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GLOBAL GAMES AND GAMING MAGAZINE | SPECIAL ISSUE

INTERVIEWS

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- AGA - CEO and President, **Frank Fahrenkopf**
- Williams Interactive - CEO and President, **Orrin Edidin**
- Experian - Director, **Sandra Green**
- GLI - CEO and President, **James Maida**
- PGS - CEO and President, Congressman **Jon Porter (Ret)**
- AGEM - Executive Director, **Marcus Prater**
- Evolution Gaming - Head of Marketing, **Helen Hedgeland**
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US MARKET REPORT

STATES OF CASINO PLAY ACROSS THE USA

California, Delaware, Florida, Illinois, Massachusetts, Nevada, New Hampshire, New York, Texas

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US MARKET REPORT



"The Wire Act had previously prevented Internet gambling in the US. The response from a lot of states to the original legislation back in 1961 was the creation of interstate lotteries. So the decision of the Justice Department was very dramatic as it basically said that the Wire Act had been wrong for the last 30 years. When the Wire Act came into law, no one imagined the existence of a worldwide web.

Frank Fahrenkopf, President and CEO, AGA

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California, Delaware, Florida, Illinois, Massachusetts, Nevada, New Hampshire, New York, Texas

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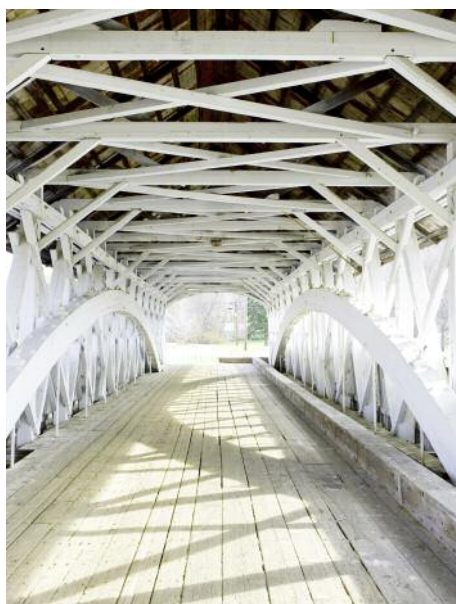
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SHIFTING LANDSCAPES



The landscape of the US gaming market is changing rapidly. As some states clamber to set up their own interstate online gaming laws others are pushing through legislations to change their land-based gaming regulations and open up their markets to bigger and better casino and racino resorts. Internet gaming is a hot bed of discussion at the moment particularly in California, Iowa, Florida, Nevada, Utah, New Jersey, Illinois, Mississippi and of course Delaware, whilst newly opened casinos are springing up in Ohio, Massachusetts, New York and Illinois.

There are still many speculations as to which state will endeavour to change its law next and there are many false starts which have fallen at the first hurdle. One thing seems certain however and that is the desire from many political parties to actively seek new ways of developing its gaming industry. One thing in its favour at the moment is of course the dire economic situation which has led some states to re-think their attitudes towards gaming and encourage tax dollars into their region in a bid to get their struggling state back on track financially.

At the moment the US market has the following:

- There are 28 states with pari-mutuel facilities.
- There are 14 states with Racinos,
- There are 16 states with a total of 492 commercial or riverboat casinos.

- There five states operating 510 card rooms.
- There are 29 states with around 460 Indian casinos.
- There are a total 854,000 slot machines in 39 states.

Meanwhile gross gambling revenue for the commercial casino industry in 2011, according to the 14th AGA annual report, was up by three per cent over the previous year to \$35.6bn whilst tax revenue climbed by 4.5 per cent to \$7.93bn. The industry directly employs some 339,000 people who earned a whopping \$12.9bn in wages, tips and benefits. Tribal casinos took around \$24.9bn in 2010. Some 15 states saw their gross gaming revenues increase last year with the largest increases coming from states with new casinos opening such as Maryland, Kansas and New York. The Las Vegas Strip remains the top US casino market with \$6.07bn in GGR. This is followed by Atlantic City (\$3.32bn), Chicago (\$1.93bn), Detroit (\$1.42bn), Connecticut (\$1.35bn), St Louis (\$1.11bn), Philadelphia (\$1.09bn), Bioxi, Mississippi (\$824.8m) and Tunica-Lula, Mississippi (\$817.1m).

This US Special Issue is the fourth of our series of continent reports which have in the past included South East Asia, South America and Africa. The US market clearly had to be covered and has proved to be a timely feature due to the law changes across several states at the moment. So with this in mind, we have hand picked the top 10 states which are likely to be the next 'new' jurisdiction as they expand or update their gaming markets. These are: Ohio, Nevada, Delaware, Massachusetts, New Hampshire, Florida, California, Texas, Illinois and New York. Many thanks to the AGA and AGEM for their input and information also those very helpful American folks working behind the scenes at the various associations and gaming boards who have been forthcoming with information and comments about their industry.

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LIVE CASINO READY TO ROLL

Evolution Gaming describes its stance in regards to the opportunities currently arising in the US online gaming market as 'poised and ready to go.' Drawing upon its experience in the European market, live casino gaming is about to hit the US

If you've been keeping a close eye on developments, you'll know that the writing and ratification of US online gambling legislation is a slow process.

Monitoring real-time news aggregator websites daily, often hourly, we've witnessed bursts of activity that suggest widespread US legislative change could be just around the corner. Then, just when things start to get exciting, we've witnessed long periods of no US news at all, bar the odd item reporting that the next stage of a proposed bill's journey could be delayed for months.

As a result, online gaming B2B providers, both within and outside the US, have had considerable time to arrange their cards into the strongest possible hand. Whilst US operators may be inclined to consider home-grown US suppliers first, it could be argued that some European providers have the best hands in terms of pure online gaming expertise and sheer 'been there, done it' experience.

One such online B2B provider is Evolution Gaming, a company generally acknowledged to be the world leader in TV quality, video-streamed online live dealer gaming – or Live Casino as it's more commonly known.

As our feature on pages 54-55 explains, Live Casino is likely to be the real game changer for the US casino industry, more so than any other sector of online gambling. Evolution, a company that describes its US market stance as "poised and ready to go", is therefore a name worth watching as the legislative picture hopefully becomes a little clearer.

In Italy, Evolution became the first Live Casino provider to be certified by AAMS (the Italian regulator) and the first to go live. That was a significant achievement as it's been said that the regulations and technical reporting specs for the new Italian market were amongst the most complex ever seen in the gaming world. Among the operators now bringing in Live Casino revenue in Italy with Evolution solutions are 888, bwin, Unibet and Lottomatica.

"For years, many in the industry have put forward the idea that online gaming is all about quantity of customers not quality of customer experience. We believe it can be about both, and our recent work with William Hill on their VIP customer offer is the perfect example."

Fredrik Osterberg,
Sales Director,
Evolution Gaming.

RE-REGULATED MARKETS

As well as being a world leader, Evolution is also a company that is sharply focused on helping clients achieve first-to-market advantage with Live Casino services in re-regulating markets.

Today, 17 out of the top 20 European gaming operators choose Evolution Live Casino. And a great many of those operators have launched into Europe's re-regulated markets with Evolution's Live Roulette, Live Blackjack and Live Baccarat.

Live Roulette and Blackjack are generally the most popular games, but Evolution invests continually in games

**FOR MANY
MARKETS THE
OPERATOR'S LIVE
CASINO IS
PHYSICALLY
CREATED AT, AND
STREAMED FROM
EVOLUTION'S
PRODUCTION
STUDIOS IN RIGA.**

and technology development. The company has recently launched Mermaid's Fortune, the world's first Live Slots game, Live Casino Hold'Em and Mobile Live Roulette for iPad.

All feature Evolution's intuitive and user-friendly UI and all games play directly in the user's web browser, with no need for the customer to download separate software. The Live Casinos can



be 'generic tables', or highly branded and customised 'dedicated environments', or localised online 'destination casinos', such as London Roulette and Venetia Roulette, with native speaking dealers.

For many markets the operator's Live Casino is physically created at, and streamed from, Evolution's state-of-the-art production studios in Riga. The one exception, at the moment, is the new Spanish market, where the Live Casino has to be in a licensed casino on

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Evolution has developed a complete turnkey design-to-delivery solution and road map for in-venue Live Casino. This includes the games software, the live studio set-up, the expertise and staff training.

Spanish soil. That breadth of operator and market experience could be invaluable to US clients.

FIRST-TO-MARKET ADVANTAGE

In Italy, Evolution became the first Live Casino provider to be certified by AAMS (the Italian regulator) and the first to go live. That was a significant achievement as it's been said that the regulations and technical reporting specs for the new Italian market were amongst the most complex ever seen in the gaming world. Among the operators

now bringing in Live Casino revenue in Italy with Evolution solutions are 888, bwin, Unibet and Lottomatica.

In Denmark, too, Evolution has helped major operators such as Betsson, Sportingbet and Unibet gain a similar early lead. Denmark presented its own challenges as the Danish regulator SKAT stipulates a number of special requirements for the Live Casino system. One of these is a 'SAFE' data storage area, as a repository for real-time betting data, within the operator's

system. However, it is the Spanish market that presents the most interesting parallel with the emerging 'new' US online gaming market.

As mentioned earlier, in Spain the Live Casino (which by definition is the live studio broadcast set-up of table/wheel, dealer, cameras, microphones etc) has to be located within an appropriately licensed Spanish casino. Currently it's only Live Roulette that's allowed under the new Spanish rules but that could change.

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Right now, it's most people's best guess that US Live Casino regulations will follow this model, with the operator's Live Casino having to be located within a licensed casino in the US or, more specifically, within a given US State.

OPERATOR COLLABORATION

Evolution has been working very closely with operators in Spain, conducting site visits, identifying where the Live Roulette set-up will be located in the venue, and specifying precisely what equipment is required and how the service will run.

Consequently, Evolution has developed a complete turnkey design-to-delivery solution and road map for in-venue Live Casino. This includes the games software, the live studio set-up, the expertise and staff training – even IT and broadcast infrastructure sharing to reduce operator costs.

FOR WILLIAM HILL A WHOLE NEW ONLINE ENVIRONMENT HAS BEEN CREATED, DEDICATED TO VIP PLAYERS. IT INCLUDES A SALLE PRIVÉE.

"It's taken a little while for the new market to gain momentum in Spain, not least because this is a whole new area for both online operators and land-based operators too," says Evolution Sales Director Fredrik Osterberg. "Nevertheless, this is a very exciting time for Spanish operators and we expect to announce agreements with licensees very soon."

TURNKEY OR PICK-AND-MIX

Osterberg says that Evolution is able to provide a similar turnkey package for US operators should they require it.

"Naturally, we can easily adapt and package our in-venue Live Casino solution for the US, but we are entirely flexible," he explains. "It may be that the eventual regulations dictate that all hardware is located in the US, so that



"It's also possible that some US operators may want to source their own broadcast equipment. As I say, we're flexible. The value is in our experience and expertise in setting up and running high quality, high availability Live Casino 24/7/365." **Fredrik Osterberg,** Sales Director, Evolution Gaming.

would rule out piggy-backing on Evolution infrastructure at our Riga studios. But that's not a deal breaker, as most US clients will have experience themselves, or through IT partners, of hosting and managing business-critical systems.

"It's also possible that some US operators may want to source their own broadcast equipment," continues Osterberg. "As I say, we're flexible. The value is in our experience and expertise in setting up and running high quality, high availability Live Casino 24/7/365."

"At the same time we have a huge amount of experience in working as a strategic partner to our clients and enabling them to use Live Casino to extend the gaming floor (if they are a

land-based operator), attract new customers, grow revenue and increase customer loyalty."

A COMPLETE VIP SERVICE

An example of this strategic partnership approach is Evolution's relationship with William Hill Online, Europe's leading online gaming and sports betting business.

"For years, many in the industry have put forward the idea that online gaming is all about quantity of customers not quality of customer experience," says Osterberg. "We believe it can be about both, and our recent work with William Hill on their VIP customer offer is the perfect example."

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"In the context of US online gambling, our Mobile Live Roulette for iPad is a very flexible, high quality mobile gaming solution – it's ideal for use intra-resort or intra-state, wherever customers happen to be. It extends the gaming floor, customer service and operator opportunity more than ever before."

Fredrik Osterberg,
Sales Director,
Evolution Gaming.

online environment has been created, dedicated to VIP players. It includes a Salle Privée with Roulette, Blackjack and Baccarat tables, as well as eight further Blackjack tables and scope for additional expansion.

VIP hosts were recruited specifically to liaise with high rollers, and are empowered by the integrated systems at their fingertips to deal immediately with any matters that may arise, including account-based queries and credits.

TRUE MOBILE AND MULTI-CHANNEL GAMING

Also of interest to US operators will be Evolution's commitment to deliver what Osterberg describes as "a flawless Live Casino experience across multiple

media and channels."

Spearheading this latest phase in Evolution's development are a Live Casino TV show already running on Italian TV for Lottomatica and the launch of Evolution's Mobile Live Roulette for iPad.

According to Osterberg: "Until recently, to access world-class live casino games you had the option of sitting down at a fixed PC position or using a laptop which, though portable, can still be fairly weighty. The iPad has changed all that because it's almost as handy as a smartphone but, by comparison, offers acres of prime screen 'real estate'.

"Our vision is one of multi-channel freedom and easy accessibility – but always retaining the world-class quality for which we are known," explains Osterberg.

AS PART OF THE SAME MULTI-CHANNEL PROJECT, EVOLUTION DEVELOPERS OFFER A SYSTEM THAT ALLOWS THE IPAD TO BE THE BETTING INTERFACE.

"Sometimes customers at home or in a hotel room just want to sit back and relax on the sofa. Perhaps they've had enough of working on a PC or laptop all day. At times like this, just flicking on the TV is all they want to do – in which case, something like the Lottomatica TV show which features live feeds from our Live Casino tables, is the perfect way to unwind."

MOBILE GAMING FOR IPAD

"Similarly, our Mobile Live Roulette for iPad takes access to live games into a whole new sphere of life and reaches different customer segments and demographics," continues Osterberg.

"The iPad is a completely different device to a PC or laptop. It's essentially just a slim, lightweight, high-res screen – and it's very, very personal. Users

love to keep it close at hand, so I believe it can allow a closer and extended relationship between a service provider and the user.

"Our solution is created in HTML5 and fully optimised for iPad, so whether the user holds their iPad horizontally or upright the whole screen image – the live video of the wheel and dealer, and the UI – just switches seamlessly."

EXTENDING THE FLOOR

"In the context of US online gambling, our Mobile Live Roulette for iPad is a very flexible, high quality mobile gaming solution – it's ideal for use intra-resort or intra-state, wherever customers happen to be. It extends the gaming floor, customer service and operator opportunity more than ever before."

As part of the same multi-channel project, Evolution developers have also come up with a system that allows the iPad to be the betting interface for the Live Casino TV shows. "As a result, it's entirely possible that a big-brand US casino could soon have one showcase Live Casino area in the middle of its 'bricks and mortar' gaming floor – and the live action will be feeding out to multiple media channels," says Osterberg.

"The table or tables in that area, whilst appearing 'empty', could in fact be populated by thousands of remote players," he continues. "These customers could be playing on PCs, laptops, iPads and via the iPad/TV combination. So when I say 'extending the gaming floor', I mean extending choice for customers and extending business and revenue opportunity for operators.

Whether or not US operators look to Evolution for expertise or just inspiration, Osterberg says that the company is absolutely committed to consolidating its position as the world leader in Live Casino.

"We will do that through continued investment and constant innovation," he asserts. "We are the most flexible and creative Live Casino and our track record proves we are also a safe bet in terms of mitigating risk and return on investment," concludes Osterberg.

In times of great change, these are just the kind of reassuring words US operators will want to hear.

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GOLDEN OPPORTUNITY

The expansion of the Indian gaming industry in California has conflicted with the interests of Racinos looking to grow their own machine business. Into this mix comes online gaming...

Over on the west coast of the US sits the Golden State of California, the most populous US state and the third largest state in the country.

As such it has a hugely diverse land ranging from the Pacific Coast in the west, the Sierra Nevada mountain range in the east, the Mojave Desert area in the southeast and the Central Valley in the heart of the state. It is bordered also by Oregon, Nevada, Arizona and the Mexican state of Baja California.

The name California once referred to an area of North America claimed by the Spanish and in 1850 California was admitted as the 31st state of the US. The region is remembered for its Gold Rush era which led to large scale immigration to the US and subsequently an economic boom.

In the early 20th century the entertainment industry began to grow in the Los Angeles area coupled with a state wide tourism sector whilst the late 20th century saw a technology and information sector development alongside the growth of Silicon Valley.

The agricultural industry is also huge and almost half of the fresh fruit produced in the US is now cultivated in California. If the state was a country it would be boast the eighth largest economy in the world.

The state is divided in two by the Sacramento and San Joaquin River Delta which are critical water supplies for the state whilst 45 per cent of the land area is covered by forests. The state is divided into 58 counties and 460 cities and 22 towns. The majority of these cities and towns are located within one of five metropolitan areas and 68 per cent of the population live

in the three largest metropolitan areas of Greater Los Angeles, San Francisco Bay Area and Riverside San Bernardino. The other two are San Diego and Greater Sacramento.

The state's economy is the ninth largest in the world and by 2010 the GSP was about \$1.9 trillion comprising of 13 per cent of the national GDP. The recession however hit hard and this growth rate has slowed.

In terms of jobs the five largest sectors include trade, transportation and utilities; government; professional and business services; education and health services and leisure and hospitality. The state also has the fifth highest unemployment rate in the nation at 10.9% (Feb 2012)

California's economy is very dependent on trade and international related commerce accounts for around 25 per cent of the state's economy. The state exports around \$144bn worth of goods each year whilst computers and electronic products are the top export product.

Farming is also a key component and the state has around 81,000 farms which generate around \$36bn in product revenue.

California has a state sales tax of 8.25 per cent which can total up to 10.75 per cent with local sales tax added. The state has suffered from a budget deficit and one problem is that a substantial portion of the state's income comes from income taxes on a small proportion of wealthy citizens and this is dependent on capital gains, which has been impacted by the stock market declines of this period. In 2009 the economic crisis became severe and the state faced insolvency and massive



The state has suffered from a budget deficit and one problem is that a substantial portion of the state's income comes from income taxes on a small proportion of wealthy citizens and this is dependent on capital gains, which has been impacted by the stock market declines of this period. In 2009 the economic crisis became severe and the state faced insolvency and massive budget cuts were announced.

THE MANY SMALL OPERATIONS SCATTERED THROUGHOUT THE STATE ARE CARD ROOMS REGULATED BY LOCAL GOVERNMENTS.

budget cuts were announced.

Meanwhile tourism figures show a total spend of \$102bn with \$30bn earnings last year. Some 199 million domestic visitors (73%) went to California in 2010 whilst top visiting states were neighbouring Arizona, Nevada and also Texas, Oregon, Washington and New York. Some 13.6m international visitors travelled to California of which 5.7 million were from overseas, 6.6 million were from Mexico and 1.4 million were from Canada.



TYPES OF GAMING

California permits the lottery, pari-mutuel betting, card clubs, charitable gaming and Indian casinos. The lottery was created by a ballot in 1984 and the Lottery Act was set up to help provide funds for public schools and colleges. Lottery ticket sales began in 1985 with 21 million scratch ticket games called California Jackpot sold on that first day.

Initially the Lottery Act capped administration expenses at 16 per cent of sales and required that 34 per cent of sales went to education. In 2010 the Legislature passed Assembly Bill 142 which changed the funding formula and now limits administrative expenses to 13 per cent of sales and ensures 87 per cent of sales go back to the public in form of prizes and contribution to education.

Since 1985 the Californian lottery has generated around \$65.8bn in sales and \$34bn has been given out in prizes and \$24bn has gone towards education. In fiscal year 2010-11 the lottery gave over \$1bn to education and paid out more than \$1.9bn in prizes. Sales revenue

increased by 13 per cent to \$3.4bn.

There are around 90 card rooms in California which have around 1,800 tables between them. This number has dropped significantly with around 150 card rooms back in 1999.

Many are small operations scattered throughout the State and historically these card rooms were regulated by local governments. In the mid 1980s the state increased its regulatory oversight in a bid to help prevent criminal activity.

When the California Gambling Control Act was passed in 1998 the regulations for card rooms came under this control and now extensive background checks are performed on owners whilst they also need to be approved by host jurisdictions.

Horse racing has been taking place in California since the 1800s, but as a pari-mutuel wagering system, it was part of a Constitutional Amendment in 1933 and the Horse Racing Law has been regularly amended to include live

racing, off track wagering, interstate and international wagering and online account wagering (Advance Deposit Wagering or ADW)

There are currently 13 racetracks operating in California which include five privately operated race tracks – Del Mar; Golden Gate Fields in Albany; Hollywood Park in Inglewood; Los Alamitos in Cypress and Santa Anita in Arcadia.

There are seven Racing Fairs – Alameda County Fair in Pleasanton; California Exposition in Sacramento; Fresno District Fair in Fresno; Humboldt County Fair in Ferndale; Los Angeles County Fair in Pomona; San Joaquin in Stockton and Sonoma County Fair in Santa Rose. There is also one private training facility in San Luis Rey Downs and there are 22 simulcast only facilities operating in the state.

The horse racing sector struggled as the economy suffered and today the majority of handle is now generated off track through ADW although the tracks are eager to keep visitors attending racing fairs.

In 2011 the California Legislature approved SB1072 which included a provision for higher purses for horse owners and also earmarked marketing funds to attract the Breeder's Cup back to California which will now return in November 2012 at the Santa Anita facility. This has had a positive impact on the sector.

The revenue at the California racetracks for year 2010-11 amounted to \$11m whilst the pari-mutuel handle totalled \$2.9bn of which on track wagers accounted for 14 per cent, off track at 28 per cent, out of state 36 per cent and ADW 21 per cent.

The pari-mutuel sector has of course received tough competition from the expansive Indian gaming industry. In 1990 there was only one state offering Racinos in the US which today has grown to 14. Back in 2006 the horse racing sector began to push to introduce video games or Instant Racing machines in order to expand Racinos into the Californian market.

Meanwhile online gambling in California was most recently discussed in June as Senate Bill 1463 was due to receive its first major hearing aimed at creating a framework to authorise

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interstate internet gambling.

The bill was introduced in February by Senate President Darrell Steinberg and Senator Roderick Wright who two years ago introduced a very similar bill which was unsuccessful.

If approved the Internet Gambling Consumer Protection and Public Private Partnership Act of 2012 would regulate and licence the online gaming sector. This bill would authorise eligible entities to apply for a 10 year licence to operate interstate online gambling websites for a licence fee of \$30m and 10 per cent tax on gross revenues. Only poker games could be offered to players over the age of 21. At the moment only horse racing can accept bets online.

However just days before its hearing Chairman of the committee, Roderick Wright pulled the bill claiming it was facing opposition from many of the gaming tribes.

Clearly many tribes are opposed to the bill, however, some were also positively preparing for the changes. For example, the United Auburn Indian Tribe, which operates the Thunder Valley Casino Resort near Sacramento, had made an agreement with Bwin. The 10 year agreement would see Bwin providing the technology to run online poker services if state laws had permitted it.

TRIBAL GAMING

Although the Indian population in California is quite small the state is home to the largest number of tribal governments – one fifth of all in the US – with 108 federally recognised tribes.

There are 565 federally recognised tribes in the US and whilst not all seek to establish tribal casinos many do so. There are currently around 360 Indian gaming establishments in the US operated by approximately 220 tribes in 28 states.

Of the 108 tribes in California there are 60 tribal casinos in California today operated by 59 tribes of which the majority are concentrated in the counties of Riverside and San Diego.

Many consider gaming as their only viable tool to help them out of their economically disadvantaged situation particularly to improve housing, infrastructure and health care. It is also



Back in the late 1970s and early 1980s the Indian tribes in Florida and other states began offering Bingo games for money as a tribal business and method of earning money. At the time only five states permitted all forms of gaming so Indian tribes began to expand and by 1988 over 100 tribes were engaged in bingo.

an issue of self sufficiency.

Back in the late 1970s and early 1980s the Indian tribes in Florida and other states began offering Bingo games for money as a tribal business and method of earning money. At the time only five states permitted all forms of gaming so Indian tribes began to expand and by 1988 over 100 tribes were engaged in bingo.

Then Cabazon tribe located near Palm Springs decided it wanted to offer bingo games without any of the limitations that applied to groups under the charitable bingo laws. They also wanted to open a card room.

California refused and a lawsuit between the Cabazon Tribe and California began and hit the Supreme Court in 1987 which marked the start of the Indian Gaming and Regulatory Act 1988 (IGRA).

IGRA has enabled gaming on Indian lands to develop and this has become a broad policy enacted without any public debate or comment. Around 27 states today have authorised full service casinos enacted by IGRA.

THE 1999 COMPACTS PERMITTED UP TO 2,000 MACHINES PER CASINO AND A TOTAL NUMBER OF 61,957 STATEWIDE.

The regulation divided Indian Gaming into three groups – Class I was traditional social games played amongst tribal members for minimal value. Class II was bingo or card games and Class III was casino style gaming.

Meanwhile the success of Indian Gaming in California is fairly remarkable. There has been a decade of legal wrangling, two state wide referendums and a constitutional amendment before the state finally negotiated class III gaming Compacts with Californian Indian nations.

In 1999 some 60 Indian nations signed

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Comment

"Because we oppose legalised gambling in all forms, we have followed the explosion of gambling in California with both disappointment and dismay. This expansion has changed the gambling profile in California from a few card rooms and race tracks to more than 60 tribal casinos and more than 60,000 slot machines and those numbers continue to grow. Currently there are more than one million problem and pathological gamblers costing the state more than one billion dollars a year and these numbers also continue to grow. However, California is so desperate for money that the false promises of a harmless and endless revenue stream made by the gambling interests, along with huge political contributions and expensive lobbying efforts is proving persuasive."

Although tribal casinos require a Compact between the state and the tribe, the state is at a marked disadvantage in these negotiations because the state cannot deny the casino. Consequently each Compact promises some revenue, but it will never be enough to off-set the economic and social costs to the state. In addition, the Type III gambling monopolies granted to tribes is providing them more money and political influence which strengthens them and weakens their gambling competitors such as horse racing."

Rev. James B Butler, Executive Director of the California Coalition Against Gambling Expansion - www.ccage.org



gaming Compacts and therefore enabled tribes to become self sufficient and sustainable. The state today has more gaming tribes than any other state with 66 currently signed.

The 1999 Compacts permitted up to 2,000 machines per casino and a total number of 61,957 state-wide. Revenue Sharing Trust Fund (RSTF) saw payments on a per machine basis and Special Distribution Fund (SDF) saw payments based on a percentage of revenue from machines operated as from September 1999.

The RSTF was established in 1999 to help fund distributions to non-gaming tribes. Those operating up to 350 slots pay nothing whilst the amount thereafter is graduated so each eligible RSTF recipient (tribes with less than 350 slots or no gaming) receives \$275,000 per quarter for a sum of \$1.1m per fiscal year. The SDF was created to help local communities and government mitigate impacts from tribal gaming.

After the passage of the Proposition 1, the Indian gaming tribes began generating revenues in the billions and

state tribes became some of the largest contributors to Californian political campaigns.

In 2003 the tribes were asked to contribute more of their gambling revenue to the state and the question of whether to increase the maximum number of slots from 2,000 was also raised. Whilst this was going on the Californian card clubs and racetracks also introduced an initiative in 2004 called the Gambling Revenue Act of 2004 which called for all tribes to contribute 25 per cent of their net slot machine revenue to the state. If even one refused then this would trigger a provision to allow race tracks and card rooms to install slots at their sites and break the tribal monopoly on gambling.

The racetrack and clubs would pay 33 per cent of their revenues (around \$1bn per year) to a trust fund to support law enforcement.

The tribes defeated this proposal and agreed to pay 8.84 per cent a year in taxes on their gambling revenue – equal to the state's corporate tax rate and remove all limits on the scope and size of gambling the tribes could offer.

In 2003 the tribes were asked to contribute more of their gambling revenue to the state and the question of whether to increase the maximum number of slots from 2,000 was also raised. Whilst this was going on the Californian card clubs and racetracks also introduced an initiative in 2004 called the Gambling Revenue Act of 2004 which called for all tribes to contribute 25 per cent of their net slot machine revenue to the state.

Operator profile



Operator: Campo Indian

Casino: Golden Acorn Casino

Background: Located in San Diego's backcountry Golden Acorn Casino and Travel Center, Campo Owned by the Campo band of Kumeyaay Indians, this casino is a roadside truck stop/casino with 12 tables and 800 slots

Key executives: Paul Cuero-Chairman, Steven Cuero-Chief, David Baggerly-Director of Marketing

Internet history: With the future of internet gaming currently being debated, Golden Acorn Casino & Travel Center is already hosting a play-for fun option with IGT's DoubleDown Casino application on its casino website offering access to a full-casino style offering of games, including multi-player poker, Texas Hold'Em poker and slot titles such as Da Vinci Diamonds and Cleopatra. New games will be added automatically to the virtual casino, and first-time users of the application will receive \$1m in virtual chips to start their play.

Online quote: "Offering the same game titles on the web that we offer inside our casino gives us the unique opportunity to deliver fun and engaging casino style experiences to our players," said David Baggerly, director of marketing at Golden Acorn Casino & Travel Center. "This is an incredible chance to drive interactive slot culture to our players, while allowing them to stay connected to our brand."

In 2004 Governor Schwarzenegger announced a new set of Compacts with five leading gaming tribes – Rumsey Band of Wintun Indians, United Auburn Indian Community, Pala Band of Mission Indians, Pauma Band of Luiseño Indians and the Viejas Band of Kumeyaay Indians - which kept the monopoly However the 2004 Compact required the tribes to make an initial \$2m annual payment to the RSTF per tribe to maintain the licences for machines operating prior to 2004 but with no SDF payment.

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SUMMARY OF COMPACTS OVER THE YEARS.

Compact	Number of Class III machines	Contributions to RSFT	Contributions to SDF	Contributions to General Fund
Original 1999	Up to 2,000	Per device basis	% of net win	None
2003 Compact	350-2,000	None	None	5% of net win
2004 Compact	1,500-2,000	Per device basis based on net win	None	Based on total number of devices or % of net win
2004 amendment	Unlimited	\$2m annually or per device fee	None	Based on per device or % of net win. Payments of \$5.75m-\$33.8m for some tribes
2006 amendment	Up to 1,100	Per device basis based on net win	None	Based on % of net win
2007 Compact	Up to 99	None	None	Based on % of net win
2007 amendment	5,000-7,000	\$2m annually	None	15% of net win from devices (over 2,000) and 25% (over 5,000) Payments of \$23.4m-\$45m annually
2008 amendment	Up to 5,000	\$4.6m annually	None	20%-25% of net win

It also gave these tribes unlimited number of machines and to exceed the 2000 slot limit but they must then make payments to the state General Fund to do so of between \$8,000 and \$25,000 per machine added after 2004.

In 2007 a new Compact was introduced enabling five tribes to operate up to 5,000 or 7,500 machines whilst the RSFT payments of \$2m annually remained the same with no SDF payments. However the General Fund required minimum payments of \$168m for the five tribes plus 15 per cent of revenues from machines of 2,000-5,000 and 25 per cent from machines 5,000-7,500. It was anticipated the new slots would bring the state an additional \$539m annually.

Today the Bureau of Gambling Control, the California Gambling Control Commission and the California Tribal Gaming Agencies work together to ensure fair operation of the tribal casinos in accordance with IGRA.

Gaming in California is authorised and regulated by both state and federal

The California Gambling Control Commission is a regulatory body governing gaming establishments (card rooms) and Tribal casinos. The tribes all operate under different Compacts whilst six of these casinos operate under the 2004 Compact with an unlimited number of slots.

laws. Tribal gaming requires each tribe to sign a Compact or Intergovernmental Agreement which permits gaming on Indian lands.

The California Gambling Control Commission is a regulatory body governing gaming establishments (card rooms) and Tribal casinos. The tribes all operate under different Compacts whilst six of these casinos operate under the 2004 Compact with an unlimited number of slots.

There are precedents throughout the nation in which some states have decided they should share more of tribal casino profits and as such tribal Compacts are being discussed, which could see further growth in this market.

At the moment tribes are now in the process of re-negotiating their agreements with Governor Jerry Brown who is trying to raise money for his tax campaign. The Democratic governor wants to increase state sales tax and income tax on California's highest earners and is currently talking to 15-20 tribes which could in theory generate



IN 2007 A NEW COMPACT WAS INTRODUCED ENABLING FIVE TRIBES TO OPERATE UP TO 5,000 OR 7,500 GAMING MACHINES.

up to \$7bn annually to the state.

Already a handful of tribes have contributed to Brown's tax campaign which runs in November. One huge development currently in the discussion line of fire is the Rohnert Park development. The Graton Rancheria tribe has been aggressively pursuing a casino project for the last 10 years. Back in 2003 the Graton Rancheria tribe proposed a 350,000sq.ft casino with 1,500 slots. Then the project grew to 540,000sq.ft with 3,000 slots. In the beginning of May this year Gov. Brown

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Info panel

State: California
Capital: Sacramento
Total area: 423,970 sq.km
Population: 37,691,912
Main religions: Catholic (31%), Evangelical Protestants (18%), Protestants (14%)
Racial makeup: White (57%), Asian (13%), African American (6%), Hispanic (37%)
Governor: Jerry Brown (Democrat)
Lt Governor: Gavin Newsom (Democrat)

.....

Casinos: 60
Casino slots: 65,000
Racetracks: 13
Racetrack GGR: \$11m
Card rooms: 90
Card room tables: 1,800
Online gaming: Bill SB1463 (being discussed)

signed the Bill AB517 which ratified his agreement with the Graton Rancheria tribe. This controversial Compact with the tribe is for a \$433m project which permits the operation of 3,000 slots with a 200 room hotel on its 254 acre reservation in Rohnert Park in the Sonoma County (north of San Francisco), despite protests from coalition groups in the county.

The Compact was rushed through the legislative process and approved in Senate with a 43-4 vote on its first hearing. The Compact now needs to be approved by Legislature.

It has stirred, however, a great deal of opposition as it involves more revenue sharing by the tribe than other Compacts. The tribe has agreed to revenue sharing with the city of Rohnert Park, Sonoma County and disadvantaged tribes beyond what is contained in any of the existing 65 Compacts. The tribe has already started work on the site and signals the start of 900 construction jobs created by the project.

Under the new agreement the tribe would pay the state \$1.4m per year for costs although this would not start until the Compact's eighth year giving the tribe 'breathing' space after spending \$200m in development costs. In year eight the tribe would pay not more than 15 per cent of the net win of which three per cent would go to the SDF with the remainder going to surrounding communities and the RSTF.

This is part of a proposal by the governor to enable tribes and communities, not the state, to take the lead in settling disputes about casinos. It is however controversial in that other tribes say it involves significantly more revenue sharing than other Compacts in the state. Among the requirements the tribe must contribute an amount which will eventually reach \$12m a year to fill the special state funds.

The casino project involves Station Casinos LLC who anticipates construction to begin in the middle of 2012 and be finished in up to two years. Station Casino's management

At the moment tribes are now in the process of re-negotiating their agreements with Governor Jerry Brown who is trying to raise money for his tax campaign. The Democratic governor wants to increase state sales tax and income tax on California's highest earners and is currently talking to 15-20 tribes which could in theory generate up to \$7bn annually to the state.

agreement is for seven years during which time they will receive a management fee of 24 per cent of the facility's net income for the first four years then 27 per cent for the remaining years. They have already advanced the tribe \$153m to support the project.

Station Casinos was established in 1976 and currently owns and operates nine major hotel/casino properties under the Station and Fiesta brands plus eight smaller properties in the Las Vegas metropolitan area. It also manages Gun Lake Casino in Michigan.

Fertitta Interactive, an online gaming company which was set up last year by the same family which owns Station Casinos, has just recently bought online gaming company Cyber Arts Licensing in a bid to position itself should the online gaming laws changes.

Station Casinos also has a development and management agreement with North Fork Rancheria of Mono Indian Tribe located near Fresno to assist them in developing a facility in Madera County. Again the management agreement is for seven years with a 24 per cent of net income fee.

The Mono Tribe and State entered into a tribal state Class III gaming Compact in 2008 and currently awaits approval and if granted will install 2000-2,500 slots and a 200 room hotel. Station Casinos have advanced \$17.3m to date.

Meanwhile other developments include the opening of the Running Creek Casino at the end of May, developed by the Habematolel Pomo Tribe of Upper Lake, which is 33,000sq.ft in size and has 349 slots, six gaming tables, two restaurants and a cocktail bar.

The Enterprise Rancheria of Maidu Indians Tribe has a plan for a casino in Yuba county for 1,700 slots and a 170 room hotel. The tribe is purchasing 40 acres from Yuba County Entertainment for the site and is waiting on state approval.

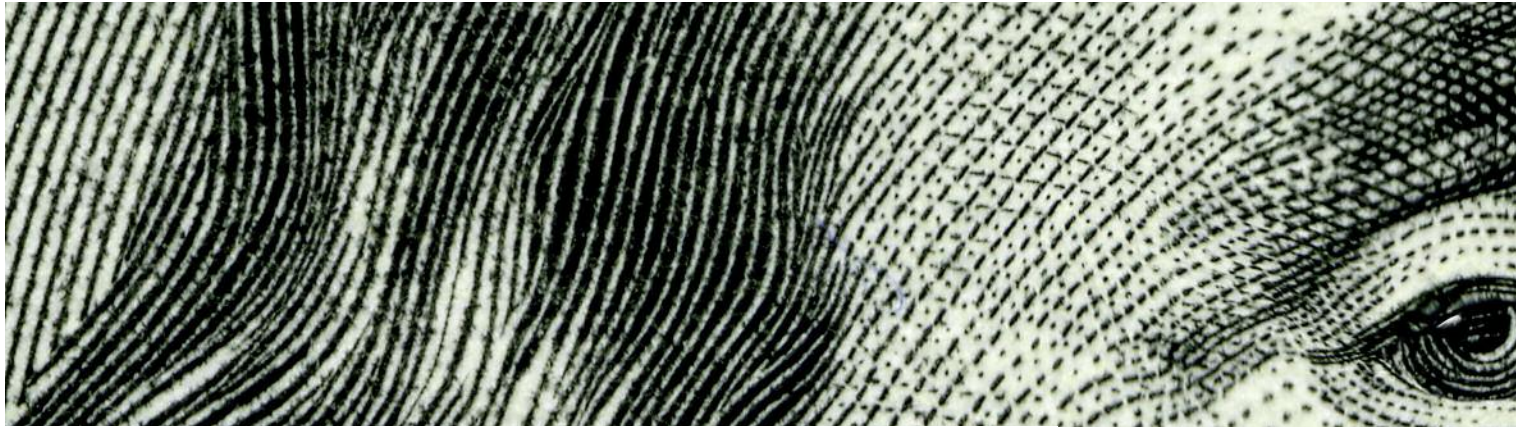
Harrah's Rincon Casino is also proposing an expansion for its Valley Center site which includes a new hotel tower to increase the number of rooms from 662 to 1,064 whilst doubling the casino space to more than 90,000sq.ft in total. The venue also wants to add a concert hall, nightclub, restaurant, poker room and pool area.

