

**MARYLAND STATE LOTTERY COMMISSION
JUNE MINUTES**

DATE: June 25, 2003
TIME: 10:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Commissioner Osborne Payne
Commissioner Carl Hein, III
Commissioner Bruce Reeder

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Tchicaya Ellis, Ph.D., Director, Research and Planning
Gina Smith, Assistant Director and CFO
Sandra Johnson, Chief Information Officer, Information Technology
Joseph Jason, Deputy Director, Sales
Jill Baer, Director, Creative Services
Tracey Cohen, Director, Product Development
Jimmy White, Director, Communications
Deborah Sharpless, Controller, AFO
Mary Newman, Corporate Accounts, Sales
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS

PRESENT: Ray Shaffer, IGT OnLine Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 10:10 a.m.

Chairman Bonaventure stated that the Director did a good job over the weekend concerning Mega Millions and the winning ticket. Chairman Bonaventure stated he met with the Governor to talk about the Lottery. The Governor very much appreciates the effort of everyone at the Lottery. His message was to make as much money as the Lottery can for the State and to continue to think outside the box. He stated the Governor did have a concern about the legislative audit report and they discussed that.

APPROVAL OF MINUTES

Chairman Bonaventure asked if there were any changes or corrections to the Minutes for May. He stated he had one correction. The correction was that he abstained from approving the April minutes because he was not a member of the Commission at that time and thus was not present at that meeting. The Minutes were approved with the one correction.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated Lottery sales are \$12 million ahead of last year's sales. Pick 3 sales are down \$10 million. Pick 4 sales are up approximately \$2 million. Keno sales are up \$9 million and Keno Bonus sales are up \$12 million. Instant games are having a record year, with sales \$17 million ahead of last year. Revenues are equivalent to last year. The Lottery experienced higher than normal payouts in the Pick 4 game and the revenues are \$17 million behind last year. In order to meet last year's revenue total, the Lottery must generate \$9.5 million in revenue between now and the last day of the fiscal year, June 30, 2003. Mr. Roogow stated next month he would report on the year-end results.

Mr. Roogow stated at 11:45 p.m. on Friday night, June 20, 2003, he called the Lottery's computer center and was informed that Maryland had a top tier Mega Millions winner and three second-tier winners. No other states had reported that they had a first tier winner. Mr. Roogow stated he then talked to Jay Newman, Vice President and General Manager of WJZ-TV Channel 13, and Channel 13 scrolled across the bottom of the TV screen towards the end of the Letterman show that unofficial results indicate that Maryland had a top tier winner in Mega Millions and more information would be available on Saturday at 6:00 a.m. The ticket was sold at Geresbeck's in Middle River. Radio and television media have been at the Lottery and Geresbeck's. The Lottery is waiting for the Mega Millions winner to come forward. Mr. Roogow stated the Mega Millions jackpot was \$183 million, with a cash option of \$114 million. The State will receive \$8.5 million in income tax. Commissioner Reeder asked what happens if the ticket is not claimed within the 182 day claiming period. Mr. Roogow responded the money, proportionately based on sales, goes

back to each Mega Millions state. Approximately \$5 million would come back to the State of Maryland and would go into the Unclaimed Prize Fund, which in turn goes back to the players in prizes. The 182-day claiming period ends on December 20, 2003. Mr. Roogow stated he talked to Paul Schurick in the Governor's Office and they are very excited.

Mr. Roogow stated the Maryland Association of Counties Summer Conference is August 13 to 16, 2003 at the Convention Center in Ocean City. If any of the Commissioners are interested in attending, please see Marie Torosino.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson distributed her report to the Commission. She stated there were no revocations to present to the Commission this month.

Ms. Johnson stated the Director would be signing another Maryland Toll Authority "toll-free" agreement. The two additional "toll-free" days are July 4 to 5, 2003 and August 29 to 30, 2003. The Lottery will pay a total of \$68,650 for both dates combined for the six-hour period from Friday at 6:30 p.m. to Saturday at 12:30 a.m.

Ms. Johnson stated this past legislative session two bills passed in the General Assembly that dealt with the Minority Business Enterprise Program. House Bill 1109 deals with personal net worth and allows agencies to count participation when companies lose certification due to exceeding the personal net worth. Senate Bill 715 deals with the MBE requirements to agencies that are not generally subject to Maryland procurement law and requires the Board of Public Works to keep records of all MBE waivers requested and granted. This bill also requires the Board to submit records of requested waivers to the General Assembly each year. Copies of the two bills were included with her report.

