



Dick Hadrill

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Public Gaming:

Since you joined Bally in 2004 the company's stock has more than tripled, going from \$12 to over \$42. Is there anything in particular that you would point at as contributing to the success of Bally in the last five years?

Dick Hadrill: First, we developed a five-year strategic plan. The entire focus of this plan was based on how we can be better partners with our customers, how we can get every single aspect of the business to become obsessively customer-centric. Then we assembled a great team with key positions led by people like Gavin Isaacs as our chief operating officer, Ramesh Srinivasan to head our systems business, Bruce Rowe to lead strategy and business development, and Dan Savage to oversee marketing and product management.

We all like to think we are customer-centric. But with fully half of your employees concentrating on R & D, and tools like Business Intelligence that help the customer optimize the performance by making better use of information and data, that notion seems to have a genuinely substantive meaning for Bally.

D. Hadrill: It really does. We have doubled our R&D personnel in the last five years to ensure strong innovation and quality. We align every aspect of our business toward customer success.

The most important thing we do is to create a great player experience. We work hard to be very active listeners to both players and customers. Our business is really about two things; creating unique game play experiences for the player, and operating a casino for optimal business success. Obviously, the two are related, but optimal business success requires

more than great games, and we partner with our customers in all aspects of building a successful business. Our entire culture is built around being a great partner to our customers.

How do you differentiate between the needs of the next-generation player and the core player that will continue to drive revenues for a long time? Is there anything interesting about the way you approach the whole business of getting feedback ... focus groups and all that kind of thing?

D. Hadrill: We've continuously evolved our product management and marketing functions. Our Vice President of Marketing, Dan Savage, joined us from 3M Corporation about a year ago. Dan brings more organization and discipline to the market data processes. We've got much more data than ever, but there still is an art to product planning. The art comes from the ability to manage the data, but at the same time realize that data isn't 100 % accurate. Game design and development teams are creative and you need to allow that creativity to flourish. We must encourage their imagination and ability to see connections that the data sometimes do not reveal. For example, we have the license for Playboy games. And yet the biggest players of our Playboy games are middle-aged women. I can tell you that beta-stage focus groups did not reveal that. That's just one example of how certain types of games can appeal to many different demographics in unpredictable and sometimes very surprising ways. Why are steppers more popular on the East Coast and video slots more popular on the West Coast? Why did some international video markets all of a sudden adopt steppers as we evolved steppers to include more bonusing and multi-line features? In the end it takes some good judgment calls to know when to bow to the imagination or stick with the measurable data-driven conclusions. And, to acknowledge that you will not always bat 1,000.

Information and data are ubiquitous. The challenge we all face now is how to inform with context and meaning. It seems like you're developing processes and tools like Business Intelligence that

help you and your customers do just that.

D. Hadrill: Absolutely. Bally Business Intelligence™ is a great example. Data about what happens across an entire property as well as at the specific game stations themselves is critical to guiding solid operating decisions. Our Business Intelligence products apply technology to the task of sorting through the huge amounts of data so that the operator can see patterns that guide the decision-making process. It isolates the most relevant indicators that drive their business. This tool is only useful if it's coupled with solid judgment of the executives tasked with analyzing the data and making the decisions.

And use that knowledge to drive a more effective decision-making process.

D. Hadrill: Exactly. We try to combine as much of our own broad experiences and insight with the data of each customer so that our customers can optimize their decisions. Our industry really is five to seven years behind other industries in its adaptation of new technology. As this wave of data is mined and tools like Business Intelligence are developed to convert this data into insight, we will see accelerated planning, development, and decision-making processes that ultimately drive a better entertainment experience for players, and more profits for operators. There will be a leap forward in data-management in gaming over the next few years.

Why is the gaming industry five to seven years behind?

D. Hadrill: There are three main reasons why the industry is behind. First, the regulatory environment has made it somewhat risky for suppliers to introduce new technologies that are not yet fully proven. Two, there are a fairly limited number of technology suppliers because of the very strict regulatory environment for licensing, which is necessary. And three, the suppliers grew up primarily as box manufacturers, so technology is not part of the core DNA.

Are you saying that it is actually a perfectly

logical thing that our industry lags in the adaptation process? If the new iPhone or even Microsoft operating system does not perform as well as we'd like, nothing terribly bad happens as a result. The gaming industry is different in that it has much less room for error, doesn't it? You can't really take the risk of pushing the beta version out the door and then fix it on the fly.

D. Haddrill: That's exactly right. But it doesn't need to be a five-year lag. We believe that the industry should perhaps be one year behind because of this need to fully vet technology before it's in the marketplace. Integrity, security, responsible gaming, political sensibilities...these are all issues that need to be dealt with carefully and take more time than other industries. But there is no reason why we can't accelerate the cycles and deliver customer benefits much more quickly than has been done in the past.