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KEEPING AN EYE ON EXPANSION

Despite the economic troubles afflicting the wider economy, AGEM members are currently enjoying a steady period of growth as they seize upon expansion opportunities now arising across the US land-based and online market

It wasn't that long ago, roughly 20 years or so, when legal casino gambling in the United States was limited to Nevada and New Jersey for the real benefit of two markets – Las Vegas and Atlantic City. Since the early 1990s, when the riverboat gaming boom began, until now, the push for gaming expansion has been a non-stop activity, with roughly 40 of the 50 US states now offering some form of gaming entertainment. Despite such robust growth, there's no sign of expansion activity slowing down anytime soon.

As Executive Director of the Association of Gaming Equipment Manufacturers (AGEM), part of my job function is to monitor expansion activity in the U.S. and other countries. AGEM is an international trade association representing manufacturers and suppliers of electronic gaming devices, systems, table games, key components and support products and services for the gaming industry. AGEM works to further the interests of gaming equipment suppliers throughout the world. Through political action, regulatory influence, trade show partnerships, educational alliances, information dissemination and good corporate citizenship, the members of AGEM work together to



Marcus Prater,
Executive Director,
AGEM.

AGEM works to further the interests of gaming equipment suppliers throughout the world. Through political action, regulatory influence, trade show partnerships, educational alliances, information dissemination and good corporate citizenship, the members of AGEM work together to create benefits for every company within the organisation.

create benefits for every company within the organisation. Together, AGEM has assisted regulatory commissions and participated in the legislative process to solve problems and create a business environment where AGEM members can prosper while providing a strong level of support to education and responsible gaming initiatives.

For AGEM's 110-plus member companies, growth comes from two key areas – expansion opportunities and building on an existing customer base. With a severe economic recession lingering over the US, it has been a rough few years, but many of the big slot and casino management system providers are publicly traded and their sales and revenues numbers are clearly trending up, and in some cases, showing record revenue and business activity. Product innovation continues to be a key driver and those companies that emphasized investment in research and development during the height of the recession are being rewarded today. Furthermore, those who have been aggressive in finding new business, both in the US and throughout the world, are contributing to the overall health of a supplier sector that now has more licensed companies than ever before.

AGEM works with the respected Las Vegas firm Applied Analysis to conduct an annual survey of its members in an effort to show the total economic impact of the supplier segment of the gaming industry. Despite a stagnant domestic replacement cycle in 2011 and a lack of widespread new casino openings, the total direct economic output attributed to suppliers increased significantly to US\$12.3bn in 2011, a robust seven percent increase compared to 2010 figures.

Direct jobs sourced to the equipment manufacturing sector totaled 30,300, a 3.1 per cent increase compared to 2010, and wages within the sector increased by 4.8 per cent, reaching a total of \$2.2bn. And perhaps the most impressive direct number from the supplier side of the industry is our average annual wage increased from \$70,500 during 2010 to approximately \$72,200 in 2011, which was significantly higher than the US median income of \$45,230 for the private sector, according to Bureau of Labour Statistics. Indirect impacts, or those

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THE PUSH FOR EXPANSION HAS BEEN A NON-STOP ACTIVITY, WITH ROUGHLY 40 OF THE 50 STATES OFFERING SOME FORM OF GAMING.

attributable to parts suppliers or other supporting businesses, provided additional output, wages and employment.

The total output or revenue, both direct and indirect sales, sourced to the supplier side of the industry during 2011 was \$23.9bn, while aggregate employment reached 52,400 and salaries and wages paid to sector employees totaled \$3.7bn. Gaming equipment manufacturers reported positive expectations that market conditions will continue to improve

during the next 12 months, in part because of potential expansion opportunities. Approximately 87 per cent noted improvements are likely, a bump of 13 percentage points compared to the year before, while about five percent thought conditions would stay about the same, and eight percent expected conditions to deteriorate further.

2012 is already off to a good start and I believe that operators will continue to be compelled to purchase all of the new creativity and technology available to them and that players will thus be rewarded with new entertainment options that will help drive the whole industry forward.

AGEM members and the gaming industry in general have been bolstered by the recent casino and VLT openings in Ohio; by Nevada allowing independent testing labs for approvals and becoming the first state to publish and approve internet gaming regulations; by Kentucky continue to explore the approval of gaming to

"2012 is already off to a good start and I believe that operators will continue to be compelled to purchase all of the new creativity and technology available to them and that players will thus be rewarded with new entertainment options that will help drive the whole industry forward."

Marcus Prater,
Executive Director,
Association of
Gaming Equipment
Manufacturers.

counter the expansion and growth taking place in neighboring states such as Ohio and Indiana; by Massachusetts recently approving up to four casino locations; by Florida debating the idea of huge integrated resorts; by California building on its status as the most lucrative tribal market in the US and considering the idea of internet gaming; by Texas taking up the idea of approving gaming when the state legislature reconvenes in January 2013; by Illinois finally getting closer to going live with machines from the Video Gaming Act originally passed in 2009; and by New York opening the new Aqueduct VLT location and continuing to discuss a state constitutional change that could ultimately bring casinos to New York City.

The list of gaming expansion discussions and potential locations ebbs and flows every day and makes it an exciting time for suppliers that continue to work hard creating compelling products to capitalise on new opportunities in the US and beyond.

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COSTING THE DELAWARE

The first state in the US to announce its online casino gaming legislation, Delaware is a small state with big ambitions and a growing gaming industry. The addition of online gaming via land-based casinos is a model others are expected to follow

The First State of Delaware is located on the Atlantic coast in the Mid Atlantic region. The state takes its name from Thomas West who was an English nobleman and Virginia's first colonial governor.

Bordered by Maryland, New Jersey and Pennsylvania the land is located in the north eastern portion of the Delmarva Peninsula and is the second smallest state after Rhode Island, sixth least populous and sixth most densely populated of all the states.

Sometimes also known as the Diamond State, it is divided into three counties – New Castle, Kent and Sussex and although the southern counties have historically been agricultural with poultry, nursery stock, soybeans, dairy and corn being main products, New Castle is much more industrialised.

Delaware was at one time inhabited by several groups of Native Americans including the Lenape and Nanticoke tribes. The Europeans arrived in the 16th century and initially it was colonised by the Dutch traders. It was part of the American Revolution and in 1787 became the first state in the US

Delaware's main appeal is the lovely Atlantic beachside resorts and in fact the coastal resorts alone generate \$6.9bn annually and support 59,000 jobs and provide \$711m in tax revenue. The coastal economy provides more than 10 per cent of the state's employment, taxes and business production.

thus the reference via its state name.

It's a very thin state and is 154km long and anything from 14km to just 56km wide. The Delaware River separates it from New Jersey although there are some parts of the state on the eastern side of the river.

Since the 1930s, and particularly since the 1970s, Delaware has in fact been one of the nation's most prosperous states. Although manufacturing in the chemical and automotive industries is historically the main contributor this has however shrunk compared to booming business in finance, insurance and the real estate sector.

In terms of GDP in 2010 it was \$62.3bn. Unemployment rate was 6.8 per cent in May and per capita GDP in 2011 reached \$6,129 which was the highest in the nation

Delaware is not exactly an obvious tourist resort. It does have several museums, wildlife refuges, parks and other historic places and is home to the second largest twin span suspension bridge – if you like that sort of thing.



However the main appeal is the lovely Atlantic beachside resorts and in fact the coastal resorts alone generate \$6.9bn annually and support 59,000 jobs and provide \$711m in tax revenue. The coastal economy provides more than 10 per cent of the state's employment, taxes and business production.

A total of 7.1 million tourists visited Delaware in 2011 and contributed \$2.1bn to the GDP in 2010. The tourism industry is actually the third largest employer in the state and generates up to \$400m in taxes for the state.

THE GAMING MARKET

Despite its small size Delaware is actually quite a gambling hub. Bar its car and horse racing facilities the state also permits lottery, bingo parlours and charitable gaming. Bingo is hugely popular and although the game was illegal until 1957 in Delaware, today it can be permitted under charitable organisations.



BINGO IS HUGELY POPULAR AND ALTHOUGH THE GAME WAS ILLEGAL UNTIL 1957 IN DELAWARE TODAY IT CAN BE PERMITTED.

The Delaware state lottery was established in 1974 and first began selling tickets in 1975. Since this time the company has contributed more than \$3.6bn to the state General Fund, whilst in 2011 the contribution to the fund was \$287m making it the state's fourth largest revenue generator.

The state General Fund allocates money to education facilities, health

and social services, child, youth and family services and other organisations. Some 30 per cent of the revenue is given to the state fund whilst 50 per cent or more is given out as prizes. Around 10 per cent is paid out in commissions.

The state lottery also controls the VLTs which have been permitted at the state's racetracks since 1995 and in the summer of 2010 table games were also permitted at the tracks

Horse racing in Delaware dates back to the colonial period when the first racing facility was built in 1760 and although betting was illegal, private wagering was common.

It slumped during the World War I period but during the Great Depression of the 1930s, when money was needed, a legislation created the Delaware Racing Commission in 1933 and in 1935 a licence was granted to sell pools through pari-mutuel machines.

The Delaware state lottery was established in 1974 and first began selling tickets in 1975. Since this time the company has contributed more than \$3.6bn to the state General Fund whilst in 2011 the contribution to the fund was \$287m making it the state's fourth largest revenue generator.

Delaware Park opened a couple of years later. Today, there are three horse racing tracks:

DELAWARE PARK is a privately owned company which was opened in 1937 and offers thoroughbred racing on 116 days per year and simulcast racing. The racetrack houses a 100,000sq.ft casino with 2,293 slots and 42 table games and 20 poker tables. There are also eight food outlets. The park also offers sports betting and is one of the only venues on the east coast to do so. It also runs White Clay Creek Country Club with an 18 hole golf course.

DOVER DOWNS is a harness racing track with live and simulcast horse races and NASCAR racing. It also offers the four Diamond casino hotel, which is the largest in Delaware with 500 rooms. In 1995 it opened the 165,000sq.ft casino and today houses 2,487 VLTs and 59 table games and poker tables. In 2009 the park opened the Race and Sports Book operation for sports wagering on National Football League games and this was followed by the introduction of table games in 2010. Dover Downs is a wholly owned subsidiary of DVD. The casino has been expanded six times and saw 2.6 million visitors in 2011.

HARRINGTON RACEWAY was formerly known as Midway Slots is one of the nation's oldest harness racetracks and has been open since 1946. It is just 45 minutes from the beaches and in 1996 it opened its casino which now houses 1,818 VLTs and 42 table and poker games.

This sector has contributed over \$2bn to the General Fund to date. VLTs can only be played by aged 21 years and over and must payout between 87 and 95 per cent.

Revenue from the VLT is divided as follows:

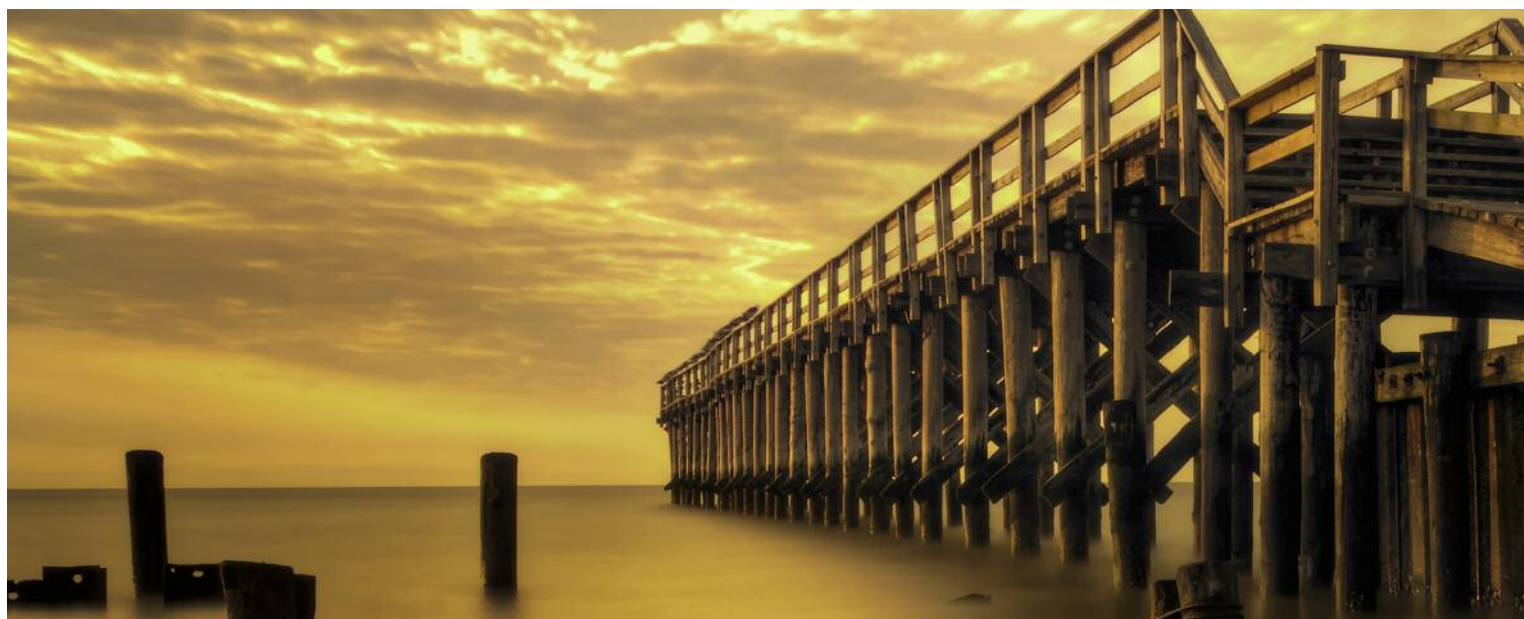
- 40.5 per cent of revenue is paid to the three tracks as commission for operating the games.
- 43.5 per cent is contributed to the State General Fund
- 10 per cent goes towards horse race purses
- Six per cent goes toward leasing, serving and upgrading the games and monitoring the games via the Central Computer System.

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DATA FOR RACETRACK VLTs FOR MONTH OF MAY 2012

RACETRACK	Amount played	Amount won	Net proceeds	Number of VLTs
Delaware Park	\$182.8m	\$168.3m	\$14.5m	2,393
Dover Downs	\$182.8	\$168.3m	\$14.4m	2,487
Harrington Raceway	\$90.1m	\$82.4m	\$7.6m	1,818
TOTAL:	\$455.8m	\$419.1m	\$36.6m	6,698

In 2011 \$202m went to the three racetracks, \$217m went to the General Fund, \$50m to the horse race purse and \$30 to the vendors.

Revenue from the table games is divided as follows:

- 6.1 per cent of revenue is paid to the three racetrack as commission for operating the games.
- 29.4 per cent is sent to the State General Fund.
- 4.5 per cent goes to the horse race purses

THE FIRST STATE

With its First State title maybe its not surprising that this small and quiet state was the first of all the US states to announce its online casino gaming legislation on June 21st.

The governor has approved the legislation of Bill HB333 which will permit full service betting websites offering slots and table games such as

Maryland is pushing hard to introduce table games at the state's slot casinos which will also include a new location in Prince George's County at the Rosecroft Raceway in Fort Washington bringing the total of venues to six. Meanwhile Pennsylvania opened its first casino in 2006 and has six racetrack casinos and six stand alone casinos.

Blackjack, roulette and poker.

Gov. Jack Markell rushed to sign the Delaware Gaming Competitiveness Act of 2012 into law just 24 hours after the bill passed through the state Senate after it barely met the three-fifths majority it needed to pass the Senate with a 14-6 in favour.

Those backing the bill believe it will help preserve the state's casino industry which is facing tough competition from the neighbouring states of Maryland and Pennsylvania which are looking at new venue openings.

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ONLINE GAMES WILL NOW BE AVAILABLE VIA DELAWARE CASINOS' WEBSITES AND CONTROLLED BY THE STATE.

Online games will now be available via each of Delaware casino's websites and controlled centrally by the State Lottery Office. The lottery tickets will also be offered for sale on a state run website and Keno Parlours are also permitted, which before was only offered at the three casinos. Betting on NFL football will also be permitted at some non casinos sites such as bars and restaurants.

It is thought the state will soon have another 20 to 30 additional sports betting outlets before the start of the NFL season and 100 plus Keno retailers up and running by the end of the year.

The online systems are expected to be launched in 2013 and will also be available via smart phones and tablets but will be only interstate. Revenues of \$7.75m are expected in 2013 from this new sector. Legalised gaming in the state currently generates around \$250m annually.

It is said the expected profits from online gaming in this state will be used

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Info panel

State: Delaware
Capital: Wilmington
Total area: 6,452sq.km
Population: 907,135
Main religions: Methodist (20%), Baptist (19%), Roman Catholic (9%), none (17%)
Racial makeup: White (68%), Black or African American (21%), Asian (3%), Hispanics/Latinos (8%)
Governor: Jack Markell (Democrat)
Lt Governor: Matthew Denn (Democrat)

.....

Racinos: 3
VLTs: 6,698
Table gaming: 115 + 73 poker tables
Racino GGR: \$552m
Online gaming: HB333 – June 2012

Operator profile



Operator: Dover Downs

Casino: Dover Downs racetrack has 41 tables and over 2,500 slot machines

Key executives: Henry Tippie- Chairman, Denis McGlynn-President/CEO, Edward J Sutor-Exec, Timothy Horne-Senior Vice President/CFO/Treasurer

Number of employees: 1,081

Financial health: Dover Down's revenues for the second quarter of 2012 were \$58,355,000 compared with \$58,815,000 for the second quarter of 2011. Gaming revenues were \$52,331,000 compared to \$53,129,000 for the second quarter of last year, with lower slot win being somewhat offset by improved table game win.

Internet history: The state of Delaware has stolen a lead in becoming the first US state to confirm it will legalise online casino gambling with a launch date of next year. Only the state's three existing land-based casinos, Delaware Park, Dover Downs and Harrington Raceway, will be able to offer online slot machine play and casino games to players within state boundaries. Delaware lottery tickets meanwhile will be offered online via a state-run website but all the online ventures will be controlled centrally by the state Lottery Office. It will also oversee the launch of up to 100 new sites offering Keno and up to 30 offering betting on NFL games.

Online quote: "You can turn your head and ignore it, pretend it's not happening and it could hurt you, or you could try and participate. We're out there doing studies. We're looking at it." - Dover Downs president and CEO Ed Sutor. "What this bill does do is it has the potential to preserve jobs that are currently there. The industry is taking a lick. I would say this is not a jobs generator; this is a jobs preserve."

DATA FOR RACETRACK TABLE GAMES FOR MONTH OF MAY 2012

RACETRACK	Amount played	Amount won	Net proceeds	Number of Tables
Delaware Park	\$14.9m	\$12.5	\$2.4m	87
Dover Downs	\$10.9m	\$9.2m	\$1.7m	59
Harrington Raceway	\$4.7m	\$3.6m	\$1.1m	42
TOTAL	\$30.7m	\$25.3	\$5.3m	188

to offset the \$3.75m in licensing fees which the three casinos currently pay which will then enable them to invest further into marketing and expansion projects.

It is also expected to bring the development of new gaming options to the forefront and also control and regulate online gaming market where at the moment there is little to do so whilst adding an extra 2,000 jobs for the state.

At the moment industry experts reckon only a few thousands of the 900,000 residents in Delaware played for real money on offshore poker sites but now it is legal it could attract around 25,000 players or more.

Meanwhile last year a bill was prepared in Delaware to add two new casinos to the state in Sussex county and New Castle county. Developers had proposed gaming facilities in Delmar, Georgetown and Millsboro but needed approval from the state lawmakers to continue.

House majority leader Peter Schwartzkopf has been pushing for the proposal saying it would bring jobs back into the area and of course more revenue. The racetrack casinos were clearly fiercely opposed and launched a campaign 'Three is Enough' to get the message through.

Gov. Markell apparently claimed two new casinos would be 'advantageous' in terms of revenue and the idea for stand alone casinos was discussed.

The Del Pointe project for Sussex aimed to develop a harness race track and casino with hotel and convention centre plus an indoor waterpark, sports complex, theatre, restaurants and retail outlets. It was projected to bring in \$75.5m to the state plus \$2m per year to the town of Millsboro and \$150,000 to the Sussex county and create 6,000 jobs.

However this bill has since been pushed to one side whilst Gov. Markell has instead been concentrating on the online gaming legislation.

Last year a bill was prepared in Delaware to add two new casinos to the state in Sussex county and New Castle county. Developers had proposed gaming facilities in Delmar, Georgetown and Millsboro but needed approval from the state lawmakers to continue.

If the two casinos are permitted it is predicted that gambling revenues could rise by 56 per cent however it could also see a decline of 12 per cent in revenues at the existing Racinos.

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IN FEDERAL LAW WE TRUST

In the debate to regulate the online gaming industry in the US, all parties should look both across the Atlantic at European countries successfully controlling their markets, and to the historical example set forth by land-based casino operators in America

Ask me today, and I will tell anyone listening that a federally-regulated environment for internet poker is no longer a matter of “if” but “when”. I even go one step further and say that it’s also become a “must”. Consider just a few developments that have taken place over the past year or so:

- the US Department of Justice clarified that online poker does not violate the Federal Wire Act;
- committees in both chambers of Congress have held hearings on legalizing internet poker and its implications;
- after garnering almost 10,000 signatures, the Obama Administration released a promising official response to a petition asking for a safe, regulated marketplace for poker on the internet;
- State legislatures throughout the country are passing bills that would allow poker to be played online, within each state’s borders, with Nevada already beginning to issue licenses.



Congressman Jon C Porter (Ret.)

Congressman Jon Porter (Ret.) is the President/CEO of PGS, a business development, government affairs and public policy advocacy firm with offices in Washington, DC and Las Vegas, Nevada. Porter brings nearly three decades of experience as a public servant at the local, state and federal levels.

As one of only a few people who have experience as a former local official, state senator, and a Member of Congress from Nevada - in addition to my current work in the private sector - my decades of experience with the gaming community have shown me firsthand how traditional gaming operators have worked diligently to instill a level of trust and confidence with both the public and the regulators. I feel that when it comes to expanding legal gaming into the internet, we need that same cooperation from all involved. As we work to create new standards for online play, the industry as a whole will benefit.

Brick-and-mortar casino gambling has evolved into one of the most heavily regulated industries in America and the online poker industry is asking to play within a similar set of rules. Contrary to what some might believe, the industry wants reasonable regulation, they want to pay their share of taxes, and they want to provide an environment where players and their families are protected from bad actors. To do that, however, we need our

elected officials (especially at the federal level) to move past their knee-jerk objections to gaming and see that this is inevitable and really is in our national interests.

It is my belief that the prudent approach to moving forward is concentrating on shepherding the online gaming industry and its regulations into the 21st century. Because the gaming industry’s main priority has always been to protect the consumer, they have found that current rules are antiquated and incapable of addressing new threats due to criminals turning to the internet. By upgrading policies for the digital age, we can ensure that the same consumer protections that exist in the traditional casinos also apply to the internet.

European countries like France, the UK, and Denmark have been wildly successful in licensing safe online poker rooms due to existing technologies like age and location verification services and US regulators would do well to learn from our friends across the Atlantic. With proven

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AT A TIME OF RECORD BUDGET DEFICITS AND BALLOONING NATIONAL DEBTS, NEW MONEY IS DESPERATELY NEEDED.

methods out there to achieve safe play, there is no reason to believe that those who are successfully keeping Las Vegas casinos free from scammers and cheats cannot do the same on the internet if provided that they are given the appropriate tools.

I would be remiss if I did not mention that legalising and regulating online poker is also a way to help close our massive budget deficits. Conservative estimates claim that taxing online poker playing would produce up to \$30 billion over 10 years. At a time of record budget deficits and a ballooning national debt, new money such as this

is desperately needed. What's more, this is revenue that is derived only from those that choose to participate in an activity. Some might call this a new tax, but the truth is that it is a tax that every player I talk with is happy to pay.

The one thing that is abundantly clear is that the status quo is unacceptable. Today, any American with a credit or debit card can go online and play poker in a poker room that has no regulation whatsoever. There is no guarantee that the cards you see are truly random, that sites aren't colluding to take advantage of the player, that the person "sitting" next to you is actually a person and not a computer, or even that you'll have access to your money when or if you choose to cash out. Americans are not going to stop playing poker on the internet - that is a fact - so we need to view it as our responsibility to provide them a safe environment to play.

My experience in Nevada gives me great hope. I have seen Las Vegas go from the Wild West, with almost zero oversight, to the most popular gaming

"I have seen Las Vegas go from the Wild West, with almost zero oversight, to the most popular gaming destination in the world, complete with strict rules and effective enforcement mechanisms. As I mentioned previously, Europe has shown us what technologies are and are not effective in internet poker regulation. The manual on best practices has virtually been written for us already."
Jon Porter.

destination in the world, complete with strict rules and effective enforcement mechanisms. As I mentioned previously, Europe has shown us what technologies are and are not effective in internet poker regulation. The manual on best practices has virtually been written for us already.

If history is any indication, regulators and operators will understand that, in the end, it is all about the consumer. The ultimate objective is protecting the public, while providing them with a wide variety of safe gaming options. For the good of everyone involved, the gaming industry needs a clear path to creating a standard that maximizes both transparency and consumer protection. But perhaps most importantly, those of us involved in working for the expansion of gaming need to start working with each other rather than in opposition. I'm under no illusion that there isn't turf to protect or viewpoints to consider, but if we can integrate our individual efforts, we can achieve our collective goal of giving Americans what they want and deserve.

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SUNSHINE AND STORMS

A primary pari-mutuel state, Florida has a rich gaming history dating back to the 1930s. However, the ambitions for resort operations have been scaled back, despite the view that Florida could become the No.2 state in the US for gaming

The Sunshine State of Florida in the south eastern region of the US is sandwiched between water – the Gulf of Mexico on the west and the Atlantic Ocean on the east. It also joins Alabama and Georgia in the north.

Florida is the 22nd most extensive, fourth most populous and eighth most densely populated of the states. Its position on the peninsula means it is often threatened by hurricanes and has the longest coastline of all the US states with around 2,170km.

Florida was the first region of the US to be visited by the Europeans when Spanish explorer Juan Ponce de Leon discovered it in 1513 and named it La Florida (Flowery Land). It gained statehood in 1845 becoming the 27th state and for a long time was the principal location of the Seminole Wars against the Indians.

Tourism is a huge part of the state economy and tourists flock due to the climate and miles of beaches and the state attracted 85.9 million visitors in 2011. Florida was the top travel destination in 2011 and added around \$67.2bn to the economy last year generating 23 per cent of the state's sales tax revenues and employing more than one million people.

Historically the economy of the state was dependent on agricultural products whereas today tourism, industry, construction, banking, healthcare, research, aerospace and defence are all major components.

Today it has a large Hispanic community, high population growth and increasing environmental concerns. Its economy relies heavily on tourism, agriculture and transportation. Florida is also well known for its amusement parks, orange production and the space industry which represents \$4.5bn of the state's economy alone.

Florida has 67 counties and 411 cities and the largest metropolitan area is the South Florida area with around 5.5 million followed by the Tampa Bay with 2.7 million.

The primary source of revenue for the

government comes from sales tax which is set at six per cent and although Florida does not impose personal income tax the primary source of revenues for the cities and counties is property tax.

The GDP in Florida in 2010 was \$748bn and its GDP is the fourth largest economy in the US and it is also the fourth largest exporter of trade goods with 40 per cent of all US exports to Latin and South America passing through Florida. There is however large poverty rates and in 2011 the unemployment rate was 11.5 per cent.

Florida per capita personal income grew by 3.5 per cent in 2011 over the previous year ranking the state 45th in the country with respect to state growth. It's a slow return to typical levels and could still take years to get out of the hole left by the recession.

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Tourism is a huge part of the state economy and tourists flock due to the climate and miles of beaches and the state attracted 85.9 million visitors in 2011. Florida was the top travel destination in 2011 and added around \$67.2bn to the economy last year generating 23 per cent of the state's sales tax revenues and employing more than one million people.

The amusements parks in Orlando are of course a huge attraction and the Walt Disney World Resort is the biggest resort in the world and consists of four theme parks and over 20 hotels.

Meanwhile Florida permits several types of gaming including racetrack casinos, Indian casinos, lotteries, pari-mutuel betting and charitable gaming.

The Florida lottery was set up in 1988 and plays five state drawn games

including Cash 3, Play 4, Fantasy 5, Mega Money and Lotto plus one multiple state games Powerball.

Proceeds from the lottery go towards funding educational programmes and to date the lottery has given around \$20bn to education and paid out \$25bn in prize payouts.

PARI-MUTUEL BETTING

Pari-mutuel wagering was originally authorised by legislation in Florida in 1931 and has evolved over time and today is governed by the Department of Business and Professional Regulation with the Executive Branch of Florida's government.

Pari-mutuel wagering in Florida covers horse racing, harness horse racing, greyhound racing, jai alai games and card room poker games. Slot machines are permitted at pari-mutuel facilities

Florida is one of the primary pari-mutuel states in the US and is the leading state in greyhound racing and a major horse racing state. There are 20 greyhound permit holders operating at 13 tracks throughout the state although attendance and revenue is decreasing.

and are authorised in the counties of Broward and Miami-Dade.

Florida is one of the primary pari-mutuel states in the US and is the leading state in greyhound racing and a major horse racing state. There are 20 greyhound permit holders operating at 13 tracks throughout the state although attendance and revenue is decreasing.

Florida is also the first state to conduct jai alai games and the first fronton was built in 1926. There are now eight jai alai permit holders operating at six frontons. Today Florida is the only state where jai alai is conducted. Fiscal year 2010/11 saw performances decrease by 18 per cent whilst total handle also declined by 24 per cent.

Meanwhile there are four thoroughbred horse racing permit holders operating at three tracks. Handle on this sector has increased by five per cent and the thoroughbred industry accounts for

FLORIDA IS ONE OF THE PRIMARY PARI-MUTUEL STATES IN THE UNITED STATES, ALTHOUGH ATTENDANCE AND REVENUE IS DECREASING.

around 59 per cent of Florida's total revenue and 60 per cent of total handle from pari-mutuel performances.

All these types of gambling are authorised under Chapter 550 (pari-mutuel), 551 (slots) and 849 (gambling) of the Florida Statutes.

The main points include:

- Slot machines are authorised at any licensed pari-mutuel facility located in Miami-Dade County or Broward County.
- Slots must have an 85 per cent minimum payout.
- Slot machine licence fee is \$2.5m and this can be for up to 2,000 slot machines within the property. The annual fee for each slot machine facility is \$250,000.

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Comment

"Resort World Miami is reaffirming its commitment to downtown Miami's emergence as one of the world's fastest growing residential markets and tourist destinations and will move forward with plans for a luxury mixed use development on the Miami Herald site. Our international architecture and planning firm, Arquitectonica, is preparing a revised design that includes condominiums, a five star hotel, waterfront restaurants and related amenities. The mixed use development will occupy the five acre site currently occupied by the Miami Herald building and will include a 800 foot waterfront promenade along Biscayne Bay.

The new design for Resorts World Miami will bring to life one of Miami's most underutilised pieces of waterfront land after decades of inactivity. With more and more people travelling to downtown Miami and a growing number of residents calling the area home we are going to seize the opportunity to convert this prime piece of bayfront land into the centrepiece of a thriving neighbourhood."

Bernardo Fort-Brescia, Co-founder and Principal of Arquitectonica
www.arquitectonica.com



SLOT ACTIVITY 2010-2011

FACILITY	NUMBER OF SLOTS	SLOTS OPERATIONS BEGAN	NET SLOT REVENUE	REVENUE TO STATE
Gulfstream	853	Nov 2006	\$54.2m	€18.9m
Mardi Gras	1,128	Dec 2006	\$52.9m	€18.5m
The Isle, Pompano	1,452	April 2007	\$106.7m	\$37.3
Flagler	787	Oct 2009	\$72.9m	\$25.5m
Calder	1,177	Jan 2010	\$70.4m	\$24.6m
TOTAL	5,397		\$357.3m	\$125m

*In January 2011, Miami Jai Alai added 1,034 slots to its facilities bringing the total number of slots operated at the tracks to 6,432. Net slot revenue in 2011 amounted to \$357m with \$125m given to the state. Average daily revenue per machine is \$181.

- Taxes are 35% of slot machine revenues
- Players must be 21 years or over.
- Card rooms are permitted at pari-mutuel facilities where games such as poker and dominoes are allowed.
- A Card room licence fee is \$1,000

The Florida lottery was set up in 1988 and plays five state drawn games including Cash 3, Play 4, Fantasy 5, Mega Money and Lotto plus one multiple state games Powerball.

annually for each table operated.

- Card rooms pay a tax of 10 per cent of its monthly gross receipts plus an admission tax of 15 per cent of the admission charge for entrance (or 10c whichever is greater)
- Each greyhound and Jai Alai permit holder which operates a card room

OVER THE LAST 10 YEARS PARI-MUTUEL WAGERING HAS SEEN A 48 PER CENT DECLINE IN HANDLE AND TOTAL STATE REVENUE DROP 63 PER CENT.

shall use at least 4% of the monthly gross receipts of jai alai prize money to supplement greyhound purses.

- Each thoroughbred or harness permit holder which operates a card room shall use at least 50% of the monthly net proceeds to fund purses and breeders awards.

There are 16 greyhound racing tracks, three thoroughbred horse racing tracks (Calder/Tropical, Gulfstream Park and Tampa Bay Downs), one harness track



Info panel

State: Florida
Capital: Tallahassee
Total area: 170,304 sq.km
Population: 19,057,542
Main religions: Protestant (48%), Catholic (26%), Jewish (3%)
Racial makeup: White (75%), Black of African American (16%), Asian (2.4%)
Governor: Rick Scott (Republican)
Lt Governor: Jennifer Carroll (Republican)

Casinos: 8 Indian Casinos
Casino slots: 13,900
Table games: 300
Poker tables: 180
Racetracks: 21 plus 6 jai alai frontons
Card rooms: 26
Slot parlours: 6
Slots: 6,390
Slot revenue: \$357.3m (new slot revenue)
Online gaming: Not permitted

RESORT CASINO PLANS

All big gaming corporation eyes have been heavily focused on Florida recently as the next big major expansion area. MGM, Wynn Resorts, Las Vegas Sands and Genting have all been vocal about their interest in this state.

Two South Florida Republican legislators, Senator Ellyn Bogdanoff and Erik Fresen drafted the bill for the three resort casinos in Miami Dade and Broward counties. This bill would create a Florida Gaming Commission and permit companies to submit bids for casino licences.

Things began to change in Florida last year when Malaysian casino giant Genting stunned Miami with its purchase for \$236m of prime waterfront land. Miami gained a major player in its corporate world whilst Genting holds the claim to one of the largest commercial real estate holdings in Miami.

The idea was to develop a huge resort casino. Talks have been ongoing over the years and Las Vegas Sands and Miami Beach's Fontainebleau have been pushing to loosen Florida's law to allow casinos beyond those controlled by Indian gaming, racetracks and Jai Alai frontons. When Genting's plans for the \$3.8m Resort World Miami emerged the debate began again and many were behind the plans. Others of course are totally against.

(Pompano Park), two Quarter Horse Tracks (Hialeah Park and Creek Entertainment Gretna) and six Jai Alai Frontons.

Of all these pari-mutuel facilities 25 have card rooms and six have slot machine gaming – Calder Casino & Race Course, Flagler Dog Track and Magic City Casino, Gulfstream Park, Mardi Gras Racetrack and Gaming Center, Maimi Jai Alai and The Isle Casino and Racing at Pompano Park. All located in the south regions.

Calder Race Course is owned by Churchill Downs Incorporated and back in 2004 began to make plans to expand its gaming menu in a bid to remain competitive with other tracks in other states. In 2005 a vote was passed in Broward County to permit VLTs at race courses. A campaign to permit VLTs in Miami-Dade County where Calder was located began and voters finally approved this in 2008 to allow slots at the existing tracks here.

Calder finally opened its brand new Studz Poker Club in 2009 followed by

the casino in January 2010. The total facility is 104,000sq.ft and it cost \$85m for the slot project. There are over 1,200 slots and the 29 table Studz Poker room.

Over the last 10 years pari-mutuel wagering has seen a 48 per cent decline in handle and total state revenue has dropped by 63 per cent together with a 21 per cent decline in the number of racing days.

In 2010-11 there were 3,633 racing days with a total of 507,804 paid visitors with \$883m in total handle of which \$13.5m was total state revenue.

In comparison back in 2001-02 there were 4,614 racing days a whopping 2.8m visitors and \$1.6bn in total handle with \$37m in total state revenue.

Meanwhile the 25 card rooms saw a total of \$125m in gross receipts of which \$12.5m was gross receipts tax, which was an increase of the \$104m taken the previous year.

Things began to change in Florida last year when Malaysian casino giant Genting stunned Miami with its purchase for \$236m of prime waterfront land. Miami gained a major player in its corporate world whilst Genting holds the claim to one of the largest commercial real estate holdings in Miami.

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The original Resort World Miami project covers 30 acres include four hotels, two residential towers with up to 1,000 units, retail area, 3.6 acre rooftop lagoon, 50 restaurants, bars, nightclubs, multimedia entertainment centre, convention and meeting space and a renovation of the three mile Bay Walk.

Genting's analysis was the casino would bring in around \$4.6bn-\$6bn in annual gaming revenue.

Genting is one of three big names behind the plans to introduce a total of three resort gaming facilities into the State each investing a minimum of \$2bn plus an estimated \$125m licence fee per site. Las Vegas Sands and Wynn Resorts are the other two – both have apparently looked at the Bank Atlantic Center in Broward County, north of Miami which has a 19,250 arena and 90 acres of undeveloped land.

In February, however, lawmakers cancelled a planned vote on the controversial bill and although this seems to have ended the Sunshine

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State's gaming expansion it is believed this is not the end as a proposal can still be revived. The matter can be introduced again next year in a special session and there is also talk of a ballot referendum which could take the issue directly to the voters.

Genting however has said it will now continue with a scale down version of its Resort World and the plans are currently being pulled together to cover five acres of the plot which is expected to house a hotel, restaurants, some retail, condominiums and a promenade along the Biscayne Bay.

It is thought that eventually the three planned full scale casinos will be developed in Florida taking it beyond New Jersey and Pennsylvania as the nation's number two gaming revenue market behind Nevada.

There are some however who are opposed to the plans including the Indian Seminole Tribe, theme park operator Walt Disney and the racetrack casino operators who fear the competition and believe resort casinos

LAWMAKERS CANCELLED THE PLANNED VOTE, BUT THIS IS NOT THE END OF GAMING EXPANSION AS THE PROPOSAL CAN BE REVIVED.

are not needed in the state and will merely put smaller casinos out of business.

The racetracks are of course the most nervous of the tough competition and are also complaining about the 35 per cent tax they pay on slot machine revenues which is way above the proposed 10 per cent for the resort casinos.

Meanwhile the Seminole Tribe claim if the resort casinos are permitted then the tribe would no longer be obligated

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Comment

"Uncertainty is the best word to describe Florida's gaming marketplace. In the last year the debate whether Florida should open its doors to mega-casinos has exploded. Malaysian based Genting has its sight on beach-friendly and tourist mecca Miami-Dade County for their next project. The challenge for Genting is that they have received a lukewarm reception, at best, from the Florida Legislature. There are many reasons why Florida is pushing back against Genting's efforts, but for me it boils down to one. The out-of-state and out-of-country casinos are attempting to create two different gaming markets in Florida – one that favours mega casinos and one that penalises existing Florida based casinos. This is fundamentally wrong and it is filled with deep rooted flaws that would negatively impact the state's gaming industry.

By treating existing Florida based casinos differently through a higher tax rate and a different set of regulations, political leaders would be putting us out of business. Our family owned business would not survive in a business environment that allows our competitors to have products we could not offer and taxed at a lower rate. It's like telling Burger King that they cannot sell hamburgers, and that McDonalds just across the street, will be the only establishment allowed to sell them. In essence the legislature would be picking winners and losers.

