that should make us proud to be a part of this mission. Whether it is for education, amateur sports, health, care for the elderly, or even the general fund that is the source of all government services, the recipients of the funds generated by lottery are truly worthy causes. Too, these are needs that would likely not be met were it not for the funds produced by the lottery.

The Sharon Sharp Award recognizes and honors the lottery which achieved the highest *percentage* increase in net funds contributed to its beneficiary. Ultimately, this is what we're all in this business to accomplish ... maximizing the funds contributed to lottery beneficiaries. The top line can go up a little or a lot, or maybe even not at all. But regardless of sales or anything else, the true measure of lottery success is what has been done for the good causes that it supports. So, we think of this as a very special award because it really homes in on what matters most. This award is being named in honor of a person who is no longer with us but who has done as much as anyone to help this industry be the best that it can be. **Sharon Sharp** embraced the true mission of lottery with an enthusiasm that always reminded everyone of just how privileged we are to be a part of this industry. Sharon's focus on the good causes that depend upon lottery performance inspired Rebecca Hargrove and her

friends and colleagues in the industry to name this award after Sharon, to honor her memory and keep alive a legacy that will hopefully inspire future generations to appreciate the importance of our calling and to never lose sight of its purpose.

Message from Jim Burnett, Chair of Western Canada Lottery Corporation

To say "this was one for the record books" is cliché. But there is really no better description of Fiscal 2011. It was an outstanding year for Western Canada Lottery Corporation with cumulative sales of \$1,267,649,000.

While celebrating the success and hard work that went into this accomplishment, we must recognize the special circumstances which created the perfect environment for this to happen and acknowledge that some of these conditions will likely never be seen again. One of those special circumstances was LOTTO MAX's incredible summer run in June and July of 2010. For weeks, the Jackpot was \$50 million, while the number of available MAXMILLIONS grew. This happened not once, but twice. Western Canadians responded by enthusiastically forming lottery groups and buying tickets. It was the first time that players in Canada had seen those kinds of jackpots for that length of time and the "first time" can only happen once.

Fiscal 2011 was also a banner year for our players. Across the region, lottery players brought home prizes ranging from \$2 to over \$40 million. LOTTO MAX alone created 36 new millionaires across WCLC's jurisdiction. In all, our games resulted in the distribution of more than \$655 million in prizes to players across the region – more than 100 million dollars above last year's record-breaking total.

It was also a record-breaking year for our retailers. The excitement generated by LOTTO MAX translated into additional income for the thousands of lottery retailers in cities, towns and rural areas across our region. Retailer commissions rose by more than \$17 million to \$82.9 million, an amount which contributed significantly to local economies.

Perhaps most importantly, it was an outstanding year in terms of WCLC's contribution to our beneficiaries. Almost \$432 million was returned to the Provinces of Alberta, Saskatchewan and Manitoba, and the territories of Yukon, Nunavut and Northwest Territories. These funds are used by the Provinces and Territories to support priority programs and services, community initiatives, and non-profit sport, culture and recreation groups throughout the region.

The unexpected financial result attained by LOTTO MAX was just one element in a solid year of achievement. If LOTTO MAX was the superstar, the supporting cast of players also performed extremely well. POOLS and PROPS, the new SPORTS SELECT games, were introduced in the fall of 2010 building on the strong player base of existing products. The successful introduction of these games was the culmination of hundreds of hours of work and coordination between WCLC and the provincial and territorial organizations.

It was a year to be remembered. On behalf of the Board of Directors of Western Canada Lottery Corporation, I offer congratulations on the accomplishments of Fiscal 2011 and sincere appreciation to the staff and management of WCLC and the provincial and territorial lottery organizations. ♦

mind that last fiscal year, Super Lotto brought in over \$430 million in sales and Mega Millions brought in over \$530 million. And so far this year, Super Lotto sales are actually ahead of Mega Millions by \$10 million because of better relative jackpots. Although Super Lotto sales have been declining, it still has substantial sales especially considering the average Super Lotto jackpot was \$15 million and the average Mega Millions jackpot was \$65 million. So jackpots aren't everything and Super Lotto has proven to have a shrinking but very loyal player base. In addition, its decline has been slowing. That's why we are putting some promotional effort behind Super Lotto by adding second chance draws and exploring other ways to differentiate it from Mega Millions. It's still the most recognized product we have.

Replacing Super Lotto with Powerball or determining how to add Powerball is a decision that could swing our sales hundreds of millions of dollars in either direction.

What are some other performance drivers that are producing such great sales growth?

L. Nguyen: One of the game changers for us is how we systematically convert data into useful information. We call it our Business Intelligence and Business Analytics system, or BIBA for short. The world is awash in data and the challenge is to separate the wheat from the chaff so we can focus on the information that matters most. An example of that is the tremendously powerful data we get from the single most important consumer 'touch-point' we have: our retailers. We wanted a system to capture large volumes of data to be sure the picture was accurate and not just anecdotal. But then we need to categorize and classify the data. From this data, we needed to identify the real performance drivers, and isolate those into a manageable number of key indices to focus on. Narrowing the focus of this particular example even further, we wanted to determine activation levels of new tickets, multiple \$5 games, and whether retailers were facing what we call the "ideal mix of games." Knowing this down to the retail level as soon as possible has really helped us make better decisions sooner.

This system allows us to identify retailers that weren't following the program so we could focus our energy there. Or we look for patterns. Like a game that is performing well in one district and not in another. We can quickly look to see if there are differences in activation levels or other factors to determine the cause and take action. Immediate action is the key. The information is of no use if we don't act on it quickly

since instant tickets are essentially a fast moving consumer good. This also enables us to identify 'best practices' and replicate them, and also identify and correct weaknesses. None of this is anything that lotteries do not already do in some fashion. It's just that we are attempting to systematically inform the whole messy process with the most comprehensive data-base possible, eliminate the guesswork, and eliminate the business of extrapolating relatively small amounts of data into far-reaching conclusions. It is all a work in progress, but I can tell you the quality of the guidance turned out by our BIBA system has made a huge difference for us. We know that the decisions we make as to how, when, and where to allocate resources and guide our supply and distribution chain partners are based on solid, reliable intelligence.

Congratulations for achieving the highest level of Responsible Gaming in the United States with the Level Three Certification from the WLA (World Lottery Association). I find it interesting that in spite of your mandate to reduce administrative expenditures as a percentage of sales, and in spite of a crowded agenda, you invested in the process of qualifying for the WLA Level Three Responsible Gaming Certification. How rigorous a process was it, and what are the benefits to your stakeholders?

L. Nguyen: It's quite rigorous, very comprehensive. But it's not an investment that we've made recently. The Lottery Act (our guiding statutes) stresses the importance of integrity, security, honesty, and fairness. This is why it established a division of sworn peace officers right here at the Lottery. Today, our security and law enforcement division is second to none in our industry. Responsible gaming is something that we have been investing in since our inception. In fact, we created the first problem gambling hotline in California. And we continue to make improvements. The WLA certification has ten pages of requirements. The business is scrutinized from every angle. It is not just about problem and under-age gambling prevention. It is also about transparency of your operation, communication to your players about the games, as well as the security and anti-fraud efforts you have in place. It took us awhile to put it together and to evaluate our business. It also encouraged us to launch initiatives and make improvements in the way we address all these different issues.

What caused you to decide to allocate the time, effort, and money to earn that WLA Certification?

