James R. Maida, CEO, President and co-founder of
Gaming Laboratories International (GLI)

GLI is without peer in its role as tester and certifier of electronic gaming equipment, operating in nearly 450 jurisdictions all over the world. Decades of building the most sophisticated and reliable procedures for testing and certifying products for the gaming industry have given GLI an unimpeachable reputation for integrity and a most formidable market position. GLI is a leader in the movement towards open systems, supporting the standardization of protocols, and promoting a more collaborative approach to business relationships.

Business models are evolving rapidly for everyone, and so too for GLI. GLI already sets the standard for superior performance in its field. So they're the only ones who can raise the bar on themselves. But that is what they continue to do, launching new initiatives like "Point-Click-Transfer" to streamline the process of tracking submissions and test results, sharing information that will help the industry come out of these challenging times healthier than ever, and relentlessly looking for opportunities to make life easier for their customers. GLI combines a most unique brand of creative and visionary thinking with a disciplined approach to business. Think equal parts Carl Sagan visionary and Vince Lombardi execution…

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

Public Gaming: Manufacturers are moving towards open networks, open platforms, interoperability, and to some extent giving up proprietary control of their customer relationships. Standardizing protocols gives the operator more flexibility to choose "best-of-breed" component parts to their system and to implement content and software from a variety of suppliers and not just the manufacturer of the hardware. What are the benefits of standardization of protocols to the industry, to manufacturers, to operators, and to GLI?

James Maida: I think the protocol issue has probably been misunderstood in some ways. Protocols today are more open then they've ever been, and that trend will continue. But we need to emphasize that GLI neither sets the protocol nor makes protocol recommendations. We believe that it is up to our clients, including our video lottery clients, lotteries that have networks that monitor games, and the marketplace to determine which protocols they want to survive. The good news is that we've had a great run with SAS and now we're moving to G2S, which is an XML and more open protocol. And our

Lab is certified to test both SAS and G2S. But again, those decisions are made by those that are making the products and systems, and the operators and the lotteries that are purchasing those products and systems. I think openness is good, and it's going to continue, and we stand behind it 100%. We see that the industry will spend less time figuring out how to integrate protocols which should be fairly plug-and-play, and spend their resources on game development, new technology development and creativity rather than on things that aren't benefiting the players, or the states, or

the casinos. The cost savings from standardizing protocols and eliminating inefficiencies caused by incompatible systems is significant and could be channeled to customer-focused

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benefits. Additionally, open protocols do not mean that the underlying intellectual property is not protected, that companies need to give up any portion of their IP. That is not the case at all. It just means that people can implement the protocol more easily. I think that's a confusing point, and I think GSA (Gaming Standards Association, www.gamingstandards.com), and others have gone to great lengths to clarify that. But the movement towards openness is not being driven by GLI. We take direction from our clients,

not vice-versa. We are a test lab, not a policy-making body, so we will test what our clients ask us to test.

Is there an aspect in which manufacturers or suppliers in general can talk the talk but not walk the talk, comply with G2S and other protocol standards while not genuinely making it as easy as they could for the operators to implement content or software provided by competitors?

J. Maida: I think it's increasingly difficult to do that today. Because of the GSA organization and all of the major manufacturers becoming member companies and working together to move the industry forward towards openness…whether it be AGEM (the Association of Gaming Equipment Manufactures, www.agem.org) or GSA, we have seen unparalleled cooperation among the suppliers. Again, as the Laboratory, we are a bit removed from that. That is a commercial issue between competitors or between groups of people that, for our clients' sake, the Lab must remove ourselves and just test against specifications that our clients want to test against without being a part of the system that we're trying to independently verify and certify for our clients.

On behalf of Peter DeRaedt and Marcus Prater, I thank you for that plug.

J. Maida: And I would encourage you to speak with both of them and ask them that very question.

Point-Click-Transfer is a great example of the initiative that GLI takes to make things more efficient and cost effective for your customers, but doesn't necessarily increase income for GLI. Explain how Point-Click-Transfer works, how it helps your customers but also how it contributes to the evolution of GLI's business model and profit structure.

J. Maida: This year we worked with over 330 different suppliers. And one of the things that we saw was that people were spending money overnighting submission letters to us. They then waited for the approval to be overnighted back to them. We wanted to facilitate the process for our clients, we wanted to help our customer get in line as quickly as possible so that we could start working on their item. Then we wanted to get their results back to them as quickly as possible. So we created things like GLI Access®, which allows them to log on to our system via their computer and see every product that they have in the lab, where it is, what office it's at, and when it will be ap-

proved. Much like you might track a package. That was the first thing that we did.

