

# **GUIDE TO GAMING AND LOTTERY LICENSING**

## **FOREWORD**

Lottomatica S.p.A. is the parent company of GTECH Corporation, the world's leading provider of online Lottery products and management and also operator in the gaming solutions sector. Lottomatica through GTECH currently conducts lottery business in well over 70 jurisdictions worldwide and is therefore subject to and required to comply with the laws and regulations in each one of those jurisdictions. Through GTECH's recent acquisitions of Spielo Manufacturing and Atronic, it is or will become licensed in approximately 35 more substantial gaming jurisdictions, as well as dozens of tribal gaming authorities.

Navigating through the complexities of the Lottery and gaming regulatory systems requires a clear understanding of and strict compliance with the requirements imposed in all jurisdictions where licensing is necessary.

## **INTRODUCTION**

The lottery and gaming industry in North America has evolved into a highly regulated field of commerce in which those individuals and entities affiliated with the lottery, racing and commercial casino industries are subject to comprehensive licensing schemes enforced by a variety of governmental agencies. Generally, a company directly engaged in business with a state or provincial lottery (in the case of lottery vendors) or directly engaged in manufacturing or distributing gaming equipment (e.g., Video Lottery Terminals) must apply for and obtain a gaming-related license prior to conducting any business in the relevant jurisdiction. Likewise, intermediary companies and holding companies of the licensed entity usually must also seek and obtain a license or finding of suitability in order to maintain a direct or indirect interest in the license holder. Finally, most gaming and lottery jurisdictions require a number of individuals affiliated with the license holder or its parent companies to obtain

qualification or a finding of suitability in order to continue to be affiliated with the company.

Such a requirement generally applies to officers, directors, key employees and certain individual shareholders (often holding 5% or more) of the licensee or its parent companies.

Although specific statutes and regulations differ from jurisdiction to jurisdiction, making each application, to a certain extent, unique, one universal goal of all gaming and lottery regulators is to be satisfied that the companies and individuals doing business in the industry possess and maintain the requisite level of good character, honesty, integrity and financial stability. In order to make such a determination, regulators generally require that each individual and corporate applicant submit extensive disclosures of personal, financial and business

information in relation to a period of time which usually covers the last 15 to 20 years or in some cases the whole period of life of the qualifier, depending on the kind of information requested. Most jurisdictions also require each individual applicant to submit fingerprints and undergo a rigorous criminal background check.

### **Lotteries**

The licensing process in most U.S. and Canadian Lottery jurisdictions is governed by statutes, regulations and contractual provisions. The same is true for many other jurisdictions worldwide. Many state lottery laws require a vendor to be licensed by the state. Some jurisdictions, however, do not have specific laws regulating Lottery vendors but instead rely on specific provisions in the Lottery contract, which often permit the state or provincial lottery authority to terminate the contract if the vendor fails to meet the standards set forth in the contract. Currently, GTECH operates lotteries in over 60 jurisdictions throughout the world. Each jurisdiction has requirements for licensing and approval of lottery vendors and associated persons and entities.

### **Gaming**

Through GTECH's acquisition of Spielo Manufacturing ULC, Atronic International and Atronic Americas LLC, Lottomatica is (or will be) subject to the regulatory licensing and oversight in over 95 gaming jurisdictions throughout the world. The generally accepted standards for obtaining a gaming license, registration, qualification or finding of suitability throughout the world are largely based on the comprehensive regulatory systems of the established U.S. gaming jurisdictions, such as Nevada, New Jersey, Louisiana and Mississippi, as well as newer gaming jurisdictions with equally comprehensive, yet untested, regulations such as Pennsylvania.