L. Nguyen: Running a lottery requires balancing the needs of lots of different constituen-

cies, some with conflicting interests. Common to all our constituents, though, is the need for us to preserve the integrity of the California Lottery. Nothing else is really so fundamental to the value of this brand as integrity, and nothing else is so fundamental to the value of the asset as the brand. We view the investment we made in responsible gaming as having the best ROI of anything we could possibly do. Without integrity we would not have a lottery. It was important for our management to be evaluated as to our performance in this regard, and it will also be a useful tool to have when discussing public policy considerations with policymakers. The California Lottery has put a lot of time, effort, and resources into responsible gaming over the years and I think the lottery and the staff deserve to be recognized for their efforts.

Do you see it as possible to have a nationalized approach to branding and advertising of one of the big multistate jackpot games? My thought being that of course not everything would be nationalized, but isn't there some small portion of it that could be coordinated on a national level?

L. Nguyen: I think it is possible for the various jurisdictions to find common ground. Even if we can't get complete census, I think that we can get the most out of any multi-state game advertising by coordinating a campaign. This is especially helpful to smaller states that don't have as many resources. Increasing sales in all states helps us by accelerating jackpot growth. If there were a way to make it happen, that would be a great thing for multi-state games. I would be in favor of getting a unified branding and advertising approach together. Regardless of the difficulty of getting 44 jurisdictions to agree, it's worth embarking on the effort to develop a nationalized approach, even if it is for a relatively modest objective to start out with.

You are in the middle of your three-year plan. What is your action plan for the third and final year of the plan?

L. Nguyen: Year three is when we look seriously at changes to our jackpot games and increasing our web presence. We're doing the research now and planning on pulling the trigger on some of those changes in fiscal year 2013. The other area of focus in the third year will be internet. We are already ramping up, and expect to accelerate the process in the third year of the plan and have a really robust player loyalty program. I'm really excited about how well we are doing and all of the things we have planned. But I am most proud of how everyone in our organization rose to the challenge and continues to exceed expectations. ♦

MDI Unveils the Next Generation in 2nd Chance Play

Interactive Game Play and Cash Prizes Break New Ground

What if your instant games offered 2nd Chance opportunities that included interactive game plays and a chance to win substantial instant cash prizes online? Would more instant tickets be sold? Would it drive more traffic to lottery web sites and help attract

emerging market players? Scientific Games thinks so, which is why its subsidiary, MDI Entertainment, LLC, has developed the Arcade Zone™.



As lotteries compete for attention on the internet and the limited expendable income of today's consumer, they must be proactive in attracting and engaging people online in meaningful ways. Creating a cycle of online engagement that drives instant game sales and vice-versa is important, and 2nd Chance Promotions have been successful in achieving this thus far. Players have responded well to the 2nd Chance Games lotteries have offered on their web sites, so the logical question is, "What's next?"

The Arcade Zone is a web site that takes 2nd Chance play to an exciting new level. Players can select the interactive games they want to play, enjoy extended playing time with every ticket entry and, for the first time ever in the United States, have a predetermined opportunity to win an instant cash prize from a lottery online. It's an excellent way for lotteries to promote instant ticket sales and drive greater player interaction.

The initial version of the Arcade Zone includes eight interactive games featuring several of the popular Hasbro® brands available through MDI's licensed game portfolio. All have been created by the experts on the MDI Interactive team to capture the game play of their respective brands and offer quality, extended play experiences. Lotteries may run any number of \$2 instant games featuring any of these brands. Each participating instant ticket will

"It's customizable and turn-key. From the web site development to the online prize structure administration, we provide everything, and there are no out-of-pocket costs for the lottery." – Steve Saferin



bear the Arcade Zone logo on it to alert players of the 2nd Chance opportunity.

If an instant ticket carrying the Arcade Zone logo on it doesn't produce an instant win, numbers from it may be entered into the ticket entry portal on the Arcade Zone web site for 2nd Chance play. Every non-winning instant ticket entered on the site will yield four virtual game tokens that can be used to play any of the offered interactive games in any combination.

Each time a player's four-token game "package" concludes, an on-screen message notifies the player of what he or she has won — entry into a drawing or an instant cash prize. All game outcomes are predetermined using Scientific Games' patented encryption technology, and MDI handles the management of and fulfillment for all cash prizes and prize drawings.

"Each time a player's four-token game 'package' concludes, an on-screen message notifies the player of what he or she has won — entry into a drawing or an instant cash prize"

"The Arcade Zone provides a win-win situation for the lottery on a number of levels," says Steve Saferin, President, Properties Group and Chief Creative Officer for Scientific Games. "The lottery gets a quality, multi-game web site that players will want to visit over and over again — and for greater periods of time. We feel very strongly that by providing their players with the added value of a fun, extended play experience and a second chance to win cash instantly, lotteries will strengthen their relationships with their players and encourage greater participation in their games across the board."

Saferin adds that the Arcade Zone is backed by a full array of support services that make it extremely easy for lotteries to implement. "It's customizable and turnkey," he says. "From the web site development to the online prize structure administration, we provide everything, and there are no out-of-pocket costs for the lottery."

With its multi-game choices, multiple game plays and instant cash prizes, The Arcade Zone is a new and exciting concept in 2nd Chance promotions. By creating a fun, interactive and rewarding experience for players online, it should prove to be very valuable in attracting new players, increasing players' club memberships and enhancing lottery-player relationships — all key factors in fostering future success. ♦



BREAKING NEWS: SPIELO AND ATRONIC REBRANDED AS SPIELO INTERNATIONAL



SPIELO and ATRONIC have joined forces to become a single, unified business, provide compelling content across multiple gaming channels under the new name SPIELO International.

SPIELO International represents the formal integration of SPIELO, a 20-year veteran of government-sponsored gaming that offers an established portfolio of VLT games, systems, and cabinets, and ATRONIC, which provides commercial casino and AWP games, cabinets, and casino systems. The new name marks the conclusion of the two companies' efforts to consolidate and become an integrated, content-driven, multi-segment, global business. With approximately 1,200 employees in 17 countries, SPIELO International expects its larger scale and broader scope to increase its competitiveness and strength.

"By bringing the two businesses together to concentrate on the single, unified goal of being a gaming content leader, we have become more efficient and focused," said SPIELO International President and CEO Walter Bugno. "Eliminating duplication has allowed us to expand our investment resources, while we continue to customize our products to the needs of specific markets." He added that customers will not see a change in personnel or in office locations as a result of this integration. Bugno said customers will benefit from an increased speed of delivery – particularly of new technologies – because rather than spending time on maintaining separate platforms, SPIELO International has kept the same number of people who are now all working on the common platform.

Customers should see also an increased focus on game performance, as the company combines the best of the best. It is investing in building its game development capability so it can continue to create and improve on the performance of the games that they have and are continuously releasing. The key for the company has been to determine a common direction, and to make sure its priorities weren't conflicting. It has created an integrated management team with responsibility for all segments, not just a single segment, and all geographies, not just a single geography.

"That has allowed us to develop common product roadmaps, common technology roadmaps, and consistent costing and pricing. Our marketing now is aligned into one message, so there are a lot of efficiencies and benefits this business will be able to draw from this integration and then convert that into positive momentum into the marketplace," Bugno said.

Spielo International Profile

SPIELO International designs, manufactures and distributes top-performing games, cabinets, central systems and associated software to legal gaming markets around the world. It offers a complete range of end-to-end gaming products for diverse gaming segments, including distributed government-sponsored markets, commercial casino markets, and Amusement with Prize (AWP) markets.

