

**MARYLAND STATE LOTTERY COMMISSION
FEBRUARY MINUTES**

DATE: February 25, 2004
TIME: 8:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Commissioner Osborne A. Payne
Commissioner Bruce L. Reeder
Commissioner E. Randolph Marriner
Commissioner George M. Wagner

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Gina Smith, Assistant Director and CFO
Sandra Johnson, Chief Information Officer, Information Technology
Tchicaya Ellis, Ph.D., Director, Research and Planning
Jill Baer, Director, Creative Services
Tracey Cohen, Director, Product Development
Brian Johnson, Assistant Director of Communications-Public Affairs
Paul Dorsey, Director of Policy and Development
Frank Hemberger, Regional Sales Manager
Patricia Regalbutto, Corporate Sales Manager
Phil Gerber, ITVM Manager
Daviedra Williams, MBE Liaison
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS
PRESENT:

John Williams, Scientific Games Online Entertainment Systems
Charletta Winston, Scientific Games Online Entertainment Systems
Beth Williams, GTECH
Paul Stapleton, GTECH
David Blum, Eisner Communications

CALL TO ORDER

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 8:15 a.m.

MBE WAIVERS

Dr. Ellis stated the MBE waiver requests for Scientific Games Online Entertainment Systems (formerly IGT) and Interlott Technologies, Inc. (now known as GTECH) were being presented today. A summary of the MBE waiver requests for each contractor was distributed to the Commission.

Dr. Ellis gave a brief summary of Scientific Games' MBE waiver request. She stated that the current contract expires July 5, 2006 and that the MBE goal for this contract is 20%. She then gave a history of their MBE goal performance over the past years of the contract term. The basis of the current waiver request is that there are no MDOT-certified MBEs to perform printing services. She explained the corrective action plan to increase opportunities for MBE participation. She reviewed what good faith efforts were made by Scientific Games. She stated an MBE waiver for fiscal year 2002 was requested and granted. She also reviewed the recommended next steps for Scientific Games to meet their MBE goal.

Dr. Ellis gave a brief summary of Interlott Technologies' MBE waiver request. She stated that Interlott's MBE goal for Contract #1998-01 is 14%, #2000-01 is 14% and #2003-01 is 25%. She gave a history of Interlott's MBE goal performance over the term of the contracts. The MBE participation for the fiscal year 2003 waiver year is 2.71% based on the \$23,625 spent with MycaTech. According to the prime vendor, the basis of the current waiver request is that the current MBE subcontractor was not MDOT-certified and according to the prime vendor, no MBE subcontractors existed to fill the scope of work requirements. She stated no official corrective action plan was initiated because Interlott indicated that they were pursuing options with their current MBE subcontractor (New Tech Games) about the formation of a new company that may qualify as an MDOT certified MBE. She then reviewed Interlott's waiver submission.

Mr. John Williams and Ms. Charletta Winston from Scientific Games were called into the meeting to present to the Commission why their MBE waiver request should be approved and what corrective action they propose to take. Mr. Williams stated Scientific Games is committed to improve their MBE spending in Maryland. Beginning in 1995, PAP Printing was the certified MBE in Maryland and for the next five to six years everything was fine. He also stated that in FY2001, the personal net worth requirement disqualified PAP Printing and Scientific Games received an MBE waiver that year based on the effect of the personal net worth requirement. Unfortunately, their ongoing discretionary dollar spending did not meet the 20% goal. They contacted other minority printers on different occasions to look for an alternate printing company. It takes expensive, specialized equipment to produce the paper that is used. They were unable to find anyone capable or interested. PAP Printing has been an excellent partner and they plan to continue to use PAP Printing.

Mr. Williams stated they are going to find as many opportunities available to expend discretionary dollars on minority businesses. They currently have contracts in place for office supplies and janitorial services. A question was raised if Scientific Games met their MBE goal in Florida. Mr. Williams responded their goal is 20% and they came in at 17% or 18%. A question was raised if PAP Printing would qualify as an MBE if the law in Maryland were changed and the personal net worth were raised to \$1.5 million. Mr. Williams responded he does not know the answer. Upon completion of the presentation, Chairman Bonaventure requested additional information from Scientific Games and stated the Commission would take under advisement the information that was presented by Scientific Games as well as the information in the MBE waiver request and would get back to them with a decision.