So our objective is to help move the industry much closer to current standards. There is no reason we should be behind the retail industry in areas like database management and sophisticated player-marketing techniques. You can see the changes happening already, though. Some casino operators are moving forward quickly. I think it's going to be very exciting as we see operators create a better player experience, build a better business model, and set a higher standard for the industry.

You've worked in our sector of the industry since the early nineties, haven't you?

D. Haddrill: Yes. I first got into the public gaming arena in 1994 when I joined Video Lottery Technologies and Automated Wagering, Inc. (AWI). I became the CEO of that company in '96. It was evident to us then that the public gaming sector was poised to grow. With the current budget shortfalls, the video-lottery market is now again growing. It's a tremendous opportunity for new jurisdictions to get off to a good start. But there are also plenty of pitfalls and ways to get off to a bad start.

Like what?

D. Haddrill: Most important, it is necessary to get the regulatory and tax environment correct. Regulations need to ensure that players are protected, and an appropriate regulatory body established. This regulatory framework should facilitate a diligent but efficient product approval process. Certain jurisdictions are much more efficient than others. So, the time to get a new product into the marketplace is much faster. The tax structure needs to be

consistent with a long-term goal of optimizing the return to the public. That does not mean that a high tax rate results in more money to the state. It is important to have a balanced business model that allows the operator to invest and be competitive. The public has many, many options when it comes to gaming and entertainment. And, those options are increasing rapidly. So implementing a business model that positions the operator to compete effectively is imperative, and a fair tax rate is key. It is also important to partner with the right operators and suppliers to implement the gaming program. Along with creating an entertaining gaming experience, that means implementing a good 'back-of-the-house system' for marketing, monitoring, and reporting, and two-way dialogue between the players and the operator.

Would you say that part of the concept here is to use a buzz word that may be useful, 'future proofing' ourselves to ensure that the big capital investments required to launch a new gaming program will have a long life-cycle and be flexible to adapt to changes in the market and changes in technology?

D. Haddrill: Absolutely. The need to download game content and change device configurations is going to increase. You want to make sure that the system and the suppliers are G2S and S2S-protocol compliant so that you can have reliable interoperability and flexibility to adapt to new technology.

Would you say that it is a priority for the operator to insist that all suppliers provide them with the flexibility and the back-of-the-house infrastructure that really supports genuine interoperability? I'm sure that Bally has great games, but do you support the operators' ability to implement other games provided by third-party game developers?

D. Haddrill: I absolutely agree. All commercial partners should be supportive of interoperability and enabling the operator to have flexibility and choice to implement the best games and devices as they become available, and from whatever supplier that produces them. In addition, the jurisdiction or the customer ought to have the ability to develop their own products to roll out into their marketplace. However, I will add that gaming is new to interoperability and it is not as easy as in business-to-consumer industries. When you're doing business-to-business systems, it's not as plug-and-play as it is with your cell phone. In consumer software, you sell millions of copies at a very low price and you throw it out in a year and you buy a new one. Business-to-business enterprise appli-

cations involve millions of lines of code. This is all very powerful and sophisticated software. But it's also very complicated, and requires complex integration.

When you upgrade to newer versions of your enterprise software, the ability to plug in the other software, the third-party software, requires that the interface must also be upgraded. Keep in mind that G2S and S2S are sets of code that aren't perfect. Jurisdictions should demand openness and interoperability, but should be reasonable in their expectations of just how simple that is. For our part, we do our very best to minimize the cost for the operator and third-party supplier to create that interface. We've developed the Bally Interface Gateway, which is a product to make it easier for our customers to integrate their own software and third-party systems into ours. It's still not plug-and-play, but it makes it much, much easier.

That does cut to the heart of my questioning. It is up to the commercial partner to genuinely embrace the spirit as well as the letter of the concept of interoperability. The operator should assess the degree to which the commercial partner is genuinely committed to providing the flexibility to integrate the newest and best technology and implement the best games, regardless of whether those products are provided by a competitor.

D. Haddrill: Exactly. I think the summary point is that the jurisdiction should expect interoperability and a focus on future-proofing the operator. An informed customer needs to recognize the reality that interfaces cost money. At Bally, I can tell you that we do go to great lengths to serve the interests of the customer and support their ability to have maximum flexibility.

You commented earlier that you don't want to over-control developers. Is there a trade-off between the amount of direction you provide, and the freedom to be imaginative? In Academia, they differentiate between applied and basic research. For instance, you might tell your R & D team to create a game that leverages this new brand license you acquired. And we need it next week. That versus take all the time you want to let your imagination go wild to create something magical and let me know what you come up with in six months.

D. Haddrill: It is a challenge. We have some of our development teams that are really doing very disciplined coding of specifications that are derived from our system customers, for example. And that requires high intellect, high work ethic, and a great engineering back-

ground. Then, on the other end of the R&D spectrum, we have game studios charged with developing creative game content in very short time frames. Each studio will include a mathematician, a graphic artist, a coder, and a game designer on a team that brainstorms ideas based on a combination of our market research, their own ideas, and their own skill sets. I call it a loose/tight kind of management style where you have certain areas you manage tightly, and others you allow more freedom to roam. Creative people expect to be respected for their creativity. If you manage too tightly, you won't retain those creative people. So it's that classic loose/tight management of the game studios versus the tighter management of core big systems development.