Serving more than 1,500 customers on five continents, SPIELO International serves markets ranging from Finland to Argentina, and from California to Malaysia. SPIELO International has shipped more than 200,000 gaming machines worldwide,

and holds more than 300 gaming licenses. Of those, it is licensed to sell machines in 25 U.S. states, including Nevada, as well as to 142 tribes.

SPIELO International has a dedicated workforce of approximately 1,200 employees in 17 countries. Its manufacturing operations are in Moncton, Canada, with major offices located in Graz, Austria; Las Vegas, Nevada; Lima, Peru; Luebbeke, Germany; Monaco; Moncton, Canada; Rome, Italy; and Warsaw, Poland.

SPIELO International is a wholly-owned subsidiary of Lottomatica S.p.A., one of the world's largest commercial lottery operators and a market leader in the Italian gaming industry. Lottomatica is majority owned by the De Agostini Group, a century-old publishing, media, and financial services company.

SPIELO International is also a platinum member of the Gaming Standards Association™ and supports open industry standards such as Game to System® (G2S®) and System to System® (S2S®) protocols.

SPIELO International was formed by the integration of former sister companies ATRONIC and SPIELO. SPIELO was established in Canada in 1990, and became the world leader in the design, manufacture and distribution of high performance Video Lottery Terminals (VLTs), games, central systems and services.

ATRONIC was established in Austria in 1993 and became a leading provider of casino games and products, including linked gaming solutions. In 2003, ATRONIC acquired MIS (Monaco Information Systems) in Monaco and GRIPS in Austria, and combined them into ATRONIC Systems, the largest systems provider in Europe.

GTECH acquired SPIELO in 2004, and later, in 2008, GTECH completed its acquisition of ATRONIC. In 2006, GTECH Holdings Corporation was acquired by Lottomatica S.p.A., and in 2009, SPIELO and ATRONIC became direct subsidiaries of Lottomatica.

Products

SPIELO International's current product line includes an always-expanding library of more than 350 compelling, player-tested games, including linked and community games, as well as widely recognized licensed brands such as DEAL OR NO DEAL™ and STARGATE™.

SPIELO International's cabinet portfolio includes upright and slant-top video cabinets, such as the award-winning prodiGi Vu™ cabinet, aimed at both the government-sponsored and commercial casino markets; the Vu Slant™ terminal; and the WinWave Vu™ VLT. It also offers

PASSION Slots™ mechanical reel cabinets. In international markets outside of North America, products under the ATRONIC brand include the OXYGEN™ upright and slant top cabinets, as well as the delite™ Amusement With Prize (AWP) cabinet. Combined with exciting, player-driven games, these products meet or surpass industry standards on performance and reliability.

On the central system side, SPIELO International has provided the most secure state-of-the-art systems with unparalleled support for distributed government-sponsored and international commercial casino markets.

Based on 20 years of central system experience, SPIELO International's INTELLIGENT™ Central System was developed exclusively for government-sponsored distributed and venue gaming markets. When INTELLIGENT was deployed in Italy in 2010, it became the first system in the world to provide Game to System® (G2S®) compatibility to a government-sponsored VLT environment. (Game to System and G2S are registered trademarks of the Gaming Standards Association™.)

Products for the commercial casino markets include its scalable GALAXIS™ modules, which provide a powerful and diverse casino management tool for single-site and multi-site operations; CRYSTAL WEB™, which has been deployed in more than 50,000 slot machines around the world; and the CRYSTAL.net™ casino floor network, offering the next generation of online platform and multimedia LCD player tracking.

For more information on SPIELO International and its products, please visit our website at www.spielo.com. ♦

auditor to perform two types of engagements:

A Type 1 engagement in which the service auditor reports on the fairness of the presentation of management's description of the service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description as of a specified date.

A Type 2 engagement in which the service auditor reports on the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period.

NOTABLE CHANGES INTRODUCED BY SSAE 16

The following are some of the notable changes introduced by SSAE 16:

- A written assertion by management is required and must include the suitable criteria used for its assessment.
- The Audit report must include a written assertion by the subservice organization if the inclusive method is used.
- While the SAS 70s required only a description of controls, SSAE 16 requires a description of systems / processes.
- Management of the service organization must identify risks that threaten the achievement of the control objectives.

BENEFITS TO SERVICE ORGANIZATIONS

Service organizations such as services providers within the Lottery industry, vendors who sell software to the Lottery industry, and companies that provide services such as electronic funds transfer can all receive significant value from having a SSAE 16 examination performed. An SSAE 16 report with an unqualified opinion that is issued by an independent CPA firm differentiates the service organization from its peers by demonstrating that it achieved a defined set of control objectives relevant to its specific industry and that its controls are effectively designed and in the case of a Type 2 report that the controls are operating effectively over a period of time. An SSAE 16 report will not only help a service organization build trust with its existing customers but also position itself in the market place to attract new clients. A clean SSAE 16 report can put small to mid-sized service organizations on a level playing field with some of their larger competitors. Most requests for proposals (RFPs) today almost inherently have the requirement for the service organiza-

tion to have been subject through an SSAE 16 examination. In fact, by not having an SSAE 16 examination, you face the likelihood of being eliminated from an opportunity before even having the chance to bid.

The Sarbanes Oxley Act ("SOX") requires that publicly traded companies that outsource a portion of their processes obtain an SSAE 16 report from their service organization. The SSAE 16 report can effectively replace the need for the service organization to be subject to multiple audits from its customers and their respective auditors. Multiple visits from user auditors can place a huge burden on the service organization's limited resources. An SSAE 16 report ensures that all customers of service organizations and their auditors have access to the same information and in many cases this will satisfy the user auditor's requirements. The SSAE 16 may also help service organization recognize significant efficiencies in its business processes as well as improvement in its controls and control environment through value added recommendations from the service auditor.

BENEFITS TO CUSTOMERS of SERVICE ORGANIZATIONS

The main benefit of an SSAE 16 report to customers of the service organizations is to be able to provide the report to their auditors who in turn can use the report in planning the audit of the financial statements and potentially could reduce a significant amount of testing that would otherwise have been necessary. Without an SSAE 16 report, the customers of service organization would likely have to incur additional audit costs to enable their auditors to perform procedures at the service organization. Customers of the service organizations that obtain an SSAE 16 report from their service organization(s) receive an independent and unbiased opinion from the service auditor about the service organization's controls and the effectiveness of those controls. The SSAE 16 report is a mechanism for customers of service organizations to demonstrate management of risks and exposures while outsourcing business services. It helps ensure processing integrity and reliability of outsourced business transactions and services.

NEXT STEPS FOR SERVICE ORGANIZATIONS AND THEIR CUSTOMERS

For service organizations that are currently subject to a SAS 70, the new standards provide an opportunity to challenge the value and re-visit the scope of your current reporting and

compliance obligations. Some of the areas you may want to consider are:

- Re-visit comments that you may have received from your existing clients regarding your current report and any improvements that may be necessary.
- Challenge the current scope to gain confidence that the report truly reflects the significant components of your business operations.
- Is your organization subject to additional regulations / guidelines that could potentially be addressed through the SSAE 16 report (e.g., Multi-State Lottery Association requirements)?
- Would this be a good time to add Trust Services reports (Webtrust, Systrust) or ISO 27001 / ISO 27002 / PCI DSS certifications to your service organization reporting process?

For customers of service organizations that currently receive a SAS 70 from their service organization, re-visit the scope of the current SAS 70 report provided by your service organization and ensure that it truly reflects their processing environment as it relates to your transactions. Involve your financial statement auditors to make sure that the new SSAE 16 report will satisfy their requirements not only in terms of scope but also timing of when the report will be made available to you by your service organization.

