

I Dream of Royalties

By GARY RIVLIN

LAS VEGAS— A CLUTCH of suited dignitaries, standing beneath a makeshift thatched roof of dried palm fronds, don floppy white sailor caps on cue as a band blares the “Gilligan’s Island” theme song. One of them, Kenny C. Guinn, the governor of Nevada, is struggling to retain his dignity as he shares a spotlight with Gilligan, the Professor and Mary Ann -- the actors Bob Denver, Russell Johnson and Dawn Wells -- during the opening ceremony of the gambling industry’s big annual trade show, held here earlier this month.

The three castaways were among a cavalcade of celebrities -- some faded or forgotten -- who turned out at the cavernous Las Vegas Convention Center to help sell slot machines created in their images.

The schedule of appearances at the booth of International Game Technologies, a slot machine company in Reno, Nev., seemed as if it were lifted from Nick at Nite. Appearing after Gilligan and friends was Jeannie (Barbara Eden), who posed next to an “I Dream of Jeannie Magic Spin” slot machine.

Jethro followed Jeannie. Max Baer Jr., dressed in a black track suit, a fanny pack and tinted glasses, was there to promote the third in a series of “Beverly Hillbillies” theme machines sold by I.G.T. Radar (Gary Burghoff), Laverne (Penny Marshall) and Shirley (Cindy Williams) also made star turns. So did Dick Clark and Jim Lange, who once was host of “The Dating Game” and now does the same on an I.G.T. creation bearing that name.

Slot machines account for more than 70 percent of casino revenue in the United States, according to William Eadington, an economist at the University of Nevada at Reno. And the most profitable machines, slot makers have discovered in recent years, are those that tap into the recognizable and nostalgic. The manufacturers are spilling tens of millions of dollars licensing such brands, hoping that they will help their machines stand out in the crowd of games clamoring for gamblers’ attention.

In the old days, the best that some of yesterday’s celebrities might hope for was a call from the producer of “Hollywood Squares” or “The Match Game” -- both of which have been licensed by the slot maker WMS Gaming, a unit of WMS Industries in Waukegan, Ill. -- to supplement their Screen Actors Guild pensions. But now they might be invited to sell their names, voices and images of their former selves for use on devices that more often resemble video games -- with television-style monitors, stereo speakers and complex bonus rounds bracketed by brief TV clips -- than traditional spinning-reel slot machines. A TV show’s creators and stars (or their heirs) are partners who typically receive a payment based on a daily census of the number of their machines on casino floors.

“Basically, in the last few years the makers of these devices have gone and licensed everything under the sun,” said Eugene M. Christiansen, a gambling industry analyst in New York and chief executive of Christiansen Capital Advisors. “It’s changed the slot business.”

The licensing trend has shifted the balance of power in the industry. The slot world's undisputed leader is I.G.T., which boasts around a 70 percent share of the United States slot market, according to Jeffrey M. Martin, a senior research analyst at Roth Capital Partners in Newport Beach, Calif. Since January 2000, the company's stock has climbed fivefold -- in no small part, analysts say, because of the company's partnership with the likes of Jeannie and Jethro. At \$9.85 billion, I.G.T.'s market capitalization is now nine times that of its nearest slot-machine rival, the Bally Gaming unit of the Alliance Gaming Corporation.

More significantly, those analysts said, the licensing trend has altered the relationship between manufacturers and casinos. The intellectual-property costs are typically so enormous for these machines, and the physical design so elaborate, that they are not sold to casinos but leased to them based on a revenue-sharing model. The slot makers and licensors now have a hand in a casino's pocket -- much to the chagrin of the casinos.

"If a dollar walks into our property, the question is: Do I get that dollar, or do I have to give 40 cents up?" said Jason Tate, the director of slot operations at the Luxor Las Vegas. Mr. Tate said many slot players might stop coming to his casino if the Luxor did not offer these leased games.

The 'Wheel' Factor

The beginning is simple to mark. A slot machine based on the game show "Wheel of Fortune," and featuring a spinning-wheel bonus round, made its debut in 1996.

Almost immediately, the machine gained a disproportionate share of the casino floor -- and has since proved to be a hit like no machine before or since. The familiar sound of an audience chanting "Wheel! Of! Fortune!" now blares from machines in casinos around the country, and updated versions even include the voices and images of Pat Sajak and Vanna White.

Slot managers typically evaluate the machines on their floors in terms of win per day: coins in, minus money paid out. A former I.G.T. executive who asked not to be identified said that each "Wheel of Fortune" machine generates an average daily win of at least \$300. There are roughly 12,000 "Wheel" machines on casino floors, according to I.G.T. That would mean that they generate at least \$3.6 million a day, or \$1.3 billion a year.

"Before the 'Wheel of Fortune,' the theming of slot machines was generic -- cherries, lemons, pots of gold, four-leaf clovers," Mr. Christiansen said. "Stuff in the public domain that didn't cost any money to use. But that changed as soon as 'Wheel of Fortune' hit. Consumers suddenly were demanding something more than cherries and lemons."