The second solution we created was the GLI Verify® product. The customer used to have to download long lists, 200 or 300 pages long. Now there's a software program that we're going to be distributing next month that will update their computers every night much like McAfee virus scan does on your personal computer. So now the customer can easily check every day to see what's approved, all the data on their computer is updated on demand and updated every night whether requested or not.

The third creation was Point-Click-Transfer, which greatly expedites and simplifies much of the submission and paperwork processes. The benefits to the customer are really quite significant. For example: Say you're in South Africa, and you realize that for some reason you didn't submit for a South African approval. But it's approved in Illinois, or maybe it's approved on a California Indian nation, and you need it for South Africa on Thursday and it's Saturday night, who do you call? You can log on to our system and post your request. You put your paperwork transfer in, you get a receipt and notification that the paperwork is in the system, and when we come in on Monday morning we know to look at that and to start working on it. No overnighting, no having to call our office, everything is streamlined to be easier and more efficient for the customer and for us, and the customer gets the results much faster. So we call it Point-Click-Transfer because you find what you already had certified at GLI, you point at it, then you pull down a drop down menu box and you have all the jurisdictions that you haven't had approved yet and you pick whatever you need and then you hit "Transfer." It's all done electronically. We still do the testing and we still do the paperwork and get the results to the jurisdiction that you want to receive it, but you don't have to worry about typing a letter up, put it in an overnight

mind to see instantly that everything is in progress. So they can go about their business and not have to think about and worry about whether things are getting done. They immediately know it's in our database, and they can just check in online with us whenever they want to. In 2008 our average turnaround time for submissions was somewhere in the 30 day range, now it's less than 20. That is good for us but it's great for our customer. We can also tell you that in 2008 we pushed more products through the pipeline for the same amount of cost for the supplier. We are getting more efficient, and what we do, frankly, is pass that efficiency savings along to our customers…lotteries and video lottery, casinos, gaming regulators around the world, and the suppliers.

How do you determine what to change? Does the impetus to improve come from employees pushing for change, from customers asking for improvements…

J. Maida: We have a supplier development team that goes out and meets with our clients and asks them what they would like to see from us. As in, fill in the sentence, "I only wish GLI would do…" Every week we have a meeting to discuss this input about what the suppliers want us to do. We also have a team of people internally that think about themselves as if they were a supplier, or a lottery, or one of our clients, and not as someone who works at GLI. Really putting themselves in the shoes of the customer, ask themselves how they feel about the GLI experience, what could GLI do that would make their job easier.

The senior management team gets those ideas together and we figure out how to implement them. We spend hundreds of thousands of dollars a year in R&D to find ways to provide excellent customer service, create a more efficient and rewarding experience for the clients. We know that the more that we put through our pipeline, the more that will continue to

> We work for regulators and governments at their request, and we know our place. Our place is as a provider of advice and technical support to regulators. It's their jurisdiction, and our role is to help them.

envelope and shipping it to the nearest office. We also can take that same transfer and do it locally. So if you're in the U.S. and you need to get the information to Europe, Africa, or anywhere, you don't have to spend the time and money and paperwork doing your shipments. But even better, it gives our clients' peace of

come at us. The interesting thing, Paul, is that the things we do to improve efficiency actually result in residual, sometimes unexpected, improvements in quality, consistency, and performance. We have found that improving efficiency for the purpose of reducing costs has resulted in improvement and consistency of the

quality of the service. We track every quality issue that we have, and in 2008 our quality has been 99.9% or better in terms of after market problems that might come in. We certified over 180,000 pieces of software in 2008. To maintain the highest quality standards at that volume requires a commitment to quality and a commitment to customer service.

So the focus on efficiency enables you to grow quickly and maintain the highest QC standards at the same time.