For service organizations that do not have an independent examination of their controls performed, it is never too late to consider obtaining one and for customers of service organizations it is never too late to ask for one.

AICPA RESOURCES

Online source center: www.aicpa.org/soc and www.aicpa.org/infotech

ABOUT A-LIGN CPAS

A-align CPAs (www.aligncpa.com) is a national provider of SAS 70, SSAE 16, and ISAE 3402 Audit and Compliance Services. A-align was founded on the key principle that an unparalleled client service experience is the greatest differentiator amongst professional service firms. Our greatest strength is that we focus specifically in delivery services to companies with regulatory or customer compliance needs. A-align has assembled a team of audit professionals that contain extensive experience in the compliance arena. With an average experience level exceeding 10 years and having completed hundreds of financial audits, SAS 70 audits and other attestation services, A-align's professional experience is one of its greatest assets. ♦

to simply give the consumer a way to learn more about lottery and create a dialogue with the players. What do the most effective players clubs do now? And how does a players club differ from a loyalty rewards program?

Steve Saferin: The Lottery industry has come late to the players club world. Many companies have been offering some form of affinity program to their customers for many years. Actually, casino companies have been innovators in this area, using players clubs as a means to gather a variety of customer information and use it for marketing and player retention purposes.

You are correct that many lotteries have had some form of players clubs as distinguished from loyalty programs for several years and that their main purpose was to serve as information centers. There was no real two-way dialogue with their players or compelling reason for players to frequent the sites as the result of purchasing lottery tickets.

And that is the primary difference between a traditional players club and a loyalty rewards program. Typically, a players club features a player registration area, the ability to sign up for e-mail alerts, participate in surveys, and perhaps play “just for fun” games.

A loyalty rewards program includes all of the features of the players club but adds a system (which can include instant or online tickets or both) where players receive credits or points based on their ticket entries and a robust rewards catalog. This catalog should feature an array of exciting redemption options including merchandise, digital downloads and offers from local retail outlets. And the program, to achieve maximum effectiveness, must be available via a shopping experience rather than a sweepstakes- or drawing-based program.

All of our research and the expert advice of our loyalty consultants arrive at the same conclusion that while players will engage initially in a sweepstakes-based promotion, over time they lose interest and disengage. In Arkansas, over 90% of the points we have redeemed have been through catalog shopping by players, and only 10% through drawing entries. We believe that 90-10 mix is probably the ideal ratio. This combination of shopping and drawings also provides the lottery with a wealth of information from the player registration, purchasing habits, ticket entry data and drawing entries.

What separates a regular players club from a loyalty club is the rewards. Instead of a transactional relationship with the customer (players club), a loyalty club fosters an emotional relationship with the player. And that

is a result of the rewards. Rewards allow the lottery to demonstrate to its players that it values their ongoing lottery play.

Loyalty programs: When did they start and how do they operate for the most advanced lotteries now? How is the Points for Prizes® program different from other loyalty rewards programs?

S. Saferin: MDI launched its first full loyalty program called Properties Plus®, which features a players club and rewards program, for the Arkansas Scholarship Lottery in 2009 at the lottery's start-up. And by all measures, it has been a resounding success, both in terms of members (now more than 200,000) and lottery sales.

The Iowa Lottery launched the Properties Plus program in May 2010, first with a refreshed players club and then a full online store (Points for Prizes). We recently responded to two competitive RFPs for rewards programs and were named the successful bidder for both lotteries. More recently we signed a contract to provide Properties Plus to the Missouri Lottery. MDI will be building and launching rewards programs for these three lotteries during the next few months. We are anticipating adding several more during 2012.

While rewards programs themselves have been around for many years, our approach

our first online 2nd Chance entry site in 2001. Prior to that, all entries were received via U.S. mail. But one day we said, “Why make people pay 34 cents to mail in their \$2 ticket entries? That's a 17% surcharge.”

Since then, the idea of entering drawings online has flourished to the point where today, almost all lotteries who utilize 2nd Chance drawings are executing them online, sometimes exclusively. Using our patent-pending Easy Entry system for these drawings, lotteries no longer have to require players to keep their tickets. They simply enter the tickets online and the system registers that ticket as their unique entry. That has probably been the single biggest advancement in 2nd Chance internet drawings.

Players clubs and loyalty programs would seem to go hand in hand, and be driven by some form of 2nd Chance draws as the key to getting the player to register. Could you connect these dots for us?

S. Saferin: In the case of Properties Plus, 2nd Chance drawings are another way to drive new members to the program. The 2nd Chance draw can be associated with a particular game as a promotion or be an ongoing feature such as our Play it Again™ program, where the last top prize of every instant ticket

“Based on what we are observing around the world, lotteries can expect to generate total sales growth in the range of 12 - 18%, or more, as their internet selling initiatives and products achieve maturity. This growth comes from a combination of sales over the internet channel and increased sales at traditional retail outlets.”

is unique. As you might expect, players earn points by purchasing lottery tickets. However, through our program, the specific number of points associated with each ticket purchased is variable by price point, and is determined as part of the game's prize structure. The player never knows how many points will be awarded until after the ticket is purchased. As a result, a sub-game and a second win experience are created with each ticket. The impact of this has been very powerful.

What was the genesis of 2nd Chance draws – when were the first truly successful ones implemented and how have they evolved since?

S. Saferin: MDI has been offering 2nd Chance drawings since 1997. We launched

is held for a drawing at the end of the game. Players who register to enter their tickets for these drawings are automatically enrolled in the Points for Prizes program, so the two programs really work hand in hand.

It would seem that people are not at all reluctant to register and let go of the proverbial “veil of anonymity” if they are just given an incentive of some kind to do so. That incentive can be in the form of free plays or an extra ticket, costing the lottery relatively little compared to what other industry loyalty programs must pay to acquire a new member. What are some of the concepts/premises underlying member acquisition strategies for lotteries?

S. Saferin: The idea that players want anonymity had not been confined to the lottery

industry, as it previously existed in the casino gaming industry as well. For many years casino operators were suspicious of player clubs because they expected their players to be resistant to sign up. It turned out that the case was the exact opposite.

A very significant percentage of players are happy to join casino loyalty clubs and identify themselves in the process as long as the rewards are meaningful. The case appears to be similar in the lottery space, and the majority of players who register opt-in to receive communications from the lottery. The key ingredient is an incentive program that justifies this action. Our Properties Plus program provides a lottery with the foundation for exactly that.

I have framed those innovations as being transformative to Team Lottery's entire business. To my mind, we are evolving from a transaction-driven business, selling the "hope and dream" at the retail store level, into a relationship-driven business that engages the consumer through multiple channels, in extended-play game formats, and in an interactive format that promotes dialogue between operator and player, but also between player and player. What do you think of this "transaction-driven" versus "relationship-driven" theme?

S. Saferin: You've hit upon our central objective. In our view relationship marketing is about moving your customer from a transactional relationship to an emotional relationship. It works to make lotteries relevant in today's customer-centric retail environment.

Ever since we entered the industry, MDI has helped lotteries begin this transition by associating well-known brands with lottery games. We've always targeted brands that we know players already have an established emotional connection with, and we've piggy-backed on top of that. The result was one of the primary catalysts for the growth in the instant game segment over the past ten years.

Now we are focused on helping our clients build loyalty programs and providing them the tools to foster deep emotional relationships with their players on a completely direct, one-to-one basis. In Arkansas, where we have the longest experience, the impact has been dramatic. Player perception of the lottery brand is exceptionally strong when compared to other lotteries, and the Arkansas Lottery has a direct channel to its player base that is unparalleled in the industry.