That meant greater development costs for slot makers, but also greater profits. A slot machine typically sells for around \$10,000, adding maybe \$4,000 in profit to the company's bottom line, I.G.T. executives said. By contrast, a successful revenue-sharing machine can provide a steady stream of cash, adding as much as \$16,000 a year to the bottom line.

"We're not trying to replicate a game show or TV show so much as create a deep emotional connection between the player and these shows they've come to love," said Joe Kaminkow, the vice president for game design at I.G.T.

Under Mr. Kaminkow, I.G.T. has doubled, to 28,000, the number of machines -- known in the industry as boxes -- that give the company a share of the revenue they reap for the casino. Revenue from such arrangements soared to \$916 million in 2002 from \$401 million in 2000. That figure should easily top \$1 billion this year, according to a Goldman Sachs research report released in mid-September.

All told, I.G.T. now has at least 62 licensed games, said Nancy King, who has overseen the company's licensing program for the last four years. "Every

licenser calls me to check on how many boxes they have out there,” Ms. King said. One, she said, calls faithfully each week.

Who’s Pursuing Whom?

At first, licensors were more likely to say no when approached by I.G.T. In the first couple of years after the “Wheel of Fortune” machine was introduced, said Jean Venneman, the company’s marketing director, those rejecting I.G.T. included several soap operas, an assortment of country singers and Frank Sinatra.

Today, though, at least as many agents and lawyers knock on I.G.T.’s door to pitch a personality as I.G.T. pursues. “We’ve turned down hundreds of titles in the last couple of years,” Mr. Kaminkow said.

According to I.G.T. executives, the agent representing the estate of Lucille Ball originally told Mr. Kaminkow that there was no way that Ms. Ball’s survivors would ever go for a slot deal -- until he floated the possibility of a \$10 million deal. Today, there are several Lucy-theme machines, with more coming, including “Lucy’s Grape Stomp” and “Lucy’s Chocolate Factory.” The guaranteed payment ended up being far less than \$10 million, Mr. Kaminkow said.

Bruce Bronn, president and chief executive of Unforgettable Licensing, in Northbrook, Ill., represents the family of Lucille Ball and Desi Arnaz. Mr. Bronn would not confirm or deny dollar figures, but he acknowledged that he initially told Mr. Kaminkow “absolutely not” when he first broached the idea of a Lucy slot machine.

“In the end, the money wasn’t the important thing for the family,” Mr. Bronn said. “The estate’s biggest concern was that these games be respectful to the property, to the ‘I Love Lucy’ show.”

There is now a pair of Frank Sinatra machines as well. Nine months after Mr. Sinatra’s death, Mr. Kaminkow says, I.G.T. came to terms with the singer’s heirs.

Mr. Sinatra was aware that family members were

talking about a slot machine that would carry his image, said Robert A. Finkelstein, a lawyer representing the Sinatra family, but the process was lengthy because of the interest expressed by several manufacturers.

The joke inside I.G.T. is that the company rarely approaches celebrities until they are well past their prime -- and therefore affordable. “Once you’ve hit your decline, we’re all over you,” cracked Lance Peterson, an I.G.T. game designer who figures he has written more than three dozen scripts for celebrities lending voices to machines.

Most deals do not approach the size of those for a Lucy or a Sinatra. An executive at Warner Brothers, which retains the rights to “Gilligan’s Island,” described his company’s arrangement with I.G.T. as a “fun deal but not a lucrative one,” with a guarantee of less than \$1 million over the life of the contract.

Anthony N. Cabot, a lawyer at Lionel Sawyer & Collins, which is based in Las Vegas, has represented individuals who have cut deals with slot-machine makers. Mr. Cabot said \$100,000 “is a typical number as an upfront payment for use of a name or brand,” with an additional \$500 to \$1,000 a machine per year.

“At that rate, placing 1,000 machines would mean \$500,000 to \$1 million, minus the upfront guarantee,” he explained. Each deal also grants a celebrity final rights of approval over his or her depiction in the game, Ms. King said.

It is likely that the deal Mr. Baer signed with I.G.T. is more generous than that. In 1991, he licensed from CBS the rights to “The Beverly Hillbillies” for any gambling-related activity. As a result, he has received the lion’s share of the residuals from the three types of slot machines that already carry the “Beverly Hillbillies” theme. Mr. Baer declined to say how much he is earning from his multigame deal with I.G.T., but he did say that “I could live for another 2,000 years and not have to work another day.”

From Li'l Abner to Don Ho

Slot floor managers grouse about licensed machines' cost, just as they complain about games with themes that have no apparent connection to gambling. The "Beverly Hillbillies" were common folks who struck it rich, but there is no apparent link between "Gilligan's Island" and gambling, or even money. In the last couple of years, Mr. Kaminkow of I.G.T. has even licensed products like Tabasco and Spam, and counterparts at Bally have a deal for an "S & H Green Stamps" machine.