The Commission then called Beth Williams and Paul Stapleton from Interlott (GTECH) into the meeting to present their explanation as to why the Lottery should approve the MBE waiver request. Chairman Bonaventure asked them to describe why Interlott should be granted an MBE waiver and what they will be doing to correct the situation in the future. Ms. Williams stated since 1993, Interlott has used New Tech Games, an MBE, to service the equipment. In using New Tech Games, Interlott has met or exceeded their MBE goals. When the law was changed in Maryland, New Tech Games no longer met the MBE requirements. The contract with New Tech expired and was not renewed. MycaTech then came on board. Interlott also contracted with Eagle Express to provide moving services. Upon completion of the presentation, Chairman Bonaventure asked the Lottery to confirm spending with MBE subcontractors and stated the Commission would take under advisement what was presented by Interlott as well as the information in the MBE waiver request and would get back to them with a decision. Dr. Ellis stated that PAP was disqualified due to their failure to submit documentation to MDOT.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President stated at the last meeting he shared with the Commission the materials for the Lotto Super Draw Promotion. This month Eisner is working on the InWin promotional materials. A freestanding insert with a coupon will be inserted in newspapers throughout the State over the weekend. He played the InWin radio spot for the Commission. The InWin television spot is currently in production. They will begin filming on Friday and it should be on the air by March 11, 2004.

Mr. Blum stated next month he would have information regarding the Orioles' 50th Anniversary promotion.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. John Williams stated his commute between Maryland and Florida continues. Scientific Games has been busy supporting all of the Lottery promotions. The InWin launch went well and did \$65,000 in sales as of the first two days. The Keno Doubler promotion is

finishing and it was successful. The Keno Tripler promotion is coming up in the near future in conjunction with the one-millionth Keno drawing. This is the first time this has been offered in the marketplace. It will be offered between the hours of 4:00 p.m. to 8:00 p.m.

COMMISSION

Chairman Bonaventure asked if there were any changes or corrections to the Minutes for the January 28, 2004 meeting. There were two corrections. On page 6, the third paragraph, change the word "concurrence" to "consultation." Also, on page 2, under Approval of Minutes, add, "the Minutes for the December 29, 2003 interim meeting were approved." Commissioner Reeder made a motion that the January 28, 2004 Minutes be approved with corrections noted and Commission Wagner seconded the motion. The Minutes were approved by unanimous vote of the Commission.

Chairman Bonaventure asked the Lottery staff to be careful about dealings with vendors to the Lottery so that even the perception of an impropriety or conflict does not arise.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated he and Chairman Bonaventure testified at the hearing for Senate Bill 197 (VLTs) before the Senate Budget and Taxation Committee on February 11, 2004. The Governor, Lt. Governor, Secretary of the Department of Budget and Management and others also testified. The Bill was passed by the Committee with some changes and now it goes to the full Senate for vote tomorrow. If it passes, it then goes to the House of Delegates. He will keep the Commission informed.

Mr. Roogow stated the InWin game began February 23, 2004 statewide after a testing period. There were a few issues to resolve during the testing, but everything went smoothly. Teams of Lottery staff are visiting retailer locations throughout State to familiarize players with the game. He thanked Sandy Johnson and her IT staff for their assistance. After eight to 12 weeks of sales, if the game continues to perform well, the Lottery will go to Board of Public Works to request approval of the Contractor Incentive Program for Scientific Games. Chairman Bonaventure requested that the Lottery be proactive in ensuring that the Lottery ticket sales agents or their employees are not looking at InWin tickets prior to giving them to the customer so as to determine if a particular ticket is a winning ticket.

Pick 3 sales are \$4 million below last year, but are gaining. Pick 4 had a record sales week and continues to grow. Pick 4 sales are \$3.4 million ahead of last year. Keno and Keno Bonus sales combined are ahead of last year. Scratch-off sales continue to perform well and we had three \$7 million sales weeks. Scratch-off sales are \$25 million ahead of last year. Mega Millions sales are doing well and sales were higher than predicted with the current jackpot.

