

**MARYLAND STATE LOTTERY COMMISSION
MARCH MINUTES**

DATE: March 24, 2004
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Vice Chairman E. Randolph Marriner
Commissioner Osborne A. Payne

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Gina Smith, Assistant Director and CFO
Sandra Johnson, Chief Information Officer, Information Technology
Joseph Jason, Deputy Director of Marketing
Tchicaya Ellis, Ph.D., Director, Research and Planning
Jill Baer, Director, Creative Services
Tracey Cohen, Director, Product Development
Jimmy White, Director, Communications
Paul Dorsey, Director of Policy and Development
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS

PRESENT: Tim Tobin, Scientific Games Online Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:05 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure asked if there were any changes or corrections to the Minutes for the February 25, 2004 meeting. He stated he had corrections to the Minutes and that the approval of the Minutes would be tabled until the April meeting.

NEW COMMISSION BUSINESS

Chairman Bonaventure presented two proposed resolutions to the Commissioners.

Chairman Bonaventure stated the first resolution is that the members of the Commission voluntarily make themselves subject to the State law that bars Lottery employees from playing or winning the Lottery. A question was raised if the Commission is subject to that law. The response was that they are not. However, after discussion by the Commission, it was determined that the Commission members should voluntarily subject themselves to that law. After discussion, Chairman Bonaventure made a motion to accept the resolution and Vice Chairman Marriner seconded the motion. The motion passed by unanimous vote of the Commission.

Chairman Bonaventure stated the second resolution is that the Lottery Agency should establish a written policy concerning any tickets received as a result of any advertising packages and to keep a record of who uses the tickets. The Lottery should work with the Principal Counsel to develop this policy. Chairman Bonaventure made a motion to accept the resolution and Commissioner Payne seconded it. The motion passed by unanimous vote of the Commission.

Chairman Bonaventure stated the Commission members should personally sign all expense account forms and Lottery employees should do the same. Mrs. Torosino will have the prepared forms available at each month's meeting for the Commissioners' signatures.

Chairman Bonaventure stated the Commission met with the Lottery's Principal Counsel regarding the MBE waiver requests from Interlott and Scientific Games that were presented at the February 2004 Commission Meeting. The Commission is prepared to grant the MBE waivers subject to the requirement that the vendors continually strive to meet their MBE goals. A letter will be sent to each vendor stating this requirement. Chairman Bonaventure made a motion that the MBE waivers be approved and Vice Chairman Marriner seconded the motion. The motion passed by unanimous vote of the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated as of Sunday, March 21, 2004, sales are just shy of \$1 billion. Pick 3 sales are \$3.7 million behind last year. Pick 4 sales are \$4 million ahead of last year. Keno sales are \$1.3 million ahead of last year. Keno Tripler promotion ran for two weeks between the times of 4 p.m. and 8 p.m. The Lottery had record sales during those two weeks. For eight weeks in a row, instant sales have been over \$7 million. Mega Millions sales are ahead of last year. Since the large Mega Millions jackpot was won in Maryland, sales have improved and the Lottery has maintained a higher level of sales. There was a time when Maryland was in the bottom portion of all the Mega Millions states for per capita sales, but Maryland is now in the middle portion.

Mr. Roogow stated Lotto sales are ahead of last year. This is due to the recent Lotto promotion. Bonus Match 5 sales are doing well. InWin has not performed as of yet to the level the Lottery would like to see it perform. Meetings are being held daily with the vendor and Lottery staff. Throughout the game, Lottery staff will be visiting agent locations to survey the players. Dr. Ellis will have more information available next month. Next week, the Black Jack theme will be added to the InWin game and prize payouts will be enhanced.

Mr. Roogow stated revenues are \$7.68 million ahead of last year. Revenue is doing well because sales are doing well.

Mr. Roogow stated that the InWin game has not performed as well as projected and that changes to the game would be made next week. Chairman Bonaventure stated the InWin game has a 12-week testing period and this is only the fourth week of sales. Mr. Roogow stated the Lottery has 12 weeks to make a decision, but it can extend the time. The Lottery is spending money to support the game and feels it is worth continuing. Chairman Bonaventure asked if the Lottery was doing a cost accounting of the InWin game. Ms. Smith responded the Lottery is doing a cost accounting and a special budget code has been established for this game. If this game proves to be successful and the Lottery enters into a contractual agreement, then the Lottery will recover its up front costs.

Vice Chairman Marriner asked if there were any one or two things that contributed towards higher sales and revenues. Mr. Roogow responded the Lottery's promotions such as the Keno Tripler, the Lotto promotion with the Hummer giveaway, and various scratch-off game themes. Advertising also has had an impact on sales.

Mr. Roogow stated the winning ticket for the \$239 million Mega Millions jackpot is still unclaimed. The ticket was purchased in Virginia.

Mr. Roogow stated next week hearings on the slots bills would take place. Other legislative bills associated with the Lottery are the commingling of funds and voluntary assignment of prizes.