J. Maida: We were the first Lab to operate internationally and continue to operate in far more jurisdictions than any other lab. We were the first lab that opened an interoperability center, first opened in 1999. We actually coined the phrase 'interoperability center' to describe what we were doing. We're the first lab with Point-Click-Transfer, we're the first lab of any lab in the world, public or private, government or not, where you can go onto a

times a year depending on what their needs are and what makes most sense for both of us. And because we are viewed as quasi-regulatory, we aren't allowed to have any financial interest. We're not allowed to buy stock, we're not allowed to have any interest on what goes on in the industry. So we can ask the supplier what technologies they're working on, what is their roll-out schedule for 2009 and 2010. And frankly, we collect that from each and every supplier that's submitted equipment to us from the smallest to the largest. And then we come back in our meetings with HR and the directors of engineering and the development staff and we forecast the number of employees we will need to hire. In the last 12 or 15 months we've hired more than 100 employees at GLI, and we're still hiring. I think our goal is 42 more employees for 2009. So we know what's coming, and our commitment is no denigration in efficiency or time to market. That's why it is to everyone's benefit to

its own set of standards, which is the GLI Standard Series. As new technology comes out, like class 2 gaming, electronic bingo, electronic lottery…we develop standards for our regulatory process to adopt them. And we think about how a certain technology that is currently not in the gaming industry will be applied when it does get to the gaming industry…what it will look like, what type of engineers and skill sets will be needed? Today it's Java and XML. Five years ago it was C++. We've always stayed way ahead of the curve.

A variation on a question that I've asked Roger Farrell and Kevin Mullally: It sounds like your regulatory clients would like to depend more and more on GLI to help them from the beginning stages to formulate their strategic approaches. As opposed to having GLI focus solely on the testing and analyzing, They would like to engage you earlier in the process.

J. Maida: I know you spoke with Kevin about this previously, and I think it's really important that we remain objective consultants to our government clients. We may give advice, but the policy and the direction of gaming is a state by state question. And it is those parties (legislators, gaming regulators, lottery directors, etc.) who set and implement policy, not us. We do get involved early on, and we do assist with advice. But our advice is always confidential, our advice is not on behalf of the industry but on behalf of what our clients are asking us for and trying to give them the best practices. The advice we give is based on those considerations and only on skill sets that we understand. The final decisions may include those considerations, but ultimately are driven by many other factors, political and otherwise, and we fully understand and support that fact and serve totally at our clients' direction. So we do get involved early on in helping to draft legislation, helping to draft rules and regulations, helping with drafting documents that are going to be needed for the gaming regulation. But always at their request and for them to use and do with as they wish. We work for regulators and governments at their request, and we know our place. Our place is as a provider of advice and technical support to regulators. It's their jurisdiction, and our role is to help them.

If you disclose information and know-how to the client, doesn't that reduce the clients'

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website and see where your submissions are. And we're the first lab to create an in-house tool to signaturize software. Why? Not because we needed to do it, not because clients called up and said "I've got this software and I can't signaturize it online". It's up to us to take the initiative and change proactively, thinking constantly about how we can improve the customer experience, anticipating their needs… we created those tools for our government clients free of charge because we realized that if we approved something that they can't test on the floor, how do they get it in on the floor? They can't. So almost all the new technologies we create are tools to enable our regulatory clients to track the status of everything. Point-Click-Transfer is the latest and most important initiative to do that, but we have been consistently doing that for over 20 years.

How do you forecast where the industry's going in terms of software in order to stay ahead and create the software and procedures that can test it?

J. Maida: We have development supplier teams based in Las Vegas, but also in the U.K., mainland Europe, in Africa and Australia. We have a supplier visitation program, visiting each of the suppliers anywhere from one to six

tell us ahead of time what their projections are. That way we can, at our cost and our risk, prepare our business six months, nine months, a year in advance. So we take actions now to prepare us for the changes that take place and always be ahead of the curve, prepared to deliver superior service even when the needs are changing quickly. Right now we're preparing for the G2E show next November, and we are already talking about what products are going to need to be approved for that show. And it's only January as we sit here today.

Along the same lines, how do you stay ahead of all things cellular, Internet, network communications, etc.?

J. Maida: We invest heavily to do just that. We have incredibly talented teams of researchers and engineers whose job it is to understand the technology and how it's evolving better than anyone else in the world. We make it our business to understand these technologies literally years before they deploy to real-world applications. In fact, our research gets so far out front that we are forced to develop standards to enable the regulatory process to work. Regulators ask us to come up with standards for them to implement new technologies. GLI was the first lab to build

dependency on you and therefore reduce GLI's income from providing that know-how on a chargeable basis?

J. Maida: We freely transfer knowledge to them because our best clients are the most educated clients. We don't want to retain proprietary control over information in some misguided attempt to make them more dependent upon us. We promote transparency, helping the client understand as much about what happens and how it all works as they are willing to learn. That transparency and open dialogue helps the client feel confident about the process and the end result. Engaging the participation of the client in the process also helps to get real-time feedback that can contribute to quality control. Building a genuinely collaborative relationship benefits everyone, really.

