

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE.

The meeting was called to order by Chairperson Nancey Harrington at 10:30 a.m. on January 18, 2001 in Room 245-N of the Capitol.

All members were present.

Committee staff present: Russell Mills, Legislative Research Department
Dennis Hodgins, Legislative Research Department
Theresa Kiernan, Office of the Revisor
Nikki Kraus, Committee Secretary

Conferees appearing before the committee: Bob Vincent, Vice President of Corporate Communications,
GTECH
Tim Nyman, Vice President of the Western Region, GTECH

Others attending: See Attached List

Chairman Harrington opened the meeting and recognized Senator Gilstrap who asked about getting additional information and clarification concerning the gag order issued by Judge Tom Conklin on discussion of lottery issues.

Chairman Harrington addressed that concern to Theresa Kiernan, Revisor of Statutes, who said that it was up to the person to determine whether or not they were under the order.

In response to further requests from Senators Barnett and Gilstrap, Chairman Harrington said that the entire committee would like to have that order clarified, and would be willing to accommodate anyone who wanted to speak on it.

Mr. Bob Vincent presented a packet of information entitled "GTECH Holdings Corporation" which included booklets entitled "GTECH Holdings Corporation Annual Report Fiscal Year 2000", "The Vital Signs of Legalized Gaming in America, GTECH's 8th Annual National Gaming Survey 2000", and "GTECH in the Community" all available from the GTECH Holdings Corporation, World Headquarters 55 Technology Way, West Greenwich, RI 02817 U.S.A. Mr. Vincent also periodical articles from: *The Providence Journal*, "Lottery Terminals Fill the Bill" by Raghuram Vadarevu, published December 13, 2000, *Columbus Ledger-Enquirer*, "Protecting Our Children" by Ted Vasilakopoulos, published November 19, 2000, *The Albany Herald*, "Kids Learn to Point and Click" by Ken Garner, published September 22, 2000, *Public Gaming International*, "GTECH's Genie Produces Customer Solutions" by Sharon Sharp, published September 2000, *Supermarket News*, "Lottery Machines Light Up Colorado Checkout Lanes" by Joel Elson, published February 22, 1999, and <http://phillips.com/ViaOnline>, "The Western European VSAT Market: The Door Opens" by James Careless.

Mr. Vincent also presented his testimony. ([Attachment 1](#)).

Mr. Vincent then went over additional information included in the packet. ([Attachment 2](#)).

Mr. Tim Nyman then presented his testimony. ([Attachment 3](#)).

Chairman Harrington then asked the committee for questions and recognized Senator Gooch.

Senator Gooch asked if Mr. Vincent would be around later to answer questions that might come up, and why exactly Kansas had chosen to use GTECH and not another company.

Mr. Vincent said that he, Mr. Nyman, or a representative from GTECH would be available for questions. He went

on to say that the GTECH goes through a competitive process of being reviewed and evaluated during

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the selection process.

In response to a request from Senator Lyon, Mr. Nyman gave a brief history of GTECH's contractual history with the state of Kansas, which began in 1988, then Kansas went off procurement in 1996 and GTECH was awarded that contract which runs until 2002. The Lottery has the option of extending for one three-year period and one two-year period as a standard period of re-evaluation of technology, marketing, and administrative needs of each jurisdiction's lottery. He stated that renewals are awarded through negotiation. Mr. Nyman also stated that the Kansas Lottery had one more extension period of two-years to go, but that GTECH had been the only responder to the Kansas bid.

Senator Lyon then asked Mr. Vincent how that compared with other states, and Mr. Vincent stated that in Iowa and Illinois, GTECH was the only bidder, California GTECH was the only bidder in the last round, Oregon had four bidders, Nebraska had two bidders, and Texas will have three bidders.

Senator Lyon then asked if there had been any discussion as to how the extension will be observed, and Mr. Nyman said that there had been none.