"I'm waiting for the Old Spice game," said Bruce C. Rowe, who was vice president in charge of slot operations for Harrah's Entertainment until earlier this month and is now a consultant based in Henderson, Nev. "It's gotten totally out of control."

Mr. Rowe made his comments at the trade show, called the Global Gaming Expo, during a breakout session about the changing relationship between casinos and slot-machine makers. The most outspoken of the panelists, he advised casino executives to be judicious in accepting leased games -- and appealed to their sense of the bottom line.

He says casinos should stick mainly to the standard practice: buying nonlicensed machines outright and then keeping them fresh by using conversion kits that can change the game's theme from, say, "Rich Little Piggies" to "Fairy's Fortune."

A typical, conventional machine costs a casino \$11 a day over five years, he said. That accounts for the purchase price of roughly \$10,000, and \$2,000 or so for each of several conversion kits, which include new computer chips and glass. By contrast, the typical revenue-sharing game costs a casino \$75 a day, Mr. Rowe said.

Frank Neborsky, who oversees the more than 6,000 slot machines on the floor of Mohegan Sun in Connecticut, figures that his casino pays more than \$15 million to slot makers each year to carry these licensed games -- but that the machines are worth the extra cost. "No doubt some of these fees

are very expensive," Mr. Neborsky said, but he also expects the licensed games to earn at least twice as much as the casino average. The advantage for casino operators is that the slot makers assume all the risk on the licensed machines; by all accounts, slot floor directors are never shy about giving the boot, even after just a few weeks, to games that fail to earn considerably more than their cheaper counterparts.

Typically, slot makers take a 20 percent cut of a casino's winnings on a leased machine, but the figure can be higher for some games, slot makers say. The Mohegan opts for a fixed daily fee on these machines, Mr. Neborsky says, that can run as high as \$75 a machine.

"The manufacturers raise the bar on these games when they want to take up valuable real estate on our floor," he said. "They have to come to our floor with high-quality product" -- and keep coming back with more once the current crop shows a falloff in earnings.

Certainly, the slot makers are doing all they can to produce a steady flow of licensed games. Bally Gaming unveiled around 20 licensed machines at the trade show, including games based on Li'l Abner, Felix the Cat and the Lone Ranger.

Bally also offered games based on a range of "Saturday Night Live" bits, including "Wayne's World," the Coneheads and the Blues Brothers. Those who sign off on the deals include the network, NBC, as well as the production company and the relevant actors.

The WMS Gaming booth included more than a dozen licensed games, including "Don Ho's Kahuna Kash" and several based on the Monopoly board game. "Consumers want comfort; they want security," said the company's president and chief executive, Brian R. Gamache. "They want a gaming experience with brands they know and trust."

Then there are the offerings by relative newcomers to the slot world, like the Mikohn Gaming Corporation and Shuffle Master Inc., two companies that exclusively sell revenue-sharing games. Among Shuffle Master's new games were "Sydney Omarr's Horoscope" and "Marvel Heroes and Villains," while Mikohn had new slots featuring the smiling face of the game-show host Wink Martindale and several more based on familiar games like Trivial Pursuit and Clue.

"These games add to the bigness and the glitz and the sizzle of the casino floor," said Mickey Roemer, Bally's senior vice president for game development. "Operators must agree with that or they wouldn't keep signing deals to carry these kinds of games."

I.G.T., however, continues to dominate a North American market that Mr. Martin, the analyst at Roth Capital, places at 700,000 to 750,000 machines. The company recently put the finishing touches on a studio that it says cost around \$1 million -- including a \$150,000 high-definition camera and a motion capture system to perform the kind of animation seen on sports video games.

"The companies we bought the equipment from were laughing at us," said Anthony J. Baerlocher, I.G.T.'s director for product development. "They were like, 'You're making little three- and five-second clips that run on a slot machine.' This is equipment they use for a major motion picture."

Rarely does a company want to include current video clips of a star in one of its games. ("The people we work with are usually too past their prime for video," said Mr. Peterson, the I.G.T. designer.) But it happens occasionally, as when the comedian Drew Carey went to Reno during the summer to be filmed so his image and voice could enliven a new "Big Balls of Cash" video game.

Chuck Mathewson, the I.G.T. chairman, allows that his company has probably gone overboard. "There's probably too much of it out right now," Mr. Mathewson said. "But you really can't stop something like that."

I.G.T. released 150 new titles at the show, roughly half of them based on licensing deals. Among the licensed ones were a pair of Elizabeth Taylor "Dazzling Diamonds" games, as well as a "Star Wars" game -- based on the costliest licensing deal I.G.T. has ever entered, according to Mr. Baerlocher.

Apparently Mr. Kaminkow is not satisfied pitching his machines to the typical over-50 slot player.

"I want people in their 30's and 40's to walk into a casino and hear, 'Help me, Obi-Wan Kenobi; you're my only hope.' And your hands go into your pocket," Mr. Kaminkow said. "I'm sure of it."