Ms. Johnson stated the Lottery continues to receive inquiries concerning foreign lotteries. The State's Attorney General's Office issues warnings about these illegal lotteries. The downtown Attorney General's office has requested her office to respond to all gaming inquiries, except for horse racing, and these inquiries are increasing.

Ms. Johnson stated in 1994, the name Keno Doubler was used occasionally by the Lottery. Now that the use has increased, her office has filed the trademark application for the name Keno Doubler. Chairman Bonaventure asked if a trademark search was done. Ms. Johnson responded yes, a trademark search was done.

Chairman Bonaventure asked what is the status regarding the suspension of Chance Market. Ms. Johnson responded additional information was received from the agent. She will be reviewing the information and a response will be prepared.

Commissioner Reeder stated illegal lotteries on the Internet are increasing and feels that the Federal government needs to help states in some manner. These illegal lotteries take away sales from the legal state lotteries. Ms. Johnson responded legislation has been ongoing for the past five to six years to outlaw Internet gaming. Current legislation has passed the U.S. House. The states do need to be more aggressive. Commission Reeder asked how could this be accomplished. Ms. Johnson responded by contacting federal legislators. This is a concern of all the Lotteries.

Research and Planning – Tchicaya Ellis Ph.D., Director

Dr. Tchicaya Ellis distributed her report to the Commission. She stated the legislation regarding MBE would have some effect on the Lottery, especially with IGT. The legislation takes effect in October 2003. Because IGT has continued to use their major MBE subcontractor, the Lottery will be able to count those dollars. The waiver that IGT files will only negatively impact the Lottery until October.

Dr. Ellis stated the Keno focus group research will take place on June 16, 17, 23, 25 and 26, 2003 to collect data to provide direction to the advertising agency's creative team, obtain feedback on Keno promotions and game features, and investigate the effect of DC's Keno game on Maryland, particularly in the high volume Keno areas of Prince George's, Montgomery, Baltimore and Anne Arundel Counties and Baltimore City. The results of the June 2003 Tracking Study would be available next month.

Administration, Finance and Operation – Gina Smith, Deputy Director, CFO

Ms. Gina Smith distributed to the Commission her report and scratch-off tickets that were recently launched. She stated her Division is working on the year-end closeout. FY2003 spending levels remain in line with allowances and there are no issues.

Ms. Smith stated she attended the Board of Public Works meeting last week for the award of the Auditing and Accounting Contract. The contract with Stout, Causey and Horning becomes effective July 1, 2003. A meeting has been set up next Thursday with the firm to review the Lottery's accounting processes. She will also set up a meeting for Chairman Bonaventure to meet the new accounting firm.

Ms. Smith stated an exemption request had been submitted and was approved to fill five positions in the Sales area and two positions in the AFO area. The positions in the sales area have been filled and recruitment will begin for the AFO positions.

Ms. Smith stated the Lottery's legislative audit status report was sent to the auditors in June. The auditors will be at the Lottery sometime in mid-July to conduct the six-month follow-up audit. The auditors will review each finding in the audit report, look at the recommendation and give the Lottery their response. She believes that the Lottery has

addressed the majority of recommendations the auditors made. A copy of the status report was provided to the Commission.

Ms. Smith stated a copy of the December 2002 Management Report from Bert Smith was included in the Commission's folders. This report is received every six months. There were no new comments in the accounting area. Nine of 14 prior comments have been cleared. Some of the comments have been taken care of since this December 2002 report. She stated if the Lottery had an Internal Auditor position, that person could coordinate with the legislative auditors. Chairman Bonaventure asked if there is a position available. Mr. Roogow responded a request was put in the budget for the new position.

Information Technology – **Sandra Johnson, Chief Information Officer**

Ms. Sandra Johnson distributed her report to the Commission. Ms. Johnson stated she is working to meet all the requirements in the legislative auditors recommendations and a substantial amount of work has been done. The Keno Source Code was reviewed and the report has been completed. The software is doing what it is suppose to do. Chairman Bonaventure asked if IGT owned the Keno Source Code. Ms Johnson responded IGT owns it.