## **OVERVIEW OF LICENSING PROCESS**

The lottery and gaming licensing process begins with the submission of applications for licensure, registration, qualification or a finding of suitability. The precise number of entities and individuals within Lottomatica and GTECH Groups who must submit applications varies greatly by jurisdiction. In the most comprehensive jurisdictions, applications are generally required of the operating entity doing business in the jurisdiction (i.e., GTECH Corp. in the case of lotteries and Spielo or Atronic in the case of casino gaming equipment); each intermediary company and holding company; certain shareholders of each of those companies (i.e., 3%, 5% or 10% shareholders); officers and directors and key employees directly involved with operations in the jurisdiction. By submitting an application, an applicant becomes open to investigation. **Each applicant agrees to provide full, accurate and**

**complete disclosure of all requested information. Failure to make full disclosure is the most common reason regulators find applicants unsuitable to receive a license.**

The application package for individuals usually involves the submission of the following items and information:

- Disclosure Form and related personal documentation;
- Fingerprints;
- Authorization forms for the release of personal information by third parties;
- Authorization forms for the release of tax returns by local taxing authorities;
- Forms releasing claims against the regulators for liability associated with conducting the investigation.

Similarly, the corporate application package generally includes the following items and information:

- Disclosure Form and related corporate/financial documentation;
- Authorization forms for the release of corporate credit information by third parties;
- Authorization forms for the release of corporate tax returns by local taxing authorities;
- Forms releasing claims against the regulators for liability associated with conducting the investigation.

After the disclosure forms, fingerprints and related documentation are submitted to the regulators, the information is carefully reviewed for compliance with local regulatory requirements and a determination is made whether the application is complete.

Once deemed complete, the applications are assigned to investigators for review and a thorough and comprehensive background investigation. The larger and more sophisticated lottery and gaming regulatory agencies (such as Nevada and New Jersey) have an internal staff of investigators that conduct the inquiry. Other jurisdictions assign the investigation to an outside state agency with law enforcement powers, such as the State or Provincial Police. Still others engage the services of a private consultant to conduct the inquiry and advise the regulators about their findings.

Background investigations can take several months and in some cases over one year, depending on the jurisdiction, its resources, and the number of individuals and entities associated with the application. This process generally involves independent review of all materials, as well as in-person interviews with corporate representatives and the individuals under review. **In some cases, interviews are conducted under oath, which subjects the interviewee to severe penalties beyond mere rejection of the application if he or she is untruthful.** In some jurisdictions, the investigative responsibilities are divided between financial investigators and background investigators.

In most cases, the financial investigators hold degrees in accounting or finance and are responsible for investigating the financial status of the applicant, including past financial dealings, financial stability and viability, and any personal or business financial impropriety. The financial investigators review corporate and personal financial documents, including financial statements, tax returns, general ledgers, bank statements and cancelled checks. They may also conduct field work by interviewing the applicant's bankers, brokers, accountants and auditors.

The background investigators usually include trained law enforcement officers with experience in conducting criminal investigations and often include lawyers and/or accounting/audit professionals as well. The primary focus of the law enforcement officers is to investigate and evaluate the applicant's character and reputation, which often involves reviewing criminal records, meeting with local law enforcement officials, and interviewing personal and business associates. Investigators almost always have the right to inspect premises, inspect books and records, and copy documents. Indeed, **most applications require as a condition for consideration a waiver of any privacy right to personal or confidential information and a release of any claims for inadvertent disclosure of that information. They also will examine court records involving both civil and criminal matters relating to the applicant, and pay particular attention to divorce proceedings.** Investigators will also verify education information with schools and universities, as well as military information.

The financial and background investigations serve several primary purposes: (1) to verify the accuracy of the information disclosed by the applicant; (2) to uncover additional information that the applicant failed to disclose; and (3) to detect any illegal or unethical financial transactions, commercial bribery, money laundering, tax evasion and the like. Once the investigation is complete, the regulators evaluate the information obtained and determine whether to recommend a license or qualification.

**Some jurisdictions require that each individual applicant appear in person at a public meeting or hearing conducted by the regulatory agency to formally receive approval.**

**Once approved, however, the process does not end. Licensing is an ongoing process in each jurisdiction and applications for renewal of the license must be submitted either at regular intervals as determined by regulation, or at each renewal of a lottery contract.**

Beyond regularly scheduled renewal periods, individuals and companies which have been licensed or approved by a regulatory authority are expected to keep the regulators informed of material events and changed circumstances that may affect their suitability to hold a license in a timely fashion. Although requirements vary by jurisdiction, it is prudent to advise regulators about such matters on a proactive basis to demonstrate that the company and its

affiliated persons respect the regulatory process and are concerned about their reputations and integrity.

