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GAMING

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To: Lottery, Video Gaming & Racino Executives
Interested in Growth, Expansion & Added Success

Public Gaming Research Institute Inc.'s
International

Morning Report

Your weekly supplement to
**Public GAMING International
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CA GOV. WANTS MULTI-STATE JACKPOT GAME. California Governor Arnold Schwarzenegger proposed sweeping changes to virtually all California state agencies. One facet of the proposal is that the California Lottery join a multi-state jackpot game. While California is already a member of MUSL, the report did not designate which multi-state game the Governor would like to see the Lottery join.

SALES RECORDS FALL IN WV. The West Virginia Lottery topped a record \$1.3 billion in sales in FY04 – an increase of more than 20% over FY03. It represented the 15th consecutive year that the West Virginia Lottery had double digit increases in sales. At \$512 million, the state's net profit from lottery sales also set a record – a 24% increase over last year. Video lottery sales at the racetracks set a new record of \$855 million in sales, an increase of 19 percent over last year's figure. Limited Video Lottery



contributed nearly \$242 million in sales. The lottery's instant games generated a record high of more than \$109 million for the year.

RI POSTS HUGE LOTTERY RESULTS. Fiscal Year 2004 marked the Rhode Island Lottery's 30th Anniversary and the continuation of its role as that state's third largest



source of income. For the Fiscal Year ending June 30, 2004, Lottery revenues increased nearly 13 percent, with \$281 million being turned over to the State General Fund, which benefits all Rhode Islanders by supporting a multitude of programs ranging from education and health care to public safety and the environment.

VA HAS RECORD SHATTERING YEAR. Governor Mark Warner joined Virginia Lottery Executive Director Penelope W. Kyle on August 4 to announce the Lottery's record sales and profits for FY04. Sales totaled \$1.262 billion (up \$127 million). FY04 was the fourth consecutive year that the Lottery broke the \$1 billion mark in sales and the sixth consecutive year of increased sales. Sales were driven by scratchers (+16%), Mega Millions (+26%), and Pick 4 (+7%). Profits for FY04, which benefit public education (K-12) in Virginia, totaled \$408 million (up \$33 million). The cost of running the Lottery was kept down to nearly 5 cents on the dollar: just 5.4%.

ME PLAYERS GOBBLE UP POWERBALL. Maine Lottery players bought \$570,779 worth of Powerball tickets in the first 34 hours sales for the game last week. In a little less than a day-and-a-half, the Lottery managed to achieve the third-highest sales per capita among the Powerball jurisdictions. The Lottery reported no noticeable cannibalization of its Tri-State Megabucks game.

PA LAUNCHES CASH 5 PROMO. The Pennsylvania Lottery will sponsor a "Buy Five CASH 5, Get One CASH 5 Free" promotion from August 2 through August 29, 2004. The tickets must be purchased for the very next CASH 5 drawing; advance play will not be included. The purchase must be made using a bet slip or quick-pick computer selection for all five plays. Two separate tickets will be produced when making a "Buy Five CASH 5, Get One CASH 5 Free" purchase during the promotion - one for the \$5

block of CASH 5 selections and one for the free CASH 5 play. The "free" play will be a quick-pick for the very next CASH 5 drawing.

SWEET 16 IN WI. To mark its 16 years in business, the Wisconsin Lottery has put together a new "Sweet 16" scratch game featuring \$3.7 million in instant cash prizes and bonus trips for two to Cancun, Mexico courtesy of Funjet Vacations. "Sweet 16" is a \$5 instant game with 16 chances to win on each ticket and a top cash prize of \$10,000. In addition, there are 16 weekly bonus mail-in drawings between August 26 and December 9. In each drawing one player will win a Funjet Vacations Getaway for two to Cancun for three nights, along with \$1,600 in cash. Fifteen other players will win \$1,000. On February 3, 2005 a Grand Prize Drawing will be held and one lucky player will win a Funjet Vacations Getaway for two for seven nights, with accommodations at the all-inclusive Melia Turquesa Hotel in Cancun and a \$16,000 cash prize.