Standardization of protocols would seem to result in a simplification of the testing, analysis, and certification process. Doesn't that, in effect, reduce the amount of work required and therefore GLI's revenue? How will that impact your business model?

J. Maida: First, let's clarify this concept of protocols a little. There are lots of different protocols applying to different aspects of the technology. G2S is the system protocol. But then you have S2S which is system to system protocol, and then there are peripheral protocols, like a bill validator-to-game protocol. So

network gaming, things like that. So where the standardized protocols will be easier, the new technology coming will be more robust and stronger. Presently we have lots of different teams of technology specialists divided by supplier or technology genre. Standardized protocols will simplify, streamline and rationalize the process of testing. But we see the removal of inefficiencies and artificial technical restrictions on the industry as a very good thing for everyone, including GLI. It will free up capacity to add far more value in far more interesting ways. Human and capital resources can now be channeled towards things like game development and creation of meaningful improvements in technology that directly impact the player experience. So will this mean our income for needing to conduct analysis and testing of incompatible and technically inefficient systems may decline with standardization of protocols? Sure. But the upside for the entire industry will be positive growth and development. A healthy, growing industry is good for us. The increase in technical innovation will create new and interesting challenges for GLI. Insofar as we meet and exceed those challenges, and we will, the need for GLI expertise and services will increase. The potential for us to use our expertise to help our clients implement the new products and innovations that result from the standardization of protocols is, frankly, far greater than wrestling with some of the artificial technical barriers that have hindered

But what comes out at the end is always going to be the better business model as well. The technology is moving, the customers' needs and the markets are evolving, and we have to make sure we move with it. Of course, we really need to see and embrace the changes way far in advance of the markets in order to stay ahead of the curve.

Would you be willing to comment on how the current economic challenges will affect the industry in general, and perhaps as it relates to GLI and your business.

Christie Eickelman (Director of WorldWide Marketing): Let's look at our regulators roundtable. We've recrafted our goal and our message. For instance, one of our sessions is going to be about regulating in economically challenging times. And so we're very aware of the challenges that they're going through, the budget restrictions. So we've restructured our roundtable to address those concerns directly, and doing what we can to be sensitive to their budgetary constraints. We're providing them with lower room rates, more transportation and easier access to the lab, providing more hands-on demonstrations, more training, meals during the meetings, those types of things. And we are enhancing the flow of information to keep them updated on new technology and how changes in technology might call for changes in their regulations.

J. Maida: A regulator in challenging times still has to regulate, but must also adapt to the market conditions and the supply conditions around them. We're exploring ways to analyze and assess and approve a private equity transaction where a private equity company is buying into a licensee and what that requires in terms of budget. So we're trying to bring really pertinent and new topics to the roundtable. But on GLI's financial strategy side, we have always, over the course of 20 years, been very conservative. We're not leveraged up. We've always kept our balance sheet exceedingly strong, with very conservative debt to equity ratios. As far as I know, the premier companies in the gaming supplier space have done the same, kept a conservative balance sheet and not over-leveraged. We're actually hiring people, as I mentioned, and giving raises this year. But while we have planned for a rainy day, it is still challenging and our senior management team is totally engaged in dealing with the ramifications that this financial crisis will have on everyone.

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let's just take G2S. It's true that the G2S makes the process of testing easier. But it also allows for more innovation, less time will be spent trying to get a protocol right. And G2S does allow for extensions on the new protocol for the latest and greatest new ideas. So we would rather have a more streamlined protocol that is well managed, that allows for extensions, it allows for more innovation. Some can make the argument that SAS, while everybody can do it, doesn't allow for as many of the technological advances that we need to move to, like

technical innovation thus far.

Insofar as change obsoletes products or business processes, the GLI approach is to not only allow that to happen, but to embrace the opportunity to drive change forward. It's what is good for the industry but it's also the strategically smart way to stay ahead of the curve.

J. Maida: That's right. When you are committed to just doing what's right for the customer and the industry, sometimes you find yourself making lemonade out of lemons.

J. Maida: It's not a GLI issue. It's a licensing and regulatory issue. But we bring experts in the field to talk to the regulator. The point is that our regulator's roundtable is not just about technology topics any more. It's about a full range of topics, including compulsive gaming and other non-technology driven issues. It's no longer just about electronic game machine technology.