## **PERSONAL DISCLOSURE REQUIREMENTS**

In order for individual applicants to be found suitable to be associated with government-sponsored lotteries or gaming-related activities, lottery and gaming regulatory agencies require certain individuals to submit to a rigorous background investigation process. Individual applicants usually include officers, directors and 5% shareholders of each entity in the chain of ownership. In some jurisdictions, every shareholder of a closely held company may be required to be licensed, regardless of their percentage ownership. Most regulators also have the legal authority to investigate any other individual connected with a corporate applicant if the circumstances warrant. In order to ensure that all those who are affiliated with lotteries and gaming related activities meet and maintain high standards of good character, honesty, integrity and financial responsibility, **the individual applicant background review process is extremely thorough and the personal and financial disclosures filed by individual applicants are heavily scrutinized.** Submission of a Personal History Disclosure Form is the first step in the review process. Applicants are required to provide personal, family and financial information in response to questions aimed at capturing a picture of the individual applicant's personal and financial life. Each jurisdiction varies as to the scope and breadth of information that must be provided. Nonetheless, most jurisdictions require disclosures in the following areas:

- Personal and descriptive information
- Marital information
- Family information
- Residence information
- Education
- Military service
- Employment history
- Personal and organizational associations
- Licensing history of applicant and spouse
- Legal proceeding history of the applicant and the applicant's family
- Financial history and associations of the applicant and the applicant's family
- Statement of the applicant's net worth

### a. Personal and Descriptive Information

- Individual applicants are first required to provide basic personal information such as the following Name and any aliases or nicknames

- Current residence address and phone number
- Prior residences since the age of 18, including whether the applicant owns or rents, and the identity of mortgage holders and landlords
- Business telephone number
- Fax number
- Country of citizenship and, if applicable, naturalization or registered alien status
- Date and place of birth
- Colour of eyes and hair
- Gender, weight, height and build
- Race
- Scars, tattoos or other distinguishing marks
- Driver's license, social security number (or fiscal code) and passport information
- Languages spoken
- Health-related issues involving alcohol or controlled substances

b. Marital Information

- Regulators require the disclosure of marital information, including:
  - Spouse's name and any aliases or nicknames
  - Spouse's date and place of birth
  - Spouse's current residence address and telephone number
  - Spouse's current employment status, name and address of current employer and information about any compensated employment during the last twelve months
  - Date and place of marriage
  - Spouse's social security and driver's license numbers and related information
  - Spouse's applications and outcomes of applications for positions as a trustee or other fiduciary officer
  - Spouse's suspensions or removals from positions as a trustee or other fiduciary officer

**Regulators are particularly interested in divorce, and will often attempt to interview a former spouse to learn about the applicant's personal life. The following information relative to current spouses must usually be disclosed:**

- Name and current address of former spouse
- Date and place of marriage
- Date of birth of former spouse
- Date and place of annulment, separation or divorce
- Docket or case number of divorce proceeding

#### c. Family Information

**Required family information is usually limited to children and parents, although a number of jurisdictions seek information about extended family members, such as sisters, brothers, their respective spouses and grandparents.** The information usually sought about family members includes:

- Name, address and telephone number
- Date and place of birth
- Current employer and occupation
- Family member associations or employment in any form or type of casino or gaming-related operation
- Family member ownership interests in any alcoholic beverage entity in any jurisdiction

Some jurisdictions also seek information about a spouse's family, including parents, brothers and sisters. Disclosure about court-ordered child support awards and whether the applicant is delinquent in the payment of any child support may also be required.