WA, KY RECEIVE AWARD. For the 14th consecutive year, the Washington Lottery has been awarded the *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. The Kentucky Lottery also received the award, this being their tenth straight year to it. The prestigious national award is the highest form of recognition in the area of governmental accounting and financial reporting.

INTERNATIONAL NEWS

RECORD YEAR FOR LOTTERYWEST.

Australia's Lotterywest sales for 2003-04 reached a record \$505 million. Sales were up 2.9% over the previous year, and were dominated by Lotto, which turned over \$417 million.



SAZKA PROFITS RISE. According to Czech accounting standards the net profit earned by SAZKA, a.s., in the first half of 2004 reached CZK 902.4 million and rose by almost one quarter on the first half of 2003. In addition to net profit, the yield also rose in the first half of 2004. Betting games and lotteries, reduced costs and more efficient management, and primarily higher revenues from non-lottery activities all contributed to the favorable results. Non-lottery activities subject to VAT include: sale of tickets by means of the

SazkaTicket network and recharging of mobile telephone credit by on SAZKA on-line terminals.

ISRAELI TERMINALS TO RECHARGE PRE-PAID PHONES.



and Cellcom will allow Mifal Hapayis to expand the range of products and services they provide, and will allow Cellcom to offer its clients more service centers where they can recharge their "Talkman" pre-paid cellular phones. Initially, "Talkman" customers will be able to recharge their handsets in any of about 800 points of sale, and later all 2,300 points of sale will offer the service. The first phase will start in about two months.

TAIWAN HAS RECORD JACKPOT. Taiwan's 'Public-Interest' Lottery draw is currently sporting the country's largest jackpot ever. The 6/49 game has rolled over to nearly US\$30 million. Each ticket costs approximately US\$1.50.

VIDEO GAMING/RACINOS

WA VLT INITIATIVE ON NOV. BALLOT.

Washington Initiative 892, which would authorize the Washington Lottery to install 18,900 VLTs at non-tribal businesses such as mini-casinos, bowling alleys, taverns and more has gathered more than enough signatures to be on the November 2 ballot. If voted in, the state would take 35% of the net from the machines, generating an estimated \$400 million per year. The money would be



used to reduce property taxes.

PA HIRES CONSULTING FIRMS FOR SLOTS. The Pennsylvania Government has reportedly hired three gambling consultant firms to help the state get started implementing and regulating the expansion of slots. The firms will advise in the area of criminal background checks and in the selection of a central system. Consulting Firms include Information Service Group, Spectrum Gaming Group, and Gaming Laboratories International.

RI LEGISLATORS OVERRIDE GOV VETO. With a vote of 47-19 the Rhode Island House overrode Governor Carcieri's veto of a referendum on a proposed casino in

West Warwick. The Senate overrode the bill a week earlier. The matter will now appear on the November ballot.

DE PROPOSALS PREPARE FOR

PENNSYLVANIA. Delaware is trying looking ahead to the Pennsylvania slot implementation, trying to create ways in which to keep gambling dollars in the state. Proposals include a 2,000-slot casino and hotel on the Christina Riverfront; a 2,500-slot casino and hotel in Georgetown; and gaming machines, restaurants and retail on a barge on the Delaware River bordering New Jersey. Each plan would require new legislation. Other proposals would allow sports betting at racinos and expand facility operational hours to 24 hours, while another would create a wide area progressive link with machines in West Virginia and Rhode Island.

ME BOARD TO DISCUSS SYSTEM FOR RACINO.

Maine's Gambling Control Board will reportedly meet this month to decide which monitoring system will be used at the state's first racino. The state's public safety commissioner said regulators need to create a system that protects players and ensure machines pay out 89% of all bets placed, as the law requires. The monitoring system must also ensure that appropriate amounts are paid out to community colleges, harness racing purses, and other interests.