To what extent do the games that you're developing and the markets you're appealing to differ between the next-generation player and the core slot machine player? I would assume that winning money will always be a universal motivation. But does the next-generation player demand more in the form of entertainment? And to what extent does the product you develop have to appeal to a core player that perhaps is more oriented towards the traditional spinning wheel slots versus more elaborate forms of entertainment?

D. Haddrill: The younger players are used to higher video and sound capabilities, more community-style gaming, and more multi-level gaming. So those are some aspects that we would be looking at to appeal to younger players. That said, older players like community-style gaming as well, and they also like good sound and graphics. So by appealing to younger players, we can also develop better games for more mature players as well. We suppliers have done a relatively poor job in the last 20 years of appealing to younger players. But, that is starting to change.

Your presentation yesterday at the G2E show was titled "Selling the Sizzle for Slot Manufacturers."

D. Haddrill: There's been a lot of innovation in gaming devices in the last few years by Bally and our competitors. During this same period of time, the operators have been under-investing. So there's a lot of pent-up potential for the operators to unleash to create greater player experience from these new game innovations. There's also been cool new system technology such as our player-communication network (iVIEW) and data mining (Bally Business Intelligence). So, - there's lots of incredible innovation that is ready to be imple-

mented and positively impact this industry.

One of the innovations is to think of the gaming machine as a distribution channel through which you can sell all varieties of products, isn't it?

D. Haddrill: Yes. Say it's 4:00 in the afternoon, and you've got 40 seats still open in your 6p.m. show that you're not likely to sell. Why not give them to your good players who might stay until 6 instead of leaving at 4:30? Or, send dinner coupons to get the players to try out your restaurants. The promotions options are endless. Combining powerful databases with a player-communication network like iVIEW explodes the entertainment potential because you can then target the specific preferences of each individual player.

You refer to two different types of games and how one game appealed to people on the East Coast and a different one appealed more to the people on the West Coast. It is interesting that game preferences would differ in what I would have thought was a somewhat homogeneous market and gaming culture.

D. Haddrill: Game preferences do vary somewhat and are driven by a number of factors. Analyzing this is somewhat of an art form. I can share a few insights.. First, you can't be 100 percent sure about player preferences until you're actually in a market and seeing the players actual response to the games. Second, some games will play well initially but "burn out" quickly as players lose interest. For a distributed gaming network, it's important to have devices that have good maintenance records, because maintenance is more expensive where you have games distributed in small numbers over a large geography, and a good system to monitor the games so that you know immediately if a game is down, can diagnose problems, and can see if play is lagging and the games need to be changed. Bandwidth will be increasing, so having a robust central system capable of serving up a variety of games will become more important in the future. Distributed venues will want to have the flexibility to download game content. Finally, a good indicator as to what kinds of games will be successful is to look at the neighboring jurisdictions that already have electronic games. The players in Maryland, for example, will likely favor the types of games that are popular in New York and Pennsylvania because that's where they may have recent experience in playing.

We've talked about Business Intelligence.

What about Command Center™ and iVIEW™?

D. Haddrill: These are the three products that are probably most relevant to distributive venues. Bally Command Center is our server-based solution that allows operators to view, examine, and manage the games, whether they are on a casino floor or spread out over a large geography. Command Center is a powerful product to enable changing of game configurations and downloading of game content and analyzing game performance and player preferences. The iVIEW network is an especially interesting tool for the distributed gaming environment. If you only have five or 10 games in a venue, you might not have a big enough volume to build an interesting bonusing experience. But if you connect all the games in a jurisdiction, you could have very exciting bonusing programs, fun player communication, and the ability to implement marketing promotions across the entire jurisdiction.

It sounds like these products are ideal for the distributed venue in the sense that their capabilities are really put to the test much more in that environment than they are in the large casinos.

D. Haddrill: The needs for monitoring and downloading game content and analyzing data are the same in a casino as for the distributed environment. But you are correct in pointing out that the distributed environment depends even more on the central system to manage and control the entire operation. In developing a jurisdiction that's going to be distributive venues, I'd start with the system side of the business. From a player experience point of view, you have to counteract the fact that you don't have 2,000 games in a big sexy casino, and yet you still want to create a great player experience. Without a robust and reliable central system and monitoring system, you won't be able to manage and implement the games in ways that gets the right product to the right people and the right places.

It's also about protecting the security and integrity of the operation. So, the central system is key to the distributed environment. Players have many ways to spend their entertainment time and money. In spite of the need to operate this business in a disciplined way on all levels, it still comes down to one primary mission – to create the most fun and exciting player experience. Creating a new customer and then delighting the customer is what this business is ultimately all about. ♦