Mmulti-jurisdictional initiatives can be of great value to lotteries. Please describe some of your multi-jurisdictional initiatives and what you have in the pipeline for future multi-state programs.

S. Saferin: Our multi-jurisdictional initiatives provide comprehensive packages that include experiential prizes and powerful marketing. We introduced the Linked Game concept in 2007, in which multiple lotteries launch the same branded lottery game. Through our work and relationships with top entertainment and sports entities including NBC Universal, Endemol, Fremantle Media North America and Sony, we have the capabilities to provide entertainment experiences that go beyond traditional game prizing.

In the past, we've created Linked Games for the Deal or No Deal and The Price Is Right® brands, which sent lottery winners to Hollywood and Las Vegas for chances to participate in the actual game shows. We're now offering a Wheel of Fortune® Linked Game that will send winners to Hollywood, and among those winners, several will be randomly selected to play a non-broadcast version of Wheel of Fortune with Pat Sajak and Vanna White. In addition to this "trip of a lifetime" experience, all trip winners will have the chance to win up to one million dollars, so it's a really exciting game for players. This prize package and the multi-million dollar promotional program we offer with the Linked Games present a tremendous value to lotteries, and past Linked Game sales have shown that they can be a very strong revenue driver.

Most recently, we presented the idea of a National Game Show to the industry. We've worked diligently over the last 4 years to build a comprehensive entertainment platform with a National Lottery Game Show as the center piece of the program. Given the current efforts of the National Game Committee to create new ideas for a multi-state lottery game, we believe the timing is right to introduce a Lottery Game Show that will complement the launch of a new product.

It has taken several years of focused work to develop an extensive distribution plan, delivering a television show to effectively cover the entire U.S. market. It required partnering with a powerhouse company in television show distribution and sales and we have secured such a partnership with NBC Universal. With their extensive experience in gaining wide distribution of shows such as "30 Rock," "Access Hollywood," "Law and Order" and "Deal or No Deal," and through their partnerships with Tribune, WGN America, Sinclair and other group owners and individual stations, we can now establish a comprehensive distribution program for a prime-time National Lottery Game show. For the first time, lotteries will have the opportunity to sell a product tied to a one-hour prime time game show with network production values. The

promotional value of this to lotteries is priceless.

We also sought out a strong production partner that had been successful in creating exciting television formats that reached a wide audience of consumers. After meeting with the largest non-scripted production companies in the country and evaluating their show ideas, we selected Endemol. They have launched hugely popular shows including "Extreme Makeover Home Edition," "Big Brother," "Wipeout," "Fear Factor" and "Deal or No Deal".

With NBCU and Endemol, we plan to deliver a television show that will be the first to offer a Billion dollar prize to the market. Our concept, called 10 Steps to a Billion is extremely exciting, with heart-stopping elements providing a powerful viewer experience. In addition, it's complemented by a unique social media strategy and social game, an exciting mobile game tie-in, and web-based play-at-home elements, which serve to deliver a new gaming experience for lottery consumers.

But the most important component is that each week, lotteries around the country will have a unique tool to drive lottery game sales at retail. The distribution, the show and the interactive elements, all supported by a strong advertising package, will enable new revenues and profit growth for lotteries across the country.

Crystal-ball time: Imagine a world in which Team Lottery were to take full advantage of all the opportunities to optimize players clubs, loyalty programs, and multi-state collaborations to create a foundation for ongoing growth. What are the possibilities, how would that world look, how will Team Lottery stack up against what others in the broader gaming/wagering industry are likely to be doing?

S. Saferin: Looking to the future I'm particularly excited by the ecommerce opportunity for lotteries. Here in the U.S. there is a lot of debate about things like internet poker. However, internet poker, despite all of the hype, is really just a niche product when compared to participation in softer forms of gaming such as lottery gaming. Selling lottery products online is all about broadening the lottery's reach into new player segments. Based on what we are observing around the world, lotteries can expect to generate total sales growth in the range of 12 – 18%, or more, as their internet selling initiatives and products achieve maturity. This growth comes from a combination of sales over the Internet channel and increased sales at traditional retail outlets. As commercial gaming operators stir up the debate surrounding internet poker, there is a door opened for lotteries to pursue the authority to sell traditional and new soft lottery products via the internet channel. ♦

A. Eland: It's not easy, but it is, in fact, mostly a matter of execution. We talk a lot about innovation and accelerating the rate of change; however, much of the growth can be accomplished without any high-risk innovation or change with low visibility of the future outcomes. Without doing any of that, we can first just do what many successful lotteries have already done and have demonstrated to produce desired results. I would submit that we are halfway there if we can reduce this challenge to a simple matter of executing on a well-conceived plan, which is based on data and information unique to each jurisdiction that can be used to identify specific opportunities that will engage the player.

There is another basis for optimism about the prospects for growth in the U.S. lottery markets. The last couple of years have been uniquely productive with respect to collaboration between lotteries and vendors. First, there was the breakthrough "cross-sell" initiative that enables all lotteries to sell both Powerball and Mega Millions. Then in June, the lotteries approved the increase of the price for Powerball tickets to \$2. This was a vital step toward setting the stage for more progress and collaboration. The games need to be better differentiated in order to allow for further expansion of the market and introduction of more products that will appeal to a wider variety of player segments. It's incredibly exciting to go through this period of time, where collaboration enables us to increase the value that all lotteries can bring to their players. The end result will be increased sales for the lotteries and increased funding for Good Causes.

But still, there remains lots of untapped potential. What can lotteries do to improve performance and increase sales?

A. Eland: We divide the growth drivers into four primary categories. The first is communication, and that includes the distinctive positioning of the lottery and the value of the brand. Positive brand value with a high public awareness translates directly into sales growth. Next is product innovation. Innovation needs to be well-conceived and focused in order to minimize risk and maximize impact. For instance, instant ticket growth is not just about prize payouts, but the optimal mix of price points, prize structure design, distribution of prizes and games, and launch frequency, along with a host of other variables that all contribute toward a product plan that produces sustainable growth. The third area is distribution. We've talked about this for years, and the lottery industry is now on the cusp of get-

ting some of these initiatives off the ground. Whether we're talking about drugstore chains or big box retailers, we need to be flexible with how we meet these new retailer requirements to enable our products to be marketed through the retail locations where people shop. Supporting and strengthening our core retail network will always be vital and a primary source for growth. Augmenting the existing network with business models that will attract new chains and enable the industry to make lottery products more accessible to consumers will also be a key driver of growth for the future. The final area is modernization, in terms of having the technology and operational infrastructure that are needed to meet retailer and player demands efficiently – ensuring that we have optimal delivery systems, production and operation processes in place that will enable us to create the optimal consumer experience and increase the value that players get from our products.

With respect to your third driver distribution, Massachusetts has the highest per cap' sales of traditional lottery products. Director Paul Sternburg explained that they think of their retailers as customers, and that the business of the Massachusetts Lottery is to help the retailers feel really good about their relationship with the Lottery and to help them achieve their business goals and make more money.

A. Eland: I think Paul is absolutely correct in his view. The Massachusetts Lottery

tion involves a large number of moving parts that feed into the four pillars of growth that we discussed earlier.

Another example of complex execution is occurring right now in California. Acting Director Linh Nguyen is implementing a sophisticated, multifaceted plan to position the Lottery for maximizing the long-term benefit of increased flexibility to control prize structures.