Mr. Roogow stated a Mega Millions Directors' meeting would be held in Baltimore on March 26, 2004, to discuss various issues.

Mr. Roogow stated that Maryland had four second tier Mega Millions winners on Friday. The drawing was held in New York City's Times Square. The drawing can be seen on the Lottery's website. There were 1,400 stations that picked up the New York feed.

Lotto sales are slightly ahead of last year for the first time this year. The Lotto promotion with the Hummer giveaway was successful. There was some criticism that the Lottery had used a Hummer and not a more fuel-efficient car. This is something to take into account in the future. The Lottery experienced about a 20% increase in Lotto sales.

Revenues are \$3.6 million are ahead of last year. Pick 3 revenues are down because of the high payouts and Pick 4 revenues are ahead. The Lottery has completed its commitment to the Stadium Authority for this fiscal year. All revenue for the remainder of the fiscal year now goes to the General Fund.

REPORTS

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

Dr. Tchicaya Ellis stated there are several on-going research projects in progress. The December Tracking Study summary will be provided to the Commission at next month's meeting. Research is fielding a promotion awareness study on the Big Ben Bucks scratch-off ticket and the current Lotto promotion. The Annual Employee Survey results were presented at the MFR planning meeting on February 18, 2004. The Steering Committee has begun its MFR planning for FY2006.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated there were no revocations to present to the Commission this month.

Ms. Johnson stated in 2002, FACE Trading, Inc. illegally placed gaming machines called Ad-tab dispensers, which contain pull-tab tickets, in retailer locations in Worcester County. The Worcester County State's Attorney, after consultation with the Attorney General's Office, issued a letter to FACE Trading to remove the machines from the business establishments. FACE Trading filed an action for Declaratory Judgment against Worcester County. The State was successful at the circuit court level. FACE Trading filed an appeal and the Court of Appeals will hear the case on April 8, 2004. She will keep the Commission informed.

Ms. Johnson stated a question was raised concerning liability coverage for the Commission if the VLT legislation passed. She spoke with the State Treasurer's Counsel and coverage does exist under the Maryland Tort Claims Act. She stated a formal request was submitted to the State Treasurer's Insurance Division and she will update the Commission when the response is received.

Ms. Johnson stated regarding the Mega Millions jackpot lawsuit in New York, the New York Lottery has filed a Motion to Dismiss and the court granted the plaintiff an extension to March 2, 2004 to file a response. She will keep the Commission updated.

Administration, Finance & Operations – Gina Smith, CFO

Ms. Gina Smith distributed the unaudited financial statement for January 2004 and stated that the audited financial statement for December 2003 was previously mailed to the Commission. The 1099s and W-2Gs are due to the State government and Federal government by the end of the month.

Ms. Smith stated two vacancies exist in Agent Administration and one vacancy exists in the Sales Network area. Due to the hiring freeze, a position exemption request was submitted to the Department of Budget and Management to request approval to fill the vacancies. She is waiting for their response.

Ms. Smith stated she had previously provided the Commission with the resumes for the Internal Auditor position. She then gave an explanation of the interview process. She stated two members of the Lottery's Human Resources Division plus Deborah Sharpless and she would conduct the interviews. Eleven candidates would be interviewed then five candidates would be selected to return for a second interview with the Director. After their interview with the Director, the candidates would be referred to the Commission for further interview. She hopes to have someone hired by the middle of April so that the person can attend the NASPL Audit Subcommittee meeting in Ohio.

Ms. Smith stated that the Commission requested a copy of a report that could be used to report Lottery revenues and expenses to the Governor. She provided a letter and report that could be sent to the Governor so that the Lottery would be in compliance.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson stated IT spent time during last month testing the software to prepare for the InWin game. There was an issue with the keyboard speed and the problem was corrected within 48 hours.

Ms. Johnson stated IT is testing the Keno Tripler software installation for the promotion which begins March 1, 2004. IT has been involved in the Lotto Super Draw random selection of winners from qualifying Lotto tickets. IT also continues to randomly select agents to participate in the Big Ben Bucks agent incentive program. IT worked on

preparation of files and reports for the retailer 1099's and this was completed on January 27, 2004. Software was tested for the new Internal Control System supplied by Elsym.