#### d. Education

Educational background information must be disclosed and will include information about the applicant's grammar school, high school, college and post college education, including:

- Names of schools
- Locations of schools
- Dates attended
- Degrees or certificates received and whether the applicant graduated

#### e. Military Service

Regulators will verify an applicant's military service and require disclosure of the following information:

- Country of service and serial number
- Dates of entry-active service and separation
- Branch of service
- Rating at separation and type of discharge
- Military arrests which resulted in summary action, a trial or special or general court martial
- A copy of the applicant's military service records must also be provided.

#### f. Employment History

Complete details about current and past employment must be disclosed and may include questions regarding:

- Dates of employment
- Employer's address and telephone number and type of business conducted
- Job titles and descriptions of duties
- Names of supervisors
- Reasons for leaving prior positions
- Salary information
- Presence of gaming at place of employment
- Infractions which were the subject of any disciplinary action
- Discharges, suspensions or requests to resign from employment
- Position held with a business entity currently applying for a gaming license

g. Personal and Organizational Associations

Information about an applicant's personal and professional associations may be relevant to a determination of suitability. Applicants are often required to disclose information regarding:

- Current and past offices and directorships held by the applicant
- Government offices and positions held by applicant, spouse, children, parents, parents-in-law or siblings
- Resignations, suspensions or removals from government appointments, positions or offices
- Character references
- Social acquaintances and current and past business associates
- Legal and financial advisors
- Memberships in professional or business organizations
- Service as a trustee or other fiduciary officer, including applications and outcomes of applications for positions as a trustee or other fiduciary officer
- Suspensions or removals from positions as a trustee or other fiduciary officer
- Personal or business relationships with any member, agent or employee of a governmental agency responsible for regulating gaming activities
- Political contributions/donations by applicant, spouse or children

h. Licensing History of Applicant and Spouse

Complete disclosure of information relating to occupational and professional licenses may be required, particularly if it relates to the lottery or gaming industry. Such disclosures could include:

- Details of all applications for gaming and non-gaming professional licenses, permits or certificates made by the applicant, spouse or business entity in which the applicant is or was a director, officer or owner, including type of license and licensing agency
- Denials, suspensions, revocations, non-renewals, investigations, penalties, fines or other regulatory action relating to any gaming or non-gaming Licenses, permits or certificates applied for, or held by the applicant, spouse or business entity in which the applicant is or was a director, officer or owner, including type of license and licensing agency
- Ownership in, or service as a director or officer in, any business entity that has applied for a license, permit, registration, finding of suitability or qualification in connection with its business activities
- License information is not limited to lotteries or gaming, and may include the following types of licenses:
  - Alcoholic Beverage Operations
  - Lawyer
  - Physician

#### i. History of Legal Proceedings

Perhaps the most sensitive areas of disclosure that must be made are legal proceedings involving the applicant. **The applicant MUST make full disclosure of all involvement with the legal system, whether criminal, civil or administrative, and whether in the country of residence or abroad.** Because U.S. and Canadian regulators, as well as those in other jurisdictions, likely do not have a full understanding of the Italian legal system, it is imperative that individual applicants discuss all personal legal matters with competent regulatory counsel to determine how best to disclose the information in a way that places the legal matters in the appropriate light, keeping in mind the goals of the regulatory system.

While certain past criminal conduct may be a basis for automatic denial of a license, failure to disclose even the most insignificant criminal information may likely lead to an incense denial, as well. Applicants should be reminded that all contact with police or prosecutors must be disclosed, even if no formal investigation or prosecution was commenced. Disclosures of legal proceedings is often quite broad and expensive and almost always includes the following:

- Arrests and charges
- Criminal indictments
- Court ordered expungement or sealing of criminal records
- Investigations conducted by any government agency/organization, court, commission, committee, grand jury or investigatory body which the applicant was the subject of testimony given by the applicant, whether under subpoena or not