DC CASINO CAUSE DEALT BLOW. The District of Columbia Board of Elections and Ethics vote to disallow thousands of petition signatures gathered to support a referendum allowing 3,500 VLTs to operate in the city. Casino Proponents need 17,599 qualified signatures to get the referendum on the November 2 ballot. While there's no word on how many signatures were invalidated, there's no dismissing the fact that this is a substantial blow to the casino-backers. Petition gatherers initially turned in over 50,000 signatures.

MI LEGISLATURE VOTES TO INCREASE

DETROIT CASINO TAX. The Michigan Legislature voted to increase the tax on Detroit's three casinos by from the current 18% to 24%. Some of the new funds will be used for agricultural programs. Both the Senate and the House expressed overwhelming support for the bill, and Gov. Jennifer Granholm is expected to sign the bill shortly. The bill is expected to generate an additional \$50 million in annual revenues. The passage of the bill spelled the likely end of a bill that would have allowed gaming machines at horse tracks.

ME SLOTS STILL HAVE A WAYS TO GO. Bangor Raceway may have the advent of slot legislation, but slots still seem a long ways away. Penn National Gaming could

be receiving its state license for machines as early as September 30, but there's a lot of work that will need to be done after that happens. The company reportedly hopes to place as many as 1,500 machines in a new \$125 million facility that needs to be built on a site currently being used as a parking lot. It could take up to 18 months to get machines in place.

CIRSA SLOT PURCHASE FOR ARGENTINA

CASINO. Cirsa recently purchased 240 slots for its casino in Mendoza, Argentina. The casino reopened in July and is expected to pull in annual revenues of \$4.5 million.

COMPANY ANNOUNCEMENTS

DKLB CHOOSES WINCOR NIXDORF.

The "Deutsche Klassenlotterie Berlin" (DKLB) is to be the sixth German lotto and toto company (out of a total of 16) to deploy Wincor Nixdorf technology in its lottery outlets and is going to swap the old terminals in its 1,188 outlets for Wincor Nixdorf Xion /Mtop terminals by the end of 2006. As well as the 1,300 terminals, the DKL order also includes the Xicore terminal software.

EGET AND INTRALOT TEAM-UP FOR CHILEAN

INTERNET GAMES. EGET and INTRALOT have joined forces to deliver new Internet games for Polla Chilena de Beneficencia, the state lottery operator of Chile. EGET delivered the required 4 casino and instant games in just 8 weeks after signing the contract. The games include "Galactic Keno", a 3 reel 5 line slot machine named "Travel Game", a 5 reel 9 line slot machine called "Lucky Day" and a poker game called "Western Poker".

EUROPEAN ROUNDTABLE HOSTED BY GLI.

Gaming Laboratories International (GLI), the world's leading gaming testing company, recently completed its second annual European Regulators Roundtable. The successful two-day event focused on technology that regulators will soon be encountering. The roundtable drew 21 regulators from across the continent.

GARFIELD APPROVED IN MS.

Mikohn Gaming has received two important approvals from the Mississippi Gaming Commission. Mikohn's Garfield™, It's all About Me!® slot game has been approved by Mississippi Gaming. Installations are expected to begin immediately throughout the state. In addition, Mississippi Gaming has also granted approval to commence beta testing of Mikohn's Ticket-In/Ticket-Out (TITO) technology.

GLI OPENS ITALIAN OFFICE. GLI has opened a new test facility in Bologna, Italy. GLI Italia is a division of GLI Europe, B.V. and will service the country's rapidly

expanding Amusement-with-Prizes market. The 630 square-metre (4,000 square-foot) facility will house a total of seven full-time employees.

JCM PRINTER APPROVED. JCM American Corp. announced its benchmark Thermal Printer Series 200 printer has been approved for use in Nevada by the Nevada Gaming Control Board. The approval allows the printer to be used in all games by International Game Technology (IGT). The printer has previously received GLI approval for use in 28 jurisdictions throughout the United States and Canada. Currently, more than 70 casinos use the printer.