So, the fact that it's all about execution does not mean that it is simple! More retailers per capita may be a simple notion, but actual execution of a plan to achieve that, and extracting maximum productivity from each store, is not easy. Likewise, increasing prize payouts can be expected to increase sales, but implementing a thoughtful plan to create a foundation for sustainable growth is no simple matter. The business of lottery is complex, but it's not without a blueprint of what we can do to make it better.

Second chance draws would seem to be the gateway toward redefining the relationship with the consumer. It's so much more than an effective promotional tool, isn't it?

A. Eland: No doubt. Second chance drawings are a great way to give additional value to the player. While it opens the door, it also really only scratches the surface of what can be accomplished. We take a view where we put the player right in the middle. When you put the player in the middle and focus on the player, it becomes clear that

"It's incredibly exciting to go through this period of time where collaboration enables us to increase the value that all lotteries can bring to their players."

has the lowest retailer per capita in the country and what you just pointed out is that they work hard to optimize the performance of each individual store. Massachusetts is a great example of a lottery that embraces high retailer density as an opportunity to make lottery products successful across all of the different store formats and ensure that lottery products work well within each "It's incredibly exciting to go through this period of time where collaboration enables us to increase the value that all lotteries can bring to their players." retailer's unique environment. Actual execu-

there are multiple ways that you can interact with that player. And technology is enabling even more ways to engage with our players. Clearly, one of those ways is the retailer. That interaction can be leveraged in new and better ways, with strong merchandizing, point of purchase digital advertising, and product innovation to better connect players clubs, loyalty programs, second chance draws, and mobile applications to the player. The number and variety of consumer engagement opportunities is expanding rapidly. Keeping the player at the center of the strategy is critical

for driving growth.

Loyalty programs would seem the perfect mechanism to drive this player-centric approach.

A. Eland: Yes. Loyalty programs are huge. Look at how Caesars Entertainment, formerly Harrah's, revolutionized the casino gaming sector with the most comprehensive player data collection system and rewards program ever implemented in the gaming sector. The casino industry has its current challenges, but its growth in loyalty program membership between 2006 and 2010 is estimated to be over 70%. Altogether, there are over two billion loyalty club memberships in the U.S. alone. But 54% of these memberships are inactive. (Source: 2011 COLLOQUY Loyalty Census.) So the real key to an effective loyalty program is sustainability, keeping the membership engaged

"The key to a good loyalty program is to reward the players with something they value."

needs and are made accessible where the player expects to have them.

A catalyst to keeping the player at the center is a sophisticated loyalty program. That is the medium that enables the dialogue to happen, the interaction between player and operator to yield the information needed to deliver just the right products at the right time through the right channels. The key to a good loyalty program is to reward the players with something they value. Knowing their preferences through the information gleaned by tracking player activity and from direct player feedback enables us to target the promotions that will further engage the players' attention and interest. This yields more detailed information about player preferences and forms the basis for a positive feedback cycle.

We're really on the cusp in our ability to drive growth from this, and we haven't even scratched the surface yet. Other industries are so much further along the learning curve, but that just means that we can fast-track our embrace of loyalty programs by analyzing the strengths and weaknesses of other approaches. In fact,

Northstar Lottery Group will launch an approach in Illinois that has been implemented with great success in other industries but not yet in lottery. That is to reward a player for the actual purchase of lottery product. Lotteries have rewarded the player in the form of second chance drawings, but never a reward directly connected in realtime with the purchase of the product. Consumer research has told us that players prefer free plays to merchandise. Extra plays are easier and more cost effective for the lottery to deliver. More importantly, perhaps, is that rewarding with the product itself does so much more to reinforce the relationship the player has with the lottery. Keeping the customer in the middle generates the positive feedback cycle needed to drive sales.

Any concerns about privacy of information?

A. Eland: Lottery players value rewards

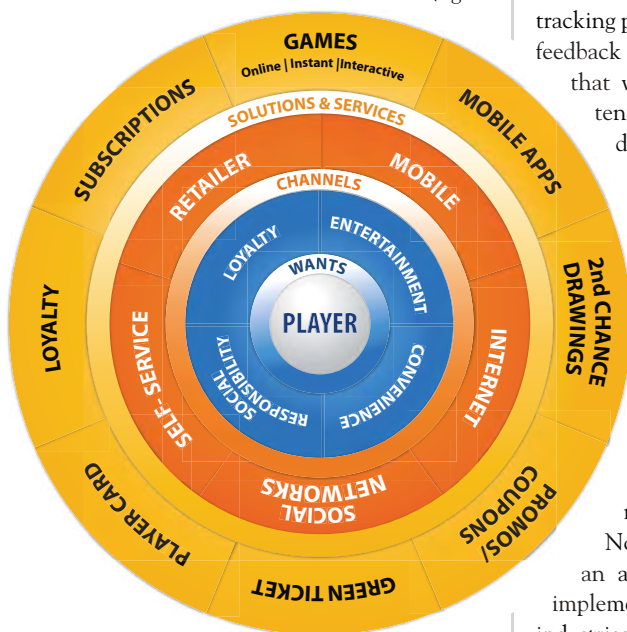
and the opportunity to be a part of a community of like-minded people. Research has demonstrated that players are willing to register and appreciate the value they will receive from the points they would earn. More specifically, the research tells us that they're willing to register, and what they value is something directly related to what they play. The players value the reward of free play or an extra play, for example, much more than merchandise that's unrelated to their original purchase. And for that value they'd be willing to waive their anonymity and actually register in these programs. Free play and extra plays are easy to deliver, engage the consumer, and reinforce the positive relationship with the brand and with the lottery.

Engaging the player with the ability to access a loyalty program or other lottery content through mobile applications is another example of a contemporary way to interact with players. While players value this convenience, at GTECH we're focused on ensuring our lottery customers have secure protocols that will enable the mobile applications to interface with existing systems and still uphold the high standards of integrity required in our industry.

This is an opportunity to actively, not just passively, engage with the player to derive value from these programs. Programs that have been based on long-term passive reward programs have higher rates of inactive members. We are prepared to take loyalty programs to the next level, where we actively engage players with games, offers, and entertainment that they value and want to affiliate with on a regular basis as part of their online community.

How else can the Internet be integrated into the instant game and the promotion of extended-play formats?

A. Eland: Consider that there is almost an infinite number of things that you can do with an instant ticket. There's the graphic presentation of the ticket, the size of the ticket, the shape of the ticket, and the flexibility on price points and prize funds. When you consider the flexibility that the instant product line



and active. Data collection is just the first step. Converting the player information into customized campaigns that deliver the right products to the right people at the right times is what makes it all work. Again, it all has to do with keeping the player at the center. We think of it as a concentric circle that puts the player needs and preferences at the inner ring, consumer engagement and distribution opportunities in the next ring, and the products themselves in the outer ring. The products are just a derivative of everything that emanates from the player. Through this nexus of interaction we understand the wants and needs of the player, and the process that turns that knowledge into products that fulfill those

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GAME 5	Green Diamond	PRIZE
GAME 6	Purple Triangle	PRIZE
GAME 7	Blue Diamond	PRIZE
GAME 8	Green Diamond	PRIZE
GAME 9	Orange Diamond	PRIZE
GAME 10	Purple Triangle	PRIZE

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gives you, there are countless ways to tie that into an interactive experience.