Ms. Johnson stated IT took advantage of a new State volume-licensing contract with Microsoft. Volume licensing prices are less expensive than the normal purchase price of a license. She is working on a second order that covers license and maintenance for all of the Microsoft Office Suite products that include Word, Excel, Access, Power Point and several utility products. Once this is completed, the Lottery will be able to obtain upgrades for all of its Microsoft software under maintenance at no additional cost for the next three years.

Ms. Johnson stated Maryland was chosen by the NASPL Steering Committee as one of states to be involved in the final review and voting on Best Practices standards. The standards are then forwarded to the NASPL Executive Committee for approval and adoption. She will keep the Commission informed of their progress.

Ms. Johnson stated IT has also been monitoring the impact of various computer worms and viruses. The Lottery's network virus protection software has blocked several thousand infested e-mail messages.

*Communications - **Brian Johnson, Assistant Director – Promotions and Special Events***

Mr. Brian Johnson stated Communications has been busy with the InWin promotion. They have received positive feedback from the customers. The radio stations are also promoting this game. Keno Tripler is being marketed throughout the State. Communications is working with radio stations to promote the millionth Keno drawing. Mega Millions had a big jackpot last Friday and there has been a large media turnout. A question was asked what taxes are withheld from the winnings. The answer was the State withholds 7% and Federal withholds 25%.

Mr. Johnson stated on Monday morning at Paul's Restaurant in Arbutus from 6:00 a.m. to 8:00 a.m., the Lottery Director would talk with WQSR about the millionth Keno drawing promotion. The Lottery will do giveaways also. Paul's Restaurant was one of the first establishments to have Keno.

Mr. Johnson stated on March 1, 2004, the Commission Chairman and the Director would be on Direct Connect Live on Maryland Public Television at 7:00 p.m. This is a 15-minute live show and viewers can call in with their questions.

*Creative Services – **Jill Baer, Director***

Ms. Jill Baer stated a plan is in place to continue ongoing advertising in the DC market for Mega Millions. Mega Millions print, radio than television ads will run as the as jackpot increases. The Lottery continues its partnership with the Virginia Lottery doing Mega Million advertising.

Ms. Baer stated the InWin spot would be filmed on Friday. She showed the Commission the InWin insert and the sample of the direct mail piece being sent to Mega Millions and Lotto subscribers. InWin ads are airing on various radio stations.

Ms. Baer stated to celebrate Keno's millionth draw a special Keno Tripler promotion has been scheduled. To support the promotion, a radio spot will air during the 3:00 to 7:00 p.m. drive time to encourage listeners to play Keno Tripler.

Ms. Baer stated work continues on the Oriole's television package to support the scratch-off promotion.

Sales – Frank Hemberger, Manager

Mr. Frank Hemberger stated the Sales Division has been busy with the various promotions. Sales reps began training agents on the InWin promotion in early January. The InWin game launched statewide on February 23, 2004. A concern was raised regarding the retailers looking at the ticket and informing the customer that they won. Mr. Hemberger stated that a voice mail message would be sent to the Sales reps to remind the retailers not to disclose any winning information because it takes the excitement away from the player. There have been no complaints of the retailer keeping any winning tickets. The retailer Van Meter Gas and Go in Flintstone (Western Maryland area) had very high InWin sales for the first week of the game.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen presented the information on the instant tickets of which working papers have not yet been finalized. The following pending instant game financials were presented to the Commission for their review and approval.

Game #490 *Break the Bank* is a \$5.00 instant ticket with a prize payout of 74.09%. If 95% of the tickets are sold, the profit would be \$589,941. If 100% of the tickets are sold, the profit would be \$620,990. This is the hybrid ticket with two playing areas. A regular scratch-off area is on the front of the ticket and a pull and win area is on the back of the ticket. A question was asked as to why less than a million tickets were being printed. The response was that this is a pilot ticket. The Lottery will be entering into a licensing agreement with Pollard Banknote. The licensing fee is approximately \$97,000. If the ticket is successful, the Lottery may do it again and order a higher number of tickets.