Ms. Johnson stated the Agency's Disaster Recovery Plan has been developed. The plan is consistent with published State guidelines. Ms. Johnson stated this plan addresses all the technical aspects of the Agency's internal operations including hardware, software, data security, and steps to follow if something happens. The Lottery's backup computer system was moved from the Western Avenue location to the location in Lanham to move it out of the geographic area near our headquarters building. It also addresses all the applications used by the Lottery including agent applications, agent administration, claims, accounting, bonds and annuities, subscriptions, sales, the internal control system and various interfaces to the gaming application. For the on-line system, IGT does not have a plan that meets the State's requirement and she will work with IGT on this. Chairman Bonaventure asked would it be part of future contracts. Ms. Johnson responded yes.

IT worked with the Lottery's Legal and Procurement Division to clarify language in the on-line contract concerning penalties and liquidated damages calculations.

Ms. Johnson stated the radio dial up between the Riverboat lottery retailer and the Lottery was tested and completed. An additional terminal was added to the radio link. The project started with a \$50,000 saving per year, but the savings have turned out to be more. Chairman Bonaventure asked what is the Riverboat. Ms. Johnson responded it is a Lottery agent located in Colonial Beach, Virginia. A portion of the business is in Maryland and a portion is in Virginia. They offer lottery and off-track betting and there are six Maryland lottery terminals located at the business.

Ms. Johnson stated IT is working on the testing of the new check writer/W2G system that will be placed in the Claims area. IT is also working on the redesign of the bond/annuity

system. Testing of software patches from IGT is continuing in order to correct the problem with instant ticket quotas not being able to be changed by the Sales staff in the field and also the problem with some terminals re-booting and processing duplicate transactions. Approximately 20 to 30 agents will be ram packed, monitored and then if everything is running satisfactorily, they will install the remaining agents throughout the State.

The BRS document for the Internal Control System, Keno To Go and InWin were signed off on. Twenty-five new computers were ordered and will be distributed to staff. Two new printers for the FMIS processing were ordered. Two new Unisys tape driver units were ordered.

Communications – Jimmy White, Director

Mr. Jimmy White stated a copy of his report is contained in the Commission's folders. He stated his report contains information regarding Lottery winners and the events that Communications has participated in throughout the State, including Rockville's Hometown Holidays, various Merriweather concerts, several charity golf tournaments and the FOP Motorcycle Ride to benefit Concerns of Police Survivors.

Mr. White stated 33 press releases were issued that resulted in 28 stories in various print. Eisner evaluated the news clips and they were valued at approximately \$11,550.

Mr. White stated the Lottery would participate in two additional Bay Bridge "free-toll" promotions.

Mr. White stated his report contains the May 2003 information on the Promotional Partners Program. This report only contains information concerning scratch-offs being supplied to the Promotional Partners. For several weeks, they were supplying coupons for the Mega Millions game and the numbers are not yet available. The results will be reported next month.

Mr. White stated the VIP Club has approximately 19,000 members. During the month, five contests were held for VIP Club members. The members are also provided with jackpot and product updates. The Communications events list is also included in his report.

Creative Services – Jill Baer, Director

Ms. Baer distributed her report to the Commission. She stated in June the Lottery would be airing Pick 3 spots and new Scratch cam spots. The scratch cam spots were filmed at the Bay Bridge Boat Show with Chip Franklin acting as the host. Next week, the summer media promotional spots will begin featuring scratch-off tickets. There will be a total of three commercials featuring the crabs, Jimmy and Shelly and introducing Scampi the Shrimp. Two are completed and being tagged with scratch off tickets. We are also running spots on Comcast during the Oriole games, Orioles TV, and Comcast broad base cable.

Ms. Baer stated to support the Keno Summer Special promotion, radio spots will run in June. A radio spot will also run the week before July 4th to support the Stars & Stripes scratch-off ticket.

Ms. Baer stated that print advertising ran in the Baltimore Sun and Annapolis Capital congratulating the Mega Millions jackpot winner and other Mega Millions winners from around the State. Congratulations to the jackpot winner will be added to the Mega Millions billboard. She is also working on an advertising plan if the winner does not come forward.

Ms. Baer stated that several proposals are currently under review including the Maryland Transportation Authority with the Lottery's sponsorship of the Bay Bridge toll-free night scheduled for the July 4th weekend. Media presentations from the Baltimore Ravens and Washington Redskins are also being evaluated.

Ms. Baer stated the Lottery's entries for the NASPL Awards Program were submitted to NASPL.