MUSL AND SCI-GAMES REACH AGREEMENT ON MULTIPLIER PATENT. MUSL and Scientific Games have finalized a license agreement for Scientific Games' group participation multiplier patents as they apply to Powerball's Power Play feature. In recognition of the fact that all MUSL members have been offering this option to their players prior to Scientific Games acquiring these patents from IGT in November, Scientific Games has grandfathered all Powerball jurisdictions on a royalty free basis for a period of time and has agreed to credit revenues paid to Scientific Games or its subsidiaries against the standard royalties due under the agreement. The agreement also grants MUSL important rights to the multiplier patent in that only customers of Scientific Games or members of the Powerball game or its successors will be permitted to use the multiplier patents in multi-state lottery games. The license agreement allows MUSL to enter into sub-licenses with individual member lotteries that sell the Powerball game with a multiplier feature.

NEW TELECOM DRAW MODULE IN PA. The TeleCom Game Factory announced completion of the installation and testing of the Pennsylvania Lottery's "Go for the Green" bonus Daily Number animated promotional drawing module. The Lottery's 13-day promotional bonus drawings started last week and is conducted using the Lottery's secured Random Animated Digital Drawing System installed last year to facilitate daily mid-day game draws which are streamed to the Lottery website.

OGT SELECTED BY MA. The Massachusetts Lottery has awarded Oberthur Gaming a new contract as secondary vendor to provide instant tickets and related services. The contract term is two years with three one-year extension options and contains no limit on business volume.

ONCE ORDERS GTECH TERMINALS. ONCE has exercised an option in its existing agreement with GTECH

for the provision of an additional 5,000 handheld lottery terminals. With this additional sale of handheld terminals, ONCE expects their handheld terminal count will increase to 19,000 by the end of 2005, making them the largest lottery network in Spain.

OR EXTENDS GTECH. GTECH signed a three-year contract extension with the Oregon Lottery to commence June 21, 2005. GTECH will replace the Lottery's existing video lottery central system with GTECH's Enterprise Series Video(TM) central system, will provide the Lottery with approximately 2,000 IP-ready Altura(R) LVT video site controllers, and provide validation of winning receipts and printing of retailer reports.

POLLARD OFFERS NEW BINGO CONCEPT. Pollard Banknote is offering lotteries the chance to revitalize player interest in their instant bingo line-ups with the introduction of *Single Double Triple Play Bingo*TM. This proprietary product is based on the popular Double PlayTM Bingo format. This enhanced version of instant bingo multiplies a player's chance to win by providing two or three numbers in some squares on the bingo card. The player only needs to match one number to mark that square.

THE PRICE IS RIGHT IN MI AND WA. The Michigan and Washington Lotteries are experiencing phenomenal success with THE PRICE IS RIGHTTM instant tickets, licensed from Oberthur on behalf of FremantleMedia. The Washington Lottery launched its initial order of THE PRICE IS RIGHT on February 9, 2004 with tremendous sales, and reordered within six weeks! The game is the Lottery's top selling \$5 game in FY04, and has generated nearly 40% more sales than the average \$5 game. THE PRICE IS RIGHT was launched by the Michigan Lottery on May 18, 2004. The game is the #1 selling \$3 game for the lottery based on nine weeks of sales.

PEOPLE

GLI is proud to announce that **Bill Treger** has been promoted to the position of Director of Development. Treger, who has been with the company since December 2001, will oversee all of the Company's development activities in North America, South America, Central America and the Caribbean. Additionally, Treger will assist the Company's development team in coordinating visitation schedules for all clients in these regions.

JOBS

IL LOTTERY SEEKS OPERATIONS MNGR., ONLINE PRODUCT MNGR. & CORP. ACCOUNTS MNGR.