I simply cannot imagine that in this economic climate any elected official would support a measure that puts long time Florida companies like ours, out of business and force hundreds of employees to be laid off. But it's politics after all and one cannot assume!"

Izzy Havenick, Vice President of Political and Government Affairs for Magic City Casino in Miami. www.magiccitycasino.com

to pay the state any gaming revenue proceeds which amount to around \$234m per year as the plans would be a breach of their monopoly.

There are currently eight Indian Gaming facilities in the state - seven Indian casinos operating under the Seminole tribe and one Indian casino operated by the Miccosukee tribe. The seven Seminole casinos are located in Brighton, Coconut Creek, two in Hollywood, Immokalee, Big Cypress and Tampa

The Indian Gaming Compact was signed in 2007 between the Seminole Tribe of Florida and the State of Florida and permits a total of seven casinos to be operated by the tribe.

The Seminole Tribe has long been recognised for its gaming innovation and first opened a high stake bingo hall and casino in the US in 1979. This facility was the forerunner of the Indian Gaming movement through the nation.

In 2010 the state entered into a compact with the tribe to give them exclusive

The Hard Rock casino in Hollywood has over 2,500 slots and 97 table games whilst Hard Rock, Tampa has 5,000 slots, 110 table games and 50 poker tables and is also one of the top 10 largest casinos in the world and the nation's fourth largest casino. The Tampa Hard Rock recently underwent a \$75m renovation and expansion plan and sees on average 20,000 visitors per day.

rights to operate table games such as baccarat and blackjack in their casinos in Miami-Dade and Broward counties where they face competition from the Racinos. In exchange the tribe agreed to pay the state at least \$1bn over five years which began with two \$150m payments increasing to \$233m in 2012. Legislators are now trying to back out of the compact claiming monopolies are bad gaming policies.

In March 2007 the Seminole Tribe acquired Hard Rock International and as such the purchase encompasses 58 company owned Hard Rock cafes in 35 countries. Two of Seminole's casinos in Florida are Hard Rock hotels – Tampa and Hollywood.

The Hard Rock casino in Hollywood has over 2,500 slots and 97 table games whilst Hard Rock, Tampa has 5,000 slots, 110 table games and 50 poker tables and is also one of the top 10

largest casinos in the world and the nation's fourth largest casino. The Tampa Hard Rock recently underwent a \$75m renovation and expansion plan and sees on average 20,000 visitors per day.

The Seminole operate a total of 12,000 slots across its seven casino plus 300 gaming tables such as blackjack and baccarat and 150 poker tables. The tribe is expecting to rake in \$2bn during fiscal year 2012-13.

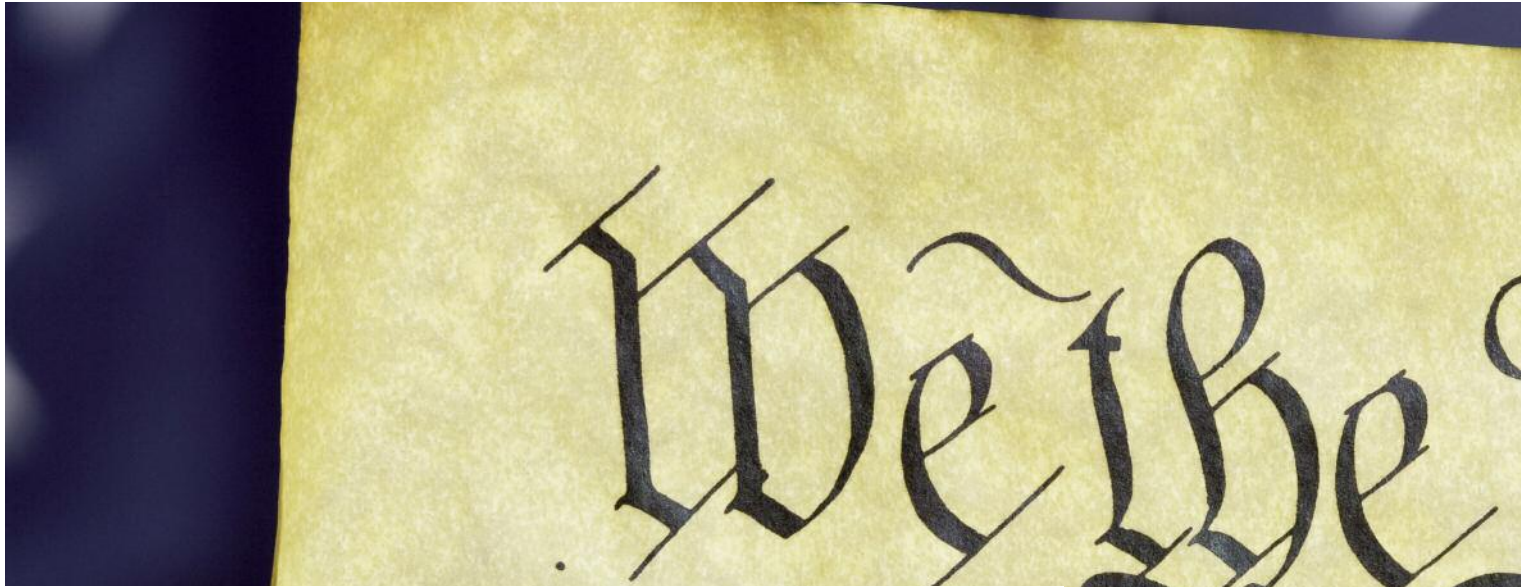
Meanwhile the Miccosukee tribe is a federally recognised tribe in the Florida Everglades and The Miccosukee Resort and Gaming location is just west of the Florida Turnpike and offers 1,900 slots and 32 table poker room, five dining options and adjacent is the Miccosukee Entertainment Dome for sporting events and parties whilst the hotel has 302 guest rooms.

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TAKING IT TO THE WIRE

The dismantling of the Wire Act in the US is creating as many consequences as opportunities, with suppliers and operators squaring off, state lotteries riding roughshod and Indian nations given free rein. Can federal legislation ride to the rescue?

Global media attention has focused on the legislative changes taking place in the US online gaming sector, but the power struggle for control of the marketplace is shaping up to be the much more interesting battle. Currently there are several forces at play, each with legitimate claims for control of the US online industry. Speaking to AGA President, Frank Fahrenkopf, his members from the US land-based sector want their slice of the opportunities, focusing their energies on a federal system of control and individual state determination.

In the background, however, are the fears that Native Indian Tribes, with their sovereign nation status, will dictate the marketplace in the US. The Tribes are able to offer advantageous tax and operating concessions by using their status to effectively remain outside of state legislature. There are additional threats from state lotteries, which are currently offering lottery subscriptions online (selling tickets by another name), and whose control of the market is determined in regards to what best suits their own purposes.



Frank Fahrenkopf is President and CEO of the American Gaming Association (AGA), the national trade association for the commercial casino industry. He is also co-chairman of the Commission on Presidential Debates, which conducts the general election presidential and vice presidential debates in presidential election years.

Para-mutuel organisations have also been allowed to conduct online gaming in the US, and whose US\$3.2bn online industry would be best served through either aggressive expansion or protectionism should US land-based operators seek to compete in their backyard. At the same time, gaming suppliers have set out their stall in the online space, looking to offer services direct to players, with operators appraising the situation as to who exactly is friend and foe right now. Finally, there are the established online gaming operators, with massive brand presences and the capital to compete toe-to-toe with bricks and mortar casinos in the US market. Are partnerships to be struck or will key brands strike out alone? Whatever happens, the stage is set for a battle royal for gaming supremacy for the United States online sector.

THE GAME'S AFOOT

The US gaming market is a dynamic changing landscape right now according to AGA President, Frank Fahrenkopf. The decision of the Justice Department in December 2011 to

reverse the restrictions of the US Wire Act in America has already had a significant impact on the market.

"The Wire Act had previously prevented Internet gambling in the US," confirms Mr. Fahrenkopf, laying out the current situation in the US. "The response from a lot of states to the original legislation back in 1961 was the creation of interstate lotteries. So the decision of the Justice Department was very dramatic as it basically said that the Wire Act had been wrong for the last 30 years. When the Wire Act came into law, no one imagined the existence of a worldwide web. The Act was designed to prevent sports wagers, but was used to cover all aspects of Internet gambling. However, the state lotteries in over 40 states in the US have responded to the economic downturn by opening the doors to offer traditional lottery, poker, black jack and roulette, plus traditional games in casinos and racinos. The lotteries have very aggressively pushed their gaming offer within their state boundaries and we expect them to do the same when it comes to online gaming."

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THE US FELL INTO THE TRAP OF OFFSHORE ONCE BEFORE, AND HERE AGAIN ALL RESPONSIBLE GAMING EFFORTS COULD GO OUT OF THE WINDOW.

The American Gaming Association has changed its stance in regards to online gaming, having initially seen it as a threat and backed the government's anti-online legislative approach, the AGA is now an advocate of a regulated poker market in the online space. "The impact of online gaming on the bricks and mortar business in the US, we see as being positive, not negative," affirms Mr. Fahrenkopf. "For the young man that has yet to venture into a casino, access to affiliated sites demystify gaming and the type of activities within land-based casinos. I see online gaming

having a very positive impact on the entire bricks and mortar gaming sector in the US. The operators within the AGA think the same bar one, Sheldon Adelson, who continues to be unsupportive of the online industry. There are also moves from several of the suppliers that will put them into direct competition with bricks and mortar casinos - their customers. We have members that are supportive of this move, and there are those that are also very upset about it too. Some operators will decide to go with different suppliers who they see as not competing with them at the operational level. This will come down to individual views and is not a stance of the AGA."

In essence, the AGA is throwing its weight behind the decision of the Justice Department to reverse the restrictions set forth by the Wire Act, but as a representative of the bricks and mortar casinos, it's aware that there remains law enforcement and consumer protection issues. "The US fell into the trap of offshore gaming once before, and here again all

"Our main concern has been consumer protection and powers for legislators and congress to shutdown the 2,000+ offshore websites that are illegally taking bets from US residents. We want a federal system that would license and regulate Native American gaming. The federal government would then delegate to the states the right to license, regulate and tax those companies that apply and meet minimum requirements."
Frank Fahrenkopf.

responsible gaming efforts could go out of the window," states Mr. Fahrenkopf. "In September 2006, the US House of Representatives and Senate passed the Unlawful Internet Gambling Enforcement Act of 2006 (UIEGA) to make transactions from banks or similar institutions to online gambling sites illegal and the response from the government was to arrest the responsible gaming companies and push them out of business. The illegal suppliers carried on as before, but this time without competition. Until now, the principal effect of DOJ enforcement has been to drive the more responsible online gambling operators out of the market, leaving US residents at the mercy of relatively unregulated operators. We need new legislation at a federal level to protect all parties involved in gaming."

FEDERAL VS. STATE

In Congress, John Campbell and Joe Barton have been advocates of bills supporting federal legislation, but these are not supported or approved by the AGA. "We want another bill entirely," affirms Mr. Fahrenkopf. "We are an industry that depends on luck, and in a US presidential election year, we need luck. We want a federal system that would legalise online poker and establish minimum standards for consumer protection and underaged restrictions. We want a strengthening of the Wire Act and UIEGA to shutdown offshore unlicensed operators.

"Our main concern has been consumer protection and powers for legislators and congress to shutdown the 2,000+ offshore websites that are illegally taking bets from US residents. We want a federal system that would license and regulate Native American gaming. The federal government would then delegate to the states the right to license, regulate and tax those companies that apply and meet minimum requirements. So the actual licensing and regulation, with the exception of Native Americans, would be done at the state level. The AGA believes that a Federal statute should be passed to regulate across all states. If this doesn't happen then the Indian tribes will never agree to be licensed."

The AGA knows that federal legislation has the longest odds right now. The 10th amendment is jealously guarded by the individual states, in which every state has the right to make a determination itself as to whether it's

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going to offer gaming, what type of gaming, and how it will regulate and set taxes. It's a scenario that Mr. Fahrenkopf thinks will lead to autonomous self-destruction. "If you have one state taking one position - another a different position - it's a race to the bottom, as you limit what protections exist to attract businesses to individual states," declares Mr. Fahrenkopf. "We want a uniform system not regulated by the federal government, a system where the federal government would licence and regulate Native American Indian Tribes, as left to their own devices these sovereign nations will never submit to the jurisdiction of the state governments. However, having the federal government taking care of the Native American issue and delegating to the states that have the wherewithal to licence, regulate and tax online companies, would be the best option all round."

The AGA is also mindful that if we see state-by-state regulation then we will have a patchwork of laws and regulations causing conflicts at the

"If a state were to legalise online poker, would the Indians who do business legally in that state also be entitled to the same rights? Would they have to amend their compact with the state? Would it be covered by IGRA [Indian Gaming Regulatory Act]? Would the online poker player have to be on reservation land?"
Frank Fahrenkopf.

state level and in the courts. The biggest issue this raises concerns Native American tribes, who normally have the right to the same opportunities as those of the state, so if the state of New York legalises online poker, can those northern state Indian casinos offer the same, or do they have to renegotiate their compacts? Does the bettor have to be within the reservation grounds only? Can they offer 18 years olds the chance to play, as they do in their land-based locations, or must the age be 21, as they are in the state casinos? "It raises questions about what the impacts are, for example, on the Native American tribes?" asks Mr. Fahrenkopf. "If a state were to legalise online poker, would the Indians who do business legally in that state also be entitled to the same rights? Would they have to amend their compact with the state? Would it be covered by IGRA [Indian Gaming Regulatory Act]? Would the online poker player have to be on reservation land?"

LAND-BASED VS. ONLINE

One of the most powerful arbiters in the process right now are the lotteries.

Do they now have the right to create other online games, other than the lottery games? Do they have the right to enter interstate compacts? The AGA is aware that these unanswered questions could put the lotteries on a collision path with land-based casinos that could keep the AGA's members out of Internet gaming altogether. The state governors are, after all, the bosses of the lotteries. If federal legislation were to pass, not all the lotteries would be recouping the investments that they've made already, which would be a state budgetary issue at a time of deep financial concerns. And where is the pari-mutuel industry in all this? The pari-mutuel industry has been conducting Internet wagering in the US via the Interstate Horse Racing Act which exempted it from the Wire Act, despite the Justice Department's protests. The Justice Department said nothing about this in the Wire Act 'opinion,' so there continues to be conflict over whether what the horse racing industry is doing is legal. "One of the biggest changes in the US in the land-based sector has been the development of the racino," states Mr.

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I DON'T SEE ANOTHER MAJOR NEW DEVELOPMENT IN THE US IN TERMS OF BRICKS AND MORTAR.

Fahrenkopf. "States have simply allowed slots gaming at the race-tracks, which are already classed as gaming venues, means that you don't have to fight city hall to establish these 'casino' locations, as they already exist. Operators have simply added slots to the existing gaming offer and competed with established land-based operators."

Online gaming in the US has, to date, been seen as an external threat to the established order, but it's in fact an internal power struggle that will cause the greatest harm to the US bricks and mortar sector, as it's facing a battle on

"In states where liquidity is an issue, where there are existing Indian casinos, card rooms, racinos, lotteries and pari-mutuel organisations, I think there will be elements fighting one another for supremacy. I expect there will be division rather than integration."
Frank Fahrenkopf.

so many fronts that there's a sense of resignation as to the fate of the business. If the AGA's call for federal legislation fails to gain traction in Congress, then the introduction of online gaming could prove a tipping point for land-based gaming in the US. "I don't see there being a separation of the business, between online gaming companies and land-based companies if Federal legislation is passed, but there could be without it," confirms Mr. Fahrenkopf. "In states where liquidity is an issue, where there are existing Indian casinos, card rooms, racinos, lotteries and pari-mutuel organisations, I think there will be elements fighting one another for supremacy. I expect there will be division rather than integration."

If you look at the spread of gaming in the US over the last 100 years, in tough economic times governors have made state legislative decisions to help the people hurting in their states. In the last recession in the US in the 1980s, riverboat gaming was allowed in six states. Before that, in 1976, when New

Jersey opened, everyone in Vegas was worried that people would stop visiting Nevada and the same happened when the riverboats started operating. People go to their local casinos and then head to Vegas for the spectacle. "There's nowhere else that you can get the 40 different gaming offers in one place, 13 Michelin star restaurants and the type of entertainment offer that Vegas can provide," clarifies Mr. Fahrenkopf. "People will always visit Las Vegas." However, neighbouring states are now cannibalising the diminishing incomes of players. New locations are opening as states seek to keep that revenue for themselves. Interstate competition is now rife in the land-based market just as it faces its biggest threat from the introduction of online gaming. Can the industry answer these challenges? Mr. Fahrenkopf isn't so sure. "I don't see another major new development in the US in terms of bricks and mortar for the foreseeable future," admits Mr. Fahrenkopf. "Revel was the last we will see in the States. The next wave of development and industry's future direction lies in Asia."

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KEEPING GAMING AFLOAT

The home of riverboat gaming in the US, an initiative driven by the last major recession in the US, the signing of a new video gaming act could see the introduction of over 50,000 machines into the state into 3-4,000 licensed locations

The Prairie State of Illinois was discovered by French explorers back in 1673 and became the 21st US state in 1818.

Chicago was founded in the 1830s on the banks of the Chicago River and the railroads and the invention of the steel plough turned Illinois' rich prairie lands into some of the world's most productive and valuable farmlands.

It attracted many immigrant farmers from Germany and Sweden and by the 1900s the growth of industrial jobs in the north, coal mining in the central and southern regions saw immigrants also flock from eastern and southern Europe whilst the migration of African Americans created the city's famous jazz and blues culture.

The Port of Chicago is a major connection point and although the population originally grew from south to north with settlers arriving from Kentucky today the largest population centres are in the north.

Today the state is the 25th most extensive and fifth most populous of the US states. It relies heavily on its natural resources such as coal, timber

The Illinois State Lottery began in July 1974 when the first tickets went on sale and in 1975 the first instant games were introduced. In 2010 the company ended the year with annual sales of \$2.1bn marking the seventh consecutive year of an annual sales record and the third year of sales over \$2bn. Instant games are the top selling product.

and petroleum but it also has a broad economic base and is a major transportation hub. It is also known for its emergence of nuclear plants and research facilities.

Located in the Midwest region it is bordered with Indiana, Kentucky, Missouri, Iowa and Wisconsin whilst sharing the water boundary of Lake Michigan with the state of Michigan.

There are 102 counties and the state is divided into three major areas - Northern Illinois which is dominated by the Chicago area which is the largest city in the state with 9.8 million people and the third largest city in the US; Central Illinois which is known as the Heart of Illinois and made up of small towns and mid-sized cities and prairie lands and finally Southern Illinois comprising of Little Egypt and the ancient city of Cahokia.

The state has struggled and is still recovering from the economic crisis. The GDP for Illinois was \$652bn in 2010 whilst the unemployment rate was 11.5% falling to 9.9 per cent in August 2011.

The state's unfunded liabilities have



THE RIVERBOAT GAMBLING ACT INTRODUCED IN FEBRUARY 1990 MADE ILLINOIS THE SECOND STATE TO LEGALISE RIVERBOATS.

climbed from \$82.9bn in 2011 to a projected \$89.8bn this year. It is said over spending, tax hikes and blocking necessary fiscal reforms means this state has the worst economic outlook in the nation.

Last year taxes were raised in a bid to increase revenue. The state income tax is calculated by multiplying net income by a flat rate of three per cent. In 2011 this rate was increased to five per cent and will be returned to three per cent after four years. Meanwhile the state has a sales tax of 6.25% for general



merchandise and one per cent for food, drugs and medical appliances. Local property tax is the largest single tax and a major source of government revenue.

Manufacturing is a huge part of the state's business with 38 per cent of the manufacturing plants located in Cook County. Main plants include chemical manufacturing, machinery, food, metal, transportation, plastics and computer and electronic products. The state also exports electricity and has a large coal industry.

Meanwhile domestic and international visitors to Illinois spent nearly \$29.3bn in 2010 and generated nearly \$5.3bn for federal, state and local governments. Some 86.4 million visitors came to Illinois in that year of which 1.7 million were international visitors coming mainly from Canada, UK, Mexico, Germany and Japan.

Illinois is today ranked 10th in its share of domestic visitors and sixth in traveller spending whilst this sector has created some 287,000 jobs.

GAMING MARKET

At the moment Illinois can permit the lottery, pari-mutuel wagering, charitable gaming and commercial casinos.

The Illinois State Lottery began in July 1974 when the first tickets went on sale and in 1975 the first instant games were introduced. In 2010 the company ended the year with annual sales of \$2.1bn marking the seventh consecutive year of an annual sales record and the third year of sales over \$2bn. Instant games are the top selling product.

Proceeds go towards Illinois public school education systems with \$17bn in total since its inception. In 2011 \$690m was given to various educational projects.

Meanwhile there are six racetracks in Illinois. There are three thoroughbred tracks which are located at Arlington Park, Fairmount Park and Hawthorne Race Course and two harness tracks at Balmoral Park and Maywood Park. The sixth track is Quad City Downs (no live

racing) plus there were 26 off-track licences (OTB) issued last year.

The Illinois Racing Board was created in 1933 whilst the Horse Racing Act was introduced in 1975. Off track or OTB licences are issued to the tracks on an annual basis and each track can receive up to six OTB licences (except Fairmount Park which can have seven). The tracks are entitled to accept inter-track simulcast wagers when they are not conducting live racing.

The 524 race programs held in 2011 at the tracks brought in the total amount wagered of \$687m (a five per cent decrease on previous year). Total revenues received in 2011 came to \$14.9m generating \$7.8m for state revenues. Attendance at all tracks came to 1.2 million.

Advance Deposit Wagering (ADW) was introduced in 2009 in Illinois and four companies were licensed in 2011 as ADW providers which were Twin Spires (Arlington), TVG (Fairmount), Xpressbet (Hawthorne) and Betzotic (Balmoral/Maywood). A total of \$109m was wagered through ADW.

In August 2011 the three per cent Impact Fee collected from the four highest earning casinos in the state was released to the racing industry. Around \$141.8m was split between the standardbred (\$55.1m) and thoroughbred (\$86.7m) and divided again between track operators and purse accounts.

The opening of the 10th casino in Des Plaines in July (Rivers Casino) resulted in the discontinuance of the Impact Fee as the racing industry should receive 15 per cent of annual gross receipts from that casino.

Meanwhile the Riverboat Gambling Act was introduced in February 1990 which made Illinois the second state in the US to legalise riverboat gambling.

The Gambling Act can authorise up to 10 casino licences and in 1991 the first riverboat casino began operations in Alton. The gambling act also then created the Illinois Gaming Board which is a five member board regulating tax collections and licensing.

Each riverboat gaming licence permits up to 1,200 gaming positions which can be a mix of electronic gaming machines and table games and each

The Illinois Racing Board was created in 1933 whilst the Horse Racing Act was introduced in 1975. Off track or OTB licences are issued to the tracks on an annual basis and each track can receive up to six OTB licences (except Fairmount Park which can have seven). The tracks are entitled to accept inter-track simulcast wagers when they are not conducting live racing.

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RIVERBOAT CASINO DATA

Casino	First licensed	Table games/slots	Total AGR	Table Games	Slots
Alton Belle	1991	16 / 1,065	\$73m	\$3.5m	\$69.4m
Par-A-Dice	1992	26 / 1,167	\$115m	\$13.4m	\$102m
Jumer's Casino Rock Island	1992	31 / 1,108	\$85m	\$6.4m	\$79.3m
Hollywood, Joliet	1992	23 / 1,167	\$146m	\$18.8m	\$127.5m
Harrah's Metropolis	1993	26 / 836	\$95.7m	\$12.4m	\$83.2
Harrah's Joliet	1993	30 / 1,146	\$223.7m	\$23.7m	\$199.9
Hollywood, Aurora	1993	27 / 1,172	\$173.3m	\$22.7m	\$150.5m
Casino Queen, St Louis	1993	28 / 1,158	\$130m	\$15.7m	\$114.4m
Grand Victoria, Elgin	1994	34 / 1,129	\$257m	\$44m	\$212.9m
Rivers Casino, Des Plaines	2011	24 / 522	\$176.7	\$44.4	\$132.3m

licence can operate up to two vessels at a specified single docksite. In 1999 the act was amended and now all riverboat operations must be permanently moored at docksites without any cruises.

The Riverboat Gambling Act includes the following points:

- This act applies to riverboat gaming on any water within the Illinois state, other than Lake Michigan.
- An application fee of \$50,000 is required for investigation costs.
- A licence fee of \$25,000 for the first year and \$5,000 for each succeeding year is required.
- A bond of \$200,000 shall be paid to the State.

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Comment

“The Illinois Gaming Board is in the process of implementing its Video Gaming Law which allows for the placement of low stake video gaming terminals (\$2 maximum wager with cash awards limited to \$500) in bars, restaurants, trucks stops and in Veteran’s and fraternal organisations. The number of devices per location is limited to five. The devices are controlled by a Central Communications System (CCS) provided by Scientific Games and overseen by IGB. Gaming Laboratories International LLC was chosen by the IGB as the sole testing laboratory responsible for certifying that the CCS and video gaming terminals meet the technical standards established by IGB.

GLL has already issued hundreds of certifications for the IGB Video Gaming market and are actively testing hundreds more. Currently Scientific Games is working with the IGB to ready five test sites for an initial trial of the system and the VGTs. The formal ‘go live’ date for all locations is currently August 1st 2012. Due to the unique nature of this market gaming suppliers have been tasked with creating custom games and software to accommodate the technical specifications of the central communications systems as well as to accommodate the aforementioned wager and award limits.”

Kevin P Mullally, General Counsel and Director of Government Relations, GLL. www.gaminglabs.com

Info panel

State: Illinois

Capital: Springfield

Total area: 149,998 sq.km

Population: 12,869,257

Main religions: Roman Catholic 29%, Baptist (11%), Christian (7%), Lutheran (7%), Methodist (6%).

Racial makeup: Non-Hispanic white (63%), Hispanic or Latino (15%), Black or African American (14%), Asian (4%),

Governor: Pat Quinn (Democrat)

Lt Governor: Sheila Simon (Democrat)

Casinos: 10 riverboat casinos

Casino slots: 10,470

Slots AGR: \$1.2bn

Table games: 265

Table gaming AGR: \$205m

Racetracks: -

VGTs: up to 50,000 estimated

GGR (total): \$1.4bn

Online gaming: House Bill 4148 being discussed.

.....

serving as a host community also receives a share in an amount equal to 5% of AGR.

There are 10 casino licences in Illinois these are the:

1. Alton Belle Casino in Alton on the Mississippi River;
2. Par-A-Dice Casino in Peoria on the Illinois River;
3. Rock Island Jumer’s Casino on the Mississippi River;
4. Hollywood Casino in Joliet;
5. Harrah’s Metropolis Casino & Hotel, Metropolis;
6. Harrah’s Joliet Casino, Joliet;
7. Hollywood Casino in Aurora;
8. Casino Queen in East St Louis;
9. Grand Victoria Casino in Elgin
10. Rivers Casinos in Des Plaines River

The latest casino to open was the Riverboat casino in Des Plaines which opened in July 2011 making it the 10th licence.

The Adjustable Gross Receipts for the riverboat casino sector amounted to \$1.4bn in 2011 which was a 7.6 per

- Only one riverboat gambling operation can be operated on any riverboat
- Up to 10 licences are permitted for riverboat ownership and up to two riverboats each.
- They can permit up to 1,200 gaming positions per licence (so if one licence covers two riverboats the total number of players cannot exceed 1,200). The riverboats licensed on the Mississippi and Illinois River south of Marshall County have an authorised capacity of at least 500 people. All other riverboats have an authorised capacity of at least 400 people.
- Players must be 21 years of age or over and wagering is cashless.

- A wagering tax on gross receipts is charged from gaming machines:

1. 15% of AGR up to \$25m
2. 22.5% for \$25-50m
3. 27.5% for \$50-75m
4. 32.5% for \$75-100m
5. 37.5% for \$100-150m
6. 45% for \$150-200m
7. 50% for \$200m plus

- An admissions tax is also charged. The admissions tax is set at \$2 per person for patrons of Casino Rock Island or \$3 per person for the other sites. Of this \$1 goes to the host community. Each local government

The Gambling Act can authorise up to 10 casino licences and in 1991 the first riverboat casino began operations in Alton. The gambling act also then created the Illinois Gaming Board which is a five member board regulating tax collections and licensing.

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cent increase on the previous year. Admissions in 2011 were 14.8 million also a seven per cent increase. The state collected a total of \$489m in wagering and admissions tax.

There are 265 gaming tables and 10,470 slots at the 10 casinos. Table gaming drop was \$1.2bn whilst slot takings were \$15bn.

NEW VIDEO GAMING ACT

In July 2009 the Video Gaming Act was signed under the jurisdiction of the Gaming Board and this legalised the use of video gaming terminals in licensed establishments with an anticipated 50,000 expected in the market by the end of the year with 3-4,000 locations licensed.

Players can play video games such as video poker, line up and blackjack. Players can win free games or credits can be redeemed for cash

The video gaming act (230ILCS40/) includes the following points:

- These can be placed in those venues which have a valid alcohol licence including truck stops, taverns, fraternal establishments and veterans clubs.
- The licence application fee for VGTs

In July 2009 the Video Gaming Act was signed under the jurisdiction of the Gaming Board and this legalised the use of video gaming terminals in licensed establishments with an anticipated 50,000 expected in the market by the end of the year with 3-4,000 locations licensed.

is \$5,000 for a manufacturer, distributor or operator and \$2,500 for a supplier.

- Annual licence fees are \$10,000 for manufacturers and distributor and \$5,000 for an operator plus \$100 per VGT.
- Up to five VGTs are allowed by location and only for ages 21 years and over.
- Payout must be not less than 80 per cent.
- Payout is cashless with ticket payout. Maximum price of play will be \$2. Maximum payout will be \$500.
- 50% of after tax profits from a VGT will go to the terminal operators and the other 50% to the licensed establishment.
- Taxes are set at 30 per cent of net terminal income and of this 5/6ths shall go to a Capital Projects Fund and 1/6th to a local government video gaming distribution fund.

At the moment it is said some 65,000 video devices for 'amusement' only are being operated throughout the state and any which do not conform to the new requirements will become illegal

HUNDREDS OF APPLICATIONS FOR VIDEO GAMING LICENCES HAVE BEEN APPROVED AND A VLS HAS BEEN SET UP.

upon the expiry of its amusement licence.

Over the last 12 months the Gaming Board has been working on the implementation of the video gaming installation. Hundreds of applications for video gaming licences have been approved and a computerised Video Licensing System (VLS) has been set up. However more than 150 towns have chosen not to offer gaming.

The first licences were issued to manufacturers, distributors and suppliers whilst testing has continued through an Independent Testing Laboratory, GLI, who was selected by the board. A Central Communication System will be set up to provide real time monitoring through the state and this was given to winning bidder Scientific Games International.

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Comment

"There's a lot of excitement around the state and among operators as we prepare for the program launch. I'm proud to say that SPIELO International's reputation for providing creative, flexible and profitable solutions to route operator gaming markets worldwide is helping our products emerge as one of the top choices for Illinois operators. Our core business is Video Gaming Terminal (VGT) hardware, software, and systems, and since the company began more than 20 years ago, we've gained market share in the vast majority of government sponsored jurisdictions and we're the leading supplier to distributed gaming markets. In Illinois, operators want to know that their investment will yield maximum results and that's why they're turning to us through our exclusive distributor, American Gaming & Electronics.

Thanks to careful planning, our processes are now well-established for a smooth launch. Our hardware has been approved by the Illinois Gaming Board and we expect our software to be approved by GLI very soon. Based on our extensive experience with VGT players and our thorough research in the field in Illinois, we've put together a compelling multigame line-up that's tailored to Illinois players' interests and preferences. It's a privilege to be supplying the state's new gaming program."

Robin Drummond, Vice President and General Manager of Public Gaming for SPIELO International. www.spielo.com



It is expected that video gaming will start in Illinois by the third or fourth quarter of this year and it is estimated that the CCS can cope with the estimated 50,000 VGTs in the market.

There is currently a staggered application process for licences to avoid bottlenecks. Applicants have to go through an investigation process. By the end of 2011 37 applications were received and 24 Manufacturers, Distributors and Supplier licences were approved. In terms of operators some 100 applications were received by the end of 2011 and currently being reviewed.

Licensed manufacturers include Aristocrat Technologies, Bally Gaming, Chicago Gaming Company, AGS Illinois, Elite Casino Products, Incredible Technologies, MTD Gaming, Spielo International, VGT Manufacturing and WMS Gaming.

Meanwhile for the second year running lawmakers in Illinois approved an expansion plan for casinos in Illinois. Last year the Illinois Senate approved a Bill SB1849 to permit five new casinos including a large one in Chicago. Four riverboat casinos are also in the plan for northern and central Illinois whilst there is also a proposal to increase slot machines at existing casinos and an

expansion of slots to horse racing tracks in the state.

In June the Senate voted 30-26 in favour of the proposal. The new law would generate around \$1.6bn in upfront fees and \$300m in tax revenue annually which would help curb Illinois' huge debt which totals around \$8bn at the moment. Opponents say the market is already saturated and rather than drawing visitors from Iowa and Indiana it would take them from the riverboat casinos instead.

The proposal would create the state's first non-floating casino in the city of Chicago and riverboat casinos in Danville, Park City, Rockford and another location in the south. Each riverboat could have up to 1,600 gaming positions whilst the existing 10 could also expand. However Gov. Pat Quinn is against the bill and lawmakers are anxious now to work with him for a compromise. Quinn is against slots at racetracks specifically and once Quinn receives the bill he has two months to decide what to do with it although many fear he is likely to veto the plans.

In addition a third amendment to House Bill 4148 was also recently revised which could see a state run online gaming industry very soon. The idea is to develop an online poker

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platform which would be developed within the state's lottery and then could be licensed to the 16 casinos and racetracks. Each property would have to pay a \$5m licensing fee to use this platform and affiliates could not use their own poker site.

The state would not run the games itself but would however be in control of which games are permitted and various other options such as price of play and rake percentages. The age limit would be 21 and players can also set maximum playing time and amount spent. The legislation also gives Illinois the chance to form interstate compacts although at the moment the model is intrastate.

The proposal is being pushed through quickly in a bid to keep up with Nevada and Delaware but is still waiting in the sidelines at the moment. If it goes through it is estimated it could earn the state up to \$100m from the fees from online operators.

Illinois became the first state to sell lottery tickets online in March after the Justice Department issued an opinion on the 1961 Wire Act which said the prohibition on internet gambling related only to sports betting. A Division of Internet Gaming would be set up within the state lottery.

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EVOLUTION OF GAMING TESTING

Testing in the virtual as opposed to the physical environment requires the swapping of eyeballs with the very latest technology. GLI's **James Maida** explains the process and the challenges being confronted and addressed at a global level

The role of laboratory testing in the gaming industry is a constantly evolving process as it must perpetually keep pace with both technology and regulations. However, the changes currently taking place in the VLT, mobile and online sectors, have seen that pace quickening to lightening speed. Online in particular is swallowing testing resources as market regulation spreads like wild fire across the globe. Meeting the specific challenges presented by online gaming regulation takes dedicated resources and specialist technical skills and experience. G3 interviewed GLI President and CEO, James Maida, about the changes taking place in the online gaming sector and what this means for regulators and operators as the industry enters its regulatory growth phase. Specifically, Mr. Maida begins by addressing the different approaches currently being adopted by different jurisdiction around the world in relation to online testing.



James Maida,
President and CEO,
Gaming
Laboratories
International.

"We are still early in the game, this is only the second inning, but I think it's going to be very interesting to see how Delaware, Nevada, New Jersey, etc., bring iGaming into the fold."

LAND-BASED VERSUS IGAMING

According to Mr. Maida, there's not a huge difference between land-based and iGaming from a testing standpoint. It's just a matter of approaching the testing from a different angle. Whereas in a land-based location you're using physical means to check ID and provide security on the floor, in the iGaming space it's a matter of replacing eyeballs with technology.

"Fundamentally, testing iGaming technology concerns itself with protection. The software is designed to prevent underage gambling and confirm whether the games are fair and random, which protects people playing on the site," described Mr. Maida. "You don't have people hacking into land-based sites attempting to break into the database to put money into their account. It's another level of network and infrastructure security that you don't necessarily have in land-based, since for the most part those systems

are not touching the Internet. So we have all the problems associated with land-based, plus all the additional problems encountered in iGaming. It's something we term land-based + . All the regular problems, plus age & identity verification, geolocation, network security, online banking, payments and financial systems all laid on top."

In terms of testing, iGaming is a more complex area right now as opposed to land-based. There's simply more to consider at a technical level. However, currently GLI is wrapped up in testing a far greater number of land-based products due to sheer volume. There are two million gaming machines outside of Japan that are being tested by private labs, which covers huge amounts of software, hundreds of land-based vendors and 500+ regulated gambling jurisdictions. Compared to this volume, iGaming's two dozen or so regulated jurisdictions doesn't currently

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IN TERMS OF TESTING, IGAMING IS A MORE COMPLEX AREA RIGHT NOW AS OPPOSED TO LAND-BASED.

compare. However, as Mr. Maida states, the expansion of online gaming in the US, South America, Europe and South Africa will change the picture. "I can see a point in the not too distant future in which iGaming testing work will match that of land-based," said Mr. Maida. "We are still early in the game, this is only the second inning, but I think it's going to be very interesting to see how Delaware, Nevada, New Jersey, etc., bring iGaming into the fold."

Keeping pace with an ever shifting

marketplace presents major infrastructure issues for a company such as GLI. As each new jurisdiction comes online (literally), the testing facilities need to be in place from day one, but with so much legal lobbying and prevarication, timing is a hugely important and yet hit-and-miss affair. "Last year we knew that the Nevada bill would pass in June 2012. We knew the Governor was to sign the bill into law, and despite these horrible economic times, we also knew that we'd need to be 75 people larger, with a need to possibly add more than 100 testing assets within one year," explained Mr. Maida. "Today, GLI is 125 people larger than it was a year ago, and by the end of the year, we will have completed our hiring initiative, having added 75 people to Nevada alone with another 30 in Colorado and the rest in New Jersey and other office locations. Right now our Italian office is full, we've opened a new office in Spain and our Canadian, Netherlands

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Gaming
Laboratories
International.

and Australia offices are continuously hiring too. We are actually hiring as we add open space to our facilities. It's an approach that is very different from other labs and other segments in which they say 'if we get the work, we'll hire.' We are taking the opposite stance. We can't deliver the workstations fast enough for the people we are hiring."

It's an approach that puts GLI in front, not only of its competitors, but of the market itself. "We have been doing this longer than anybody in the testing industry," continues Mr. Maida. "In the late 1990s we fell behind in the hiring process as TiTo came into the casino sector and we will never let that happen again. We don't hire for what is around us, but for what is out front. We didn't know when Illinois was going to start, but it takes a year and a half to get up and running, so we started in June last year and brought 30-40 people into the company straight away. We could have been wrong, but the only risk in this industry is not hiring in time. Plus, we're also finding that the slowdown is the perfect time to hire the right people. Our HR department is currently interviewing candidates every day. We are interviewing in Vegas, Colorado, New Jersey and Canada as part of a constant process. We took the decisions to build larger facilities and hire more people to meet today's demand well over 12 months ago."