Senator Lyon asked about the auditions in front the Human Rights Commissioners and where that process was, to which Mr. Vincent replied that GTECH was in a resolution process now and that it was difficult to talk about but that the claim was public.

Senator Lyon then asked if it was possible to talk in a general way about allegations that GTECH employees were told to find compromising information and that was a violation of their code of conduct, as Mr. Vincent had stated in his testimony. Mr. Vincent stated that he could provide a copy of GTECH's code of conduct, and that any attempt to find compromising information on a customer would be directly in violation of that code. Mr. Nyman then stated in response to further questions that an employee in such violation would be dismissed. Senator Lyon then stated that such action had not been taken in this instance, and Messrs. Nyman and Vincent stated that the situation was under close review.

Senator Vratil asked who GTECH competitors are at this time, and Mr. Vincent replied that there are four to five others worldwide including AWI, but there were only two to three others in the United States because of obstacles to coming in to the business.

Senator Gilstrap asked how long GTECH had been in business and how many senior executives were in the company. Mr. Vincent replied that it was about 25 years, although the name had been changed around 1979, and that there were 8 members of the Corporate Leadership Council. Senator Gilstrap went on to ask Mr. Nyman if GTECH was involved in marketing, but Mr. Nyman stated that marketing was done by the Kansas Lottery itself.

Mr. Vincent replied to a financial question by Senator O'Connor by explaining that GTECH does the initial investment for Lottery facility management procedure and that Kansas pays them back over a period of years from allocated funds from the state budgets and a percent of revenues. Senator O'Connor then asked if Kansas has a debt, and Mr. Nyman stated that Kansas paid GTECH a percentage of sales and that all new equipment and terminals would be redetermined.

Chairman Harrington quoted from an article which regarded GTECH employees' instructions to find dirt on Kansas Lottery employees and asked for more clarification. Mr. Vincent denied those allegations and stated that the incident cited had been from a strategic management planning session.

Chairman Harrington then quoted an article from Fortune 1996 in which David Smith, National Sales Director, GTECH who was sentenced in 1996 on federal charges, was discussed as being excellent at his job of working behind the scenes to gather political intelligence, and to schmooze officials in order to get the lottery business of states such as Kansas, Kentucky, Wisconsin, Indiana, Idaho within three years.

Mr. Vincent implied that the article was out of date, and then went on to describe Mr. Smith's actions as having

defrauded GTECH. Mr. Vincent went on to say that GTECH has been reviewed a great deal by every jurisdiction in which it has operated. Mr. Nyman also stated that Mr. Smith never had worked in Kansas.

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Chairman Harrington then asked the GTECH representatives about a newspaper quote which stated that GTECH wanted a no-bid extension from the Kansas Lottery, but that Automated Wagering International (AWI) also wanted to bid on the contract.

Mr. Vincent stated that the no-bid extension was a perfectly normal thing for GTECH to want because it had settled in to Kansas.

Senator Gooch asked Mr. Nyman if he considers Kansas a small part of GTECH's business, and if that was why there was only one bidder. Mr. Nyman stated that he had made reference to Kansas in a population way, and that the reason for only one bidder was a reflection of competition at the time.

Senator Gooch stated that perhaps the presentation of the bid discouraged competition.

Chairman Harrington stated that further information might be better provided by the acting director next week. She also stated that the committee would try to get someone from AWI to provide testimony.

Senator Gooch stated that he had some concerns with the lack of African-Americans involved in the lottery operation, and that he was interested in taking a tour of lottery and GTECH facilities, which Mr. Vincent said were co-located.

Chairman Harrington suggested that a trip could be arranged with the lottery director.

Chairman Harrington stated that the committee will have something from the judge regarding the gag order for Senator Gilstrap's request next week, and then briefly reviewed the schedule for next week.

The meeting was adjourned at 11:33 a.m.

The next scheduled meeting will be at 10:30 a.m. January 22, 2001.