We were talking earlier about Macao. We all read that Macao is not doing well, or there's visa restrictions or whatever. But our office in Macao, the first lab to locate there, is not GLI Macao. It's GLI Asia, our Asian home base. We've been on the ground there for five years. We are working with all the major governments in the Asia Pacific Rim out of our Macao office, and we travel to meet them and they travel to meet us. It's a great place to do business because of its proximity to Hong Kong and so it's easy to get there from anywhere in the world. There's about 15,000 slot machines in Macao now. The revenue from slot machines is less than 6-7% of the total revenue in Macao. So we are established in Macao as an Asia regional testing center for us. Machines come in to the Macao lab from all over Asia. And as in every other part of the world, our labs acquire the knowledge and expertise to support the local markets and regulatory processes. GLI is global in scope, but local in how we practice and support the client.

Isn't it the case that Macao is moving much more aggressively into converting what were traditionally live dealer games into electronic table games and exploring the potential to use video and electronics to make it even more interesting.

J. Maida: I think they're exploring that possibility, but I was just in Macao a few weeks ago, and live table games are certainly not going away. Baccarat is alive and well, and that's where 90% of their money is made. Macao is a different market than anywhere else in the world, and they love their table games, and they love having the dealers. I can't say how Macao will evolve, but we do not want to think that changes in Las Vegas or Atlantic City or casinos in Europe will be replicated in Macao. Different culture, different way of gaming. But you really need to look at all markets individually and not assume anything. Macao

has actually been a slow and steady evolution over the past five years and that's a very good thing.

Clearly you invest a larger portion of the profits back into the company, into enhancing your ability to add value to the customer. Most public companies would come under pressure to return a larger share of the profits to the shareholders.

J. Maida: We are a private company. And one of the benefits of staying private is that the owners are free to take the longer view, to invest in improving our ability to service the customer and the shareholders. The employees participate in profit sharing and bonus sharing. But yes, we do reinvest the profits

back into the company.

ISO 17025. I asked Peter DeRaedt what he might suggest I ask you in this interview. He suggested that I ask why the ISO 17025 is important.

J. Maida: You know, the ISO certification program is important, but it is not everything. It's an important piece, but it is just one piece that makes a lab what it is. People often ask me, who checks the lab? Who's checking you? It's true that the number one checkers are the independent ISO certifiers. They do understand our business and come annually to every one of our offices around the world and certify us. And if they see issues we have to correct, we have a whole quality group that handles our office certification. But merely having ISO 17025 doesn't give anyone carte blanche credibility with our clients. We undergo actual full background checks in many jurisdictions in order to get licensed. They look carefully at our financial health, the degree to which we invest in constantly improving our own technology and service, and many other things. Having ISO 17025 is a requirement in some jurisdictions. But there are other jurisdictions that set the bar much higher, requiring you to be much better than just a 17025. And we encourage regulators to vet all their consultants in this industry. You really can't be too careful in who you're

dealing with. We vet the suppliers who send equipment here. That's not required by ISO 17025, but we do that as an added measure. So it is important. We are the only lab that does SAS and G2S testing for GSA. Other labs might do SAS but we do both. We also do S2S as well. And it's important for Peter and the members of GSA to know that we're certified for ISO 17025 and that we know what we're doing.

So ISO 17025 is a useful foundation upon which you build whatever performance standards you want to add?

J. Maida: But you've got to understand that 17025 is just one standard. So no, you can't really think of it as some kind of a baseline that

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you start with and add additional standards to as needed. It doesn't work that way. There's also ISO 17020, which we have and I don't believe anybody else has. ISO 17020 is field inspection. Do you follow the right procedures in the field when you're on site inspecting a casino? And this year, 2009, you'll see GLI having even more various ISO certifications in terms of other types of testing for the gaming industry.

In closing, I would just say that we work for every video lottery jurisdiction in North America. We've done so since 1989, when the first video lottery was implemented in South Dakota. And we look forward to more video lotteries coming on board. We also understand that in these challenging economic times states may turn to more sources of revenue from gaming. We're here to help, recognizing that much of our help early on goes uncompensated because of budgetary constraints. But we're even more focused this year on meeting the needs of our government clients. If you trace back to every recession that we've had, it always spurred additional public gaming, additional lotteries, additional video lotteries. So we see that as a trend. If you read all the data, lotteries have not been impacted as severely as casino gambling. So we think that our public gaming clients have great models, they're improving all aspects of their customer service, and they're coming up with new game ideas and distribution channels, and we're there to help them accomplish their goals. ◆