The escalation in staff numbers isn't just to meet iGaming demand. In markets such as Illinois, the VLT sector is set to increase by 20-70,000 machines this year, with GLI as the exclusive testing lab to the Illinois market ramping up its video gaming unit by an additional 25 staff. The casino and racetrack openings in Ohio have also kept GLI busy, while the VLT replacements and central control system upgrades in the Canadian market are also compelling GLI time and energy right now. In a little over a year, GLI will have expanded by 125 people, not in an effort to meet demand from the expansion of land-based, iGaming and mobile around the world, but instead to pre-empt it. "When you want to jump on a moving train, you can stand on track and try, from a standing start, to jump into a box-car," stated Mr. Maida. "Most people, however, will try instead to get up to

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GLI - JAMES MAIDA

speed and jump onboard while they're already running. A year ago, I thought we would need 75-80 people. So we planned to hire 125. The logic behind this presupposes that we're not aiming for what we thought might happen 12 months ago. What happens when you need more? We don't hire in relation to the last period, instead we have 50 extra people to soak up the additional demand. As a result, our turnaround times are currently the fastest in the industry. We have cut our turnarounds by 35-40 percent, which means that whereby a submission to GLI used to commence within 2-4 days, now we start on the same day or the next. We hired not only what we need for today, but for tomorrow too, and in the meantime the benefit is felt by all our valued customers."

The assessment of GLI's needs is as constant and continuous as the testing process itself. It takes time to train employees and build new facilities. Just matching current demand would see the business fall behind in relation to future opportunities, and so the process of expansion is never ending. The benefits of this approach are manifold, in that GLI has absorbed a great deal of the iGaming business in Nevada, speeded through increased product knowledge and efficiencies due to approvals performed for other markets and raised quality levels across the board. "Our iGaming hub is based in Colorado, with 20 jobs directly linked to iGaming, 15 jobs in Vegas and 14 in Canada are also linked to iGaming," explained Mr. Maida. "Every position in Italy is linked to iGaming, but in fact we don't have a separate iGaming division. All our teams can test land-based and iGaming. We have also incorporated new testing functions that include Payment Card Industry (PCI) and Information Systems Security (ISS) audits and testing, with dedicated teams servicing these sectors. Ultimately, however, we don't see iGaming as a different form of gaming, it is just a different type of media, a new delivery channel in which people will continue to play games. And from that perspective, we'll continue to test them."

EXCHANGING INFORMATION

"We are talking to regulators everyday and discussing whether polices and



"There is always going to be requirements for continuous compliance. One of the penalties of success is that as prizes get larger, as things become more mainstream around the world and more people engage with iGaming sites, the more attacks that will occur. The question is whether they're successful or not."

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President and CEO,
Gaming
Laboratories
International.

regulations need to be updated as technology changes in the online space much quicker than land-based," explains Mr. Maida. "We see this happening every day, with the result that we are testing in the iGaming environment globally, every day. It's the reason why we keep abreast of regulations and discuss with regulators through our round-table events to see what's happening in other markets. It's an enabling process for governments, helping them to make rapid decisions that keep ahead of the changes constantly taking place around them."

At the same time, operators inform GLI of the changes that they are seeing in their environment. Sharing information has become a strategic benefit to all parties. It's a process of constant improvement, which logically also means constant testing. "Once you have an approval that's not the end of the story," stated Mr. Maida. "There is always going to be requirements for continuous compliance. One of the penalties of success is that as prizes get larger, as things become more

mainstream around the world and more people engage with iGaming sites, the more attacks that will occur. The question is whether they're successful or not. The software suppliers think about this everyday of the week. Hackers are constantly probing their platforms, looking for weaknesses, those elements that the software developer didn't think of the first time around. We ask exactly the same question, though from a different perspective. "

Hackers aren't the only problem facing online gaming sites. Player collusion is an issue in environments where you can't physically see or check the location of the player. To counteract the threat, IP addresses are cross-referenced, players are placed at random tables and behaviour logged and flagged should collision be suspected. "Right now there are a series of third-party solutions that operators can bolt onto their site to protect themselves from automated bots, and to verify the age and location of players etc.," stated Mr. Maida. "In



TESTING CHECKS THE OPERATORS HAVE THE TOOLS TO BLOCK PLAYERS, BUT THE REGULATOR ENSURES THEY USE THEM.

regards to anti-collusion, many of the operators have their own proprietary systems to address this issue, however, if we have encountered the software previously, we can compare digital signatures we take thus ensuring testing is a lot cheaper, quicker and more efficient. It's a system that works across borders in different markets, whereby the testing we conduct in Italy is then carried across into Spain and then in Denmark etc. One of the reasons that the largest companies in iGaming use GLI is because it is so efficient to move from one market to the next, hence one can see why it is

important to work with a lab approved in all regulated jurisdictions."

In regards the integrity of the iGaming operator, there are multiple questions to address, not least the boundaries at which testing ends and regulatory scrutiny begins. There is a licence requirement to fulfill, technology to address and ongoing financial health requirements. Testing will ensure that the technology meets minimum licence requirements, for example to block players from certain prohibited places or countries. As to whether the operator chooses to use that technology, well, that is a matter for the regulator. Testing can check that the operator has the tools to block players, but it's the role of the regulator to ensure that the site is using those tools in accordance with the rules and regulations set forward by the jurisdiction. There's also a great deal of concern right now, following reported high profile scandal(s), in regards to the segregation of player funds. The return of those funds to the player should be an implicit element of any

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iGaming site and it's important to ensure that those deposits are sacrosanct, and not being used to fund external activities. Testing can prove that an operator has these elements in place, but it's the regulator that must ensure that the operator is adhering to the rules as part of their due diligence and financial audits. The tests can show that the operator is made aware that the player is underage and from a banned location, but if the operator wants to override the system and accepts that player on its books, it's the job of the regulator to enforce the rules and prevent it.

SUMMARISING ONLINE TESTING

There are a variety of testing approaches adopted by iGaming jurisdictions around the world, roughly splitting into four main categories: Audit, Partial-Outcome Based, Risk-Based and Full Objective-Based. Mr. Maida dismisses the Audit approach as fundamentally not reviewing at all. "You're looking at the game after it's been played," he explains. "Conducting a financial audit is very inaccurate as you're checking problems after they have occurred, which is really not testing at all. Audit-based is the weakest form of testing any jurisdiction can conduct."

A step up is Partial Outcome-Based testing, where private labs play and observe the functionality of the games and conduct source code reviews. However, the review is a cursory one that fails to dive deep into the source code. "Partial Outcome-Based testing is more thorough than the audit, but not by much," explains Mr. Maida. "The source code really isn't scrutinised throughout out all the game play conditions, for example as regards jackpots. If you simply play the game you're unlikely to hit all the different outcomes that the software is design to create. It's a very shallow, minimal level testing that's not to be taken seriously."

However, the third level of testing is conducted by the largest iGaming market, the United Kingdom and has also been recently adopted by Denmark, which is that of Risk-Based testing. "Risk-based is being used by some markets, where you access all the software functionality through testing, but you don't look at other items,"

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describes Mr. Maida. “There are elements of the code that are high risk, and so the testing approach is to examine those risky parts of the code, but not look at the lower risk areas. Using this type of testing you basically put onus on the operators to highlight the risks. The operators inform the labs of the risk tolerances and what does and does not require testing, which means that ultimately it’s the operator that makes the decision as to what is and isn’t tested. It’s not the most stringent model as a result.”

As might be expected, the most thorough model is left to last, that of Full Objective-Based testing. It’s in fact the most widely used model, with markets adopting this approach including: France, Italy, Spain, British Columbia and Quebec, Canada, Nevada, and Tasmania in Australia. These markets use private labs to conduct the testing, while Alderney, Isle of Man and Malta use a mix of regulator and private lab testing. “Full Objective-Based is direct to rule and regulation testing,” states Mr. Maida. “We scrutinise everything against the rules and regulations as set forth by the jurisdiction. For the most part, we use a combination of Full Objective and Risk-Based testing, whereby when we’re approaching aspects that affect the player we believe in Full Objective-Based testing, but if a game developer is simply changing the colour of a screen, with no affect on the game and outcome for the player, then the lab will look to assess from a Risk-Based perspective. In countries such as Italy, we also conduct a final year audit in addition to Full Objective-Based testing as an additional measure.”

While GLI has a view as to the benefits of each model of testing, Mr. Maida is very clear that in regards to policy, it is governments that set the parameters that GLI follows. “We’re not here to second-guess policy from government. In this regard iGaming testing is no different from land-based. We are here to test to the rule and regulations set before us by governments and regulators. In a land-based casino we test the games, the central, backend and loyalty systems, we check the accounting software is correct, and bonuses meet all the guidelines. What we don’t do in land-based is stand at the door to see if a 17 year old is playing on the floor. There’s a difference in regards to iGaming, whereby there’s no physical security



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Gaming Laboratories International.

guard, so the operator has to prove to the regulator that controls are in place in the virtual space. Here the operators are replacing the security guards with technology - and it’s our job to test that technology.”

If Aristotle or Experian reports back to the iGaming operator that a player is underage, the software running the website needs to be able to deal with this effectively. Similarly, it also needs to be able to deal appropriately with an outcome that can’t identify the age of the player in question. GLI tests the technology to ensure that it performs its function as required by the regulator. There are also further tests

specific to iGaming sites that test procedures for dealing with challenges to the integrity of the site, either from hackers or from automated bots. “We test the software to see what response it gives to these kinds of attacks,” outlines Mr. Maida. “We look at the processes and procedures for dealing with and staving off these attempts to defeat the software. GLI will work with the vendor and conduct an assessment as to how resistant its systems are to attack. At the lab we spend a tremendous amount of time, care and resources facilitating iGaming testing, because as quickly as technology evolves, we too must keep pace with it.”

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ENGAGING THE COMMUNITY

A rich pedigree of gaming options in Massachusetts is to be extended as the Gaming Commission examines proposals for land-based casinos and debates online gaming opportunities as tribal interests are also weighed and measured

The Bay State of Massachusetts lies on the east Atlantic coast of the US and is in the New England region and bordered by Rhode Island, Connecticut, New York, Vermont and New Hampshire. It is the seventh smallest state and 14th most populous and third most densely populated of the US states.

The name is actually derived from 'near the great hill' referring to the Blue Hills on the boundary of Milton and Canton

Several large bays shape the coastline whilst forests cover around 62 per cent of the state and there are 50 cities and 301 towns which are grouped into 14 counties. Boston is the state capital and two thirds of the population live in Greater Boston, which is mostly urban or suburban, followed by Springfield, Worcester, Lowell and Cambridge.

The state plays a significant historical role as Plymouth was the site of the colony founded in 1620 by Pilgrims from the Mayflower whilst Harvard University was founded here in 1636 as the oldest higher education institution in the US whilst Salem is known for its Salem Witch Trials. Boston is also

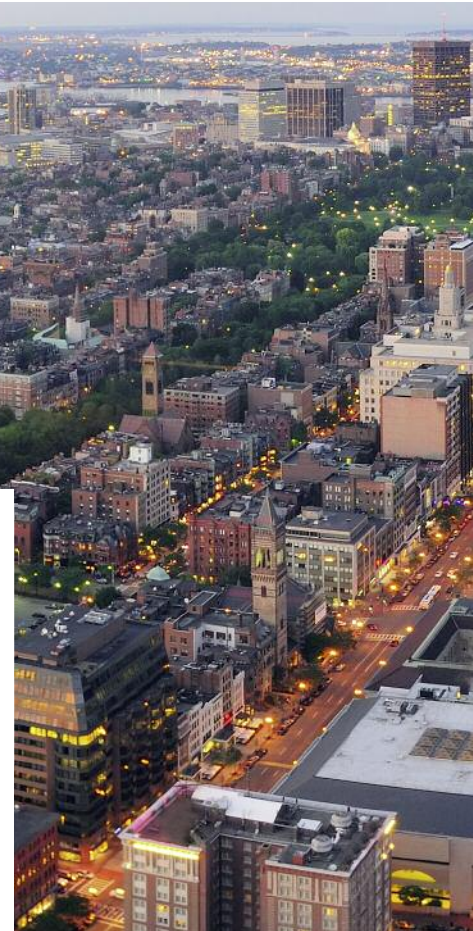
known as the 'Cradle of Liberty' where uprising began which led to the American Revolution. When Maine separated from Massachusetts it entered the union as the 23rd state.

The state has always been dependent on fishing, agriculture and trade and Massachusetts was transformed into a manufacturing centre during the industrial revolution although by the 20th century the economy shifted from manufacturing to services after an exodus of manufacturing companies and a collapse of textile, shoemaking and mechanised transportation industries in the 1920s. By the 21st century it was a leader in higher education, health care technology, high technology and financial services.

There are around 7,000 plus farms in Massachusetts whilst agricultural products include tobacco, livestock, fruits and nuts. The state is also the second largest cranberry producing state.

In 2008 Massachusetts was the third highest state in terms of per capita income due to the businesses attracted to the region from the world of finance, education, biotechnology and tourism.

The first lotto game was introduced in 1978 followed by other games such as Mass Millions in 1987 and Mass Cash in 1991. In 1997 the lottery installed a new computer system from Digital Technologies and this involved a simultaneous conversion to the new terminals at nearly 6,000 retail locations. Money from the lottery is given to towns and cities for them to allocate and this year some \$887m will be distributed.



THE FIRST PLAN TO INTRODUCE CASINO GAMBLING WAS TALKED ABOUT BACK IN 2007 COURTESY OF GOVERNOR DEVAL PATRICK.

Tourism plays a very important role particularly with Boston and Cape Cod being known as leading destinations alongside Salem, Plymouth and the Berkshires. Just under 20 million people visited Massachusetts last year spending around \$15bn.

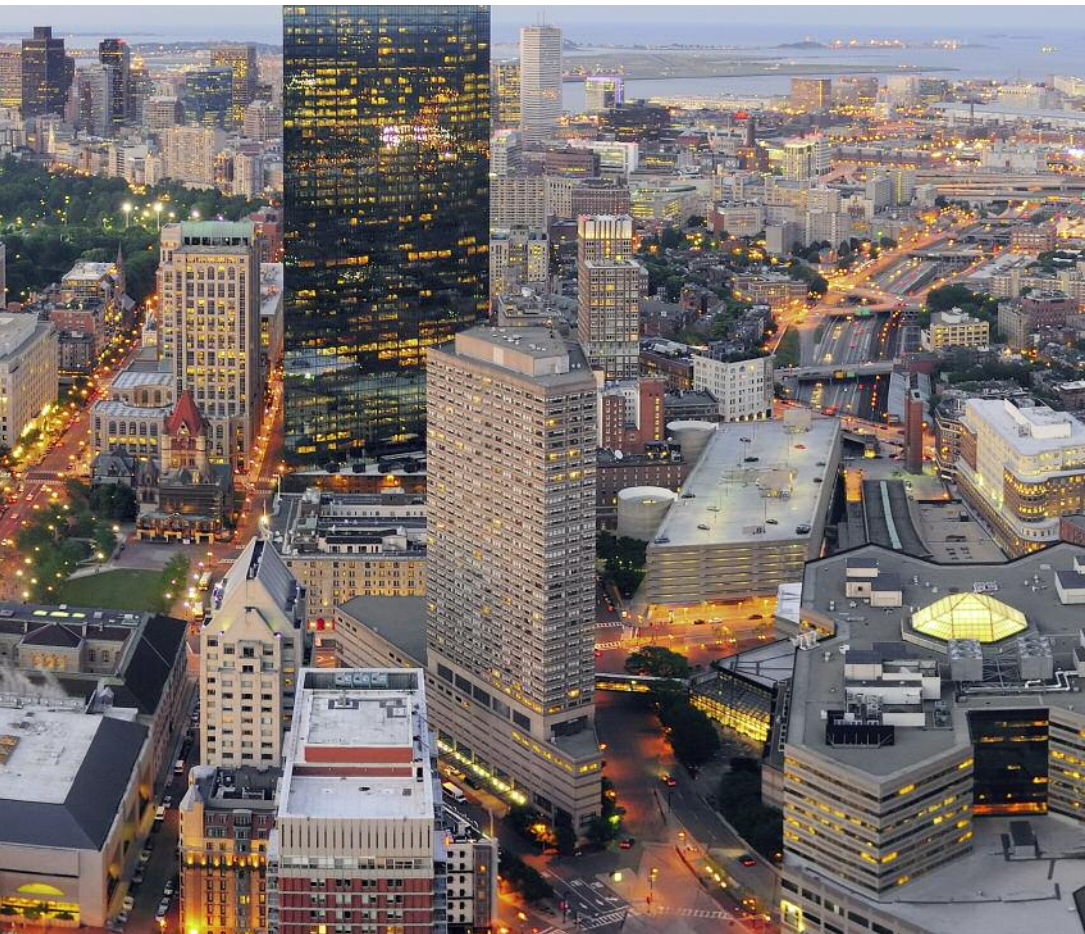
The state remains in the top spot of the US market and its economy has outperformed most other states. Its GDP is around \$361bn a 3.6 per cent increase whilst 2012 unemployment was 6.5 per cent and below the national level. The state has a flat rate

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after greyhound racing was banned.

When the proposal to provide three resort casinos and just one racetrack slot parlour was announced Wonderland finally closed its doors in August 2010. After 75 years in business the simulcast betting was just not enough to keep it open. The other race tracks are also apparently suffering and Suffolk Downs has lost nearly \$35m over the last three years.

In November 2011 a legislature was signed by the governor to expand the gaming law and as such the Massachusetts Gaming Commission was also set up and consists of five commissioners and is headed by Chairman Stephen Crosby

The gambling law in Massachusetts has authorised one casino in each of the three regions with a single slot parlour permitted in any region which will be open to competitive bidding. A public forum was held in June by the Gaming Commission and say they still believe the market can handle the three casinos and a slot parlour despite some critics.

Massachusetts can expect gross gaming revenues of between \$1.5bn and \$2bn by the third year of casino operations with around \$600m currently being spent elsewhere by Massachusetts residents Critics however say the plans would saturate the market. The main points of Chapter 194 of the Gaming Law include:

- Gaming licences are only granted to those who own or acquire, within 60 days after a licence has been awarded, the land where the gaming establishment is to be constructed.
- There are two types of licences – Category I is a licence permitting unlimited tables games and slots (resort casinos) and Category II can only operate up to a maximum of 1,250 slots only (slot parlour)
- **CATEGORY I:** The commission can only issue three Category 1 licences and only one licence per region:
 1. Region A: Suffolk, Middlesex, Essex, Norfolk and Worcester counties (Great Boston area)
 2. Region B: Hampshire, Hampden, Franklin and Berkshire counties (south east)

personal income tax of 5.3 per cent whilst corporate tax rate is 8.8 per cent

Massachusetts has a state lottery which was established back in 1971 in response to a need for revenue and is headed by a five member commission who oversee the games, prizes and payments.

The first lotto game was introduced in 1978 followed by other games such as Mass Millions in 1987 and Mass Cash in 1991. In 1997 the lottery installed a new computer system from Digital Technologies and this involved a simultaneous conversion to the new terminals at nearly 6,000 retail locations. Money from the lottery is given to towns and cities for them to allocate and this year some \$887m will be distributed. However lottery sales have been declining over the last few years from around \$85m in 2007 to \$60m in 2011.

NEW GAMING LAW

Currently in Massachusetts there are five types of gaming permitted – State Lottery, pari-mutuel wagering, bingo,

charitable gaming and gaming under the new Chapter 23K. The horse racing sector which was once governed by the State Racing Commission will now come under the Massachusetts Gaming Commission (MGC).

The State Racing Commission was created back in 1934 and in May this year was transferred to the MGC giving the commission the power over racing provision relating to pari-mutuel betting and simulcast betting.

There are three horse racing tracks in Massachusetts – a Harness track at Plainridge Racecourse in Plainville, a Thoroughbred track at Suffolk Downs in East Boston and a simulcast at Raynham Park in Raynham (a former greyhound racing track). In 2010 total handle (bet) was \$348m. Live greyhound racing was banned 2010.

The first plan to introduce casino gambling was talked about back in 2007 when Governor Deval Patrick tried to introduce gaming in a bid to help keep Revere based Wonderland race track open and tap into new business

The gambling law in Massachusetts has authorised one casino in each of the three regions with a single slot parlour permitted in any region which will be open to competitive bidding. A public forum was held in June by the Gaming Commission and say they still believe the market can handle the three casinos and a slot parlour despite some critics.

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3. Region C: Bristol, Plymouth, Nantucket, Duke and Barnstable counties (West)

- A Category I licence is valid for an initial period of 15 years provided no other gaming licences are issued in that period. This is then renewable.
- The Commission shall set the minimum capital investment for a Category I licence of \$500m with at least one hotel and other amenities. When they have received the licence a 10 per cent deposit is required and operations must begin within 12 months of the date specified in its construction timeline.
- The commission has set a minimum licensing fee for each region of \$85m to be paid by a Category I licensee within 30 days of being awarded the licence.
- Category I licensees must pay a daily tax of 25% on gross gaming revenues. There is also a \$600 licence fee for each slot machine

Massachusetts can expect gross gaming revenues of between \$1.5bn and \$2bn by the third year of casino operations with around \$600m currently being spent elsewhere by Massachusetts residents Critics however say the plans would saturate the market.

- **CATEGORY II:** The commission can only issue one Category II licence not pegged to any particular region. This is valid for five years renewable for a minimum fee of \$100,000.
- The commission shall set the minimum capital investment for a Category II licence of \$125m.
- The commission has set the minimum licensing fee for a category II licensee at \$25m to be paid within 30 days of being granted the licence.
- Category II will pay a daily tax of 40% on gross gaming revenues and in addition 9% of GGR to the Race Horse Development Fund plus the \$600 licence fee per slot machine.
- Applicants will pay a non refundable application fee of \$400,000 and if a licence is awarded to an applicant with a live racing or simulcast licence a condition will be that they maintain and complete the live racing season or maintain the simulcast licence.

IN NOVEMBER 2011 A LEGISLATURE WAS SIGNED BY THE GOVERNOR TO EXPAND THE LAW AND ESTABLISH A GAMING COMMISSION.

- There must be the establishment process for election in a host community and agreements with the host and surrounding communities to get approval to operate a gaming establishment. Gaming establishments can operate 24 hours but must register their hours of operation and is only open to age 21 years or over.
- Applicants who hold a licence for live racing can maintain their existing facilities but must gradually increase their number of live racing

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Comment

“This past November Massachusetts took a major step forward with historic legislation authorising up to three resort casinos in the Commonwealth. Since that time the Gaming Commission has been assembled and a Chairman named – marking the first major milestone in bringing expanded gaming to Massachusetts. For the past 15 years Mohegan Sun has been a leader in the New England gaming industry with one of the world’s most successful resort casinos in Connecticut. With that strong foundation in place, we hope to be the first operator to open the doors of a world class destination resort casino in Palmer. Set on 152 acres the \$600m project includes a luxury hotel, casino gaming, restaurants and branded retail stores.

The Mohegan tribe has a 400 year history of becoming a part of the community where it lives and works, and we’ve taken that philosophy to heart with our strong commitment to Palmer. For the past three and a half years we’ve worked closely and openly with community and business interests throughout the region. We remain the first and only Western Massachusetts competitor to set up a permanent presence with a storefront in Palmer and have connected with tens of thousands of residents and community leaders throughout the region on the project.

Mohegan Sun has perfected the rural ‘casino in the woods’ model that has demonstrated success in this region and we are the only New England gaming company competing for a Western Massachusetts licence. When the Gaming Commission is ready to accept applications we are excited to offer a proposal that will bring thousands of new jobs and economic development to Western Massachusetts.”

Krista Robinson, O’Neill and Associates (Mohegan Sun PR). www.mohegansun.com

days to 125 days per year minimum

There are various proposed developments in the offering and these include:

MILFORD

Developer/investor: Crossroads Massachusetts LLC/Investors Ajax Gaming Ventures and Warner Gaming.

Location: Intersection 495 and Route 16

Zone: Region A East

Development: Resort casino to include 350 hotel rooms, 186,000sq.ft of gaming floor, 3,400 slots, 100 table games, 60,000sq.ft of retail and restaurants and 2,200 car parking.

Cost: \$750m

Current use: Commercial quarry about 129 acres of land

CHARLTON

Developer/investor: Jencent LLC

Location: 130 Sturbridge Road, Charlton (250 acres off the Massachusetts Turnpike)

Zone: Region A East

Development: Slots parlour or resort casino.

Cost: \$200-\$650m

Current use: Former recycling facility and undeveloped land

PLAINVILLE

Developer/investors: Plainridge Racecourse

Location: 301 Washington St, Plainville

Zone: Region A East

Development: Slots parlour. This will include a 70-90,000sq.ft expansion of existing facility to add 1,250 slots and 1,000 car parking area.

Cost: \$125m

Current use: Harness race track of 100 acres.

BOSTON

Developer/investors: Suffolk Downs /Richard Fields, Joe O’Donnell/Caesars Entertainment

Location: 163 acres between East Boston and Revere.

Zone: Region A East

Development: Resort Casino to include hotel, entertainment, retail, restaurants and thoroughbred racing.

Cost: \$1bn +

Current use: Horse racing, special events

In June the MGC set up a number of community engagement initiatives aimed at giving the public the opportunity to participate in the process of regulating gaming which would also provide the MGC with feedback.

SPRINGFIELD

Developer/investors: Ameristar Casinos

Location: 41 acres at Page Boulevard and Highway 291

Zone: Region B West

Development: Resort casino. A full scale casino with 4,000 slots and tables, 600 room luxury hotel, restaurants, stores, entertainment and meeting space and parking.

Cost: \$500m +

Current use: Vacant industrial site.

HOLYOKE

Developer/investors: Hard Rock International/Paper City Development

Location: Undecided – Due to opposition from Mayor, Hard Rock is now looking at alternative sites beyond Holyoke

Zone: Region B West

Development: Resort Casino

Cost: \$500m +

Current use: -

PALMER

Developer/investors: Mohegan Tribal Gaming Authority

Location: 150 acres off Massachusetts Turnpike

Zone: Region B West

Development: Resort casino with 3,000 slots and a 600 room hotel and retail stores.

Cost: \$500-\$600m

Current use: Undeveloped land

SPRINGFIELD/CHICOPEE

Developer/investors: Penn National Gaming Inc

Location: Springfield/Chicopee (no site finalised)

Zone: Region B West

Development: Resort casino – full scale casino with table games and slot machines

Cost: \$500m

Current use: -

BRIMFIELD

Developer/investors: MGM Resorts International

Location: 150 acres of land near Massachusetts Turnpike

Zone: Region B West

Development: Resort Casino with slots, table games and a hotel

Cost: n/a

Current use: n/a

RAYNHAM

Developer/investors: George Carney

Location: 100 acres Raynham Park track, 1958 Broadway

Zone: Region C Southeast

Development: Slots parlour with 1,250

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slots, music and entertainment facilities.

Cost: \$125m

Current use: Raynham Park simulcast venue

NEW BEDFORD

Developer/investors: KG Urban Enterprises

Location: MacArthur Drive and Canon Street

Zone: Region C Southeast

Development: Resort Casino with 3,500 slots, table games and 634 room hotel.

Cost: \$500m

Current use: Former power plant.

TAUNTON

Developer/investors: Mashpee

Wampanoag Tribe/Arkana Limited

Location: 146 acres near intersection of Routes 24 and 140

Zone: Region C Southeast

Development: Resort Casino to include a 150,000sq.ft casino, multiple restaurants, 900 rooms across three hotels, business conference rooms, event centre and family water park.

Cost: \$500m

Questions raised will be whether the proposed two phased regulatory approach is the best way to approach gaming in the state, considerations the commission should take into account in developing the regulations and whether the proposed regulations will save or incur more costs.

Current use: Mixed industrial undeveloped land

NEW BEDFORD

Developer/investors: Northeast Group

Location: 40 acres off Interstate 195

(Hicks Logan area)

Zone: Region C Southeast

Development: Resort casino – this will be a waterfront casino with table games and slots, hotel and marina.

Cost: n/a

Current use: Mixed industrial

WHAT'S HAPPENING NOW

In June the MGC set up a number of community engagement initiatives aimed at giving the public the opportunity to participate in the process of regulating gaming which would also provide the MGC with feedback.

MGC Chairman Steve Crosby said: "Providing the citizens of Massachusetts with a fair, open and transparent process is crucial to the success of expanded gaming. The Commission is relying on the feedback of the public as we chart the future and

THE NEW BILL IS EXPECTED TO ALSO CREATE 15,000 JOBS IN THE STATE AND GENERATE AT LEAST \$300M IN NEW ANNUAL REVENUE FOR THE STATE.

make decisions that affect many. We hope that the public and public officials alike will take advantage of the opportunities provided to contribute and influence outcomes."

Questions raised will be whether the proposed two phased regulatory approach is the best way to approach gaming in the state, considerations the commission should take into account in developing the regulations and whether the proposed regulations will save or incur more costs.

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Live Dealer Gaming solutions that deliver vital core revenue streams and incremental revenue growth to meet operators' business goals.

 Evolution Gaming

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Comment

“We see western Massachusetts as a great development opportunity for Ameristar. There aren’t many attractive new market growth opportunities left in our industry. Additionally competition limited to three casinos and a slot parlour in the state makes this opportunity even more attractive. We feel confident that the market can support these particularly since each will be located in a separate designated area.

We believe Springfield is the perfect fit for Ameristar. It is the most populous city in western Massachusetts and the location fits squarely within the Ameristar business model as an upscale regional destination casino operator.

We believe Springfield will benefit from economic development. This project will bring 2,000 permanent and 2,800 construction jobs into an area with high unemployment and which has not seen an investment of this magnitude in many years, if ever. We also believe the project will provide a huge boost in tourism for the area.

Ameristar is committed to the State of Massachusetts and the City of Springfield and we look forward to partnering with the city and community to ensure our project visually complements the surrounding neighbourhood and that street improvements will accommodate increased traffic in the area.”

Troy Stremming, Senior Vice President of Government Relations & Public Affairs at Ameristar. www.ameristar.com



such the tribes have the first shout on operating one of the new casinos and have until the end of July 2012 to do so. However they must have purchased or entered into an agreement to purchase the land for such a development. If they don’t submit an application by this time then the licence is open for a commercially operated casino licensee and they have until October 31 2012 to apply.

At the moment Mashpee Wampanoag tribe which is seeking approval for a site in Taunton and the Wampanoag Tribe of Gay Head-Aquinnah who are looking at the Lakeville/Freetown area.

The Mashpee Wampanoag Tribe, known as the People of the First Light, have inhabited Massachusetts for 12,000 years and were re-acknowledged as a federally recognised tribe in 2007.

The Mashpee plans are expected to give 1,000 people work during construction process followed by 2,500 permanent jobs and will be built over a five year period and will include a 150,000sq.ft casino, two restaurants – an international buffet and multi venue food court; 10-15 retail shops, three 300 room hotels including a 4 star, mid range and family orientated hotel, business rooms and indoor and outdoor water park. The Mashpee tribe has offered \$33m in upfront payments as part of a deal to build the resort casino.

The Mohegan Sun is owned by the Mohegan Tribe and operates some of the largest gaming, shopping and meeting destinations in the US. Mohegan Sun already operates the first commercial casino in Pocono Downs in Pennsylvania and one in Thames River in Connecticut. The company is now looking at a \$600m casino resort in Palmer to include a hotel and spa, casino gaming and branded retail stores and restaurants.

Meanwhile the Wampanoag Tribe of Aquinnah has selected KMD Consulting Services in California as its development partner and holds options to buy land in Freetown, Lakeville and Fall River. These towns are now holding referendums on the tribe’s plans. However Aquinnah’s right to build a casino is in dispute as state officials maintain Aquinnah surrendered their rights to pursue tribal gambling in the 80s after a land dispute.

Since March 2012 the commission has also embarked on a list of initiatives aimed at setting up the groundwork ready for the legislation process. These include leasing an office space, adopting a mission statement, hiring experience gaming consultant team and issuing regulations which allowed the commission to take over all responsibilities of the State Racing Commission in May this year.

It is expected that the MGC will now set up a two step process for Request For Proposals (RFPs) which is designed to speed up the process for applications. The first step would require casino applicants to pass a background check, fill out forms and pay the necessary fees. The second step would require them to submit their actual development proposal. This first step should begin in October this year and will give the MSC 90-120 days to respond to the applicants. The second phase of the process is expected to be in April next year whilst the earliest date estimated for when the commission will choose winning projects is October next year.

The distribution of annual casino revenues will be dished out to various levels such as transportation, education, economic development and cultural mitigation and tourism. The licensing fees will also go towards health care, community college funds and race horse development.

The new bill is expected to also create 15,000 jobs in the state and generate at least \$300m in new annual revenue for the state.

Initially an online gaming legalisation amendment was attached to the land based bill and in September 2011 this was passed by the House of Representatives. However the online gambling amendment has been diluted during discussions even though it was still attached to the bill. But when the Massachusetts Senate passed the bill they eliminated the online clause completely.

Up until now in the southeast Massachusetts region the casino designation has been driven by the rights of the Native American tribes. As

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Focus

MASSACHUSETTS



The other proposals have come from Warner Gaming Massachusetts which holds a minority stake in Crossroads Massachusetts and is being helped by developer David Nunes.

Vincent Iuliano of Jencent LLC is the owner of 114 acres on the Massachusetts turnpike in Charlton and he plans to turn the area into a resort casino. He claims Penn National and the Seminole Indian Tribe of Florida (which owns the Hard Rock brand) have both shown an interest in the casino proposals.

It seems a good location due to the fact it has access to the highways and is the most central to all of the arteries whilst Charlton has a population of 7.4 million living within a 55 mile radius.

Ameristar Casinos is a 58 year old public company, which was founded by Craig Hart Neilsen who was left the inheritance of a one third ownership of Cactus Petes Inc which comprised of two small casinos in Jackpot, Nevada.

He expanded the company to include

"We are so confident that the location we have chosen is the premier casino site in western Massachusetts that we purchased, instead of optioned, the 41 acre parcel of land at Page Boulevard and Interstate 291. Westinghouse, which at one point employed 7,000, vacated in 1970. The building on the property has been razed and the property is now substantially ready for construction."
Troy Stremming,
VP of Government Relations & Public Affairs at Ameristar.

other casino operations and today, with its headquarters in Nevada, Ameristar currently operates eight casino hotel properties in various states. It generates annual revenues of around \$1bn and has been a public company since 1993.

Neilsen passed away in 2006 and in 2011 the company agreed to purchase a 41 acre site in Springfield, Massachusetts with the intention of applying for the sole casino licence for Western Massachusetts.

The company paid \$16m for the site in Springfield and the plan is for a luxury casino, hotel, dining areas, retail outlets and entertainment facilities

Troy Stremming, VP of Government Relations & Public Affairs at Ameristar said: "We are so confident that the location we have chosen is the premier casino site in western Massachusetts that we purchased, instead of optioned, the 41 acre parcel of land at Page Boulevard and Interstate 291.

"Westinghouse, which at one point employed 7,000, vacated in 1970. Since

DOWN'S PROJECT INCLUDES 200,000SQ.FT GAMING AREA WHICH WILL HOLD 4,000-5,000 SLOTS, 200 TABLES GAMES AND A WORLD SERIES OF POKER ROOM.

then the property has been used for light industrial, but most recently has been vacant. The building on the property has been razed and the property is now substantially ready for construction."

Back at the race tracks, the Suffolk Downs project includes 200,000sq.ft gaming area which will hold 4,000-5,000 slots, 200 tables games and a World Series of Poker room, up to 10

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restaurants and a 300 room hotel and entertainment and nightclub venues.

Those behind the plans unveiled their project at the beginning of June and say the 77 year old track is the perfect site for a casino. It is thought the venue could produce around \$200m in new tax revenue if it goes ahead.

Gary Loveman, Chairman, CEO and President of Caesars said: “We are proud to join forces with Suffolk Downs to bring the Caesars brand, our management expertise, Total Rewards loyalty program and industry leading best practices to Boston as we develop this world class destination resort together.

“The development initiative will generate \$200m annually in new tax revenue, generate 2,500 construction jobs and more than 4,000 resort jobs, commit \$40m to improve local roads and intersections, spend \$150m annually for goods and services among local and regional businesses and partner with Boston area hotels, restaurants, entertainment venues and

tourism organisations to attract visitors and to boost the local economy.”

Chip Tuttle, Suffolk Downs’ Chief Operating Officer said: “While we have had a longstanding and ongoing dialogue with the local community we have started a new phase of that process, so that our neighbours, neighbouring businesses and the broader community can have a seat at the table as these plans evolve.

“One of the benefits of this development will be roadway improvements that the local community has deserved for far too long.”

Meanwhile gaming billionaire Sheldon Adelson has apparently shelved his plans to build a casino in this state despite helping to lobby the government to approve the casino bill. He claims the plan to introduce three casinos and a slot parlour will dilute the market.

Steve Wynn also pulled out of his development proposal for the Foxborough region in face of stiff local

The MGC will convene in June for a forum to discuss the size of the Massachusetts market and whether the state can handle what has been proposed. It could certainly be a possibility that the number of casinos permitted may be reduced.

Info panel

State: Massachusetts

Capital: Boston

Total area: 27,336 sq.km

Population: 6,587,536

Main religions: Christian (69%), Protestant (25%), Jewish (2%), Muslim (1%), other or none (23%)

Racial makeup: White (80.4%), Black or African American (6.6%), American Indian and Alaska Native (0.3%), Asian (5.3%), Other.

Governor: Deval Patrick (Democratic)

Lt Governor: Tim Murray

Casinos: Permission for 3 maximum

Casino slots: approx 10,000 expected

Table gaming: approx 300 expected

Racetracks: 3 (permission for one slot parlour)

VLTs: 1,250 maximum permitted

Online gaming: not permitted

opposition. This could lead to lower bids or less ambitious projects for the Greater Boston area now the two big industry giants have abandoned their plans.

The MGC will convene shortly for a forum to discuss the size of the Massachusetts market and whether the state can handle what has been proposed. It could certainly be a possibility that the number of casinos permitted may be reduced.

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A REAL GAME CHANGER FOR THE USA

The US has been slow in coming to the online gambling table, but recent developments show a strong desire to push through legislative change. And according to Evolution Gaming's **Helen Hedgeland**, the area of online that's set to drive the most far-reaching change in the US casino industry itself is Live Casino.

The much-anticipated arrival of legalised online gambling in the US is naturally seen as an engine for growth. However, it will also be an engine for great change – the kind of change that will reveal far greater revenue opportunity than perhaps originally imagined.

When new legislation is fully ratified in the US it will affect not only access to casino games online; it will also influence customer demographics and even the physical layout of land-based casinos. And the online sector that is likely to have the biggest impact in this respect will be Live Casino.

As with all change, some will see this as a threat. Personally, I believe Live Casino presents the most exciting opportunity yet for the US gaming industry. After all, we are living in the age of social networking, handheld games consoles, YouTube, MMOG (Massively Multiplayer Online Gaming) et al. It's vital that the industry re-energises itself by creating strong and lasting appeal to new generations of customers.

To understand why Live Casino is the real game changer let's look at some typical scenarios.

Based on the way US legislation is moving, casino operators will be able to extend access to their gaming floor from anywhere within a resort or within their State.

Delaware has become the first US state to allow full-service intrastate online

casino gambling. In New Jersey, meanwhile, lawmakers have voted in favour of a bill to authorise casinos to provide approved games that can be played on mobile gaming devices within a casino and adjoining hotel, or in any outdoor swimming pool or recreational area.

So players could play at any time they choose, from virtually anywhere in the resort. They could play using their own laptop or tablet, or perhaps use tablets loaned by the resort.