Ms. Baer stated she is working on the audit request regarding monitoring the Lottery's advertising, and procedures are nearing completion. The procedures will be submitted to the Director.

Commissioner Hein asked how would the closing of Flite 3 studio impact the Lottery. Ms. Baer responded this company was used many times for game shows and commercial productions. It was one of the largest studios in the State. The State is in the processing of building a large facility at the Maryland Public Television location. The Lottery currently does not have any projects planned. It is a big loss among the advertising community. Flite 3 had a difficult time competing with the more technically advanced companies.

Sales – Joseph Jason, Deputy Director

Mr. Joseph Jason stated a copy of his report is contained in the Commission's folders. He stated his report contains the instant ticket launch schedule for June as well as the instant games that have final activation dates in June and a copy of the Important Notice that is sent to the Lottery retailers informing them of these final activation dates.

Mr. Jason stated three Summer Blockbusters Promotion will run from July 7, 2003 through September 2, 2003, associated with the on-line games called A Million Thanks, 10's a Charm and Take your Pick. Details on the promotions were attached to his report. Sales personnel are educating the retailers on these promotions.

The latest \$10 instant ticket called Big Money Spectacular launched last Friday. Point of sale was received and distributed to the Lottery retailers. Because all retailers do not receive their shipment of instant tickets at the same time, the Sales reps were issued books of these tickets to quickly get them to the retailers.

At last month's meeting, Commissioner Reeder had asked for an update on the loss of sales at agent locations with gas pumps. Mr. Jason introduced Ms. Mary Newman, Corporate Accounts Rep, to give a presentation on the results of the research that was done. She spoke about the history of pay-at-the-pump, current findings, hypermarkets, convenience stores with gas pumps, marketing strategies and what is in store for the future. The report was distributed to the Commission.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen stated copies of her report are contained in the Commission's folders. She stated there are four instant tickets to present to the Commission today.

Ms. Cohen stated one of the instant tickets to be presented is *Bonus Slingo*. This involves a licensing agreement with Oberthur Gaming Technologies and she asked Ms. Suzanne Meltzer, Procurement Director, to present the agreement to the Commission for their approval.

Ms. Meltzer stated the Lottery would like to introduce a licensed instant ticket game called *Bonus Slingo*. The name is a trademarked name when used on lottery instant tickets and to use *Bonus Slingo* the Lottery must purchase those rights through a licensing agreement with Oberthur Gaming Technologies, Inc. The not to exceed cost to print two millions tickets is \$38,303.70. She requested the Commission's approval of this licensing agreement. Chairman Bonaventure made a motion to approve the licensing agreement and Commissioner Payne seconded it. The licensing agreement was approved by unanimous vote of the Commission.

Commissioner Hein stated that his daughter suggested a new theme for a scratch-off game.

Ms. Cohen then presented the instant tickets to the Commission.

Game #368 *Bonus Slingo* is a \$3.00 ticket with a top prize of \$30,000 and a ticket quantity of 2 million. The odds are 1:3.97 with a payout of 67.76%. It is a slingo theme with a launch date of August 2003.

Chairman Bonaventure asked what are the Lottery's net proceeds on instant tickets. The response was the Lottery makes 25% of \$6 million as long as all the tickets are sold. When the top prize is sold, agents are sent a notice and informed what prizes are remaining. Deborah Sharpless was asked to review the \$1, \$2, \$3, \$5 and \$10 games and give the Commission a report regarding the Lottery's net proceeds. It was stated that there is a note on the back of the instant tickets that states "Tickets may continue to be sold after all top prizes have been claimed." Mr. Roogow stated the Lottery would not pull the instant tickets that sold the top prize unless the ticket was advertised as a top prize. For instance, in the Cash for Life instant game, once top prize was claimed, a notice was sent to the retailers stating how many prizes were remaining. Pulling the ticket early does not mean the Lottery is losing revenue.

Ms. Cohen continued to present the instant tickets.

Game #419 *Casino Royale* is a \$5.00 ticket with a top prize of \$50,000 and a ticket quantity of 2 million. The odds are 1:3.53 with a payout of 73.24%. It is a gaming theme with a launch date of August 2003.

Game #425 *Red Hot Cash* is a \$1.00 ticket with a top prize of \$1,000 and a ticket quantity of 2.5 million. The odds are 1:4.54 with a payout of 59.96%. It is a money theme with a launch date of July 2003.