REPORTS

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

Dr. Tchicaya Ellis stated the Lottery is hosting an MBE Education Symposium on April 22, 2004 from 9 a.m. until 4 p.m. The seminar will have speakers from the Lottery Agency, the Governor's Office of Minority Affairs, the Maryland Department of Transportation, and the Department of General Services. The purpose of the seminar is to address issues of importance to the MBE community. Specifically, the MBE program and strategies for competing for State contracts. She provided the Commission with information on the symposium and invited them to attend.

Dr. Ellis stated the Agency Procurement Review group met to discuss the RFP procurement for the SAS 70 Audit. It was determined that the one MBE subcontracting opportunity, printing, would result in additional costs to the Lottery if it proceeded with an MBE goal. A majority of the printing is done in-house by the individual companies. However, this RFP procurement lends itself to an MBE prime contractor.

Dr. Ellis stated on-going research continues. She will have more information on the InWin game and an overview of Lotto promotion at a later date.

Legal Division – **Andrea Johnson, Principal Counsel**

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

Ms. Johnson stated she has been working with Ms. Meltzer to draft a Novation Agreement for Interlott Technologies, which merged into GTECH, and a Novation Agreement for Scientific Games Corporation that entered into a Stock Purchase Agreement with IGT Online Entertainment Systems and Powerhouse Technologies. The agreements address the liabilities between the old and new entities. A question was raised if it has to be called a "Novation Agreement." Ms. Johnson responded this shows that there has been a change and this is the language used in COMAR.

Ms. Johnson stated on behalf of the Lottery, the Legal Division filed a trademark opposition for registration of the mark Keno that was filed by an individual. The Lottery contends that Keno is too generic. Even though the individual seeks to protect Keno, all samples the individual submitted reflect Club Keno. There has been contact with other state Lotteries that have also filed an opposition. She will keep the Commission updated.

Ms. Johnson stated her Division assisted the Lottery in drafting five agreements to allow the Lottery the right to use the likenesses of five baseball players in relation to the Golden Ticket scratch-off.

Ms. Johnson stated her Division assisted AFO in establishing a process that complies with COMAR to allow the Lottery to meet with Lottery agents who are delinquent in the payment of State tax obligations. Under COMAR, the Lottery Director makes a determination of financial responsibility in granting a Lottery license. AFO scheduled meetings with the delinquent agents and the meetings also included a representative from the Comptroller's Office.

Ms. Johnson stated on April 2, 2004, an Appeal Hearing is scheduled in Worcester County regarding FACE Trading concerning Ad Tab dispensers. The Commission is welcome to attend. She will advise the Commission of the outcome.

Administration, Finance & Operations – Gina Smith, CFO

Ms. Gina Smith distributed the unaudited Special Purpose Financial Statement for February 2004 to the Commission. Prior to the meeting, the Commission was sent the audited Special Purpose Financial Statement for January 2004 as well as a copy of the first Management Letter from Stout, Causey and Horning for the period July 31, 2003 to December 31, 2003. She stated the letter lists Stout's observations with their recommendations as well as the status. Vice Chairman Marriner asked if Ms. Smith directed Stout towards the issues. She responded it was totally independent. The Lottery was aware of these issues.

Ms. Smith stated regarding the bond observation, the Lottery is working on the bond database. Chairman Bonaventure asked what is time frame for completion. Ms. Smith responded the completion date is set for July 1, 2004 but that such date may not be feasible. She will update the Commission next month on the progress.

Ms. Smith stated the next observation was the Lottery's drawing procedures. Stout's observation was that the drawing procedures were not always adhered to. The Lottery would review the drawing procedures. Vice Chairman Marriner asked what is the time frame. Ms. Smith responded they would be reviewing them over the next few weeks.

Ms. Smith stated the next observation is account reconciliations. She stated that they have developed more than one half of those reconciliations. The reconciliations are not an issue on the financial statements. Ms. Smith stated they are recreating records for two to three years and moving forward.

Ms. Smith stated the next observation is monthly processes, procedures and policies. She stated she has been having meetings to document and formalize the processes. This will take some time to complete. Chairman Bonaventure asked if the Lottery is short staffed in the accounting division and should someone be brought in to get through these issues. Ms. Smith responded she did not think the accounting division is short staffed and that the accounting division has come a long way over the past few years. If someone were brought in, it would still require the Lottery's time to direct that person. Vice Chairman

Marriner asked if this process be accomplished in a 60-day timeframe. Ms. Smith responded she would meet with the Lottery's Controller to develop a timeline.

Chairman Bonaventure stated a formal response to the Management Letter should be placed on file. Ms. Smith agreed and stated she will prepare a response and forward a copy to the Commission.

Ms. Smith stated the Lottery is working with the Comptroller's Office regarding Lottery agents who owe outstanding State taxes. She is working with agents to set up a payment plan. The Lottery does not want to put them out of business because that would be a losing situation for everyone. The Comptroller's Office is satisfied with this and the Lottery can allow the agent to continue to operate.