IT'S VITAL THAT THE INDUSTRY RE-ENERGISES ITSELF BY CREATING STRONG AND LASTING APPEAL TO NEW GENERATIONS OF CUSTOMERS.

What is critical here is the nature of the approved games and where these games are hosted.

Online RNG slot or poker games can often be 'me too' attractions that do little to strengthen a casino's brand, improve player loyalty or drive meaningful customer acquisition and incremental revenue figures.

Live Casino, by contrast, offers players the chance to extend play of live games via PC, laptop or tablet, and to still



Helen Hedgeland,
Head of Marketing,
Evolution Gaming.

Live Casino offers players the chance to extend play of live games via PC, laptop or tablet, and to still enjoy all the things that make a visit to the real casino so exciting – the interaction with the dealer, the competitive atmosphere when playing against a real dealer and other players, the dealing of real cards or spinning of a real wheel. "Live Casino can also give the operator tight control over branding and the customer experience."

Helen Hedgeland.

enjoy all the things that make a visit to the real casino so exciting – the interaction with the dealer, the competitive atmosphere when playing against a real dealer and other players, the dealing of real cards or spinning of a real wheel. Live Casino can also give the operator tight control over branding and the customer experience.

Consider also that RNG games are computer code hosted on a server in a back room. Evolution Live Casino is a living, breathing social experience. It can replicate the essence of what makes a visit to a favourite casino special. What's more, the physical location of the Live Casino itself presents a significant business opportunity.

If the US follows the re-regulated Spanish market, the Live Casino studio will need to be in the licensed casino itself. It won't be permitted to locate the Live Casino in another state or country and stream the online service from there, as is the case with Live Casino services provided to markets such as the UK and Italy.

Imagine the opportunity that is created

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Dedicated tables and environments that offer you optimum control over branding plus live promotions to **drive player loyalty and extra revenue.**

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Most importantly, all of this activity can drive incremental revenue. Players used to playing only on the traditional gaming floor can now play live online when they are away from the gaming floor.

Intrastate regulations open up even more opportunity. New generations of players can be attracted to the online Live Casino offering – and then incentivised to visit the actual casino or resort.

The key thing to remember is that online Live Casino is not an alternative to traditional land-based casino play – it's complementary. For land-based operators Live Casino opens up a two-way street that offers huge potential for the future.

It's a big change, and some casino floor managers may be hesitant about giving up floor space to accommodate a Live Casino studio. To many it will appear strange that a live dealer is presiding over a seemingly 'empty' table and talking to his remote players in real time via a TV camera and streamed video.

However, it has to be realised that these empty tables could be occupied by thousands of online players. That's because Evolution Live Roulette is not constrained by the number of physical seats at a normal Roulette table. Our Live Roulette game is massively scalable, with thousands of concurrent online players able to place bets simultaneously on the same spin of the wheel.

It's not an all or nothing decision, though. The casino could choose to have a much smaller Live Casino presence on the casino gaming floor. With 3D graphical backdrops and blue screen technology it's possible to create the most convincing and spacious-looking online Live Casino. A single table on the actual gaming floor could be supplemented by additional tables in a behind-the-scenes Live Casino studio.

Of course, there's still a long way to go with the legislation. There are a great many States, and there are Federal issues to consider too. However, one thing's for sure: the operators who make it to the new market first have some big opportunities on the table.

The European experience – different regulators, different approaches

In Italy, Evolution became the first Live Casino provider to be approved by AAMS, the Italian regulator. Services for operators in Italy (including 888, bwin, Lottomatica and Unibet), are streamed from Evolution's production studios in Riga often using native speaking Italian dealers who have relocated to the Latvian capital.

In Spain the regulator decreed that the Live Casino studio must be sited in a licensed casino in Spain itself. To help operators gain early to market advantage with Live Casino, Evolution services for the new Spanish market therefore include:

- Collaborative working with operators in parallel with legislative developments

- A road map for operators to enable rapid rollout of in-venue Live Casino with reduced risk and cost
- Supply of proven broadcast set-ups (Roulette wheels, tables and cards, lighting, cameras, microphones etc)
- Training of the casino's extended team (including dealers, pitbosses, customer service staff and first line of systems/IT support) in the delivery of online Live Casino
- Integration of all equipment and people skills into a world-class service that meets customer and regulator needs
- Technology infrastructure sharing to reduce costs.

when the Live Casino studio can be a showcase feature within the land-based casino. The cameras, lights and live-action broadcast set-up of a Live Casino studio on the gaming floor is sure to create much interest amongst customers. They will see the online service being broadcast in real time. If it's promoted effectively, they will want to try the service for themselves on those occasions when they cannot physically visit the gaming floor. Whether they're elsewhere in a resort,

at home, or perhaps away on business, they could click to play their favourite casino games, perhaps even with their favourite dealers, at any time they choose.

The casino operator can also bring the new online offering into a single loyalty and bonusing programme. The old distinctions between land-based play and online play begin to fade into history.

"If the US follows the re-regulated Spanish market, the Live Casino studio will need to be in the licensed casino itself."
Helen Hedgeland.

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Pioneering solutions including our **new and unique Live Slot games**, which blend live online slot play, live presenters and live bonuses for an all-new revenue opportunity.

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THE NEW GAME IN TOWN

Nevada is forging ahead with online gaming legislation with operators both foreign and domestic queueing for a slice of the action, though skeptics wonder if the state can support its own isolated poker market in the face of liquidity issues

Nevada is a semi-arid and largely desert state located in the south western regions of the US and is the seventh most extensive, 35th most populous and ninth least densely populated of all the states.

Over two thirds of the population live in the Las Vegas metropolitan area whilst the remainder of the state is largely desert with much of it located within the Great Basin. Approximately 85 per cent of the state's land is owned by the US government under various jurisdictions both civilian and military.

The name Nevada comes from the nearby Sierra Nevada mountain and means 'snow-capped mountain range'. The land is known for its inhabitation by Native Americans before the Europeans arrived and it became the 36th state in 1864.

Nevada is bordered by California (640km), Arizona, Utah, Idaho and Oregon. It is officially known as the Silver State due to the importance of silver to its history and economy whilst the establishment of legalised gambling and lenient marriage and divorce proceedings in the 20th century transformed the state into a major tourist destination.

Tourism today remains Nevada's biggest employer followed by mining as Nevada is the fourth largest producer of gold in the world. Tourism brought \$46.6bn into the state last year

Today, gaming and tourism is Nevada's largest employer and taxpayer.

There are gaming facilities in Carson Valley, Elko County, Clark County (Las Vegas), Churchill County, Douglas County, Humboldt County, Lyon County, NYE County, Washoe and White Pine County.

Nevada's resort industry paid more than \$2bn in taxes and fees in 2010 and funds nearly 50 per cent (\$1.3bn) of the state's general fund. It employs some 300,000 workers or 27 per cent of Nevada's 1.1 million person labour force.

and supported 427,000 jobs whilst generating \$2.4bn in state and local tax revenues.

The state tourism economy relies heavily on visitors to Las Vegas and over the past couple of years this has been hit due to the worldwide recession. It leads the nation in unemployment, foreclosures on homes and a collapsed housing market. Nevada's unemployment rate stands at around 12.6 per cent whilst house prices are still dropping.

Nevada was one of two states (with Wyoming) which saw GDP decline in 2010 for its third consecutive year. However things are now beginning to improve slightly. In 2012 real GDP stands at \$115bn which is a 1.8 per cent increase on 2011 figures.

Meanwhile although the state saw a seasonal decline over winter visitor volume was 1.9 per cent higher than a year earlier. Gaming revenue was also two per cent higher in December 2011 compared to 2010.

Nevada is one of the seven States which does not allow the lottery and this has been outlawed since 1864. Nevadans flock to California and Arizona whenever state lotteries build large jackpots and despite calls for a lottery, and numerous attempts to create one, the situation remains unchanged.



DESPITE THE WORST ECONOMIC DOWNTURN IN MODERN US HISTORY, NEVADA IS SHOWING SIGNS OF RECOVERY.

A recent effort failed to introduce a lottery despite offering to send all lottery proceeds to school districts and bring in additional revenue. The problem is the gaming industry believes for every dollar spent on a lottery ticket it is one dollar less spent on the casino floor.

THE GAMING MARKET

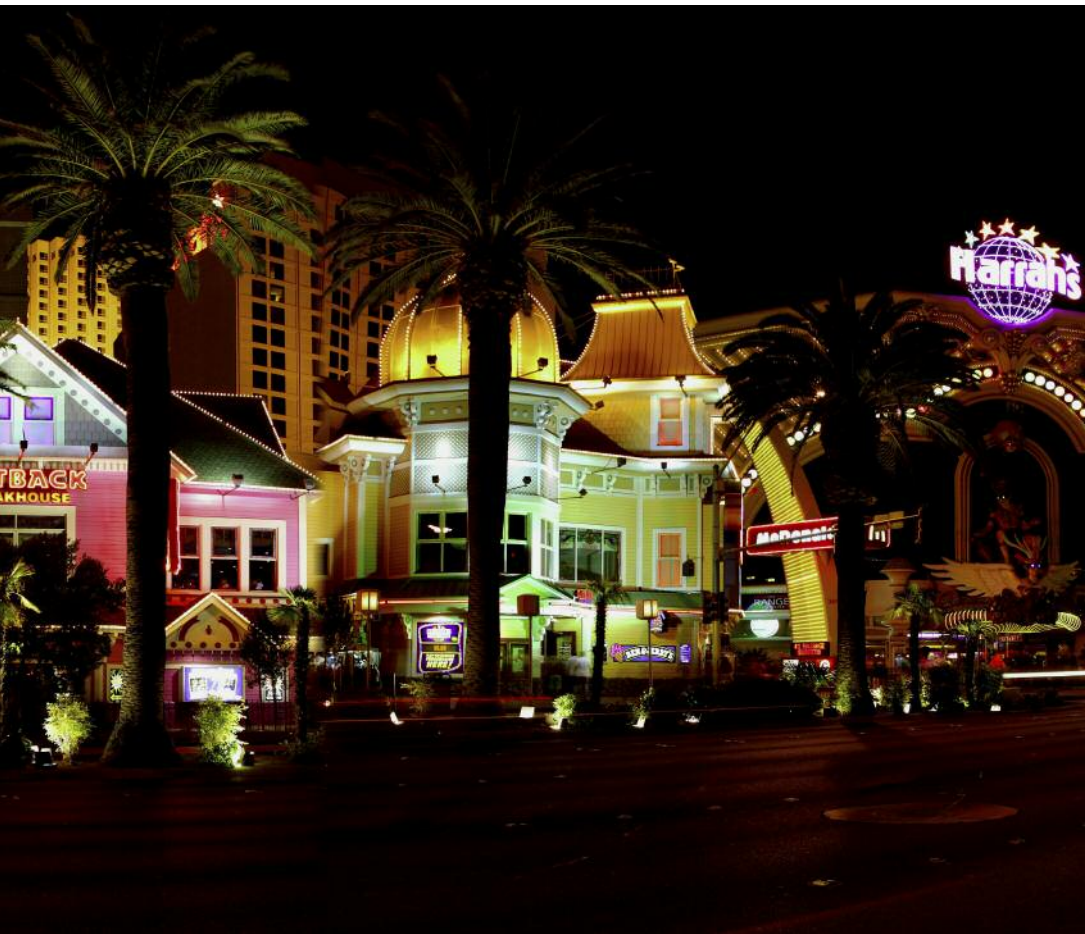
The state of Nevada is synonymous with gambling. Back in the late 1800s illegal gambling was commonplace as Nevada grew as a mining town. Nevada's conflicted feelings about

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gaming were finally reconciled in the 1930s when in March 1931 Nevada began its modern era of legalised gambling when the so-called 'wide open gambling' bill was passed. This sparked a whole new era for the state and gaming became the lifeblood of Nevada's economy.

The Assembly Bill 98 was signed making a large number of games legal whilst taking the illegal card games and betting out of the backroom side alleys. The first licensees to take advantage of the changes were existing card rooms, bingo parlours and some small casinos.

Many thought the gaming bill was doomed and although it did not grow extensively before the end of the World War II many operators began to flock to Nevada to set up new gaming operations and by the 1940s the Strip had begun to take shape. In 1945 gaming licensing was also shifted from local and county levels to state level. At that time the first Nevada state tax on gaming was levied at one per cent of gross earnings whilst revenue totalled \$670,000 state-wide.

By the 1950s gambling had eclipsed mining and agriculture and became the state's biggest revenue earner and this prompted the state to create the Nevada Gaming Control Board in 1955 and by 1959 the Gaming Control Act was introduced which laid the foundation of what would become the modern gaming regulation. By the 1960s total GGR had reached more than \$200m.

Tourism soon became Nevada's largest industry by the 1970s and gaming revenues in 1975 topped \$1bn annually whilst nearly 50 per cent of Nevada's budget was supported by gaming based tax revenue.

Nevada was the fastest growing US state by the 1980s even though this period also ended Nevada's 45 year gaming monopoly as Atlantic City legalised gaming and in the late 1980s the Indian Gaming Regulatory Act also came into place affecting Northern Nevada as California opened Native American gaming establishments.

At this point Vegas took a gamble and

The recession of course hit hard and between 2007 and 2010 every sector saw a downturn. Visitor volume was down 8.6 per cent during those years whilst airport volume, hotel occupancy and gaming revenue all dropped. GGR fell by 24 per cent from \$12.7bn in 2007 to \$9.6bn in 2010. Unemployment in Nevada rose to 14.5 per cent in 2010 from just 4.2 per cent back in 2006.

built the \$750m mega-resort The Mirage which took the luxury resort casino experience to a whole new level and so began the decade long boom period with construction. More than 15 major themed casino hotels opened their doors throughout the Vegas valley during the 1990s. By the year 2000 Nevada's population was two million with nearly 7,000 people moving monthly to Las Vegas.

Things weren't all rosy however and the knock on effect of the September 11th terrorism attack saw the state's budget suffer dramatically as tourism dropped and it wasn't until 2005 that revenues were back on track with 39 million visitors in 2007.

Today, gaming and tourism is Nevada's largest employer and taxpayer. There are gaming facilities in Carson Valley, Elko County, Clark County (Las Vegas), Churchill County, Douglas County, Humboldt County, Lyon County, Nye County, Washoe and White Pine County. Nevada's resort industry paid more than \$2bn in taxes and fees in 2010 and funds nearly 50 per cent (\$1.3bn) of the state's general fund. It employs some 300,000 workers or 27 per cent of Nevada's 1.1 million person labour force.

The recession of course hit hard and between 2007 and 2010 every sector saw a downturn. Visitor volume was down 8.6 per cent during those years whilst airport volume, hotel occupancy and gaming revenue all dropped. GGR fell by 24 per cent from \$12.7bn in 2007 to \$9.6bn in 2010. Unemployment in Nevada rose to 14.5 per cent in 2010 from just 4.2 per cent back in 2006.

The question raised at the time was had Vegas grown too fast in the boom years and could it return to those peak performance levels? Or was this a sign of things to come?

However despite the worst economic downturn in modern US history Nevada is today showing signs of recovery. In 2011 total GGR amounted to \$10.7bn which was a 4.5 per cent increase from the previous year. Meanwhile the number of visitors to Nevada reached around 51 million and its largest hotel-casinos reported \$21bn in revenues.

There are a total of 256 casinos in Nevada plus 166,888 slot machines, 6,559 table games and 193,000 hotel rooms across the state. There are also

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Focus

NEVADA

2,882 licensed gaming operators and 2,097 Restricted gaming operators. Hotel and Casino operators account for six of the top 10 property tax payers in the state.

Meanwhile the Las Vegas Strip is still the top casino market in the US with \$6.07bn in GGR in 2011. In fact three of the top 20 US gaming markets are in Nevada with Boulder Strip and Reno-Sparks being the other two.

It's been a steady growth over the last few months after a decade of steady decline. Back in February the gaming control board saw revenues of \$45m which was up 13.6 per cent from the previous year.

In February 2012 the board reported that gaming win for the Strip casinos reached \$530.6m which was up 3.3 per cent on the same month in 2011. State-wide the board reported a total win of \$932.1m (up 5.7 per cent).

Gambling in Nevada is governed by the Gaming Control Act and its amendments. There are 30 regulatory chapters each covering an aspect of gambling from licensing to operation of establishments.

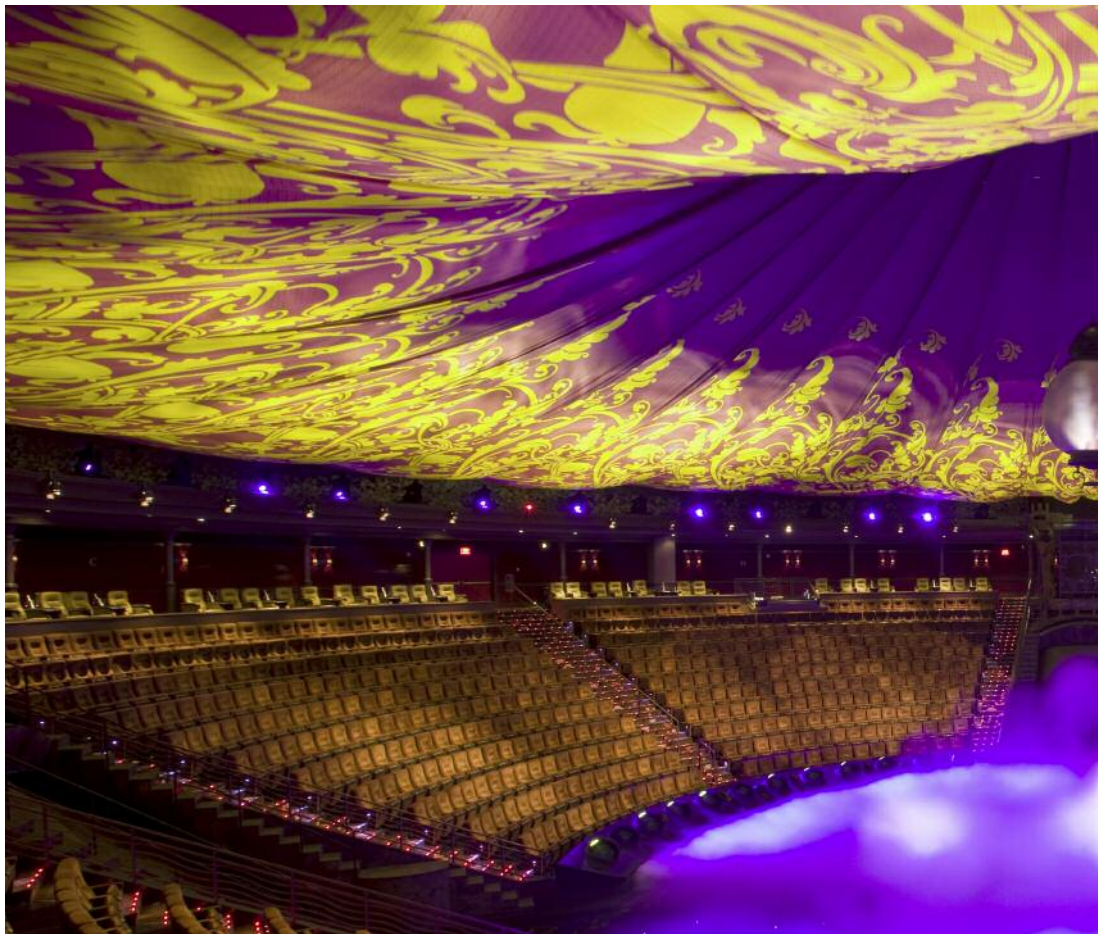
The law in Nevada states the following:

- There are two types of gaming licences – 'non-restricted' which is issued for the operation of games and/or tables only or for the operation of 16 or more slot machines, slots with racebook, sports pool or other gaming device, a slot machine route, inter-casino linked system or mobile gaming system. 'Restricted' is for the operation of up to 15 slots only.

- State Gaming Taxes

Non-restricted gaming licence:

- A monthly graduated tax rate called Gross Gaming Tax (on gross revenues) starts at 3.5% on the first \$50,000 monthly revenues up to 4.5% for revenues between \$50,000



Gambling in Nevada is governed by the Gaming Control Act and its amendments. There are 30 regulatory chapters each covering an aspect of gambling from licensing to operation of establishments.

and \$134,000 and 6.75% (maximum) on revenues exceeding \$134,000.

- Additional fees can be imposed by counties or municipalities adding around 1%
- Gaming devices (slots) must pay an annual tax of \$250 per machine computed on a prorated basis, plus a quarterly licence fee of \$20 per machine.
- Table games pay an annual licence fee of \$100 per machine up to \$16,000 for 17 or more (plus \$200 per game over 16) and quarterly licence fee of minimum \$12.50 for one game up to \$750 for 8-10 games and up to \$20,300 for 36 plus games.
- Live Entertainment Tax is 10% of the admission charge for facilities with

between 200 and 7,500 seats plus 10% on food, refreshments and merchandise. For facilities of 7,500 or more the rate is 5%.

Restricted gaming licence:

- Gaming devices (slots) must pay an annual tax of \$250 per machine plus a quarterly licence fee of \$81 for one slot up to \$1,815 for 15 slots.

CHANGES AHEAD

There are two changes coming to Nevada. The first is an amendment to Regulation 14 of the Assembly Bill No 279 which was signed last year and will enable the state to adopt regulations for private companies to test gaming technology.

Independent testing laboratories (ITL) are private labs registered by the commission to inspect and certify gaming devices. Private testing companies must be completely independent from the casino operator and cannot have a financial interest in the gaming companies they deal with.

NEVADA DATA FOR 2011 (Feb 2011-Feb 2012)

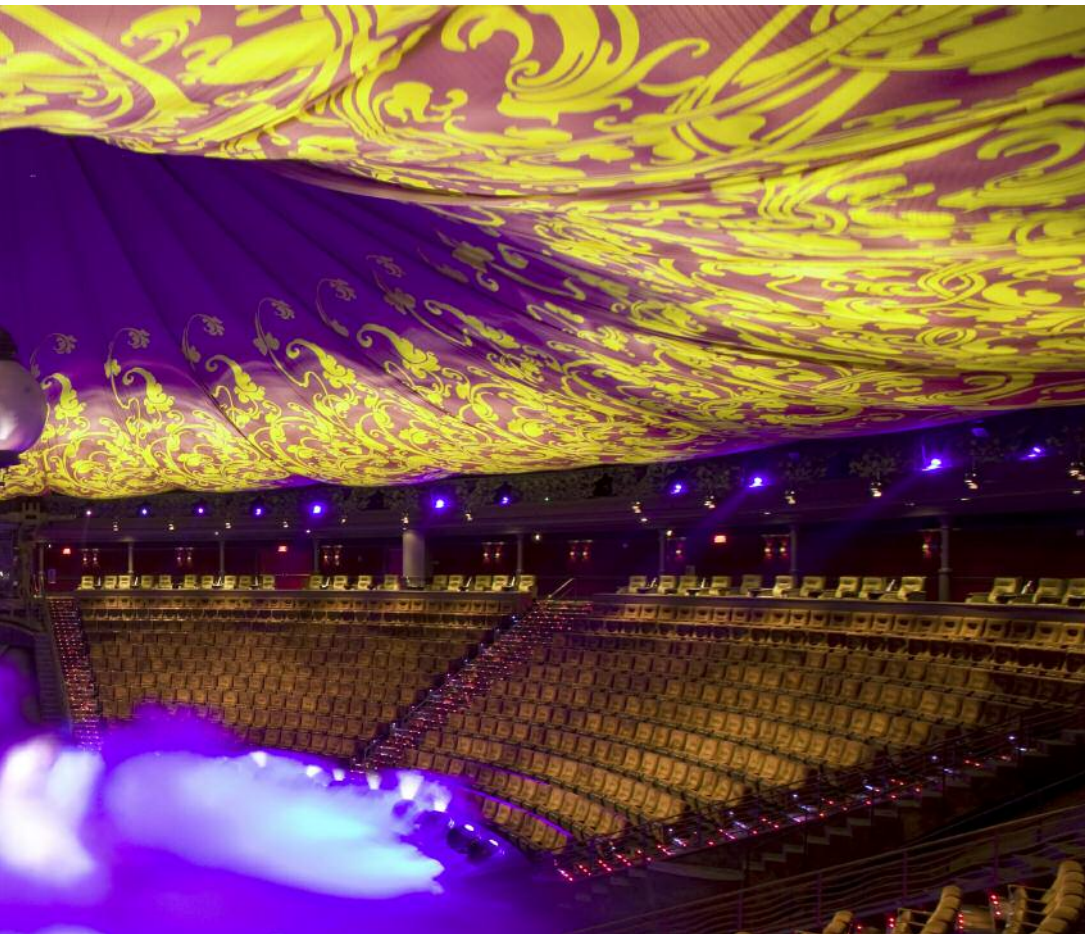
	No. of Slots	Slot GGR	No. of Table & card games	Table GGR	Total GGR	Total % change
State-wide	164,024	\$6.7bn	6,329	\$4.1bn	\$10.8bn	4.4%

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Live Dealer Gaming solutions that deliver vital core revenue streams and incremental revenue growth to meet operators' business goals.

Evolution Gaming

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Comment

“The online gaming situation in Nevada is truly unique. The framework has been set up, yet no one has launched a real money poker site. The rumour is that we will see someone launch one by the end of this year. Nevada has a limited population, so getting the critical mass needed for an online poker room might be difficult. The key lies in the marketing and types of promotions they are willing to hand out.

Because of the relatively small population, the State of Nevada will not see the amount of tax revenue that they first envisioned. The solution is for Nevada to form compacts with other states to increase the available population, but this of course, will not occur in the immediate future. The operators and jurisdictions that will ultimately have the highest revenues will be those that simply ask for help from the people with long term online gaming experience in day to day operations and marketing. Online gaming is a completely different industry and there is no need to re-invent the wheel. Our mission at American iGaming Solutions is to help land based service providers and operators make their transition to online gaming simpler. Collectively, we have over 25 years of experience and can save companies millions of dollars in mistakes.”

Jason Rosenberg, Founder and CEO of American iGaming Solutions.
jason@AmericaniGamingSolutions.com.

The process has been fine tuned and is very strict and the Gaming Control Board has worked closely with the testing labs. Public hearings were held in February and March and the first was attended by around 30 gaming

industry representatives and was the first public hearing of the amendments to regulation 14 which sets the rules for manufacturers, distributors and operators of inter casino linked systems, gaming devices, new games,

slot metering systems and cashless watering systems.

No complaints were issued and the commission agreed on the rules for testing software and equipment and the plan to outsource the testing was agreed. Testing commenced in May and as from this summer the ITL's will take over from the gaming board.

The purpose behind the new law is to quicken the pace of new games to the market and also keep up with the rapidly changing pace of technological advancements. State law makers were also concerned with maintaining a balance between regulators and business interests.

Enabling independent testing will allow the state's gaming technology experts to focus on establishing policy, certifying the labs and also gain a better understanding of the technology as well as preventing bottlenecks in the approval process which could occur with the increase in applications from internet gaming companies for the online sector.

Another advantage is that game and system producers can utilise the independent labs as a 'one stop shop' for those looking for licences in multiple jurisdictions.

Under this system the board will certify and licence labs that will conduct the testing. Final approval would still lie with the commission and laboratories seeking certification by the state will pay the cost of the licensing investigation and inspection

Each ITL will be able to test the following:

- Games and game variations
- Gaming devices and gaming device modifications
- Gaming associated equipment and gaming associated equipment modifications
- Cashless wagering systems and cashless wagering system modifications
- Inter-casino linked systems and inter-casino linked system modifications
- Mobile gaming systems and mobile gaming system modifications

The purpose behind the new law is to quicken the pace of new games to the market and also keep up with the rapidly changing pace of technological advancements. State law makers were also concerned with maintaining a balance between regulators and business interests.

Focus

NEVADA

- Interactive gaming systems and interactive gaming system modifications
- Any other category of inspection and certification the chairman deems appropriate.

Nevada testing lab has always tried to maintain a 30 day turn around on testing and it is thought the independent labs would have more flexibility if there be a huge demand from the online gaming sector.

Two companies, GLI and BMM Compliance, already have applications on file (at the time of going to press) and there is no ceiling on the number of labs that can be registered in Nevada. The outsourcing pre-approval testing began on in July and registered ITL's are published on the gaming board website.

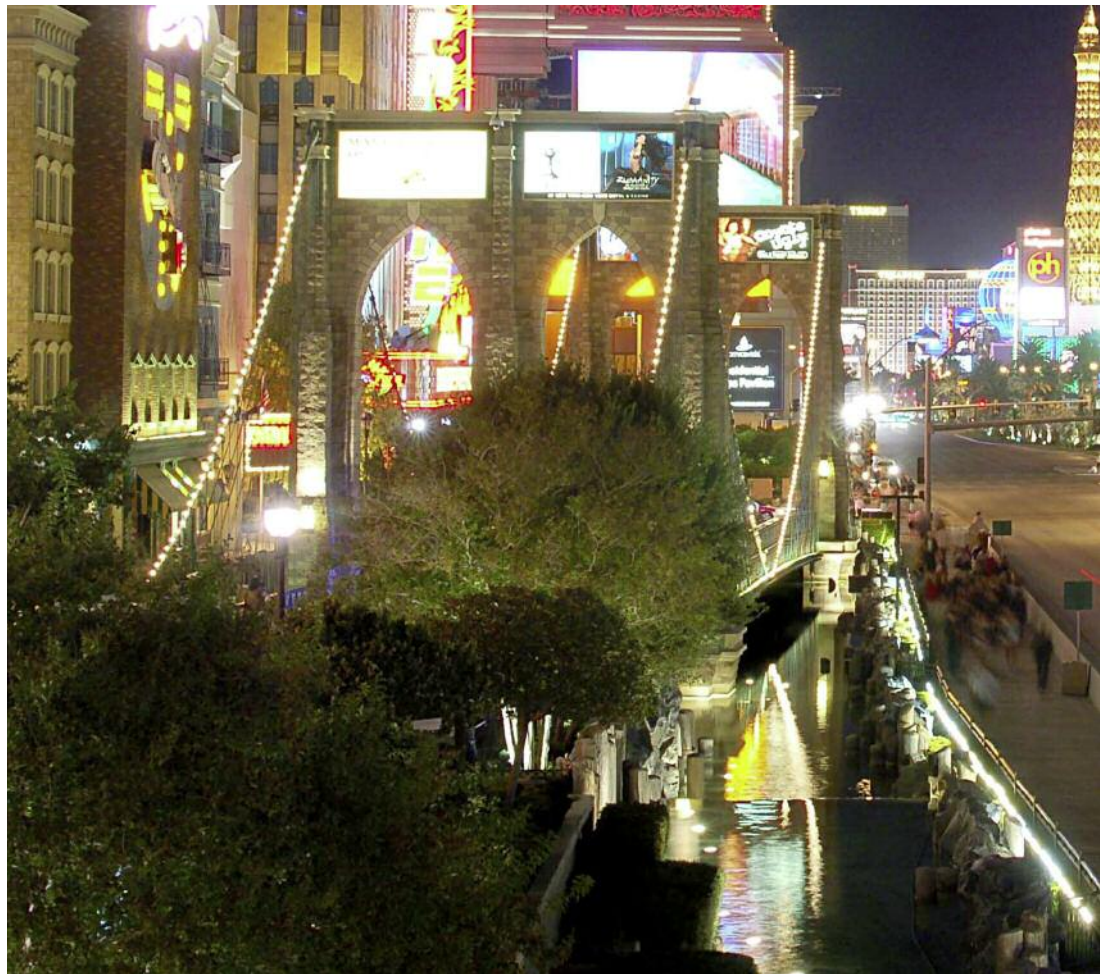
BMM was officially approved as an ITL at the end of June and in anticipation BMM International announced it will now relocate its world headquarters to Las Vegas in September this year. The site will include a large test lab and office space and will quadruple the size of BMM's existing facility and is set to house 100 plus new engineering staff over the next two years.

GLI has also seen a significant expansion of the company's Nevada staff, enhancements to GLI's 80,000sq.ft laboratory in Las Vegas and the acquisition of new equipment and technology.

GLI has worked closely with the Gaming Board and the process involved the creation of around 2,000 unique technical test cases covering the myriad of technology types fielded in Nevada.

Meanwhile the second big change is the state's change of its internet gaming regulations. Nevada's first interactive gaming law was established some 10 years ago and Nevada Gaming Commission has adopted a set of rules that will oversee poker playing via the internet and therefore permit the state to run the nation's first interstate online poker sites. The business could eventually become interstate if Nevada then gets federal approval.

It all began in April last year. Due to the increasing popularity of online poker a Nevada Assembly Bill, which



Nevada's first interactive gaming law was established some 10 years ago and Nevada Gaming Commission has adopted a set of rules that will oversee poker playing via the internet and therefore permit the state to run the nation's first interstate online poker sites. The business could eventually become interstate if Nevada then gets federal approval.

establishes provisions governing the licensing and operation of internet poker, was passed unanimously through the state assembly judiciary committee.

It was signed into law in June 2011 by Governor Brian Sandoval and in December 2011 the Nevada Gaming Commission adopted the amendments to its regulations which now makes it possible for the licensing and operation of online gambling within the state by January 31 2012.

Six regulations were amended including adding:

- 'Operators of interactive gaming' and 'service provider' to the list of entities that have to report 'qualifying employees' to the board bi-annually.
- Three new classifications of licence to include the manufacture of interactive gaming system licence; an operator of interactive gaming licence and a service provider licence.

THE NEVADA REGULATIONS ALLOW THE STATE'S CASINOS TO LAUNCH GAMBLING WEBSITES FOR PLAYERS WITHIN STATE BORDERS.

- There are then three classes of service providers:

Class 1 – Anyone who provides interactive gaming or receives payment based on earnings or profits from a game. This licence is governed by the same regulations that govern non-restricted licences (casinos)

Class 2 – Anyone who doesn't have a Class 1 or 3. This licence is governed by the same regulations that govern the

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Info panel

State: Nevada
Capital: Carson City
Total area: 286,267 sq.km
Population: 2.7 million
Main religions: Roman Catholic (27%), Protestant (26%), Mormon/Latter Day Saints (11%), Muslim (2%), Jewish (1%)
Racial makeup: White American (65%), Hispanic (20%), African American (7.1%), Asian American (6%), others (2%)
Governor: Brian Sandoval (Republican)
Lt Governor: Brian Krolicki (Republican)

Casinos: 256
Casino slots: 164,024
GGR casino slots: \$6.7bn
Table gaming: 5,460 (+ 869 card games)
GGR table gaming: \$4.1bn
 Racetracks: 0
 Online gaming: - permitted
 GGR (total): \$10.7bn (2011)

Comment

“The recent legislation passed in Nevada allowing for the use of independent test labs (ITLs) to test and certify gaming products for final approval by the Nevada Gaming Control Board (NGCB) represents an important paradigm shift in gaming product certification testing in the State. Under this scenario, qualified and registered ITLs will now be able to test products to these standards on behalf of licensed manufacturers for final submission to the NGCB who retains ultimate authority to approve product for Nevada.

The expectation is that this change will allow Nevada to maintain its global position as a regulatory leader by allowing more time and focus on future technologies while adding bandwidth to a testing process that continues to become more and more complex from a technology and product standpoint.

BMM is committed to support this newly established Nevada process in any way possible. We are going through the registration process with the State. Upon successful completion of this process we expect to be able to offer our testing and certification services for Nevada manufacturers at the discretion of the NGCB. I'll also note there is tremendous interest amongst Nevada gaming manufacturers to utilise our services in this regard.”

Mike Dreitzer, Chief Operating Office of Americas BMM. www.bmm.com

restricted licences (locations with less than 15 slots)

Class 3 – This is a probationary licence and includes anyone who acts as a marketing affiliate for an operator. The Class 3 licence can be terminated with 30 days written notice.

- 16 new pages have been added outlining how online gaming will be conducted in Nevada including general scope and definition, internal controls and house rules, player registration, compensation, wagers, reserve requirements, wagering reports etc.

Players will have to be over 21 years and can only have one seat in a game at a time (no multiple accounts)

- A section for manufacturers, distributors and operation of online gaming system. All servers and data bases must be located in Nevada. If a company is located in another jurisdiction but wants to be licensed in Nevada the servers must be located in this state.

- Previously a game displayed the rule of play and payoff schedule. Now it must include the rake or fee charged to

play and any wagering limits placed on games that simulate live gambling games. Nevada sees its legislation as a trend setter although was of course pipped at the post in terms of being the first US state to introduce online gaming when Delaware passed its bill at the end of June.

The Nevada regulations allow the state's casinos to launch gambling websites for players within the state borders by the end of this year. All bets must be placed within Nevada until federal law changes or the Justice Department states that bets may be accepted from outside the state. However the regulations place the burden on the website operator to show that bets are placed within the state.

The Nevada bill also calls for an open market place. Recent partnerships have taken place between the likes of Pokerstars and Full Tilt Poker with Nevada based casino companies.

Chairman of the Nevada Gaming Control Board, Mark Lipparelli says online operators with licences and technical systems approved by the state could be up and running with intra-state online poker by the end of 2012.

In June two leading manufacturers, Bally and IGT were awarded the first interactive gaming licences with more to follow. Once these are granted the manufacturers and operators then need to get their products and

Bally Technologies was the first company to receive a preliminary approval for the first online gaming licence and has contracted with Landry Gaming's Golden Nugget in downtown Las Vegas to provide an internet poker product. Around 50 casinos are apparently interested in buying or leasing Bally's 'infrastructure' system which will enable players using phones or computers to tie into casinos online.

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Focus

NEVADA

Operator profile



Operator: MGM Resorts International

Nevada casinos: Aria, Bellagio, Circus Circus, Circus Circus Reno, Excalibur, Luxor, MGM Grand, Mandalay Bay, The Mirage, Monte Carlo, New York New York, Silver Legacy Reno, Vdara.

Background: Second biggest operator in the world with further operations in Mississippi, Michigan, Illinois and Macau. Currently building the US\$ 4.2bn MGM Grand Ho Tram, Vietnam's first Las Vegas-style integrated resort, with an expected opening in February next year.

Key executives: Jim Murren - Chairman, Chief Executive Officer and President, Kerkor Kerkorian - Founder, Senior Adviser and Director Emeritus, Daniel D'Arrigo - Chief Financial Officer, Executive Vice President and Treasurer, Corey Sanders.

Number of employees: nearly 70,000.

Internet history: In October 2011, MGM announced a three-way online poker agreement with bwin.party, MGM Resorts International, and Boyd Gaming. The goal of the partnership is to offer online poker to US customers through a new company. Bwin.party will own 65 per cent of the company, MGM will own 25 per cent, and Boyd will own the remaining 10 per cent. MGM is also working on launching a social gaming website in order to take a share of the growing social gaming market. The new game will have a Las Vegas casino theme and will be similar to Zynga's online game FarmVille allowing players to act as casino moguls and build gaming floors. It will be launched as a free gaming website although Murren said there was a possibility of monetising it at a later stage when online casino applications become legal.

Online quote: "The demographics of online gamers are right in the strike zone of the gaming industry." - Jim Murren, Chairman, Chief Executive Officer and President. "Several pieces of legislation need to be passed, and [online poker] could be associated with any one of those I do believe it will be passed this year, but that's only my opinion."



William Hill has also just received a state sports betting licence to operate three race and sports book companies in the state. Last year the company acquired three companies - Brandywine Bookmaking LLC (parent of Lucky's Sports Book), American Wagering (Leroy's Horse and Sports Place) and Club Cal Neva Satellite Race and Sports Book division for \$53m in total.

implementations approved prior to public offering.