The Illinois Lottery is seeking candidates for three critical Executive Staff positions: Operations Manager, On-line Product Manager, and Corporate Accounts Manager. The successful candidates will work closely with Lottery Supt. Carolyn Adams and other Executive Staff members to build on the success of the Illinois Lottery, which recorded all-time record sales in Fiscal Year 2004. Candidates should possess creativity, high energy, and integrity.

The Illinois Lottery values diversity and is an equal opportunity employer. Applicants for any of the three positions should respond by sending a resume/cover letter (including salary requirements) to: Illinois Lottery Superintendent Carolyn Adams, 100 W. Randolph Suite 7-901 Chicago, IL 60601. The interview and selection process begins in late August, 2004. Please see <http://www.publicgaming.org> for a more detailed description of positions.

CASE STUDIES

FOCUS ON NEW YORK RETAILERS

Contributed by the New York Lottery

For the past 10 years, the New York Lottery has consistently turned to its 15,000 member retailer network to gain insight into what works in the shops. As simple as it sounds, this strategy of asking for and responding to retailers' comments and concerns has been an invaluable tool in helping New York to increase its Instant game business from \$289 million annually to \$2.7 billion over the past decade.

New York claims the format of its so-called Retailer Advisory meetings is critical to their success. Twice a year (usually in the spring and the fall), the New York Lottery gathers its top managers as well as its top vendor managers across all disciplines to meet with a cross section of Lottery retailers from 10 key markets statewide. The Lottery Director begins each meeting by outlining the Lottery's newest business-building initiatives and then solicits input from retailers on any and issues they perceive as being an impediment to their existing terminal and instant business practices. Past discussions have focused on instant games management and accounting procedures, terminal and software upgrades, and customer perspectives on Lottery marketing programs and new products.

Approximately 20 retailers are invited to participate in each regional round-table discussion. Lunch is served to provide a more relaxed atmosphere and to encourage maximum dialogue. A specific agenda is distributed, however retailers are urged to offer any suggestions in any area that they believe will help sales. Retailer comments are documented and used in the development of an action plan following a

cooperative review by Lottery and vendor management on the viability and execute-ability of each retailer's suggestion.

The New York Lottery credits its Retailer Advisory meetings as the impetus behind some of its most strategic business improvements of the past 10 years. Following is a brief chronological review of some of the watershed improvements made by the New York Lottery as a direct result of input received at one of its Retailer Advisory meetings.

1. **1994 – Introduced “45 days after activation”** Instant game book settlement program (Initially, New York explored 60 days and a hybrid rule of 80% validation or 45 days, whichever came first. Retailers were completely confused and asked for simplicity).
2. **1995 – Instituted auto-ship program** for new game launches to maximize exposure during start-up and advertising effectiveness
3. **1995 – Enabled terminal ordering of instant games** to increase retailer convenience and empower retailers to manage their own ordering patterns.
4. **1997 – Developed a category of staple games** to leverage the popularity and investment in higher selling product. Currently, New York has nine games in the category which represent almost 34% of weekly instant game sales.
5. **1998 – Started full and partial book trade-up** program to limit retailer risk of carrying new inventory and provide New York with a tool to better manage facings of current and more salable products
6. **1998 – Launched current cycle of two new games** every three weeks. In 2004, New York updated to include three new game launches once per quarter
7. **2000 – Designed new ISYS terminal keyboard** based solely on retailer preferences retail viability.
8. **2001 – Eliminated off-line validators;** thereby eliminating double redemption of low-tier instant game tickets and improving retailer confidence in the system's integrity.
9. **2002 – Showcased retailer best practices** in a reformatted, simplified monthly retailer newsletter (the “Game Plan”) distributed via auto-ship deliveries.
10. **2003 – New York expanded its existing multiple terminal strategy** to retailers generating more than \$18,000 in weekly sales. Also expanded ticket checker availability to retailers with more than \$10,000 in weekly sales and 35% cashing levels.

**Submit material for next week's Morning Report by
Wednesday of this week to Toddpg2@aol.com**

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