Game #475 *Silver 7's* is a \$5.00 instant ticket with a prize payout of 72.91%. If 95% of the tickets are sold, the profit would be \$1,344,533. If 100% of the tickets are sold, the profit would be \$1,415,298.

Game #476 *Triple Luck* is a \$3.00 instant ticket with a prize payout of 67.78%. If 95% of the tickets are sold, the profit would be \$1,107,886. If 100% of the tickets are sold, the profit would be \$1,166,196.

Game #477 *Quick 7's* is a \$1.00 instant ticket with a prize payout of 59.01%. If 95% of the tickets are sold, the profit would be \$811,386. If 100% of the tickets are sold, the profit would be \$854,091.

Game #478 *Extra Change* is a \$2.00 instant ticket with a prize payout of 63.99%. If 95% of the tickets are sold, the profit would be \$886,976. If 100% of the tickets are sold, the profit would be \$933,659.

Game #480 *Boardwalk Bucks* is a \$5.00 instant ticket with a prize payout of 72.73%. If 95% of the tickets are sold, the profit would be \$1,362,147. If 100% of the tickets are sold, the profit would be \$1,433,839.

Game #481 *Triple Tripler* is a \$3.00 instant ticket with a prize payout of 67.95%. If 95% of the tickets are sold, the profit would be \$1,097,906. If 100% of the tickets are sold, the profit would be \$1,155,690.

Game #482 *Our Bay* is a \$1.00 instant ticket with a prize payout of 59.00%. If 95% of the tickets are sold, the profit would be \$541,147. If 100% of the tickets are sold, the profit would be \$569,628. This ticket uses the Chesapeake Bay program license plate as the ticket artwork.

Chairman Bonaventure made a motion to approve the above games with the exception of Game #490 *Break The Bank*, which will be tabled until a later meeting due to the fact that the required licensing agreement has not been finalized and revised projections were requested by the Commission. Commissioner Payne seconded the motion. The remaining instant tickets were approved by unanimous vote of the Commission. Chairman Bonaventure asked if the procurement for Game #490 was within the parameters of the existing procurement contract. Director Roogow answered that the procurement was within the terms of the existing procurement contract.

Ms. Cohen stated Gary Smith and Lori Nash would now give a presentation to the Commission on the Golden Ticket that is being done in conjunction with the Orioles' 50th anniversary. A handout was given to the Commission. The Golden Ticket is a \$10 ticket scratch-off ticket with a \$100,000 top prize and a payout of 75%. The point of sale for the Golden Ticket was shown. With the purchase of a Golden Ticket scratch-off, the customer receives a pack of baseball cards. Each pack will contain four random Orioles baseball cards and a checklist of all 50 baseball cards. A sample of the baseball cards was shown to the Commission. The first 100 people to collect all 50 cards win \$1,000, an autographed Orioles baseball, a certificate of authenticity for the set of 50 cards and an invitation for two to an Orioles bullpen party in September. At the bullpen party, winners will have a chance to win a variety of cash prizes ranging from \$10,000 to \$100,000, Orioles 2005

Florida Spring training camp trips for two and 13-game season ticket plans for the 2005 season.

The Lottery is working with the Oriole's to highlight the promotion in their 50th Anniversary public relations efforts. The Lottery will support the promotion with television, radio, point of sale and public relations. Ms. Andrea Johnson asked how would the prizes at the bullpen party will be awarded. The response was that a procedure is being developed to award those prizes. In addition, a player can take any non-winning \$10 Golden Ticket to the Oriole's box office on the day of an Oriole's game and receive \$10 off a club seat, which normally sells for \$25. A question was asked as to who is packaging the baseball cards. The response was that this is being done by Oberthur Gaming Technologies and it is within the terms of their contract.

COMMISSION COMMENTS

The Commission will hold a non-business meeting at 8:00 a.m. on March 24, 2004 to discuss the MBE waiver requests. The official Commission meeting with all staff will begin at 9:00 a.m. Commissioner Wagner stated he would be unable to attend the March 24th meeting.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, March 24, 2004 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Vice Chairman Marriner made a motion to adjourn the meeting and Chairman Bonaventure seconded it. The meeting was adjourned at 11:45 a.m.

Respectfully submitted,

Buddy Roogow