Bally Technologies was the first company to receive a preliminary approval for the first online gaming licence and has contracted with Landry Gaming's Golden Nugget in downtown Las Vegas to provide an internet poker product. Around 50 casinos are apparently interested in buying or leasing Bally's 'infrastructure' system which will enable players using phones or computers to tie into casinos online.

Applicants must pay an initial administration fee of around \$500 for processing the application plus an investigation fee of approximately \$135 per hour. It is expected that two to three applications will be approved each month and there could be 20 gaming websites in Nevada by 2013.

Some negative feedback is whether the state of Nevada with a population of around 2.6 million has enough people within its borders who will play online

poker to allow the sites to be profitable. The Golden Nugget in Las Vegas has been operating a free internet poker game outside of Nevada and to date has just over 1,000 players registered.

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The three companies will be consolidated and encompass sports books and kiosks and online and mobile operations which will come under the William Hill banner meaning Hill will run roughly two thirds of the 180 bookies in Las Vegas casinos. They have also set aside \$10m to invest in refurbishing their Nevada holdings and this is their first US operation.

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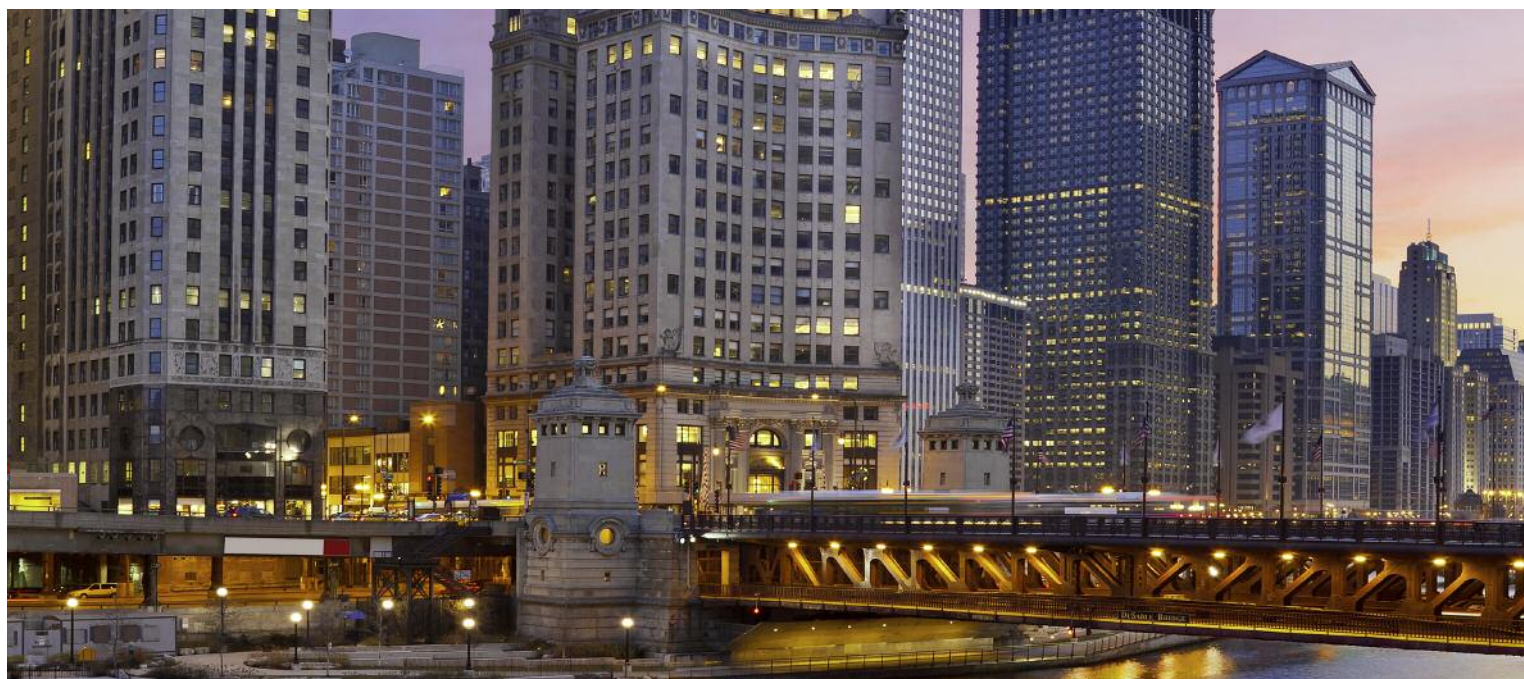
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BACK IN THE GAME

The formation of Williams Interactive is a game-changer for WMS Industries as the company establishes its gaming content across leading-edge online, mobile and interactive platforms for the benefit of land-based casino operators

Changes are afoot within WMS Industries. Renowned as a market leader and innovator in the field of slots gaming, the most recent announcements from the Illinois-based company have centered upon online gaming acquisitions, social media partnerships and operator-focused interactive platform launches. The news in July that the company has chosen to bring its online wagering, social, casual and mobile gaming resources under a single iGaming umbrella organisation, Williams Interactive, is the culmination of this flurry of activity.

Slot innovation remains a fundamental component of the WMS Gaming portfolio, but it's no longer the sole focus. While delighting trade show audiences with stunning presentations of new slots concepts, the pipeline between trade events and gaming



Orrin Edidin,
President and CEO,
Williams Interactive.

"Up to this point we have been flying under the radar in the interactive space, which has not been unintentional."

floors significantly constricted for WMS over the last 18 months. A backlog of innovative games caught in a testing bottleneck, a lack of strong math/core games and capital constraints at the customer level has impacted negatively on WMS. In response, the company has redefined itself as a provider of leading gaming content across the widest possible spread of media. Slots are now just one channel amongst a range that encompasses online, mobile, social, casual gaming, VLTs, server-based, AWP and every new platform and channel currently in development. G3 interviewed WMS Industries President Orrin Edidin at G2E Asia, who presented the past and future of the company in frank and compelling detail.

WMS is to present more distinct maths models at G2E in October than the company has brought to the combined

exhibitions over the last three years. At the same time, as the convergence of online, land-based, casual and social gaming continues to accelerate at a tremendous pace, WMS is finally showing its hand in the interactive space too. The key element that binds these three sectors together is content - WMS' content. "We see online, land-based and social media as simply different distribution channels," stated Mr. Edidin. "Up to this point we have been flying under the radar in the interactive space, which has not been unintentional. We believe that customers are now used to the concept of casual play-for-fun as well as play-for-real gaming, and we want to be their interactive supplier in that space. We are offering a full suite of managed services, supplying everything our customers need to provide online interactive gaming to their players, or supply lite packages to suit their

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**WE SEE ONLINE,
LAND-BASED AND
SOCIAL MEDIA AS
SIMPLY
DIFFERENT
DISTRIBUTION
CHANNELS.**

individual needs and ongoing strategies. We are forming alliances for server integration, forging deals with pre-existing sites to have access to our games, and offering our own distinct platform solutions."

Williams Interactive is the vehicle for the growth, development and execution of the company's online wagering, social, casual and mobile gaming initiatives. As such, the company's structures have changed to reflect this,

with Mr. Edidin promoted to the new position of President and Chief Executive Officer of Williams Interactive. In his new role, he will lead the company's efforts to leverage its product development expertise, content and already comprehensive iGaming capabilities to capitalise on the emerging industry's potential growth opportunities by supporting casinos' participation in these new distribution channels.

Williams Interactive will integrate under a unified organisational structure the company's extensive array of interactive gaming operations and development initiatives in the rapidly growing online wagering, social, casual, and mobile gaming distribution channels. Williams Interactive is expected to facilitate the continued expansion, evolution and extension of WMS' interactive businesses.

"WMS is a games company. We recognise our competencies and we understand what we do best. We are not a B2C company and we are not looking to compete with our customers. The acquisition of Jadestone, a leader in its field, enables us to expand the offline/online experience of players with WMS' compelling gaming content."

Orrin Edidin,
President and CEO,
Williams Interactive.

One of such businesses, the acquisition of Jadestone in May, provides WMS with access to 15 million players, the ability to integrate with existing online providers and offer its gaming content to the widest possible distribution channels. "We are integrating our content with all the current online providers, ensuring that we cover the 'entire wheel'" described Mr. Edidin. "WMS is a games company. We recognise our competencies and we understand what we do best. We are not a B2C company and we are not looking to compete with our customers. The acquisition of Jadestone, a leader in its field, enables us to expand the offline/online experience of players with WMS' compelling gaming content."

In addition to the Jadestone acquisition, WMS Gaming also recently revealed the launch of Facebook game

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Lucky Cruise, which saw over a million active users subscribing to the site in a single month. Mr. Edidin makes very clear that Lucky Cruise from WMS's perspective is not a financial proposition, but rather proof of content. "Providing gaming content in the social space is a completely new for us," stated Mr. Edidin. "The hooks that attract players are very different. We've had to modify our content to appeal to this audience, but it has been both rewarding and very successful. It means that in US jurisdictions we can provide web-based casual play tools, all with appropriate branding, all linked to our customer's database. Lucky Cruise has registered over one million users to the website, and has become a tool that we can add to our customer's arsenal, taking players from land-based gaming, through to online, social/casual/free and play-for-money branded website gaming."

Following hot on the heels of the formation of Williams Interactive, it's first launch is Jackpot Party, a social casino on Facebook. Drawing slot content from WMS, the Jackpot Party social casino offers a library of exclusively authentic, classic Las Vegas-style casino slot entertainment; something of a first for Facebook. The beta launch of the Jackpot Party social casino includes six of WMS' most popular slot themes – Zeus II, Invaders from the Planet Moolah, Brazilian Beauty, Reel Rich Devil, Jungle Wild and Fortunes of the Caribbean – that utilise gaming action featured in several of the company's player-favourite game families – G + (R), Hot Hot Super Respin, Cascading Reels, Spinning Streak and Money Burst. Many more of WMS' exciting game themes are scheduled to be added to the Jackpot Party social casino.

Additional recent announcements from WMS have further expanded its online offer for US operators through an agreement with 888.com, in which, WMS will market and distribute 888's world-class online poker solution to land-based casino customers in legal venues in the United States, initially with a play-for-fun offering. WMS will serve as the exclusive provider of 888's online poker solution to casino operators in the US, with certain limited contractual exceptions. In addition, the deal will also facilitate the creation of an interoperable platform that will enable an integrated



experience between 888's poker solutions and WMS' online casino solutions incorporating WMS content and capabilities, providing for play-for-fun and wagering solutions.

Defining the philosophy driving these announcements, Mr. Edidin summarised: "A global migration toward content convergence and multi-channel distribution is rapidly underway. Having anticipated the convergence of land-based casino gaming with online, social, casual and mobile gaming, we set out several years ago to prepare WMS to benefit from these exciting new opportunities. We have developed and acquired the appropriate experience and skills needed to help our customers prepare for the convergence in their businesses with a broad set of value-added solutions, products and managed services."

The inevitable expansion of the online gaming market in the US is likely to prove to be very disparate, with state-by-state regulation creating a smorgasbord of contrasting and

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A GLOBAL MIGRATION TOWARDS CONTENT CONVERGENCE IS RAPIDLY UNDERWAY.

conflicting legislation. Mr. Edidin's view is that we're unlikely to see federal legislation governing online gaming in the US as part of overarching regulatory control. As a result, suppliers will need the flexibility to satisfy a multitude of different requirements. What works in one state won't necessarily work in another. "It's likely that individual states will need to pool liquidity and therefore it's crucial that we are in a position to integrate with both current and future systems," stated Mr. Edidin of WMS' interoperability objectives. "We see ourselves as both a games company and an integration company. We want access to systems, just as our

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customers want access to WMS content. We need as much of the distribution channel as possible, while continuing to concentrate all our energies on creating compelling games. In essence, we are going back to our roots; providing a unique gaming experience that engages across every gaming system and platform."

In the online gaming space outside of the US, WMS is concentrating its efforts in the European sector, with the UK considered a major focus as the most mature 'legal' market for online gaming, with the emphasis resolutely on 'legal.' While market expansion will be dictated at the legislative and regulatory level, it's customer demand that is really driving WMS' interactive games development. "Right now there isn't a customer I talk to that doesn't want to hear about our interactive plans. This isn't a solution that we're pushing onto the market; most people agree that interactive gaming will continue to grow and our aim is to be an important contributor," stated Mr. Edidin. "Everyone on the land-based side is looking at the online space. As a

games company we're here to help our customers exploit every channel. We faced a learning curve on the technical and analytics side online, which is why the acquisition of companies like Jadestone have helped speed us to market. There are others out there, and we are evaluating those that can help us to truly achieve leadership in the online space. Somewhere between our managed services and game server integration you are going to see a huge proliferation of WMS content. It's an exciting time."

WMS has been very careful to set-up a management structure which, despite the company's interactive gaming ambitions, is not going to become distracted from its core land-based offer. "We simply want access to the all those pipelines, which means that we're not just delivering amazing new titles with our next level of CPUNXT3, but offering our enormous library of games to our online customers too," confirmed Mr. Edidin. "We are very mindful of not taking our eyes off our core competencies, which means that we are structuring the business to

"Williams Interactive enables us to efficiently integrate our Atlanta-based online development resources, India-based systems and software capabilities, Chicago-based online development studio and engineering staff, our UK-based operational center, our Sweden-based online development and operations center and our Iowa-based Phantom EFX development team for social, casual and mobile gaming entertainment." **Orrin Edidin**, President and CEO, Williams Interactive.

maximise our ability to leverage proven content across all channels. We want our customer to succeed in the online space and we're offering them with the tools to ensure their business capitalises on every opportunity."

Mr. Edidin concluded, "Creating a single organisation to unify the company's efforts in online wagering and interactive gaming distribution channels, while drawing upon our extensive existing library of great gaming content, will better enable WMS to participate in the many high-margin opportunities this content convergence offers. Williams Interactive enables us to efficiently integrate our Atlanta-based online development resources, India-based systems and software capabilities, Chicago-based online development studio and engineering staff, our UK-based operational center, our Sweden-based online development and operations center and our Iowa-based Phantom EFX development team for social, casual and mobile gaming entertainment."

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DIFFERENT PERSPECTIVES

Neighbouring states have drawn players from New Hampshire outside the state lines to play in casinos and racinos, but new legislation proposes to redress the balance. Two small and two large casinos could change the state's fortunes

This New England state is located in the northeast of the US. New Hampshire was named after the southern English county of Hampshire and is bordered by Massachusetts, Vermont, Maine, the Canadian province of Quebec and just 29 kilometres of the Atlantic Ocean.

New Hampshire is the fifth least extensive and the ninth least populous of the states and after a 38 year union with Massachusetts it was made a separate colony in 1679 and became the first post colonial sovereign nation in the Americas when it broke off from Great Britain in 1776. It was also one of the original 13 states which founded the US and was also the first state to have its own constitution.

Its capital is Concord whilst Manchester is the largest city in the state. It carries the nickname of the Granite State and its motto is 'Live Free or Die'. It is also sometimes known as the Mother of Rivers as five of the great streams of New England originate in its granite hills.

With some of the largest ski mountains on the east coast New Hampshire has become a major ski resort whilst motor

The Racing and Charitable Gaming Commission regulates Harness Racing and Greyhound Racing in New Hampshire under the Games of Chance Regulations and Bingo and Lucky 7 Regulations. At the moment all other types of gaming are forbidden and there are three racetracks – Belmont, Rockingham and Seabrook Park.

sports such as the Motor Speedway and Motorcycle Week are hosted here. There are 10 counties, 13 municipalities and 221 towns whilst it operates under a Dillon Rule which means the state retains all powers not specifically granted to municipalities

Manufacturing has been important to the state since the 1800s and textile mills and factories produce leather goods and shoes. Agricultural outputs are also important such as dairy products, nursery stock, cattle, apples and eggs and of course timber.

The state is ranked first in the nation measured by indices on standard of living whilst it has the 10th per capita income and fourth lowest crime rate. Unemployment rate is around 5.2 per cent and as such is the fifth lowest in the country and despite the recession is fairing well.

New Hampshire has a strong track record of economic activity and between 2005 and 2010 exports grew by 71 per cent. There is no sales tax or personal state income tax. It does however have a controversial state-wide property tax and this has resulted in local communities having some of the



TOTAL PARI-MUTUEL WAGERING AMOUNTED TO \$87.6M FOR THE YEAR, WHICH WAS ALL FROM SIMULCAST WAGERING.

nation's highest property taxes.

Tourism is now New Hampshire's leading industry and this brings around \$3.5bn to the state annually. Visitors come to enjoy the beaches, mountains and lakes. The state's largest lake Winnepesaukee covers 184sq.km and is dotted with 274 inhabitable islands whilst the Isles of Shoals are nine small islands just off Hampton Beach which are often used as summer residences.

Meanwhile the New Hampshire Lottery Commission was set up back in 1963



after state representative Larry Pickett repeatedly lobbied the government to introduce a Sweepstake Bill with tickets going on sale in 1964.

As such New Hampshire was the first state to initiate a lottery and today offers a variety of lotto type games and numerous instant games. Sales have gone from \$5.7m in 1964 to \$228m in 2010. Proceeds of \$62.2m were contributed towards public education programmes.

Since 2010 players can buy their lottery tickets online although all other types of online gaming is still not permitted

GAMING MARKET

The Racing and Charitable Gaming Commission regulates Harness Racing and Greyhound Racing in New Hampshire under the Games of Chance Regulations and Bingo and Lucky 7 Regulations. At the moment all other types of gaming are forbidden and there are three racetracks – Belmont, Rockingham and Seabrook Park.

Horse racing became legal in New

Hampshire in 1933 and live greyhound racing was legal from 1971 until 2010. Meanwhile Bingo was legalised in 1949, Games of Chance have been legal since 1977 and Lucky 7 has been legal since 1949.

The Commission currently regulates 11 game of chance facilities, nine game operator employers, 10 commercial halls and around 500 charities associated with charitable gaming activities plus nine manufacturers and five distributors of Bingo Lucky 7 equipment.

Charitable gaming raised over \$13m for various causes during fiscal year 2011 whilst Lucky 7 ticket sales reached \$60.6m, bingo saw sales of \$18.9m and Game of Chance betting saw \$75.8m.

Meanwhile total Pari-mutuel wagering amounted to \$87.6m for the year which was all from simulcast wagering. There has been no live racing since 2009 in New Hampshire although live harness and live thoroughbred racing is still statutorily permitted.

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Legislature removed funding from the commission budget for the employees to oversee this sector and Rockingham Park has elected not to offer live racing for the foreseeable future and The Lodge at Belmont surrendered its pari-mutuel licence in December 2010. This leaves only two pari-mutuel facilities operating at Seabrook Park (formerly Seabrook Greyhound Park) and Rockingham Park.

In 2011 legislation was passed which aimed to further help protect charities and the wagering public and video monitoring for money handling areas was introduced.

Rockingham Park in Salem was founded in 1905 and today features full card simulcast from thoroughbreds, harness and greyhound tracks from around the country. There is also a poker room where players can play Poker, Cash Poker, Three Card Poker, Boston 5 Stud Poker, Blackjack, Roulette and Texas Hold 'em with monies going to local charity. Bingo is offered four nights a week and the venue also stages crafts fairs, motorcycle shows and exhibitions.

Rockingham Gaming LLC is a limited liability corporation and a licensed game operator with over 190 dealers and a manager operating the two largest charitable gaming rooms in New Hampshire. One is located at Rockingham Park and the other at Seabrook Park.

Both these poker rooms opened in 2006 and since this time charities have received more than \$10m through their participation. The charity receives a minimum of 35 per cent of the gross proceeds after prizes are paid. Currently there are 73 charities who participate at both the parks

NEW PROPOSALS

The House Bill 593 called for the construction of two small casinos and two large casinos with a total of 14,000 slots and 420 table games.

The idea to introduce a gambling bill in New Hampshire would allow four casinos in the state and use revenues to reduce businesses taxes. It would also create jobs and after Massachusetts passed its own bill the state has in all reality had to fight back or lose up to \$180m every two years.

The HB593 would permit VLTs at the

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pari-mutuel facilities and permit two large casinos with up to 5,000 slots and 150 table games each plus two smaller casinos with up to 60 table games and 2,000 slots each. One of the small casinos would have to be located in the more economically disadvantaged areas of the state and the host community would be established by a local referendum vote.

Millennium Gaming of Las Vegas was proposing to develop a casino at Rockingham Park if the bill became law and Rockingham was odds on favourite to be awarded one of the large facilities.

Millennium Gaming is headed by joint CEOs William Wortman and William Paulos who in 2005 bought a 20 per cent stake in Rockingham Park. In 2005 Oaktree Capital Management agreed to buy 33 per cent of the Millennium Gaming company.

Millennium currently operates four casinos in Nevada (including one racetrack) including Cannery Casino in

Millennium Gaming of Las Vegas was proposing to develop a casino at Rockingham Park if the bill became law and Rockingham was odds on favourite to be awarded one of the large facilities.

North Las Vegas, Rampart Casino in Las Vegas, Eastside Cannery in Las Vegas and The Meadows Racetrack in Washington County, PA and these are all operated under the Cannery Casino Resorts company, a subsidiary of Millennium.

Millennium holds the option to purchase the 106 year old Rockingham property and said the return of live thoroughbred racing would be part of that development. The company has its sights set on Rockingham Park due to its location on the New Hampshire and Massachusetts border, existing infrastructure and its long history in gaming.

Millennium planned to invest \$450m in the project and introduce up to 5,000 VLTs at Rockingham Park and 2,000 VLTs at The Lodge and Seabrook. Under the proposals VLT payout would be at least 87 per cent and taxes would be 49 per cent of which 40 per cent would go to the state, three per cent to the host municipality, one per cent to the host county, two per cent for

AROUND \$615M IS COLLECTED IN LEGALISED GAMING WHILST STATE RESIDENTS ALSO SPEND AROUND \$80M A YEAR AT CONNECTICUT CASINOS.

problem gambling programmes, one per cent to a state tourism fund, one per cent to police, fire and EMS training and one per cent live racing purse enhancements. Tax for table gaming would be eight per cent.

The fees paid by operator licensees would be:

- \$100,000 operator application fee,

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Comment

“New Hampshire House Bill 593, although defeated in the House of Representatives, would have provided a number of economic benefits for the state of NH. New Hampshire has seen 18 years of gaming legislation and HB593 provided the best option yet for the state and local communities.

This bill provided for up to four casino facilities in the state picked through a bid process and only after local approval was obtained. The revenues from this bill would have been distributed to the state for a reduction in business taxes which was greatly needed as NH is currently 46th in the US for its level of business taxes. Other revenue would go to the local communities and the towns abutting a licensed facility and a percentage to provide treatment and education for addictive behaviours.

Another interesting concept provided in the bill was a guarantee of charitable revenues in the event the revenue from charitable gaming was to decline following the opening of commercial casinos. Rockingham Park in Salem will continue to seek legislation approving casino gambling in NH in order to provide a revenue stream to NH in response to the casinos operating in the adjacent state of Maine and the proposed facilities in Massachusetts.”

Ed Callahan, President and General Manager at Rockingham Park, Salem.
www.rockinghampark.com

Info panel

State: New Hampshire
Capital: Concord
Total area: 24,097 sq.km
Population: 1,318,194
Main religions: Christian (72%), Catholic (35%), Protestant (32%)
Racial makeup: White (93%), Asian (2.2%), Black or African American (1.1%), Native American (0.2%), Other (1.6%)
Governor: John Lynch (Democrat)
President of Senate: Peter Bragdon (Republican)

Casinos: 4 proposed
Casino slots: 14,000 total proposed
Table gaming: 420 total proposed
Racetracks: 3
VLTs: 0
Online gaming: not permitted

proliferation of gambling across the state. However John Lynch will be retiring in January when his term expires.

Millennium says it will continue with its quest and say a revitalised Rockingham Park would be a huge asset to New Hampshire not to mention to the jobs, economic development and revenues.

Those against the plans say with Massachusetts just having approved four casinos some believe the area will be saturated reducing the value of any New Hampshire casino development and limit the state to smaller casinos with a reduced income. They also fear the \$11m distributed via charitable gaming to 300 plus charities will be severely diluted if casinos are granted.

A casino recently opened in one of the more rural counties in New England – Oxford, Maine, as the Oxford Casino built on farmland on Route 26 opened in June. This is Maine’s second casino joining Hollywood Casino in Bagnor and the sixth in New England after two tribal casinos in Connecticut and two slot parlours in Rhode Island.

If New Hampshire gets its casinos it will only leave Vermont as the only northeast state devoid of casinos or gaming.

It is thought this increased pressure of neighbouring casinos will have an affect on New Hampshire and encourage the governor to sign an expanded gaming bill of some kind.

- \$50,000 investigation fee,
- \$50m initial licence fee for horse tracks
- \$20m initial licence fee for dog tracks
- \$10m initial licence fee for North Country

Fees paid by technology providers would be:

- \$50,000 application fee
- \$25,000 investigation fee
- \$50,000 initial licence fee

The projected \$290m revenue from the casino operators would be used to lower business enterprise tax rate from .75 per cent to .25 per cent and business profits tax rate from 8.5 per cent to 4.3 per cent.

In 2010 the New Hampshire Gaming Study Commission comprising of 15 citizens of the state undertook a

comprehensive review of the potential to expand gaming in the state.

Around \$615m is collected in legalised gaming in New Hampshire each year whilst state residents also spend around \$80m a year at Connecticut casinos. When Massachusetts introduces casinos it is estimated that New Hampshire gaming revenues could decline by as much as one third.

More than 60 per cent of all lottery sales apparently come from the southern tier of the state and it is thought once the Massachusetts casinos are open this business will drop.

But despite all this, in March lawmakers in the House of Representatives voted 236-108 against the bill whilst a key amendment to increase the number of casinos from two to four was also squashed by a 195-154 vote. Gov. John Lynch announced he would veto any legislation allowing casinos or Racinos in New Hampshire citing lack of regulatory structure, the potential impact on life and economy and the

Those against the plans say with Massachusetts just having approved four casinos some believe the area will be saturated reducing the value of any New Hampshire casino development and limit the state to smaller casinos with a reduced income. They also fear the \$11m distributed via charitable gaming to 300 plus charities will be severely diluted if casinos are granted.

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RISING TO THE OCCASION

As the US online gaming market begins to mirror the European marketplace, with individual states looking to adopt varying forms of licensed gaming and taxation, sports-betting provider OpenBet is keeping its options open

The online gaming highway is metaphorically decorated with the wreckage of past emphatic opinions about what was going to happen to the US online market in the future.

Sometimes, it is as much as we can do to understand exactly how we have got to where we are at in terms of the progress of possible regulation at the current moment in time. Even this is no simple task; a lot of lobbying money can be wasted just getting a reading on the prospects for online gaming at either state or federal level and even then events can overturn the current hypothesis at an alarming speed.

To take just this year's developments as an example; no sooner had the US justice department signalled a change in attitude, to what was now regarded as legal online gaming activity, than many commentators rushed to suggest that the prospects for federal legislation had never been better.



David Loveday, CEO, OpenBet, has served as Chief Executive Officer of OpenBet since 2002 and is one of the longest-serving CEOs in the betting industry. During his tenure, OpenBet has evolved to become a market leader in gaming software and is recognised as the no.1 supplier of sports betting technology worldwide.

LOBBYING MONEY CAN BE WASTED JUST GETTING A READING ON THE PROSPECTS AT STATE OR FEDERAL LEVEL.

Yet others were more circumspect, suggesting that what the DoJ reverse actually indicated would be the rush of individual states looking to license forms of online gaming, whether it was lotteries, online poker or in the case of New Jersey even sports betting.

In such circumstances where all business possibilities still remain on the table, it is important for a company such as OpenBet to be flexible enough to meet the challenges of whatever

forms of regulated gaming emerge in the US.

In this sense, the situation in the US bears some resemblance to what has occurred over the past five years in Europe. Here, individual countries have opted for varying forms of licensing and taxation that have meant that only the operators that are able to adapt their business models are the ones that will succeed.

This puts its own pressures on companies like ours that are relied upon by some of the biggest operators in the world of online gaming – such as William Hill, Ladbrokes, Paddy Power and Sky Bet – to provide their technology backbone.

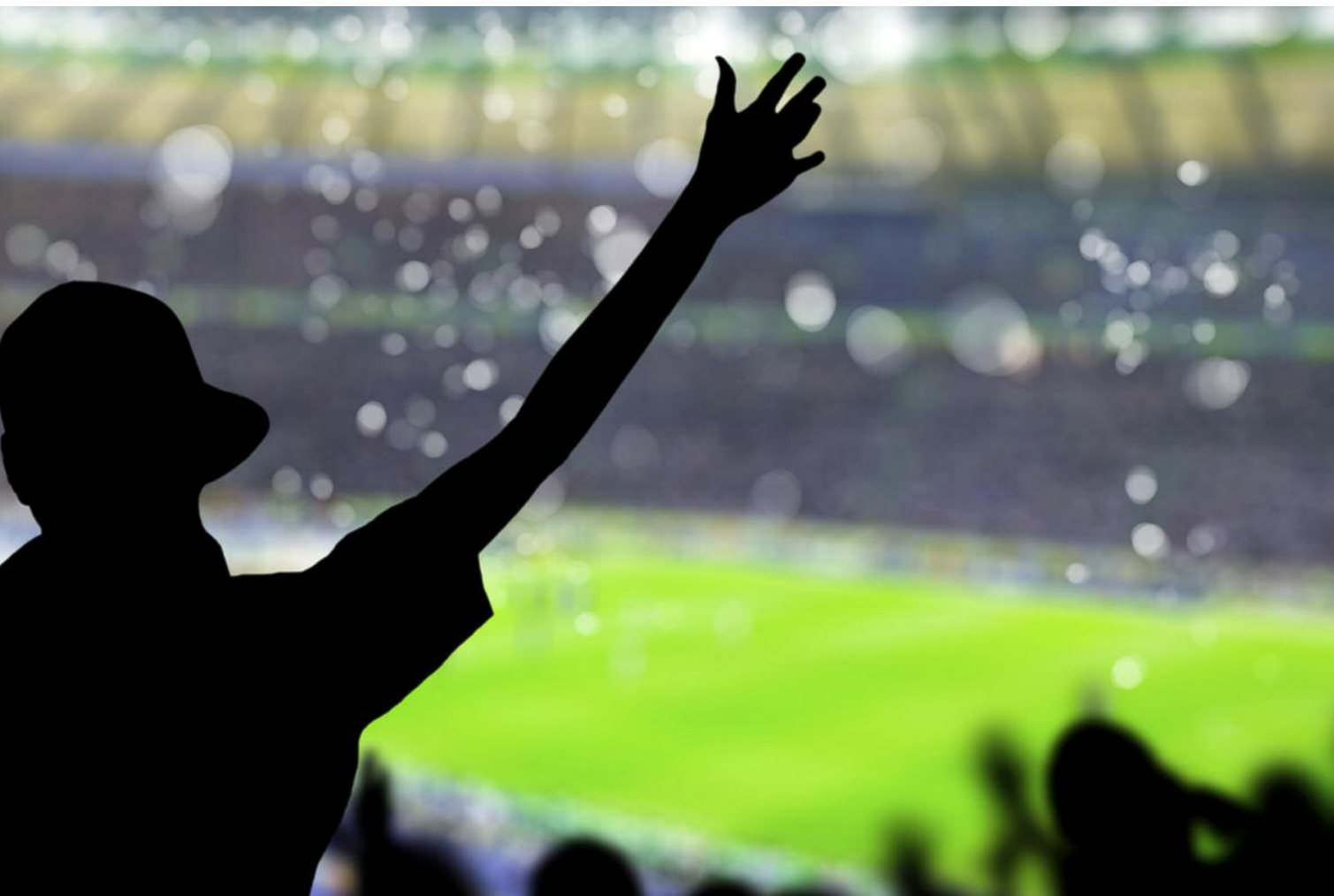
For instance, in France we are working with Paddy Power and the former French monopoly PMU in the formation of a sportsbook, where we provide the technology and Paddy Power the trading expertise.

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ANYONE VIEWING THE OPENING UP OF THE US ONLINE GAMING INDUSTRY AS A JACKPOT HAS MISUNDERSTOOD THE LESSONS.

This is the type of flexible partnership that, we believe, will become more common not just in Europe, but also over in North America where we have numerous examples of how OpenBet works with partners in benefitting from the opportunities presented by newly regulated markets.

In Canada, OpenBet now works with British Columbia Lottery Corporation, Loto-Québec, Atlantic Lottery and Manitoba in developing new online gaming opportunities in each of those

provinces, and what this Canadian experience has taught us is the vital importance of probity. With offices in North America, OpenBet has already established a firm footprint in this market.

OpenBet can pride itself on only ever having worked with companies that operate in legal and regulated markets. We know from experience that this will count heavily when it comes to getting licensed in the US, whether on a federal level or state-by-state. In this sense, we are prepared, as anyone, for both eventualities, with a reputation that has been examined in depth and detail by regulators of high repute.

Our position as a trusted partner to some of the biggest names in gaming worldwide gives us a clear view of the opportunities and potential obstacles that lie ahead for the industry as a whole. You don't need to spend money on lobbying earlier to understand that the opening up of US online gaming

"OpenBet can pride itself on only ever having worked with companies that operate in legal and regulated markets. We know from experience that this will count heavily when it comes to getting licensed in the US, whether on a federal level or state-by-state. In this sense, we are prepared, as anyone, for both eventualities, with a reputation that has been examined in depth and detail by regulators of high repute."

David Loveday,
CEO, OpenBet.

markets is clearly a defining moment for the industry.

But anyone viewing the opening up of the US online gaming industry as a jackpot has misunderstood the lessons learnt from the European experience. We, at OpenBet, believe that we are prepared for all eventualities in the US, and as with our current business, we believe we have the products that will help our operators excite their audiences and prove to be very profitable in the future.

Importantly, we have the solid foundations and proven successes in legal markets that give our partners the best chance of making a success in new markets.

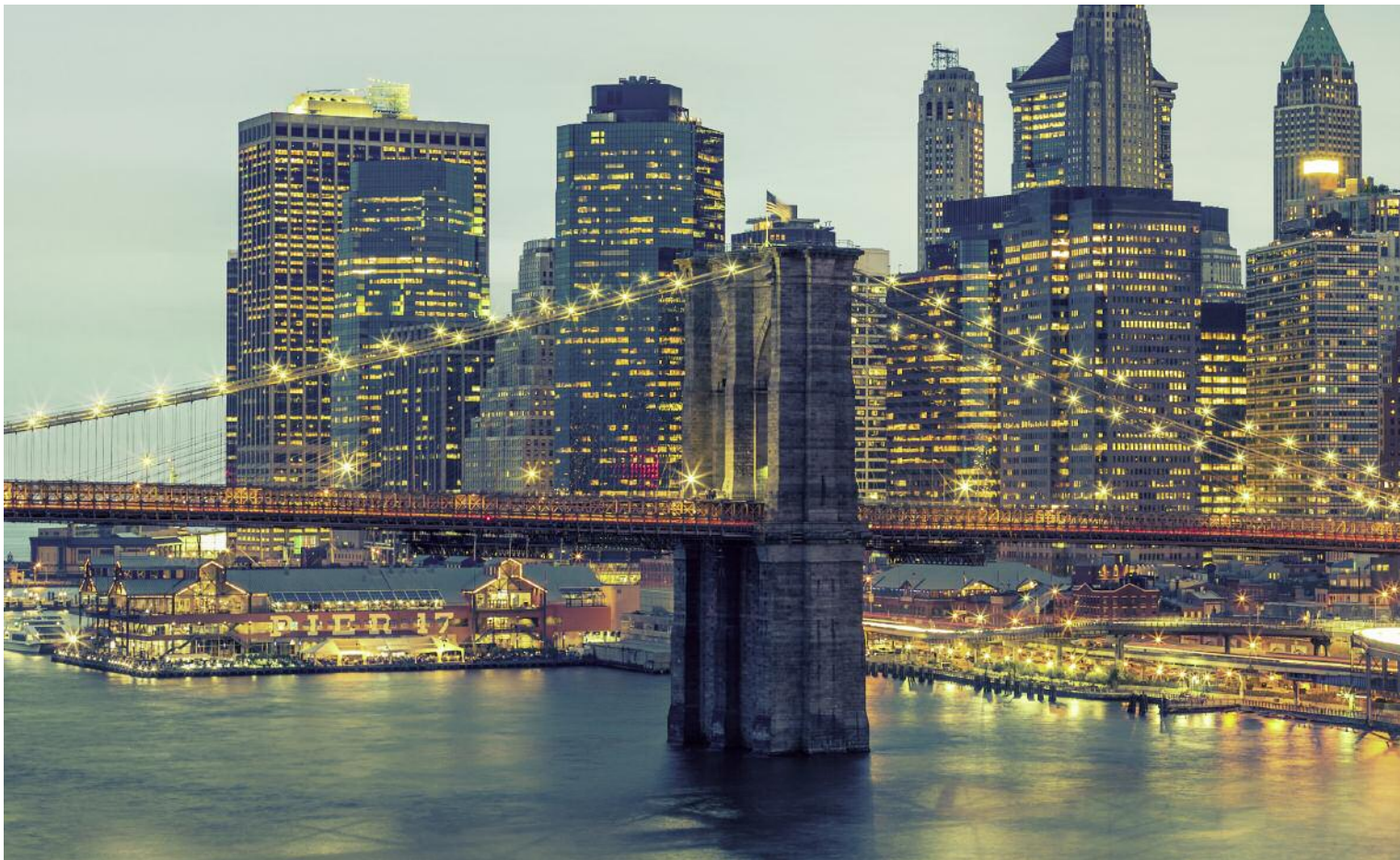
For OpenBet, the challenge presented by the US will be no different than elsewhere: to give our operators the best technology, designed with the flexibility needed to ensure success in any new regulated market.

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TAKING A BIG BITE

Genting beat US operators to the punch in New York with its Resorts World project, but new legislature could see up to seven Las Vegas style casinos introduced in the state as a revitalisation tool for certain regions. Expect competition for those to be fierce

The Empire State was once inhabited by the tribes of Algonquian and Iroquoian speaking native American tribes until Dutch settlers moved in during the early part of the 17th century.

In 1609 the region was claimed by Henry Hudson and Fort Nassau was built whilst the Dutch soon also settled and established the colony of New Netherland. The British took over in 1664 and New York became the 11th US state in 1788.

Today New York is the 27th most extensive, third most populous and the seventh most densely populated of the states. Located in the north eastern region it is bordered by New Jersey, Pennsylvania, Connecticut,

New York City is one of the most popular tourism destinations in the world and some 50.6 million visitors descended on Manhattan last year whilst visitors spent \$32bn in restaurants, shops, hotels and cultural activities. Of the visitors around 10.3 million were international visitors.

Massachusetts and Vermont. The state also has a maritime border with Rhode Island and Long Island and an international border with Ontario and Quebec.

New York state is divided into 62 counties and 11 regions. There are also 62 cities in the state. Although the vast majority of the region is dominated by farms, forests, rivers and mountains in sharp contrast there is also New York City. The city has a population of 8.1 million and as such is the most populous city in the US and makes up for 40 per cent of the population of the state.

It is made up of five boroughs – the Bronx, New York (Manhattan), Queens, Kings (Brooklyn) and Richmond

(Staten Island). It is known as a finance and cultural centre and also a gateway for immigration. It is also a huge tourism site for foreign visitors.

New York City is one of the most popular tourism destinations in the world and some 50.6 million visitors descended on Manhattan last year whilst visitors spent \$32bn in restaurants, shops, hotels and cultural activities. Of the visitors around 10.3 million were international visitors.