- Other questioning, interviews, depositions or requests to take a polygraph examination
- Pardons, dismissals, suspensions or deferments of any criminal prosecution or investigation against the applicant
- Arrests or charges of children, step-children, adopted children or other family members
- Participation as an individual party in any lawsuits or arbitrations, including matrimonial matters, negligence matters, auto accident matters, contract matters, collection matters, debt matters or bankruptcies
- Civil lawsuits involving other family members
- Business entity participation in lawsuits, arbitrations or bankruptcies of which applicant is/was an owner, officer or director
- Antitrust, trade or security law investigations, complaints, judgments, consent decrees or settlements involving applicant or business entity of which applicant is/was an owner, officer or director
- Charges against applicant stemming from violations of statutes, regulations or codes of any level of government
- Exclusion from any gaming related operation in any jurisdiction

#### j. Financial History and Associations

Another very relevant area of disclosure is the applicant's personal finances. Sound personal financial management is often an indication of how an applicant conducts his business affairs, and also can provide investigators with useful information about the applicant's financial propriety.

#### **Applicants MUST disclose:**

- Schedules of annual income of applicant, spouse and dependent children
- Governmental liens/debts filed against the applicant as an individual, sole proprietor, member of a partnership or owner of a corporation in any jurisdiction
- Personal bankruptcies
- Bankruptcies of any business entity the applicant was an officer, director or 5% owner of
- Liquidations, receiverships or governmental administration and monitoring of business entities the applicant was an owner, partner, officer or director of Garnishment, attachment, charging order or voluntary wage execution of any wages, earnings or other income
- Repossession of any real or personal property
- Estate/trust participation either as an executor(trix), administrator, fiduciary, beneficiary, legatee, settor/grantor or trustee of any estate, trust, will or intestacy statute
- Interests in any assets in a trust in any jurisdiction

- Assets or Liabilities held, managed or controlled in trust for another person or entity in any jurisdiction
- Delinquencies in filing tax returns or payment of any taxes
- Delinquencies in the payment of any judgments due to any government agency
- Tax return audits and adjustments
- Access to funds as a signatory on a bank account for a parent or child
- Credit references
- Ownership in, control over or interest in any bank accounts located outside the country of residence or outside the United States
- Ownership of, management of, or control over any assets, or responsibility for any liabilities, located outside the country of residence or outside the United States
- Receipt of loans in excess of \$ 25,000 by applicant, spouse or children
- Loans made in excess of \$ 10,000 by applicant, spouse or children
- Currency exchanged in an amount of more than \$ 10,000 within the past ten years
- Maintenance of brokerage or margin accounts with any securities or commodities dealer
- Insurance claims in excess of \$ 100,000 filed by applicant, spouse or children
- Gifts given or received in excess of \$ 10,000 by applicant, spouse or children
- Safe deposit boxes held in applicant's name or any other access to safe deposit boxes
- Referral or finder's fees received by applicant in excess of \$ 10,000
- Guarantees of any financial obligations
- Defaults on any student loan payments
- Business interests and ownerships, including those held by spouse and children
- Ownership or association with business entities holding foreign bank accounts
- Direct or indirect ownership, or financial interest, in any equipment leased or provided to any casino or *gaming / gambling* related operation
- Remuneration in cash, goods or services, directly or indirectly, from any person in connection with any casino or gaming/gambling related operation other than employment compensation)
- Business associations with any Indian tribes
- Investments in, or loans to, gaming related businesses

k. Statement of the Applicant's Net Worth

Related to the disclosure of personal finances is **the often-required Net Worth Statement that includes significant details of the applicant's assets and liabilities. Schedules to the typical net worth statement often include information about the applicant, spouse and dependent children, including:**

- Cash in bank

- Loans, notes and other receivables
- Securities
- Real estate interests
- Cash value of all life insurance policies
- Cash value of all retirement/investment/pension funds
- Vehicles
- Other assets/business investments
- Notes payable
- Loans or other accounts payable
- Taxes payable
- Mortgages or Liens payable on real estate
- Loans against life insurance policies or pension plans
- Any other indebtedness
- Contingent liabilities

#### I. Personal Documents

In addition to being required to fill out and file detailed applications, applicants are also asked **to submit copies of personal and financial documentation, along with their application, including:**