Game #426 *Ace in the Hole* is a \$1.00 ticket with a top prize of \$1,500 and a ticket quantity of 2.5 million. The odds are 1:5.00 with a payout of 59.92%. It is a card theme with a launch date of September 2003.

Commissioner Payne motioned that all four all four instant tickets be approved. The tickets were approved by unanimous vote of the Commission.

Ms. Andrea Johnson stated for the record, all four instant games have been reviewed and approved for legal sufficiency.

Procurement – Suzanne Meltzer, Procurement Director

Ms. Suzanne Meltzer stated the Lottery recommended that Stout, Causey & Horning, P.A. be awarded the Auditing and Accounting Services Contract. The Contract was presented to and approved by the Board of Public Works on June 18, 2003. It is for a three-year term with options to renew for three additional one-year periods. The not to exceed cost for the three-year term is \$351,200. Chairman Bonaventure made a motion to approve this Contract and Commissioner Payne seconded it. The Contract was approved by unanimous vote of the Commission.

The Hardware and Software Maintenance Agreements for the Unisys LX 5200 and Unisys LXE 6500 expire on June 29, 2003. The Lottery wishes to enter into contracts to continue these services for an additional one-year period at a cost not to exceed \$27,650.76 for the LX 5200 and a cost not to exceed \$44,880 for the LXE 6500. Commissioner Hein made a motion to approve both of these agreements and Chairman Bonaventure seconded it. The Agreements were approved by unanimous vote of the Commission.

Ms. Andrea Johnson stated the Lottery has agreed with the Maryland Toll Authority to sponsor two additional “toll-free” days across the Bay Bridge on July 4-5, 2003 and August 29-30, 2003. The Lottery has agreed to pay a total of \$68,650 for both days. She is requesting the Commission’s approval of this agreement. Commissioner Reeder made a motion to approve this agreement and Commissioner Hein seconded it. The Agreement was approved by unanimous vote of the Commission

IGT ONLINE ENTERTAINMENT SYSTEMS

Mr. Ray Shaffer, Account Executive, stated Mega Millions was doing up to 167 transactions per second and there were no problems with the system, and additional terminals were added at some retailer locations. Mr. Shaffer stated it has been determined that on March 9, 2004, the one millionth Keno draw will occur. That will present some problem with the system's equipment because it will only accommodate a six digit game number. The Keno drawings will stop at 1:30 a.m. and the next game will start at zero or one. There are a number of issues to look at in order to accommodate this.

Mr. Shafer stated IGT is developing a new Cdi plan to interface with the graphics. The current equipment is obsolete and parts are hard to find. IGT is currently testing replacements. IGT and Lottery staff are working on a three-year plan to present to the Director. The IGT Marketing staff has been out in full force this week working with Lottery retailers. Mr. Shaffer has been in contact with Joe Jason to ensure that no retailer's terminal was down last week. Commissioner Reeder asked what is the transaction capacity of the system. Mr. Shaffer stated it is significantly high and he does not know if there is a limit. Mr. Roogow stated that when the transactions increase, the system may slow down.

EISNER COMMUNICATIONS

Mr. David Blum, Vice President, stated he has two items to present to the Commission. He then played the videotape of the new scratch cam spots that were filmed at the Bay Bridge Boat Show. Two commercials of the crabs Jimmy and Shelley and Scamp the Shrimp have been completed and the spots were shown to the Commission. Mr. Blum stated Eisner is working on a third spot. A question was asked as to how long it took to tape the commercial. The response was 20 hours. They were animatronics crabs and five puppeteers worked them.

BERT SMITH AND COMPANY FINANCIAL REPORT

Ms. Deborah Sharpless, Controller stated that the audited financial statement for April 2003 was previously mailed to the Commission. She then distributed the unaudited financial statement for May 2003. Lottery revenues for May were \$35.3 million, which is \$2.7 million down from April because of the Pick 4 payouts. May sales were up \$5 million even though revenues were down. Ms. Sharpless stated there was nothing unusual to report in any of the statements. Ms. Smith stated with the approach of the year-end, it may be three months before the Commission would receive audited statements. The Commission will, however, continue to receive the unaudited statements.

DATE AND TIME OF NEXT MEETING

Chairman Bonaventure stated the next Commission meeting has been scheduled for Wednesday, July 23, 2003 at 10:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure adjourned the meeting at 11:50 a.m.

Respectfully submitted,

Buddy Roogow