Meanwhile economic growth is steady. New York's gross state product in 2010 was \$1.16 trillion which ranks it third in size behind California and Texas whilst unemployment is around 8.6 per cent (May 2012).

The state's agricultural outputs include dairy, cattle, vegetables and apples. New York is also the third largest grape producing state and second largest wine producer. There are 30,000 acres of vineyards and 200 plus wineries.

Its industrial output is printing, publishing, electric equipment,

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machinery and chemical products. Canada is an important economic partner to the state and 21 per cent of the state's total exports go to this country whilst a large number of tourists from Canada also visit New York.

SITUATION TODAY

New York has Racinos, Indian Casinos, lottery, pari-mutuel wagering and charitable gaming.

The New York Lottery began in 1967 and is the nation's largest lottery and most profitable state lottery in the US. It saw sales and net win of \$8.44bn in 2011 producing a profit of almost \$2.9bn for education programmes. Since its inception it has given \$45.39bn to education.

Prior to the 20th century lotteries were used to raise funds for non educational needs but in 1966 a constitutional amendment authorised a government run lottery to support education.

The lottery operates two business lines – the traditional lottery and also VLTs

THERE ARE FIVE INDIAN CASINOS IN NEW YORK APPROVED BY LEGISLATURE: THREE SENECA INDIAN CASINOS AND UP TO THREE CATSKILL CASINOS

at the nine pari-mutuel facilities. The traditional lottery is seeing strong growth from its two national jackpot games Powerball and Mega Millions with sales of \$7.01bn last year whilst the nine Racinos saw sales of \$1.42bn.

Meanwhile there are five Indian casinos in New York which were approved by legislature which established three Seneca Indian casinos and up to three freestanding casinos in the Catskill region.

AKWESASNE MOHAWK CASINO is

The New York Lottery began in 1967 and is the nation's largest lottery and most profitable state lottery in the US. It saw sales and net win of \$8.44bn in 2011 producing a profit of almost \$2.9bn for education programmes. Since its inception it has given \$45.39bn to education.

40,000sq.ft in size and is located in the north county in Hogsburg and is one of two gaming enterprises operated by the St Regis Mohawk Tribe

TURNING STONE RESORT CASINO is located in Verona and owned by Oneida Indian Nation and is the fifth largest tourist attraction in the state drawing 4.5 million visitors annually from the US and Canada. It opened in 1992 and is a top tourist attraction with four hotels and 1,600 slots in the casino which is 122,000sq.ft in size.

SENECA NIAGARA CASINO opened in 2002 and was an \$80m project which transformed the Niagara Falls Convention and Civic Centre into a full casino of 82,000sq.ft in size with 2,595 slots and 91 table games. It is owned by the Seneca Nation of Indians which is one of six nations that comprise of the Iroquois Confederacy in western New York. The Seneca Gaming Corporation was established in 2002 and oversees the three gaming facilities operated in New York. The Niagara Casino cost \$100m and became the tribe's first casino. Today Seneca is a \$2bn corporation with 4,200 employees and operates a total of 6,500 slots, 140 tables, 800 hotel rooms and 10 restaurants between the three facilities.

SENECA ALLEGANY is also owned by the Seneca Nation of Indians and was opened in 2004 and houses a 212 room hotel and a 68,000sq.ft casino with 2,000 slots and 33 table games plus bingo.

SENECA BUFFALO CREEK is the third casino operated by Seneca Nation of Indians. This was opened in 2007 when the nation acquired nine acres of land in the Inner Harbour area of downtown Buffalo. The casino was opened and underwent an expansion project in 2008 and then again in 2010 and has 457 slots and some 750,000 visitors each year. In March this year the Seneca National unveiled a \$130m redesign project for the casino which will also add 900 slots and table games and is due to be finished by the summer of 2013.

Meanwhile gambling at the nine racetracks was initially authorised in 2001 in a bid to boost the economy after the terrorist attacks on the World Trade Centre. Eight of the tracks were able to install VLTs which between them now generate around \$600m in revenues for the state.

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Deals with the 117 year old Aqueduct racetrack however fell through even though this particular track was considered the most profitable. Inspectors later found senate leaders had manipulated the process to favour a political group from Queens and after another round of bids Genting won by offering an upfront fee of \$380m.

And so Resort World was launched. However the other eight racetracks are now lobbying to expand their Racinos into fully fledged casinos with more lucrative table games and there is talk of permitting further casinos across the state.

The nine racetrack casinos are:

EMPIRE CITY CASINO is located in Yonkers Raceway just minutes from New York City and offers live harness track racing five nights a week and simulcast from harness and thoroughbred tracks.

The track was founded in 1899 as the Empire City Trotting Club and between 1907 and 1943 thoroughbred racing replaced harness. In 1972 the Rooney family acquired the track, and harness racing has since been maintained here. In 2005 the track closed its doors for

Deals with the 117 year old Aqueduct racetrack however fell through even though this particular track was considered the most profitable. Inspectors later found senate leaders had manipulated the process to favour a political group from Queens and after another round of bids Genting won by offering an upfront fee of \$380m.

renovation and reopened in 2006 to house over 5,000 slots and electronic roulette games, restaurants, entertainment lounge and food court.

SARATOGA CASINO AND RACEWAY is located in the historic Saratoga Springs and offers live harness racing. The track was opened back in 1941 and visitors can view races via the grandstand, club house or even while dining at one of the two restaurants. The casino opened in 2004 and houses 1,700 slots from video poker, progressives and Keno plus electronic roulette and electronic craps.

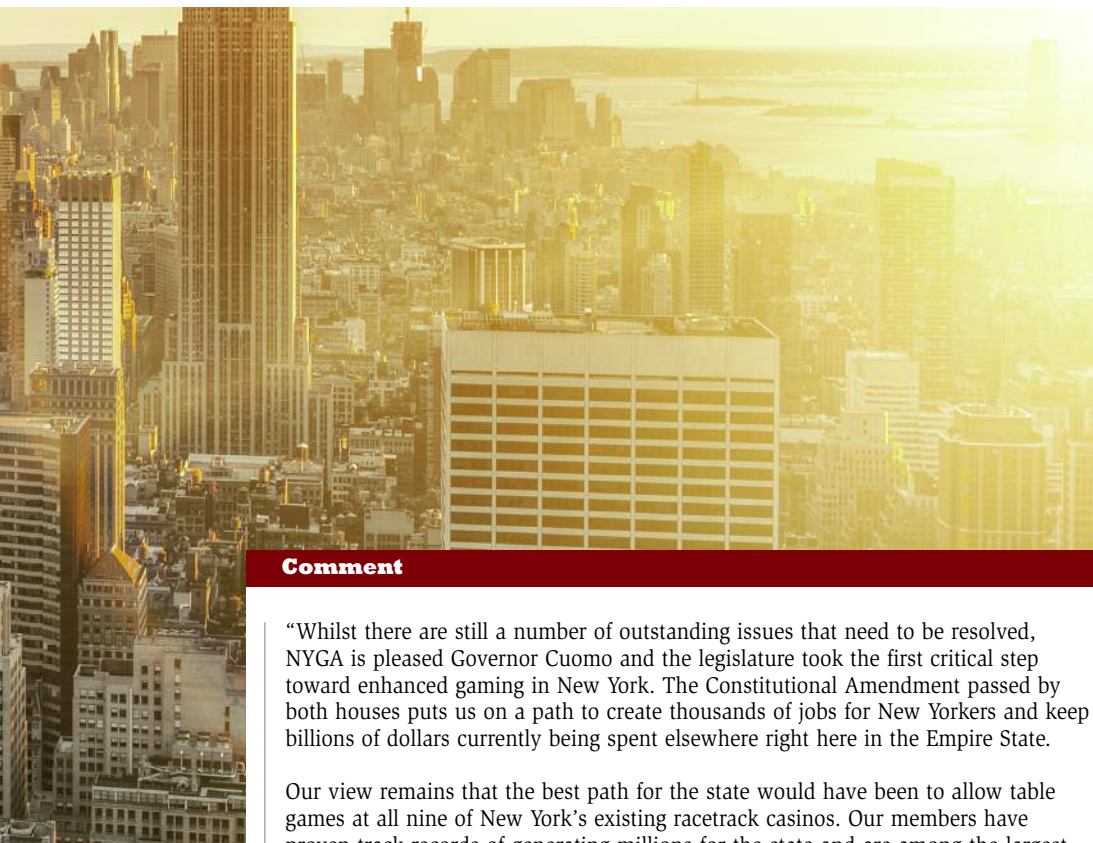
FINGERS LAKE CASINO AND RACEWAY is a thoroughbred racetrack which opened in 1962 and today sees around 1.7 million visitors. The track is on a 450 acre property south of Rochester at the edge of the Finger Lakes wine region. It is operated by Fingers Lakes Racing Association which is a subsidiary of Delaware North Companies. In 2004 VLTs were added to the facility and the casino today has 1,200 slots.

HAMBURG CASINO is operated by Delaware North Companies and is about 13 miles from Buffalo. It houses a 55,000sq.ft casino with 940 slots and the casino opened in 2004.

EIGHT RACETRACKS ARE NOW LOBBYING TO EXPAND THEIR RACINOS INTO FULLY FLEDGED CASINOS WITH TABLE GAMES.

MONICELLO CASINO AND RACEWAY is just 90 minutes from New York City and is operated by Empire Resorts as a harness racetrack. It began its operations in 1958 and in 2004 it underwent a \$34m renovation for its casino and today it houses a 40,000sq.ft casino, food courts and the Lava Lounge. There are 1,000 slots plus electronic roulette.

TOGA DOWNS CASINO is located in the heart of the Southern Tier in Nichols and offers live harness racing plus live concerts. It originated as a quarter horse race track back in 1974. It became a harness track in 2006 whilst adding its casino which houses 700 machines.



Comment

“Whilst there are still a number of outstanding issues that need to be resolved, NYGA is pleased Governor Cuomo and the legislature took the first critical step toward enhanced gaming in New York. The Constitutional Amendment passed by both houses puts us on a path to create thousands of jobs for New Yorkers and keep billions of dollars currently being spent elsewhere right here in the Empire State.

Our view remains that the best path for the state would have been to allow table games at all nine of New York’s existing racetrack casinos. Our members have proven track records of generating millions for the state and are among the largest employers in their regions. However we look forward to working with the Governor and the legislature on future legislation to ensure that it is implemented in the most socially responsible and fiscally reliable way and that New Yorkers reap the maximum benefit from casino gaming.”

James Featherstonhaugh, President of the New York Gaming Association.
www.newyorkgaming.org

NEW YORK CASINO DATA

CASINO	SLOTS	AVERAGE DAILY WIN (May 2012)	NET WIN
Resort World	5,000	\$375	\$253m
Empire City	5,300	\$309	\$609m
Saratoga	1,700	\$244	\$155m
Finger Lakes	1,200	€312	\$125m
Hamburg Casino	940	\$233	\$75m
Monticello	1,000	\$161	\$62m
Tioga Downs	700	\$213	\$59m
Vernon Downs	767	\$158	\$43m
Batavia Downs	600	\$202	\$41m
TOTAL	17,200		\$1.42bn

Resorts World New York opened in October 2011 as a renovation of the Aqueduct racetrack in South Ozone Park in Queens, and is the first destination resort of its kind in the state and offers 2,485 VLTs housed in the Times Square Casino. It later added the more elegant 5th Avenue Casino and a high roller lounge called Crockfords Casino on the second floor featuring an additional 2,515 slots and electronic table games.

Operator profile



Operator: Genting US

New York casinos: Resorts World NYC

Background: Opening towards the end of last year at the Resorts World NYC at the Aqueduct Racetrack in Queens, offers 2,485 VLTs at its Times Square Casino along with a host of 260 electronic table games. The 5th Avenue Casino and Crockfords Casino on the second floor feature 2,515 additional VLTs. Resorts World is the first entertainment destination of its kind in the five boroughs of New York City. The casino will be run by the Malaysia-based Genting Group, a global company founded in 1965 that also has casino resorts in Asia

Key executives: Michael Speller- President of Resorts World New York, Dan Silver- New York Racing Association's Director of Communications, KT Lim- Chairman and Chief Executive of the Genting Group.

Number of employees: Resorts World NYC employs 3,000, globally Genting employs 45,000

Financial health: In just eight months, Resorts World Casino New York City is claiming to have surpassed the Las Vegas Strip, Pennsylvania, Atlantic City, Connecticut and all other localities to become the single largest gross slot gaming revenue and tax-generating gaming property in all the United States. Resorts World New York generated GGR US\$57.5m in May, outpacing second place Mohegan Sun at \$55.4m.

VERNON DOWNS CASINO AND HOTEL in Vernon is located in the centre of New York and overlooks the Vernon Downs Racetrack. The hotel houses the 767 game casino which opened in 2006 and also live entertainment. It is a short walk to the thoroughbred and harness racetrack.

BATAVIA DOWNS is operated by Western Regional Off-Track Betting Corporation. The racetrack opened in 1940 and the casino opened in 2005. It recently underwent a huge renovation and expansion programme to the tune of \$27m which will bring the gaming floor

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Focus

NEW YORK

down to ground floor level plus will add another 200 slots to the 600 it currently operates plus new restaurants.

RESORTS WORLD CASINO NEW YORK CITY

is a wholly owned subsidiary of Genting Malaysia Berhad. Genting began its business in the US in Florida some 11 years ago when it acquired the Miami based Norwegian Cruise Line. Today, Genting owns 50 per cent of the NCL.

In 2006, Genting partnered with Universal Studios to build the Universal Studios Singapore and this is part of the Resorts World Sentosa. Resort Worlds now exist in Malaysia, Singapore, Manila and New York City.

Resorts World New York opened in October 2011 as a renovation of the Aqueduct racetrack in South Ozone Park in Queens, and is the first destination resort of its kind in the state and offers 2,485 VLTs housed in the Times Square Casino. It later added the more elegant 5th Avenue Casino and a high roller lounge called Crockfords Casino on the second floor

GOV. ANDREW CUOMO IS BEHIND A LEGISLATURE THAT COULD SEE UP TO SEVEN LAS VEGAS STYLE CASINOS INTRODUCED IN THE STATE.

featuring an additional 2,515 slots and electronic table games.

The casino received approval by legislature in 2001 but this was delayed by many false starts and controversy. The idea was to give New York City dwellers a casino without having to leave the city.

The casino saw slot machine revenues in May this year of €57.5m which tops the nation eclipsing Mohegan Sun in Connecticut which took \$55.4m. Resort World's highest gross month was \$59m in March this year.



Governors have not decided how the licences will be awarded or indeed who will be eligible and whether existing operators would get special treatment. Gambling giants like Wynn and Las Vegas Sands are eyeing up the opportunities as well as Genting who beat them all to the post by opening its Resort World project last year.

Since 2004, when the first VLTs were installed at Saratoga Casino and Raceway, gaming activity and net revenues have increased rapidly. In 2005 VLT credit played at four racetracks amounted to \$2.19bn. In 2011 (before Resort World opened) the credits played at the eight tracks amounted to \$13.34bn – an annual growth of 29.5 per cent. Of this amount 91.6 per cent was returned to the players in winnings and the net win shared by the state and education funds was \$1.11bn.

CHANGES AHEAD

Gov. Andrew Cuomo is behind a legislature that could see up to seven Las Vegas style casinos introduced in the state.

The legislature gave first approval to the constitutional amendment just recently however this must now be approved by lawmakers in 2013 and by the public in a referendum before it can be enacted. Some are sceptical it will go through. However there are some big casino backers behind the plans.

At the moment there have been no discussions as to the actual location of these casinos although it is understood that Manhattan has been ruled out and

instead the casinos will be used as 'revitalisation tool' for certain regions. Some have cited Long Island and Catskills, which was once a popular resort region which has fallen on hard times.

Governors have not decided how the licences will be awarded or indeed who will be eligible and whether existing operators would get special treatment. Gambling giants like Wynn and Las Vegas Sands are eyeing up the opportunities as well as Genting who beat them all to the post by opening its Resort World project last year.

Genting hired a team to lobby the government and apparently spent over \$1m in two years to bring its casino into being. The investment however has paid off and Resort World was born. In the first five months of operation Resort World has exceeded its own expectations and raked in over \$41m in revenues.

There are of course five Indian casinos, which are all upstate, plus VLT gaming at the nine racetracks which already offer a huge gaming platform for the state. However with the approval of casino licences being issued over the border in Massachusetts some fear this

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Info panel

State: New York
Capital: Albany
Total area: 54,556sq.km
Population: 19,465,197
Main religions: Catholic (40%), Protestant (30%), Jews (8%), Muslims (4%).
Racial makeup: White (65%), Hispanic/Latino (17%), Black or African American (16%), Asian (7%)
Governor: Andrew Cuomo (Democrat)
 Lt Governor: Robert Duffy (Democrat)

.....

Indian casinos: 5
Casino slots: 9,000
Table gaming: 200
Indian casinos GGR: \$1.05bn
Racetracks: 9
VLTs: 17,200
VLT GGR: \$1.1bn
Online gaming: not permitted
Total GGR: \$5.4bn

.....

could drag vital players away from New York state unless they have home grown gaming venues.

The idea to introduce casinos has been raised previously. Back in the 1990s lawmakers began a process to end the ban on gambling whilst more recently a measure to allow five commercial casinos to open upstate passed the State Senate last year but was not considered in the State Assembly and the proposal was not carried on.

The Seneca and Oneida tribes have launched a campaign to block the amendment and could also receive backing from the likes of Caesars Entertainment, who with four casinos in Atlantic City is trying to hold onto its New York visitor and player, as are neighbouring Indian casinos in Connecticut.

Meanwhile the nine racetracks also came together and started to lobby for a new amendment for their operations to bring in enhanced gaming at the racetracks which would see table gaming introduced. They formed the New York Gaming Association which is advocating a constitutional amendment to enhance gaming at their venues.

The New York Gaming Association was set up in 2011 to help look after the interests of the state's nine racetrack casinos and monitors legislation, regulations and policy matters.

Since the first racetrack casino opened in 2002 the venues in total have generated \$3.8bn in revenue for the state whilst creating 11,600 jobs. This is the highest in any state and is a major source of funding for education. In 2011 the industry handed over \$830m to the education funding scheme which is the equivalent of paying 11,900 teacher salaries.

A total of 47 per cent of gaming revenue goes to education whilst 23 per cent goes to racetrack operations, 10 per cent to the lottery division, 10 per cent to the Agribusiness and 10 per cent in capital investment.

The association says with many gamers travelling out of the state to play on table games they take with them an estimated \$3bn whilst millions more is also spent out of state on hotels, entertainment and shopping. The association says if the amendment is approved more than \$976m in additional economic output in the state would be added plus 10,300 more jobs

Since the first racetrack casino opened in 2002 the venues in total have generated \$3.8bn in revenue for the state whilst creating 11,600 jobs. This is the highest in any state and is a major source of funding for education. In 2011 the industry handed over \$830m to the education funding scheme which is the equivalent of paying 11,900 teacher salaries.

created, whilst total revenues at casinos in 2014 would be in excess of \$3.27bn. Funding towards education could reach \$1.3bn annually – equivalent to paying the salaries of 17,700 teachers. If enhanced gaming was permitted the casinos also plan to invest a total of about \$1.8bn in new construction and improvements.

Meanwhile New York, like Illinois, queried the 1961 Wire Act prohibiting wagering over the internet if this also prevents lottery ticket sales online within their borders. Since 2005 New York lottery has offered an online subscription service which allows state residents to enter a string of Lotto or Mega Millions drawings.

The lottery wanted to move forward with its online plans but remains wary of the legal procedure but will now add two additional jackpot games, Powerball and Sweet Million, to its current online lottery service permitting New Yorkers to buy single draw tickets online for the first time.

Meanwhile New York has recently banned some 3,580 online gamers who are all sex offenders and has blocked them from being able to log onto online gaming platforms. The joint operation was set up by the state and some of the world's biggest video game companies.

Convicted sex offenders must submit an email address and internet screen name to the state and gaming sites can now do a sweep to match the data.

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STAKES RISING FOR US GAMING REGULATORS

Experian's **Sandra Green** looks at the challenges facing US regulators as they attempt to establish consistent legislation to both control and exploit the expansion of online gaming beyond individual state lines at the national level

The stakes are now rising fast for online gaming in the US after Nevada, closely followed by Delaware, approved the nation's first interactive gambling licenses.

It's a move that clears the way for online gaming across the Continent, albeit within state lines. It also flies in the face of a strict long-standing federal ban imposed by the Unlawful Internet Gambling Enforcement Act of 2006 - also known as the UIGEA.

Opponents of the UIGEA have continued to criticise the act. Many have argued that the act has simply failed to tackle the dangers of online gambling and pushed it off-shore where it largely went beyond the reach of regulators.

It's also clear that many determined US gamers were not discouraged by the legislation and have continued to gamble online. Despite the concerns of some at consumer abuse, underage gambling, problem gambling, or money laundering, it is now believed that



Sandra Green is a Director at Experian, where she heads the company's gaming and retail teams. Working mainly from the company's London offices, she is experienced in overseeing the delivery of fully compliant solutions for player acquisition, validation, age and ID verification, fraud prevention and anti-money laundering technology.

regulation of online gambling is a far better alternative.

Given Nevada and Delaware's position on online gaming, this year is likely to become the tipping point for internet gambling. Therefore doing nothing simply isn't an option for the US.

From here on Congress will be under even more pressure to act - even if it's just the very beginnings of drafting what will become very comprehensive legislation. But it's really how the US regulates and meets those compliance demands that are the real challenges. Clearly consistent legislation will be the key to ultimately expanding online gaming beyond individual state lines.

The critical challenge for the US now is to duplicate Europe's success with online gambling, while creating a cost-effective revenue stream that satisfies the regulators' strict compliance demands.

Regulators have already insisted that interactive gaming systems must be

MANY ARGUE THAT THE UIGEA FAILED TO TACKLE THE DANGERS OF ONLINE GAMBLING AND PUSHED IT OFFSHORE.

robust enough to be able to weed out both underage and out-of-state players. But given the internet's global reach, it's inevitable that the games will be available to people outside of Nevada or Delaware's boundaries, therefore imposing technology that imposes regional restrictions on gamers is vital.

In many respects the US is already in a very good place ahead of wider adoption. It's clearly going to be an intelligent, mature market place with access to a wealth of expertise, broader experience and knowhow built from a

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groundswell of home grown talent that has developed skills overseas and largely in Europe.

Regulators will also be carefully looking at how the industry operates elsewhere to ensure the model the US eventually adopts reflects the very best practice and most effective technology. Given secure internet banking is readily available for millions of Americans the broad online infrastructure is actually already in place. The likelihood is that licensed US online gaming operators will be under a fair degree of scrutiny from the outset with strict deposit or wager limits imposed along with a sizeable, regularly updated exclusion lists of individuals barred from using licensed sites.

It's not how to prevent online gaming, because clearly like it or not, it's now a well-established, multi-billion dollar global industry. The issue is simply about how US gamers' are protected by a transparent, effective regulatory structure that is underpinned by the very best of breed authentication,

verification and anti-fraud technology - which is already in widespread use across Europe.

The key tool set any online gaming business has to include is a slew of well-established, fast and adaptable electronic platforms that includes the validation and regional allocation solutions to ensure participants are who they say they are and are where they say they are. At the same time, the companies have to be absolutely confident they can maintain full compliance.

As gaming goes online it is clear that the regulators will require the same level of due diligence as they have for off-line gaming. Although ironically, it could also be argued that this challenge now carries even more weight in the US than it does in Europe, given that historically American casinos are often far more willing to extend very sizeable credit lines to players.

It puts Experian, which recently snapped up fellow tech firm 192b, in a

"The key tool set any online gaming business has to include is a slew of well-established, fast and adaptable electronic platforms that includes the validation and regional allocation solutions to ensure participants are who they say they are and are where they say they are. At the same time, the companies have to be absolutely confident they can maintain full compliance."

Sandra Green,
Experian.

AS GAMING GOES ONLINE IT IS CLEAR THAT THE REGULATORS WILL REQUIRE THE SAME LEVEL OF DUE DILIGENCE AS OFF-LINE.

good position to provide gaming companies with flexible and adaptable systems thanks to its fully proven technology and the vast wealth of its datasets. They hinge on extremely reliable and robust authentication, credit information and knowledge-based validation technology that already have a proven track record across the globe.

The stakes are high, but there are also enormous opportunities for all in a huge, largely under-developed market place.

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A NEW CHAPTER

Four new land-based casinos are to open in Ohio over the next 12 months operated by Penn national and Rock Ohio Caesars, while Racinos in the state will be able to offer VLT gaming for the first time to players as the market expands rapidly

Ohio is located in the mid western United States and is the 34th most extensive, seventh most populous and 10th most densely populated of all the US states.

The name is derived from the Iroquois word *ohi-yo* which means Great River and it was originally partitioned from the Northwest Territory and was admitted to the Union as the 17th state back in 1803.

Historically Ohio is known as the Buckeye State which relates to the buckeye tree and because of its geographic position, basically linking the northeast to the Midwest. It has benefited greatly from economic growth and expansion and cargo and business traffic often pass through the state borders and it has a well developed highway network and is a one day drive for 50 per cent of North America's population and 70 per cent of North America's manufacturing capacity.

The State is bordered by Pennsylvania, Michigan, Ontario (Canada), Indiana, Kentucky and West Virginia whilst the Ohio River also borders the country.

Ohio has the seventh largest economy of all the US States and has a GDP of \$452bn this year a 3.9 per cent increase from 2011 figures.

Unemployment at the moment stands at around 7.7 per cent whilst the per capita income stands at \$34,874.

Ohio median household income is \$46,645 although 13.1 per cent of the population is still below the poverty line. Ohio ended the third quarter of last year with a 1.9 per cent growth in personal income.

The state is primarily made up of glaciated plains and it has an exceptionally flat area in the northwest known as the Great Black Swamp. The capital is Columbus whilst other major cities include Cleveland, Cincinnati, Toledo and Akron.

Tourism is a key component of Ohio's economy and in 2010 visitor spending generated \$38bn in sales for Ohio businesses. Around 437,000 full time jobs are sustained via the tourism and travel industry with a total income of \$10bn. Ohio contributed \$740bn to the US Tourism Industry last year whilst total visits to and within Ohio grew to almost 179 million which is a four per cent growth from the previous year.

Ohio has the seventh largest economy of all the US States and has a GDP of \$452bn this year a 3.9 per cent increase from 2011 figures. Unemployment at the moment stands at around 7.7 per cent whilst the per capita income stands at \$34,874. Ohio median household income is \$46,645 although 13.1 per cent of the population is still below the poverty line. Ohio ended the third quarter of last year with a 1.9 per cent growth in personal income.

FOUR CASINOS WILL OPEN IN OHIO OVER THE NEXT 12 MONTHS WHICH WILL BE OPERATED BY PENN NATIONAL AND ROCK OHIO CAESARS.

It is understood the unemployment rate has been dropping mainly because people have stopped looking for work and therefore are not officially unemployed. Ohio's labour force in January this year was about 5.8 million. The state has been hit terribly by the recession and has lost more than 500,000 jobs in the past decade due to the industrial decline. Meanwhile Ohio is one of 41 states with its own lottery and the Ohio Lottery has contributed more than \$17bn to public education in its 39 year history.

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It was formed in 1973 after State Senator Ron Mottl began a campaign two years previously to start up a lottery. The Ohio Lottery Commission was created and the lottery began in August 1974 with the game Buckeye 300. It's first online game The Numbers began in 1979 and more recently the commission also monitors and administers the charitable bingo licensing for the state.

In 1983 the general assembly earmarked profits from the lottery to the education system and this was approved in 1987 and since then the lottery has provided more than \$17bn to the education system which is four per cent of the total funding needed.

Today the lottery offers customers a range of instant games and online games to play at more than 8,900 retailer locations across the state.

The economy has of course had a direct impact on the lottery sector however despite this the Ohio Lottery saw its 10th consecutive year of growth with sales increasing by 4.5 per cent. In

2011 the lottery reached a sales record of \$2.6bn with \$738.8m transferred to the Education Fund whilst dishing out more than \$1.5bn in prizes to holders of winning tickets.

Around \$51m was withheld in Federal taxes and \$12.2m in state taxes from prizes awarded in 2010.

Online sales increased by 2.4 per cent. The lottery's major vendor is Intralot, which in addition to operating the Ohio Lottery, also houses data processing information for five other state lotteries.

OHIO'S NEW CASINOS

Once upon a time Ohio permitted charitable gaming, horse racing and the lottery. Then in 2010 a constitutional amendment authorised the operation of a maximum of four casinos into the state to be opened in Cleveland, Columbus, Toledo and Cincinnati.

Two previous attempts had failed to get casinos introduced but it was a case of third time lucky and in 2009 the voters agreed to permit casinos via a ballot.

Once upon a time Ohio permitted charitable gaming, horse racing and the lottery. Then in 2010 a constitutional amendment authorised the operation of a maximum of four casinos into the state to be opened in Cleveland, Columbus, Toledo and Cincinnati.

Ballot initiatives are essentially a way for residents to settle an issue directly without state legislatures. Some 24 states currently permit them whilst 18 states allow voters to make amendments to the state constitution.

A total of four casinos will open in Ohio over the next 12 months which will be operated by two companies – Penn National and Rock Ohio Caesars.

The newly created gambling commission, the Ohio Casino Control Commission, has been set up to control the casino sector and consists of seven members. The Casino gaming is authorised by Chapter 3772 of the Ohio Revised Code.

This includes the following:

- Casino gaming shall be authorised at four casino facilities in Cincinnati, Cleveland, Toledo and Columbus.
- Each casino must pay an upfront \$50m licensing fee for each location. This shall be used to fund state economic development programmes.
- Minimum investment per casino is \$250m which can be split into two payments over a 36 month period.
- The casino operators can not hold a majority ownership interest of more than two of the four casinos at any one time.
- Casinos shall pay a 33 per cent tax on all gross casino revenue. Meanwhile they are also subject to all customary non-discriminatory fees, taxes and charges. The proceeds of this tax shall be distributed as follows:
 1. 51% to all 88 counties in Ohio in proportion to their population.
 2. 34% to all 88 counties respective public schools
 3. 5% to the host city where the casino is located
 4. 3% to the Ohio Casino Control Commission
 5. 3% to the Ohio State Racing Commission
 6. 2% to the problem gambling fund
 7. 2% law enforcement fund.



- Casinos will only permit gaming to those over aged 21 years.
- Casino gaming can be conducted 24 hours per day and there is no limit on gaming tables but a maximum of 5,000 slots are permitted. Slot payout should not be less than 85 per cent.
- Casino facilities must use a cashless wagering system.
- Alcohol is only served until 2.30am like the rest of the state's liquor serving establishments.

The Bill 386 was passed in May just a week before the opening of Ohio's first casino – the Horseshore Casino. It purposely left out language which would have allowed one charity card room in each of the state's 88 counties. Legislators say the card rooms will be dealt with in the future but the bill needed to be passed.

The Horseshoe Casino was opened by Rock Gaming LLC which is a gaming partnership that was formed with the

The Bill 386 was passed in May just a week before the opening of Ohio's first casino – the Horseshore Casino. It purposely left out language which would have allowed one charity card room in each of the state's 88 counties.

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primary focus of backing the state constitutional amendment to bring landbased casino gaming to Ohio.

The company was born back in early 2009 when a team of seven businessmen, who were all childhood friends, came together to lay the ground work for the successful passage of introducing casinos into two of Ohio's four largest cities – Cleveland and Cincinnati.

Rock Gaming LLC is headed by Chairman Dan Gilbert who is also the majority owner of the NBA's Cleveland Cavaliers and Chairman and Founder of online home lender, Quicken Loans. Gilbert has around 40 companies employing 6,000 people nationally. He formed Rock with friends Matt Cullen (President and COO) plus (Principals) Jeffrey Cohen, Nathan Forbes, Len Komoroski, Steve Rosenthal and Brian Hermelin.

In September 2011 they submitted an application to develop a large scale casino near the city's Inner Harbour with Caesars (which has a 20 per cent

ROCK OHIO CAESARS SPENT A TOTAL OF \$350M ON THE CLEVELAND CASINO ADDING VALET PARKING SLOTS AND TABLE GAMES.

stake) and two local investors. The idea was to transform the historic Higbee Building, which is a cherished Cleveland landmark, into a Las Vegas style casino. Their idea was to create a high style up-scale 'urban' casino which feeds on the character of a city and its attractions.

In December last year, Rock Ohio Caesars then purchased The Ritz Carlton which is connected to the Higbee Building for \$36.5m and also the building next door connected to the hotel. The Ritz Carlton will continue to



operate as Cleveland's only Mobil four star and AA four Diamond rated hotel through a long term management contract.

Caesars were brought onboard at the end of 2010 primarily to operate the two casinos, which would be developed under the Horseshoe brand. Although Caesars is a minority partner it has invested \$200m into the Ohio casinos.

Rock Ohio Caesars spent a total of \$350m on the Cleveland casino after it also built a \$34m valet parking operation and added slots, table games and furnishings. It has created 1,600 casino jobs. The company paid \$3m for licensing and application fees.

The 76,000 sq.ft basement features a kitchen and 400 seat buffet restaurant with an entrance to the Tower City food court. There is a 96,000 sq.ft gaming floor which holds 2,100 slot machines, 65 table games and 30 table World Series of Poker room. It was opened on May 14th and is projected to attract five million visitors per year.

The Cleveland Horseshoe Casino is headed by General Manager and Senior Vice President, Marcus Glover of Rock Ohio Caesars. Day one saw 5,000 visitors at the opening night including 1,000 VIP guests invited to a VIP reception. Capacity is limited to around 5,000 at any one time.

Meanwhile Rock Ohio Caesar's second casino, The Horseshoe Casino Cincinnati, will open in spring 2013, and is being built in the northeast corner of downtown Cincinnati.

It is estimated to cost \$400m to develop and will create nearly 1,700 jobs and see an annual visitor figure of nearly six million. It will house 100,000 sq.ft of gaming action and have 2,300 slot and 73 gaming tables and a 31 table World Series of Poker room. There will also be three outward facing restaurants, VIP players lounge, coffee shop and entertainment.

Senior Vice President and General Manager Kevin Kline will head this project and is a 17 year gaming veteran who joins the casino from Caesars

The Horseshoe Casino Cincinnati, will open in spring 2013, and is being built in the northeast corner of downtown Cincinnati. It is estimated to cost \$400m to develop and will create nearly 1,700 jobs and see an annual visitor figure of nearly six million. It will house 100,000 sq.ft of gaming action and have 2,300 slot and 73 gaming tables and a 31 table World Series of Poker room.

Operator profile



Operator: MTR Gaming Group

Casino: Scioto Downs

Background: Opened in June but has just added 300 further VLTs to its existing 1,700

Key executives: Michael Newsome- Director of Marketing

Number of employees: 750 jobs

Financial health: During its first month of operation, the racino generated \$11.1m.

Internet history: It's early days just for the land-based casino industry in Ohio with Scioto Downs being the first of four commercial casinos planned for the state. Penn International is hoping to start work on its Dayton racino in autumn with the aim of opening in 2014.

Entertainment. It is thought the Horseshoe Cincinnati will generate \$100m annually in gaming tax revenue

Meanwhile Penn National will operate the other two Ohio casinos - Hollywood in Toledo and a Hollywood Casino in Columbus.

Penn National was set up in Pennsylvania in 1982 as PNRC Corp and changed its name in 1994 when the company became public. In 1997 they began to move from just a pari-mutuel company to a diversified gaming company and the introduction of VLTs in West Virginia and latterly casino operations across the US. The company is the third largest US gaming company and currently owns 19 casinos and 11 race tracks across 19 jurisdictions and operates a total of 29,700 slots and 640 table games plus 2,400 hotel rooms with revenues exceeding \$2.5bn.

There are already 11 branded Hollywood casinos across the US and the new Hollywood brands in Toledo and Columbus will bring the total to 13.

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In Ohio Penn National also operates the Raceway Park track in Toledo which opened back in 1959 and this is a 58,250 sq.ft facility which features simulcast wagering and has theatre style seating capacity for 1,977. In 2010 the company saw net revenues of \$2.4bn

The Hollywood Casino Toledo was opened on May 29 this year and features 125,000sq.ft of gaming floor with 2,002 slots and a total of 60 table games and 20 live Poker tables. It is located on the banks of the Maumee River and also includes the H Lounge for entertainment.

It has cost \$300m to develop whilst officials say the 2,000 slots housed in the casino will generate some 85 per cent of the casino revenue. It will create 1,329 permanent jobs.

Meanwhile the Hollywood Casino Columbus is due to open in November this year and is located off the I-270 highway at West Broad Street and Georgesville Road. It will house 3,000 slots, 70 table games and a 30 table poker room in 130,000 sq.ft of gaming area.

The Hollywood Casino Toledo was opened on May 29 this year and features 125,000sq.ft of gaming floor with 2,002 slots and a total of 60 table games and 20 live Poker tables. It is located on the banks of the Maumee River and also includes the H Lounge for entertainment.

Initially Penn had chosen an abandoned warehouse on 18 acres off a beaten track in the Arena district for its casino spot but voters asked the company to move the location to an abandoned auto plant on the city's west side saying the area initially chosen was designed for family entertainment not a casino.

This sparked a whole different set of problems when Penn initially refused to annex Columbus to the casino meaning the city could lose as much as \$9m a year in casino tax revenue earmarked for host cities. The problem was resolved in May last year when they reached an agreement to annex the city in return for water and sewage services and other considerations.

Meanwhile Ohio will tax gross casino revenues at 33 per cent, one of the highest rates in the nation for a resort casino with this level of investment. Portions of tax revenue will go to public school districts, the host cities and all 88 state counties and to law enforcement training and gambling abuse centres.

Matthew Schuler, Executive Director of the Ohio Casino Control Commission

OHIO WILL TAX GROSS CASINO REVENUES AT 33 PER CENT, ONE OF THE HIGHEST RATES IN THE NATION FOR A RESORT CASINO WITH THIS LEVEL OF INVESTMENT

said: "In a 2009 analysis the Ohio Department of Taxation and the Office of Budget and Management estimated that when all four casinos were open and fully operational, the 33 per cent tax on gross casino revenue would generate between \$470m and \$643m per year depending on a number of factors, including whether all seven Ohio racetracks would have video lottery terminals."