For example, this past July, the New Jersey Lottery launched their \$3 Bejeweled Money Multiplier game. GTECH Printing provided the Lottery with a turnkey marketing program for their Bejeweled game, complete with an interactive microsite on their website and a Facebook "Like Us" sweepstakes. Once on the Bejeweled microsite, players can log on and play Bejeweled games for fun and see if they can get their top score on the top of the leaders board.

We will launch a new program soon at the

Oregon Lottery that uses traditional instant ticket play as the vehicle into an interactive engagement with the player on the Internet. But it's not only a second chance draw opportunity. Instead, players can also enter into play for fun competitions with other registered members. They're games of skill where the player has the opportunity to earn points. Players can use their points to enter prize tournaments. Rewards can be merchandise, experiential prizes or something else, or they can be extra lottery plays, as we discussed. Players can track promotions on a live Twitter feed,

challenge their friends to a game, and track all of their top scores on leader boards. All of these features can be offered as engaging, value-added components to a dynamic loyalty program that will encourage the player to visit the website more frequently. The player gets introduced to the lottery website and gets engaged in the whole social aspect of gaming, with the opportunity to earn reward points.

California is planning to launch a similar program in the future. This is an example of a way that we can interact with the player that is completely different from and more comprehensive than anything a lottery has ever done before. It really changes the whole dynamic from what could be called a transaction-driven business into a relationship-driven business.

And drives sales.

A. Eland: It may not translate immediately into big sales growth numbers. But you are engaging the players in a whole new way that will support long-term growth and the ability to evolve with your customer. We are all trying to reinvigorate lottery sales. But what we really need to think about is how to set a course that is genuinely sustainable, that positions us to continually refresh our products and business model to evolve with the changing tastes of the consumer, changing market dynamics, new technologies, and new media.

Once again, the key is to keep the customer in the middle as the focus that drives all of our business decisions and strategies. The key to keeping the customer in the middle is engagement, staying lock-step connected to the player. A loyalty program is the foundation for an ongoing relationship that the customer values because they are rewarded with prizes that resonate for them. How do we know they resonate? Because it is an ongoing interactive relationship in which customer preferences are continually dialed into the process that determines the right product, the right reward, the right time, and the right place or medium. Players register to get rewards and to engage in social games, purchase tickets, or win tickets, and all this informs the data analysis and marketing process, which gets better and better at knowing exactly how to appeal to the consumer in general, and to the individual player more precisely. It does require a level of technological sophistication not applied to lottery before. But it's being applied now and we have the benefit of seeing just how it's done by companies like Caesars, American Express, and Southwest Airlines. The blueprint for successful conversion of these principles is clear. It requires an investment, but never has there

been a better example of “product innovation” to engage the player.

Collaboration. Any silver bullets to overcome obstacles to More, Bigger, Better multi-state collaborations? Like nationalizing aspects of brand management and advertising?

A. Eland: I would just say that the evidence clearly shows the powerful impact of collaboration. I don’t know that we need a silver bullet, because lotteries seem to recognize this and are acting on it. We all need to recognize that what has been accomplished over the past two years is quite impressive. Things that seemed unlikely even a few months ago, such as a nationalized advertising campaign, or more consistency in brand management of the multi-state game products, or national coordination of a promotional campaign, may become a reality sooner than later. The process may not always be pretty, but the debate and critical thinking that it sparks are necessary components and produce even stronger results. Crosssell and \$2 Powerball are powerful examples of what our industry can do when we collaborate.

Any possibility of standardizing transaction-processing and infrastructure to enable the national chains to even begin the process of selling your product?

A. Eland: I would not characterize transaction-processing as being the primary obstacle to breaking into the “big box” distribution network. We are looking at the whole business model of lottery and national chain stores, and there are a variety of ways to bring the two together. The standard lottery-retailer model involves paying a commission of 5% to 7% to the retailer, along with certain requirements surrounding the validation and sale of the products. That may not be the best model for national chain stores. Maybe a better model would be a small fixed fee for the lease of the space with the lottery or another third party fulfilling route management responsibilities. Maybe self-service will be best for some chains. So I think the biggest obstacle that we need to overcome is for all of us to be more flexible to develop a national approach to meeting the needs of the chain stores. We’re getting there. Lotteries and their commercial partners do see the potential and are working to build the solutions. But it’s less about transactions and reporting than it is about flexibility to explore the mechanics of different business models.

In the end, it is all about putting the player in the middle, driving all aspects from product development to delivery to loyalty programs to every aspect of the business. ♦



PGRI: GTECH acquired Creative Games four years ago and rebranded it as GTECH Printing Corporation (GPC). You started with fewer than 10 customers. Now you have a state-of-the-art printing facility and well over 50 customers world-wide. It would seem that you have established yourself as a top-tier provider of instant ticket products and services. The general question is, what’s next on the agenda? The more specific question is, are you integrating with the other divisions of GTECH to provide a more seamless face to your customer, the lottery operator?

A. Eland: The two are related. You’re correct that our first objective was to get established with world-class manufacturing, a solid customer base, game content, and a positive growth trend for the business. That’s been accomplished. In fact, we have far exceeded our benchmarks for sales growth, manufacturing quality and capacity, and operational effectiveness. We were able to achieve this early success because we carefully staffed GPC with strong industry experience. People like Kathy Matson and Jean Turgeon brought their considerable printing experience to GPC, and that’s made all the difference.

We are well along in the process of integrating with GTECH to help our customers really get the most out of the entire portfolio of products across the board. As the number of lottery products expands in all categories, like it is with all lotteries, the opportunity to build synergies between products and categories also increases. The combination of GTECH and GPC resources enables us to identify opportunities and deliver a more sophisticated level of portfolio management to the lottery. One example of that is the work we do for the Texas Lottery. GTECH Printing became a qualified supplier in fiscal 2010 and we printed one game for the lottery in that first year of our relationship. For fiscal 2011, the Texas Lottery ordered 28 games from GTECH Printing. We attribute that phenomenal growth to the integration with GTECH, enabling us to propose instant ticket concepts that take full advantage of the market opportunities open to the Texas Lottery. Of course, there are similar market opportunities existent in all lotteries. It’s just a matter of identifying and acting on them.

What are some of the challenges of integrating two companies like GPC and GTECH?

A. Eland: I would take you back to the integration and the acquisition of GTECH by Lottomatica. These are huge companies. But the integration wasn’t difficult because we didn’t have businesses that overlapped. They are complementary businesses, so you don’t need to figure out how to reorganize to purge duplication and realign human resources and manufacturing capabilities. We did not have manufacturing capacity in the instant ticket space. So the acquisition of Creative Games did not produce overlapping inefficiencies. Now we bring a full complement of capabilities to our customers.

This enables us to service our customers with a view of their perspective in trying to deliver more value to the player across all product lines. When we look at the business through the lens of the customer, we can listen and respond better with solutions that take all of their business goals into consideration. We have the ability to take a more holistic view of the products and services that will help our customers take a total portfolio management approach to growing their business. With technological advances and the more recent introduction of loyalty programs and mobile applications in the lottery industry as we discussed earlier, this type of strategy becomes even more important. Market research has proven that the most loyal consumers purchase your products through multiple distribution channels. Enabling the lottery to have one unified brand that speaks to consumers across multiple product lines and in different gaming channels provides them with the ability to market their brand consistently and efficiently.