- Recent colour photograph
- Passports
- Birth certificates
- Social security cards
- Drivers licenses
- Marriage certificates
- Divorce decrees
- Civil and criminal court documents
- Diplomas
- Military service records
- Tax returns
- Bank and credit card statements
- Credit references
- Fingerprint cards

Given the vast amount of personal information that may need to be disclosed, as well as the lack of uniformity in the information that each jurisdiction requires, each new applicant should complete the Master Personal History Disclosure Form which will serve as a template for

completion of jurisdiction-specific disclosure forms and can be updated and provided to regulatory counsel on a regular basis. A sample of a Multi-Jurisdictional Personal History Disclosure form is also provided.

## **CONTINUING DUTY TO DISCLOSE/UPDATE INFORMATION/ RENEWAL**

Once corporate and individual applications are submitted in connection with a license, registration, qualification or finding of suitability, and even after a license or other approval is granted, **both the corporate and individual applicants are burdened with a continuing obligation to update the information provided to regulators and to advise regulators of certain material events that may reflect on their good character, honesty, integrity or financial stability.** Depending on the information and the jurisdiction, some notifications must be made immediately. Others must be made within a defined time period or at regular license renewal periods.

In addition, most approvals issued by a regulatory agency expire after a period of time. Depending on the jurisdiction, this period of time can range from as little as one year to as great as ten years. Most jurisdictions require the individual applicant to apply for renewal of a license or finding of suitability prior to the expiration of the individuals current license or finding of suitability. The period of time in which this must be done also varies by jurisdiction and may typically range anywhere from 60 to 120 days prior to the expiration of the individual's current approval. The renewal application itself also varies by jurisdiction and may range from a complete and comprehensive disclosure form to a disclosure for that calls only for updated information or additions to the information previously disclosed.

## **FINAL RECOMMENDATIONS**

The Individual applicants may take and remain in office upon condition that all requirements set by the law, also with respect to any shareholdings held by the Company, and by the By-laws are met on a constant basis.

Particular reference is made to:

1. eligibility requirements (Article no. 2382 of the Italian Civil Code): interdicted, legally disabled, bankrupt persons or those who have been sentenced to a penalty entailing interdiction, even temporary, from public offices or incapacity to exercise managerial functions may not be appointed Directors and, if appointed, cease from their office.
2. integrity requirements pursuant to the Minister of Justice's Decree no. 162 of March 30, 2000 and, in relation with the relevant participation owned by Lottomatica in companies that carry out financial, issuance of electronic money and banking related activities as provided by the Minister of Treasury' Decree no. 517 of December 30, 1998 as recalled by

Articles no. 113 and no. 108 of the Legislative Decree no. 38 of September 1, 1993 and by the Minister of Treasury's Decree no. 144 of March 18, 1998, as recalled by other provisions of the Consolidated Banking Law and by the so called "Supervisory Regulations" by the Bank of Italy.

3. other requirements eventually provided by special provisions of law.

It is important to understand that regulators will evaluate all relevant conduct, even if it has not led to a conviction. Conduct that may not be sufficient to support a criminal conviction may still be enough to deny a gaming or lottery license on the basis of suitability.

Failure to disclose material information is grounds for denial suitability, as it violates the standards of good character, honesty and integrity. Conversely, voluntary disclosure of negative information, such as past criminal conduct or records, may still lead to denial of a license depending on the nature of the conduct in question.

No matter what, it is always better to divulge the information than to withhold it because the discovery of intentionally withheld material information will almost certainly lead to a denial of the application, whereas full disclosure enables the applicant an opportunity to explain, avoid the appearance of hiding something, and to put the information in the best possible light.

The denial, or the grounded risk of denial, of the satisfaction expressed by public administrations or public or private entities pursuant to administrative or law provisions, also foreign, applicable to the Company, are construed as causes of ineligibility to the office of Director, or if appointed, shall result in the Director's termination of office.

Lottomatica nevertheless holds the right to ask for the resignation of any Board member, officers or directors in worst case scenario.