THE RACINOS

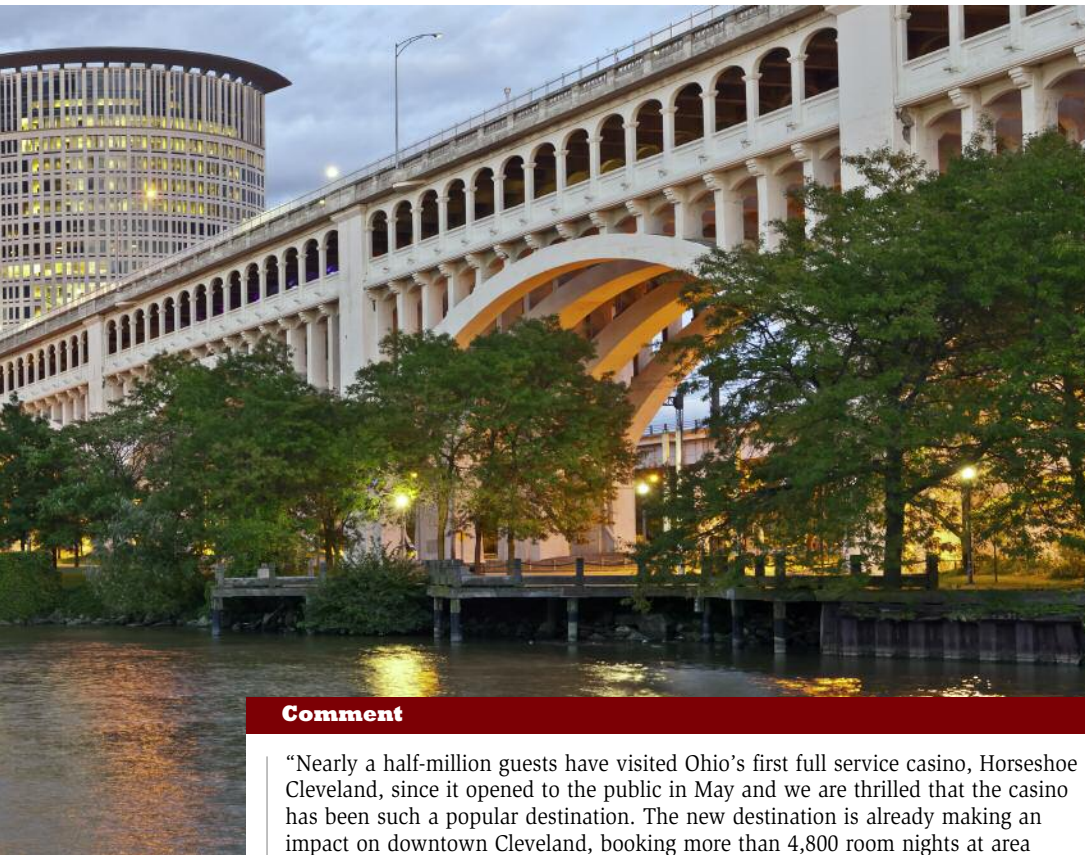
There are seven race tracks in Ohio and there are three types of racing facilities including three Thoroughbred Race

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Comment

“Nearly a half-million guests have visited Ohio’s first full service casino, Horseshoe Cleveland, since it opened to the public in May and we are thrilled that the casino has been such a popular destination. The new destination is already making an impact on downtown Cleveland, booking more than 4,800 room nights at area hotels and generating 24-7 excitement for the Midwest city that hugs the south shore of Lake Erie. Rock Gaming, who’s lead investor Dan Gilbert is the founder of the US’s largest online home mortgage lender and is majority owner of the NBA’s Cleveland Cavaliers, is also developing a full service casino in downtown Cincinnati with global gaming giant Caesars Entertainment. This is due to open in Spring 2013 and will include three outward facing restaurants to engage pedestrians and support existing businesses, cultural, nightlife and sports attractions downtown. Combined, the Ohio Horseshoe casinos are projected to attract 11 million visitors annually whilst creating more than 3,200 new jobs and generating millions of dollars in gaming tax revenue for the state and host cities. Recent legislation in the state will permit Ohio’s seven horseracing tracks to operate VLTs. One racino has already opened and plans have been announced by operators to expand four other racetrack facilities.”

Jennifer Kulczyk, Communications Director at Rock Gaming.
www.rock-gaming.com

Tracks which offer simulcast racing (Beulah Park, River Downs and Thistledown), four Standard Race Tracks offering live standard (or harness) racing (Lebanon Raceway, Northfield Park, Raceway Park and Scioto Downs) and two Off Track Betting Parlours which offer video simulcast of races around the country but no live races (Cedar Downs and Mifflin Meadows).

Five of the racetracks are owned by casino companies whilst Lebanon and Northfield are the only two privately owned. The sector is governed by the

Ohio State Racing Commission which was created in 1933 and is responsible for the seven racetracks and 67 country fairs where pari-mutuel wagering is conducted.

Although all eyes are on the four big casinos currently opening in Ohio another debate has been continuing in the background and will see VLTs introduced at the racetracks.

In June Gov. John Kasich signed legislation, House Bill 386, which will permit ‘racinos’. The bill includes more than \$2m for Austintown and other

communities which become home to horse track VLTs - \$1m per city to be paid in December and June and \$500,000 annually thereafter.

The idea is to enable the race tracks to be competitive with the new casinos currently being built. The law includes the following points:

- The Ohio Lottery Commission will be responsible for rules and licensing of VLTs at horse racing tracks.
- Horse racing tracks will give one per cent of their slots revenue to a state fund for gambling addiction.
- Minimum number of live horse racing days shall be raised from 45 days (current) to 75 in 2013 and 125 by 2015.
- VLT licensees must establish guidelines for minority owned businesses to compete for contracts.
- The Ohio Attorney General’s office will enforce casino laws.
- No race track can have more than 2,500 VLTs unless approved by the lottery director.
- They will be available as three year renewable licences.
- Each racetrack will have to pay a \$50m licensing fee to install VLTs and a tax rate of 33.5% of sales revenue.
- Racetracks must also invest at least \$150m in their facilities, including the VLTs, with a maximum credit of \$25m for the value of existing facilities and land. The Racinos would have to open within three years of being licensed.
- Slots and horse racing wagering areas must be kept clearly separate and security camera video must be retained for a minimum of 14 days.

At the beginning of June Scioto Downs Casino & Racetrack became the first Racino in the state. The style is very much Las Vegas and the racetrack has created an ambience and environment that players would expect to see in major gaming areas.

MTR Gaming Group has invested around \$152m to build the 117,000 sq.ft gaming facility that is situated in front

Five of the racetracks are owned by casino companies whilst Lebanon and Northfield are the only two privately owned. The sector is governed by the Ohio State Racing Commission which was created in 1933 and is responsible for the seven racetracks and 67 country fairs where pari-mutuel wagering is conducted.

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of the harness track located just two miles south of interstate 270 amongst farm fields.

The venue now offers a 24 hour smoke free Scioto Downs Casino featuring more than 1,700 VLTs over a single floor ranging from 1c play to \$100. The Grove Buffet sports bar has space for another 400 slots currently under construction and due to open in August.

MTR Gaming Group was the first company to submit a formal application for VLT's at its own Scioto Downs harness track in Columbus. MTR is a hospitality and gaming company which owns and operates the Mountaineer Casino, Racetrack and Resort in West Virginia and the Presque Isle Downs and Casino in Pennsylvania and acquired Scioto Downs in Columbus Ohio in 2003. Troy Buswell was recently appointed as Vice President and General Manager of Scioto Downs Casino and Racetrack.

The company has redeveloped Scioto Downs and it now includes four food and beverage outlets. Construction was over two phases with development costs of around \$125m over three years

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which does not include the \$50m licence fee.

MTR President Jeffrey Dahl said: "This is a significant achievement for MTR Gaming as Scioto Downs becomes the first of Ohio's racetracks to be granted a permanent license to operate VLTs in the state."

The passage to permit VLTs has not been an easy one. In May the Courts dismissed a lawsuit which questioned the constitutionality of the Scioto Downs' VLT plans and this has now cleared the way for the state's other six tracks to add VLT gaming. The other tracks had been holding off until a decision was made.

Conservative and Christian groups had tried to oppose the Racino plans which ultimately are aimed at filling a \$850m budget deficit. Back in 2009 the Controlling Board approved a similar scheme under former Democratic Governor Ted Strickland's administration. His proposal to legalise VLTs at race tracks was however sidelined by a court challenge and ultimately dropped.

Then the Ohio Roundtable, an

**IT IS
ANTICIPATED
THAT THE
RACINOS IN OHIO
WILL GENERATE
BETWEEN \$225
AND \$275 WIN
PER VLT PER
DAY.**

advocacy group, sought to overturn the law which would have given the Ohio Lottery Commission permission to install the VLTs at the racetracks. The group sued Governor John Kasich, the Ohio Casino Control Commission, the Lottery Commission and the Ohio Department of Taxation.

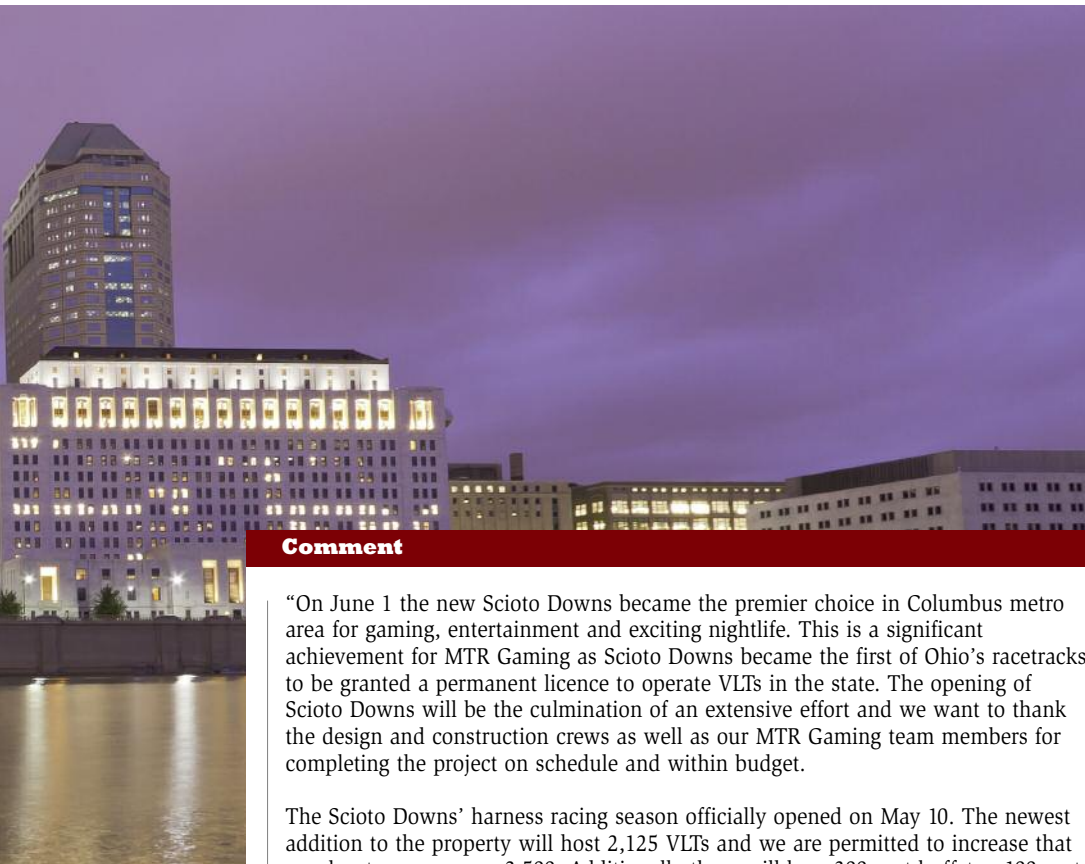
The roundtable alleged that offering VLTs at the race tracks violated the Ohio Constitution. They argued that a 'backroom' deal struck in June last year between Governor Kasich and the casino developers exceeded the governors authority. The group believes racetrack VLTs should be on the state wide ballot for vote, similar to that

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Comment

“On June 1 the new Scioto Downs became the premier choice in Columbus metro area for gaming, entertainment and exciting nightlife. This is a significant achievement for MTR Gaming as Scioto Downs became the first of Ohio’s racetracks to be granted a permanent licence to operate VLTs in the state. The opening of Scioto Downs will be the culmination of an extensive effort and we want to thank the design and construction crews as well as our MTR Gaming team members for completing the project on schedule and within budget.

The Scioto Downs’ harness racing season officially opened on May 10. The newest addition to the property will host 2,125 VLTs and we are permitted to increase that number to as many as 2,500. Additionally there will be a 300 seat buffet, a 100 seat casual dining restaurant and 82 seat bar/lounge known as the Veil with high-tech sound and lights and offering entertainment. The existing racetrack will also benefit from a variety of significant improvements.”

John Bittner, Executive Vice President and Chief Financial Officer, MTR Gaming Group. www.mtrgaming.com

undertaken for the casino law.

The drama escalated at the end of last year when Kasich signed an Executive Order in October which gave the State Racing Commission the chance to approve an emergency rule permitting the track owners to introduce VLTs with immediate effect. But less than 24 hours later the Roundtable said it would challenge the order and handed over a lawsuit. Without the emergency rules the tracks would have had to wait until the Joint Committee on Agency Rule Review completed its process which could have taken a few months.

Meanwhile the State’s control board announced in September last year that Intralot will implement the monitoring system for tracking VLTs in Ohio. The company is already the vendor for the Ohio Lottery and the contract is for two years and worth \$9m.

Somehow Intralot managed to skirt the competitive bidding process and will now set up the system that tracks the activity of all machines operated at the race tracks. The offer was not available to other companies in a bid to save time and money.

It is anticipated that the Racinos will generate between \$225 and \$275 win per VLT per day meaning Ohio could conservatively see around \$2m in revenue per month overall from the installation of VLTs.

Meanwhile Penn National has filed requests to transfer the licences of its racetracks to other locations in the state to avoid competition from the new casinos.

The two tracks – Beulah Park in Columbus and Raceway Park in Toledo will move to new locations (Youngstown and Dayton). Penn plans

Info panel

State: Ohio
Capital: Columbus
Total area: 116,096 sq.km
Population: 11.5 million
Main religions: Evangelical Protestant (26%), Mainline Protestant (22%), Roman Catholic (21%)
Racial makeup: White (82.8%), Black (11.8%), Hispanic (2.3%), Asian (1.5%), Mixed race (1.3%), Other (0.3%)
Governor: John Kasich (Republican)
Lt Governor: Mary Taylor (Republican)

.....

Casinos: 4 permitted
Casino slots: 9,400
Table gaming: 380
Racetracks: 7
GGR racetracks: \$232m (total handle)
VLTs: total 17,500 across all racetracks
Online gaming: not permitted

.....

to invest at least \$300m on the two new tracks. It is thought that the state government will then invest in these two neighbourhoods and utilise the venues for something else.

Meanwhile Northfield Park in Northfield announced a deal with Hard Rock in April to build a Hard Rock branded facility at the harness track whilst Thistledown, a thoroughbred track in Cleveland, has investigated relocating to the Akron area.

Delaware North Companies Gaming and Entertainment has also announced a joint venture with Churchill Downs Incorporated to purchase Lebanon Raceway and develop a VLT facility under new company name Miami Valley Gaming.

Rock Ohio Caesars has also installed VLTs at the Thistledown horseracing track whilst also reserving the right to eventually move the track and machines to the Akron-Canton area. The idea is to move the track outside of the casino’s primary market.

Thistledown’s grandstand would be re-designed to accommodate VLTs initially and the machines could begin operating by next spring. To move the facility the company will have to pay the state a \$25m relocation fee and make \$150m in improvements to their new site. Thistledown was founded in 1925 and Caesars Entertainment bought the 128 acre property in a bankruptcy sale two years ago.

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THE NEXT GENERATION

ComTrade's **Ales Gornjec** insists that the next generation of gaming platforms should form part of the expansion and continued development and integration of existing initiatives already developed by land-based casino gaming operators

The opening to online gaming in the United States is no longer a mere discussion. Considerations and preparations are being taken by US state lotteries and land-based operators to launch the online business and seize the vast opportunity with the goal to outrun the competition. But what challenges lay ahead for existing land-based casino operators that are planning to expand their business online? And what added value will they deliver to their players from the extremely well established and more experienced European online gaming operators?

Land-based operators with an online strategy might not fully understand the implications of moving to an online platform and some operators more than others as they already have their online "play for fun" initiatives running and are building their brands in order to push an early recognition.

Serving the online player and managing an online operation is of course different from a knowledge, process and technical perspective. Therefore most land-based operators will start a learning period in order to



Ales Gornjec,
Director of Gaming
at ComTrade,
formerly HERMES
SoftLab. Ales
launched the
ComTrade Gaming
Division and he is
responsible for 200
engineers fielding
the area of online
casino, casino
management,
sports betting,
online poker and
live casino
software.

find out what marketing approaches work, best practices for effective customer service and how the online player behaves and perceives the online play.

In our opinion, one of the biggest mistakes that land-based operators can make at the very start is to develop a separate strategy for online gaming. Their existing land-based and social strategies should be revised and reworked to include online as well and a unified player experience in delivering added value to players regardless of point of interaction. This also means revising the impact on the landbased operation and backing the new strategy up with necessary process improvements and changes in technology that will enable a single customer view across all channels and products.

Why is this so important? Even though the existing land-based operators in the US have greater experience with the local market they are far below the online standard that European operators provide. European operators also have superior online technology and know-how already in place.

IT'S IMPORTANT TO NOTE, NOT ALL ONLINE GAMING PLATFORMS ARE FIT FOR PURPOSE WHEN IT COMES TO INTEGRATING MULTIPLE GAME SUPPLIERS.

On the other hand, US land-based operators have a big advantage over the European rivals: existing player database, brand awareness and a multitude of land-based properties. They know their players behaviour patterns, their likes and dislikes what marketing approaches work best for particular segments, which includes what type of games they prefer. Additionally knowing the local regulation might enable them to obtain an online license faster.

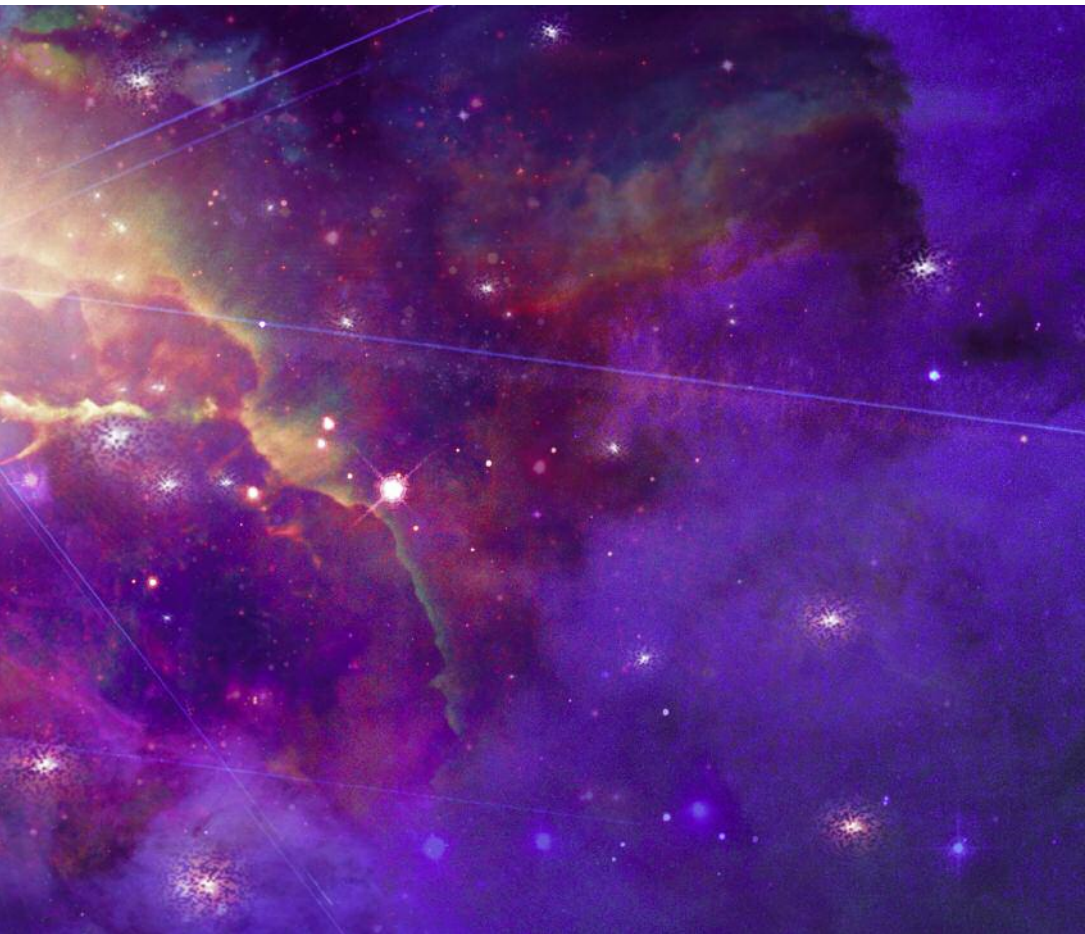
Here lies the competitive advantage

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over European online gaming operators. They should provide added value through creating a seamless and engaging player experience across online and land-based, regardless of location, channel, brand or product. However they can't achieve this without the right technology and solutions.

It is important to note that not all online gaming platforms are fit for purpose when it comes to integrating multiple game suppliers and centralised management of the online operation. It might almost seem natural to the landbased operators that slots on the casino floor from different slot manufacturers are integrated into one system that is managed from one single back-office. This is rarely the case with online platforms. This is mainly due to historic reasons as online gaming was treated as a separate world and current online platforms have been developed without the land-based world in mind. Because of that most game suppliers

offer their own back-office that is specifically created to manage proprietary games, with no possibility of integrating games or solutions from other suppliers. The operators then quickly face an issue if they then build their own game portfolio from multiple game suppliers. The result is multiple player accounts for a single player and dispersed information across multiple back-offices making it difficult to see the entire picture. This is not good enough for land-based operators as they also have a land-based operation that current online platforms just don't take into account.

This means that a new trend of a generation of online gaming platforms that are open in nature and independent has begun. These platforms support and ease the costly integration with multiple game suppliers and land-based systems thus creating a cohesive environment and single customer view across multiple online brands and products as well as

"With the right platform operators can offer targeted incentives and reward existing land-based players if they play online.

The online player then has the ability to cash in or cash out money from online accounts at the casino reception or redeem comp points they have collected online in one of the casino shops."

Ales Gornjec,
Director of Gaming
at ComTrade,

channels. Additionally in most cases they use a seamless e-Wallet for all player fund transfers enabling the use of a one player account across multiple brands or content providers. All the areas of online operation like player management, bonusing, loyalty, fraud prevention, responsible gaming and content management, which are very different from the land-based operations, are then managed centrally allowing complete control of the operation. This also ensures higher effectiveness of customer service, marketing and accounting with a complete overview. Mobile support is also important as players demand easy and flexible access to their favourable games. And of course don't forget about social.

SO WHAT IS THE EXPECTED RESULT OF ALL OF THIS?

The most successful operations in the US have invested a lot in completely integrated set of systems to provide this level of functionality for the landbased operation. A single cashless account regardless of the location, player value determination based on play at any slot machine or table game and earning and redeeming loyalty points along the way at any operator's venue. To be successful in online the same approach must be taken when integrating online and land-based into one seamless operation.

With the right platform operators can offer targeted incentives and reward existing land-based players if they play online. The online player then has the ability to cash in or cash out money from online accounts at the casino reception or redeem comp points they have collected online in one of the casino shops. The possibilities are limitless and land-based operators can provide multiple incentives that operators solely involved in online can't.

The operators that will prove to deliver greater value to players, cross promoting both land-based and online and joining both in a seamless player experience will achieve a new generation of online gaming.

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TEXAS HOLDING

It's estimated that Texans spend around \$4bn in other states on casino gambling. Logically, the state would like to keep this revenue within its borders with proposals for up to eight casino resorts to be built throughout the state

The Lone Star central southern state of Texas is the second most populous and the second most extensive of the US states. Sharing international borders with Mexico whilst joining US states New Mexico, Oklahoma, Arkansas and Louisiana the state has an area of 696,200 sq.km and a whopping population of 25.7 million.

Its name is derived from the word tejas meaning 'friends' or 'allies' and was applied by the Spanish. During colonial rule the area was known as the Nuevo Reino de Filipinas and the name Texas was not used until the end of the 1800s.

Spain was the first country to claim the area of Texas followed by France then

Tourism is a big sector in Texas with around 198 million visitors in 2010, a 6.5 per cent increase over 2009 whilst 70 per cent of these travelled for leisure. Of this figure 7.4 million were international visitors.

Mexico which controlled the land until 1836 when the state became independent. In 1845 it joined the US as the 28th state. Its nickname Lone Star relates to Texas as a former independent republic and its struggle for independence from Mexico.

The state has diverse landscapes and although the state is associated with deserts less than 10 per cent of the land area is actually desert. Three cities have over one million in population – Houston, San Antonio and Dallas.

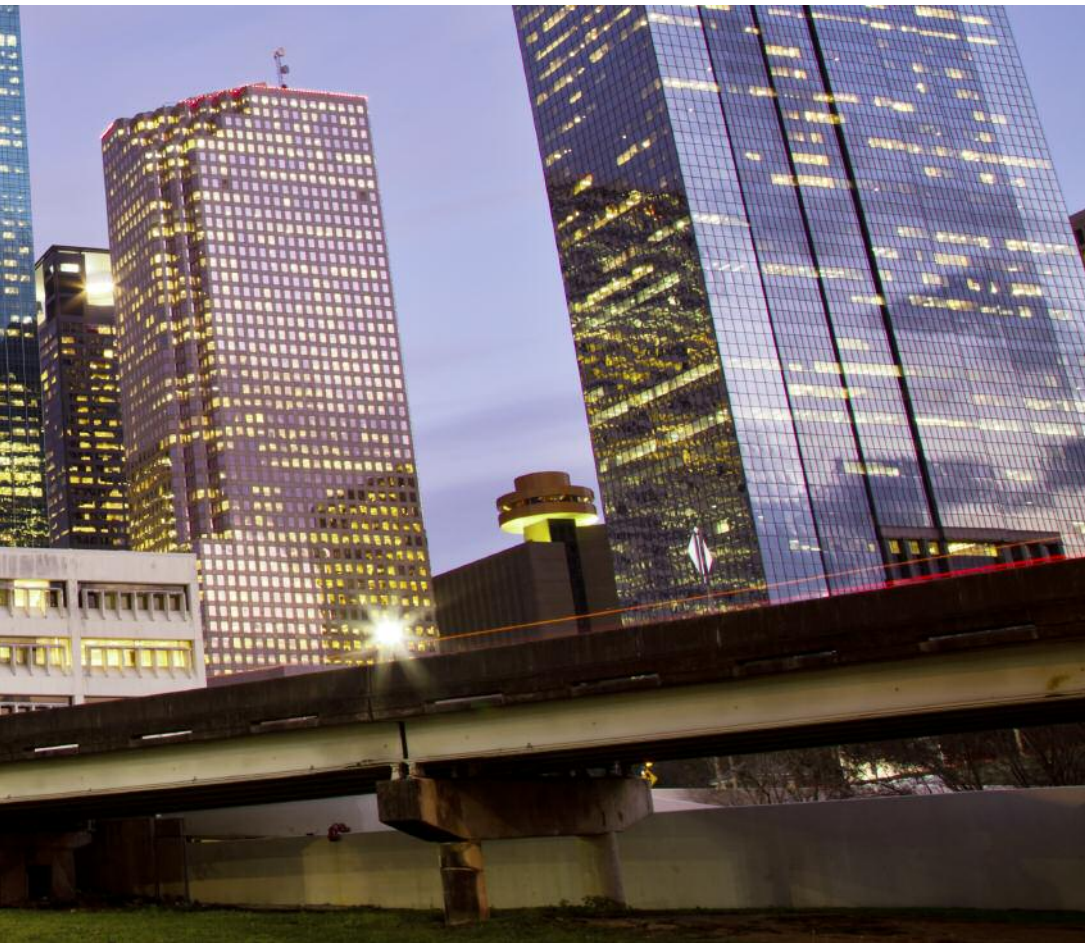
The Red River forms a natural border with Oklahoma and Arkansas in the north whilst the Sabine River forms a border with Louisiana. Texas has 3,700 streams and 15 major rivers of which

IN 2010 TEXAS HAD A GROSS STATE PRODUCT OF OVER \$1TR, THE US SECOND HIGHEST - THE ECONOMY IS THE FOURTH LARGEST OF ANY COUNTRY SUBDIVISION.

the largest is the Rio Grande.

The state has 254 counties and much of the population reside in the former prairies, grasslands and forests and coastlines and the land is made up of coastal swamps and pine forests.

Cattle is a primary industry still to this day although the state's economic fortunes changed in the early 20th century when oil discoveries initiated a boom time. With strong investments



Texas developed a diversified economy and high tech industry and today this involves energy, computers, electronics, aerospace and biomedical science.

Texas has the second highest economy in the US and has demonstrated one of the biggest economic shifts in the last half century. Its real GDP grew by 2.4 per cent last year compared with 1.6 per cent GDP growth for the nation.

In 2010 Texas had a gross state product of over \$1 trillion, the second highest in the US whilst the Texas economy is the fourth largest of any country subdivision globally. The state's unemployment rate is around 6.9 per cent and has been lower than the national rate for six years.

Tourism is a big sector in Texas with around 198 million visitors in 2010, a 6.5 per cent increase over 2009 whilst 70 per cent of these travelled for leisure. Of this figure 7.4 million were international visitors.

Travel spending in Texas was around \$63.4bn in 2011 whilst the sector

employs around 530,000 people with earnings of \$17.3bn and generating around \$4bn in state and local taxes.

Texas hotels collected around \$7.4bn in revenues in 2011 with around 4,600 hotels and 392,000 rooms sold across the state. Over the last five years more than 700 new hotels have been built.

TEXAS GAMING

At the moment New Mexico, Oklahoma, Louisiana and Mexico all have gaming facilities. It is estimated that Texans currently spend around \$4bn in other states on casino gaming as 80 per cent of Texans live within a three hour drive of a casino.

New Mexico has 27 casinos (five of which are Racinos) whilst Oklahoma has 108 casinos with 20 of these facilities within a three hour drive of Dallas. For example the WinStar World Casino is located just over the Texas-Oklahoma border and 90 per cent of its customers come from the Dallas-Fort Worth Metropolitan area. Meanwhile Louisiana has 18 commercial casinos and three tribal casinos.

The Texas Gaming Association ideally wants to see two casino in Dallas, two in Harris County, one in Tarrant County, one in Bexar County and two on the barrier islands to be awarded to Corpus Christi, Galveston Island or South Padre.

So, logically, the Texans are calling for changes. They want to introduce a new gaming expansion bill to help fill a \$20m budget deficit. When the bill is presented it will ask for a constitutional amendment, which will allow casino resorts to be built throughout the state.

The plan is to authorise a limited number of up to eight resort casinos plus an additional eight licences for slots at Texan racetracks whilst also allowing each of the three recognised Indian tribes to operate a gaming facility on their tribal lands.

The Texas Gaming Association ideally wants to see two casino in Dallas, two in Harris County, one in Tarrant County, one in Bexar County and two on the barrier islands to be awarded to Corpus Christi, Galveston Island or South Padre.

At the moment there are four types of gaming permitted in Texas – lottery, charitable gaming, pari-mutuel betting and Indian Casinos.

The Texas Lottery was launched in 1992 and at the time the \$1 scratch off Lone Star Millions was the only game available with some 23.2 million tickets sold on that first day. Today there are seven draw games and around 80 instant games to choose from and the Texas Lottery has generated around \$20bn in revenue for the state since its inception.

Since 1997 the lottery has contributed \$14bn to the Foundation School Fund and has paid out more than \$38bn in winnings. The Texas Lottery is ranked 15th among the worldwide lotteries and there are almost 17,000 retailers.

The lottery is governed by the Texas Lottery Commission and in 2011 the lottery saw total sales of \$3.8bn with \$43m given to the General Revenue Fund and \$963m to the Foundation School Fund.

Also permitted in Texas is Charitable bingo which saw 1,255 events in 2009 generating around \$692m in gross receipts at 416 facilities. Around \$35m was distributed to charities and \$13.5m went to the state.

Meanwhile the Texas Racing Commission was approved back in 1987 and covers the horse and greyhound breeding industries and awarding licences for pari-mutuel

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racetracks whilst providing regulation and control.

Although 13 track licences were issued, five have never been built and today there are five horse racing tracks and three greyhound tracks plus three licensed training facilities and five inactive race tracks.

The five horse racing tracks are: Lone Star Park, Grand Prairie; Sam Houston Race Track, Houston; Retama Park, San Antonio; Manor Downs, Manor and Gillespie County Fair in Fredericksburg.

The three greyhound tracks are: Gulf Greyhound Park, La Marque; Gulf Coast Racing and Valley Race Track in Harlingen.

IN 2011 TOTAL HANDLE ON-TRACK (HORSE AND GREYHOUND) AMOUNTED TO \$319M OF WHICH \$40 CAME FROM LIVE RACES.

The racing sector continued its downward trend in 2011 and the total amount wagered at the racetracks dropped by more than \$36.5m which was a 10 per cent decrease.

In 2011 total handle on-track (horse and greyhound) amounted to \$319m of which \$40 came from live races and \$279 from Simulcast. Some \$2.9m was paid in state tax and attendance figures amount o 1.5 million.

Presiding Officer of the Commission, Robert Schmidt said: "Texas racetracks continued to face stiff competition from the additional wagering opportunities in all our neighbouring states and Mexico and unregulated gaming via the internet.

"While the average purse per race has remained relatively constant in Texas, tracks have decreased the number of racing opportunities available to horsemen. The total amount in purses paid to horsemen has actually dropped and as a direct by product the breeding industry and associated agricultural businesses are suffering."



"The total amount in purses paid to horsemen has actually dropped and as a direct by product the breeding industry and associated agricultural businesses are suffering."
Robert Schmidt,
Presiding Officer of the Texas Racing Commission.

Lone Star Park filed for bankruptcy in 2009 by then owner Magna Entertainment Corp. The racetrack was sold to Global Gaming whilst Maxxam Inc, the parent company of Sam Houston Race Park, Valley Race Park and Laredo Race Park, submitted a request to change 50 per cent of its ownership to Penn National Gaming which was approved in 2011.

Meanwhile there are three federally recognised Indian tribes in Texas - the Alabama-Coushatta Tribe of Texas in Livingston; the Kickapoo Traditional Tribe of Texas in Eagle Pass and Tigua Reservation in El Paso.

In 1992 the Tigua tribe petitioned for a gaming compact but this was rejected

A THOUSAND VOTES ACROSS THE STATE LAST YEAR GAVE RESULTS SHOWING A 67 PER CENT VOTE IN FAVOUR OF A RESORT CASINO.

although Tigua then proceeded to open the Speaking Rock Casino the following year. This began a 10 year battle in the courts over the legality of the casino and in 2002 the court of appeals ruled

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Info panel

State: Texas

Capital: Austin

Total area: 696,241 sq.km

Population: 25,674,681

Main religions: Roman Catholic (28%), Baptist (21%), Methodist (8%), None (11%)

Racial makeup: Non-Hispanic Whites (45%), Hispanic or Latino (37%), Black or African American (11%), Asian (3.8%),

Governor: Rick Perry (Republican)

Lt Governor: David Dewhurst (Republican)

Casinos: 1 Indian casino

Casino slots: 1,800

Table gaming: 20 tables + 12 poker

Racetracks: 8

GGR racetracks: \$319m (total handle)

VLTs: -

Online gaming: not permitted

to keep gaming dollars within the state and not spent on illegal gaming via the internet or on the eight liner machines across the state housed in strip parlours.

It is estimated that Texas has anything between 30,000 and 150,000 illegal eight liner machines. They work just like slots but remain unregulated and untaxed whilst criminal penalties for operating are low. It is estimated that Texans lose \$1.9bn to these machines each year.

Meanwhile Internet Gaming has grown over the last few years despite the fact it is illegal and it is thought between three and 15 million Americans play online poker each year whilst these sites generate \$5.4bn in revenue with a huge portion coming from Texans.

Online gaming is prohibited in Texas and concerns have also been raised over the lottery commission's online gaming via Luck Zone, a scratch off ticket that offers a second chance for people to win a prize through a promotional drawing. Players can submit their tickets online through the lottery website.

The lottery introduced this game very quickly and very quietly and has since been questioned and the Attorney General has been called in to give his opinion although no ruling has been made just yet.

Meanwhile under Texan Constitution voters can decide whether to expand legal gambling although only Texas

The plan for resort casinos has been an ongoing theme in Texas for the last 10 years and although previous bills have been rejected, lawmakers hope that this time the bill is approved and will help prevent budget cuts. Last year the proposal re-appeared in the Legislature again but none of the measures passed.

against the tribe and the casino closed.

Meanwhile in 2001 the Alabama-Coushatta tribe opened a casino in Livingston but after nine months they were also forced to close when the court ruled the tribe violated the 1987 Indian Restoration Act which prohibited them from operating a casino.

So at the moment only the Kickapoo Tribe is authorised under the IGRA to operate a casino and this was opened in 1996. The Kickapoo Traditional Tribe of Texas operates the Kickapoo Lucky Eagle Casino in Eagle Pass just 100 miles south of San Antonio.

This is a legal Class II gaming facility and is a 15,000 sq.ft casino housing

1,800 slots and 20 tables, 12 poker tables and 450 seats for bingo. The state however receives no revenue from this facility.

CHANGES AHEAD

The plan for resort casinos has been an ongoing theme in Texas for the last 10 years and although previous bills have been rejected, lawmakers hope that this time the bill is approved and will help prevent budget cuts. Last year the proposal re-appeared in the Legislature again but none of the measures passed.

The Texas Gaming Association is a trade association which was set up to promote legislation to allow a limited number of destination resort casinos in Texas. The association's proposal aims

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Comment

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In order to keep pace with the demands of the current economy and a growing population we must find solutions that expand and diversify our job pool while increasing revenue. Our proposal for a limited number of destination resort casinos means many thousands of high paying jobs, increased tourism, billions in new capital investment, along with a state and local tax revenue stream to help keep Texas competitive. In the current climate Texas is losing. Texans are already spending many billions of dollars on gaming each year. Much of it is going out-of-state paying for other state’s public schools and highways. Texans are gambling over the internet and at tens of thousands of illegal and untaxed eight-liner machines all across the state. We want to capture all this activity, regulate it and make sure that Texas benefits from it.

Our democratic system trusts the voters to elect legislators to serve in Austin who will enact their will. Poll after poll shows that as many as 85 per cent of our state’s voters support a statewide vote on the expansion of gaming. The right of Texas voters should be respected they should be trusted to make the right decision.”

Jack Pratt, Chairman of the Texas Gaming Association.
www.texas-gaming-association.org

approved by the committee which included a constitutional amendment and legislation to permit VLTs at the racetracks and on reservations which in turn would generate around \$548m for the next budget. The association was disappointed with the news claiming they still want to push for resort casinos which would create larger investments and revenues.

Jack Pratt, Chairman of the Texas Gaming Association said: “Granting a monopoly for track owners on commercial gaming revenues in our

state is just plain wrong and bad public policy. We have long believed that the only way to pass legislation to expand gaming in Texas is a balanced approach that includes destination resort casinos, slots at racetracks and gaming at the state’s Indian reservations.”

It will take a constitutional amendment, approved by two thirds of the legislature and a majority of the votes, to add casinos to the Texas gaming footprint. But they aren’t giving up.

Legislature can put the question on the ballot for the voters to decide. An initial ballot test has shown a large number of supporters are in favour of resort casinos over VLTs at racetracks by margins of 4 to 1.

With the plan introduced the state reckons it could provide at least \$1bn in state revenue, create tens of thousands of jobs and help fund a Property Tax Relief Fund and also provide towards a Grant Program.

There are great strides to keep this floundering bill alive. Senator Rodney Ellis has been endorsing casinos as a way to generate much needed revenue. Those opposed say legalised gaming will not bring in the long term revenue supporters promise and instead will lead to crime and bankruptcy.

The Texas Gaming Association pooled a thousand votes across the state last year with results showing a 67 per cent vote in favour of a resort casino and 86 per cent saying legislature should let voters decide.

In May 2011 a bill, HJR111 was

The Texas Gaming Association pooled a thousand votes across the state last year with results showing a 67 per cent vote in favour of a resort casino and 86 per cent saying legislature should let voters decide.

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