Northstar Lottery Group will be the ultimate manifestation of what can be accomplished with a fully integrated portfolio of games, marketing and promotional services, and field service and sales operations. We’re committed to double-digit annualized growth over a five-year period. The process of producing that growth will reveal to all lotteries the tremendous opportunities available to them to increase sales. As the largest and most successful lottery operator in the world, Lottomatica itself brings hugely important skill sets to bear on the Northstar initiative. ♦

LOTTERY EXPO 2011 CONFERENCE SEPTEMBER 20-22 MIAMI FLORIDA SPEAKERS AND PANELISTS

1. Kurt Freedlund, Georgia Lottery
2. Team Tennessee Lottery: **Nancy Williams, Ron Jackson, David Kan, Sandy BeCoats, Rebecca Hargrove, Wanda Young Wilson**
3. Nikki Orcutt, West Virginia Lottery
4. Doug Pollard, Pollard Banknote
5. Cynthia O'Connell, Florida Lottery
6. Gary Grief, Texas lottery; **Connie Laverty O'Connor**, GTECH & NorthStar Lottery Group
7. **Ana Paula Barros**, Santa Casa da Misericórdia de Lisboa
8. **Gardner Gurney**, NY Lottery
9. **Wanda Young Wilson**, Tennessee Lottery Corp.
10. **Margaret DeFrancisco**, Georgia Lottery Corporation
11. **Tom Dolan**, Florida Lottery
12. **Paul Riley**, GTECH
13. Team Delaware Lottery: **Richard MacDonald, Vernon Kirk, Jim Logue, Brian Peters**
14. **Paul Jason**, PGRI
15. **Kevin Gass**, BCLC, **Alan Yandow**, Vermont Lottery
16. **Jenny Canfield**, Minnesota Lottery
17. **Jenny Canfield**, Minnesota Lottery; **John Pittman**, INTRALOT
18. **Kevin Gass**, BCLC (British Columbia)
19. **Jim Kennedy**, Scientific Games
20. **Bill Breslo**, Diamond Game
21. **Marcy Jackson**, Florida Lottery
22. **Dennis Harmon**, Florida Lottery
23. **Rebecca Hargrove**, Tennessee Lottery Corp
24. **May Scheve Reardon**, Missouri Lottery
25. **Jim Haynes**, Nebraska Lottery; **Chuck Strutt**, Multi-State Lottery Association (MUSL)
26. **Jim Kennedy**, Scientific Games; **May Scheve Reardon**, Missouri Lottery
27. **Terry Rich**, Iowa Lottery
28. **Gary Grief**, Texas lottery; **Doug Pollard**, Pollard Banknote; **Jenny Canfield**, Minnesota Lottery; **John Pittman**, INTRALOT; **Gardner Gurney**, NY Lottery
29. **Don Feeney**, Minnesota Lottery
30. **Gary Grief**, Texas Lottery; **Connie Laverty O'Connor**, GTECH & NorthStar Lottery Group
31. **Warwick Bartlett**, Global Betting & Gaming Consultants







Economic and Regulatory Fairy Tales: As Told by the Remote Online Gambling Operators

By Philippe Vlaemminck, Partner, ALTIUS

For many years the battle regarding online gambling was driven by the idea of opening up a single pan-European market, whereby the remote gambling operators could operate from the most flexible jurisdictions where taxation was low and regulatory control “acceptable” (i.e. less regulation imposed in the so-called “remote gambling hubs”). Arguments about “mutual recognition”, namely the obligation under European law to recognize all over Europe a license issued by a single jurisdiction in order to operate in the whole of Europe, have failed. The Santa Casa case put an end to those dreams, jurisprudence which was afterwards explicitly confirmed in the Dutch Ladbrokes case, and also in the German Carmen Media and Markus Stoss cases. Finally, subsidiarity did prevail, guaranteeing the Member States their full competence and authority in this matter.

But it didn't take long for the global remote gambling industry to open another battlefield. Online gambling is difficult to combat, although the US authorities have shown that it is entirely possible to do so. In many jurisdictions, remote gambling operators continued to operate illegally, meaning that they were operating without having a licence from the authorities in the jurisdictions where the consumers actually reside. This has not only given rise to increasing litigation, but also to growing pressure on governments to find solutions for the increasing risks of addiction. In Belgium, the Brussels criminal court convicted an illegal operator, requiring it to not only pay a substantial fine, but also to pay damages to the government. The reason is that by operating illegally, the opera-

“Indeed, this is the new ‘economic and regulatory fairy tale’ of the remote gambling operators: ‘government can only control online gambling if they create an open liberal licensing system with very low taxation!’”

tor was also undermining the responsible gaming policy of the State.

Several governments are now looking into national regulatory solutions. Italy and France have implemented a good structure for allocating licenses according to their own legislation, while also keeping strict border rules to stop illegal operations. Others, like Belgium, decided to implement a so-called “license-plus” model. According to this model, only land-based licensees are entitled to obtain an additional license to operate games on the Internet. The remote gambling industry was furious about this approach and complained about it at the EU Commission. Up to now, the Commission did not dare to take any action against Belgium. Following the ruling of the EU Court of Justice in the Dickinger case, it is probably very unlikely that the Commission has any serious argument to win a case against Belgium. In the meantime, the Constitutional Court of Belgium declared the new approach legal from

an EU law perspective as well as from a constitutional law perspective. The Dutch parliament, well informed about this, decided to vote in favour of an approach comparable to Belgium and against the views of the Dutch Minister, believing that a low-tax liberalisation of online gambling was the only way forward, and that it would even provide more income to the state.

Indeed, this is the new “economic and regulatory fairy tale” of the remote gambling operators: “government can only control online gambling if they create an open liberal licensing system with very low taxation!”

Unfortunately this “low-tax story” was accepted in Denmark. Indeed the Danish Parliament adopted a view that low and discriminatory taxation in favour of online casinos was the only way forward in order to get control over the online gambling world. The law was attacked by the land-based casino and slot-machine operators who called this a form of illegal state aid. The EU Commission investigated the matter and recently decided that the Danish approach, whereby online casinos receive a very low level of taxation contrary to land-based casinos who remain subject to a very high taxation, is a form of state aid which distorts competition. The market of online and off-line is indeed not different! However, the EU Commission did support the argument of Denmark that a form of state aid is acceptable because it is in the common interest and in order to develop economic activity. According to the EU Commission, the incentive effect on foreign operators to get a license will reduce the amount of illegal gambling ... and makes the distortion of competition less important. The decision created shock waves throughout Europe. It undermines the global political process and goes completely against the case law of the European Court. According to the EU Court, online gambling is the most dangerous form of gambling. And in a consistent regime, the most dangerous games must be the ones that are most severely regulated. This is actually the opposite of what Denmark is doing with the support of the EU Commission. Most likely, the decision will be attacked by operators, but it may well also be attacked by other Member States. Low taxation, and distortion of competition, is not the essential condition for properly regulating online gambling. The experience in France has proved the opposite. A normal and strict taxation of online gambling is what will keep it in line with public policy considerations, and maintain a healthy ‘Public Order’. Low taxation of online gambling, to the detriment of the well regulated off-line gambling world, can only lead to more problem gambling, less income to the state, and more social disorder.

Channeling online gambling into legal corridors by no means requires that the land-based operators be discriminated against, nor that the online operators be provided with very low taxation ... Just that good and responsible regulation be combined with strong law enforcement in cooperation with other governments.

Governments never did win any battles by adopting and endorsing the standards of off-shore jurisdictions! ♦

Philippe Vlaemminck is widely regarded as a leading player in the current debate on gaming and gambling in the EU, and has been involved in every gambling case before the CJEU and the EFTA court. He joined the ALTIUS partnership on 1st July 2011, where he heads the EU Regulatory and Trade Practice. (e-mail: philippe.vlaemminck@altius.com)

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