Ms. Smith stated 2005 budget decision hearings were held in March in the Senate and the House. Both the House and the Senate recommended reductions to the Lottery's budget.

Mr. Marriner inquired about the unclaimed prize fund. Ms Smith responded that it rolls from year to year and is used for promotions.

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

Ms. Sandra Johnson stated IT continues to work on the InWin Game. Changes to the computer system had to be made to accommodate the new game. The new database that was created for InWin was not performing as expected and had to be evaluated and fine-tuned. It now takes three hours instead of 13 hours to update the database.

Ms. Johnson stated software testing by Scientific Games' staff and the Lottery continues for Sunday mid-day drawings. The first drawing is planned for May 2, 2004. On March 1, 2004 the Keno Tripler promotion was launched. This ties in with the one-millionth Keno Draw. The promotion ran until March 14, 2004.

Ms. Johnson stated IT continues to support the Big Ben Bucks Agent Incentive Program by randomly selecting agents to participate. This program runs between January 12 and April 4, 2004. IT is working on the program for the Agent Incentive Program for the InWin game, which will randomly select retailer locations who sell InWin to be awarded tickets for an Oriole game. Internal Control System reports and procedures were updated to include the InWin game.

Ms. Johnson stated IT is working on obtaining the licenses for all software. The Lottery will be able to obtain upgrades for all its Microsoft software under the maintenance agreement at no additional cost for the next three years. Ms. Johnson stated testing continues on the bond/annuity system.

Ms. Johnson stated the NASPL Best Practices Standard Committee has started their informal review of the standards for instant ticket bar codes. Chairman Bonaventure asked if anything has been published as of yet. Ms. Johnson responded the NASPL Executive

Committee would publish guidelines for certification once the work is completed and the standards are adopted.

Ms. Johnson stated that IT downloaded new software for a banner on the network to inform users that misuse of the network is a violation of State statutes and regulations.

Communications – Jimmy White, Director

Mr. Jimmy White stated his report contained the highlights of events that occurred since the last Commission meeting. Press releases were issued regarding the \$230 million Mega Millions jackpot. His Division is supporting the InWin game and participating in the promotion for the Keno one-millionth draw celebration. There were 47 press releases issued last month and evaluated by Eisner as being valued at approximately \$15,000. Yesterday, a check presentation was held at an agent location in Towson. A 25-year-old man won \$500,000 in the Big Money Spectacular scratch-off game. Channel 13 and Channel 2 television stations were there covering the event.

Mr. White stated the VIP Club currently has 21,000 members, up from 19,000 six months ago. During the month, three promotions were done for VIP club members. Prizes awarded included Terps basketball tickets, tickets to Wisp ski resort and tickets to the Mardi Gras event in Annapolis.

Mr. White stated Promotional Partners Program provided 36 radio stations with scratch-offs and InWin tickets for promotional use. The value received from the radio stations was approximately \$73,000.

Mr. White stated media guides were sent to sports show and radio programs for the Golden Ticket, letting them know that the Director was available to talk about the Golden Ticket and promote collecting the baseball cards. Promotion of Black Jack for InWin starts next Monday. Communications will be at the Orioles opening day this Sunday promoting the Lottery. Also included with his report is a recent issue of the employee newsletter, the Lottery Gazette.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated the InWin game is being supported for two weeks on WJZ-TV and Comcast. InWin spots will air on the radio for three weeks throughout the State. An additional two weeks of advertising is scheduled through the remainder of the fiscal year showing the features of the InWin game.

Ms. Baer stated upcoming additional radio would air for the Big Ben Bucks instant ticket. The Mega Millions jackpot rolled last night and she will be contacting the Virginia Lottery to begin the joint advertising of the jackpot.

Ms. Baer stated she is working on two sports packages. One is with O's TV and the other is with Comcast. There are a number of promotions in each package including stadium jumbotron message, fan of the game, and promotion of the jackpots. The Lottery will have a good presence in the stadium.

Ms. Baer stated the Lottery is close to signing the Merriweather deal for this coming year. They are under a new management company and there are huge improvements in the concerts.

Chairman Bonaventure asked what is the number of Hispanic media. Ms. Baer responded she does not have an evaluation of the Hispanic research. The Hispanic population is very concentrated in same community.

Vice Chairman Marriner asked if the Merriweather and Terps packages include tickets or are they purchased separately. Ms. Baer responded that the tickets are part of the packages.

Sales – Joseph Jason, Deputy Director

Mr. Joseph Jason stated there are many things that contributed to game sales over the years. The Sales Division utilizes the Make a Difference Program where the agents with lower sales are visit by the Sales reps more frequently than the agents with higher sales to help those agents increase their sales. Each fiscal year, a sales quota is determined by game by agents by territory. For this year, the quota for each territory is already one to three percent ahead of most years. There are five regions throughout the State and they are ahead of their quotas.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President stated Eisner continues working on the Orioles 50th Anniversary Golden Ticket. Mr. Blum showed the point of sale material to the Commission that included a poster, double-sided paper dangler for the agent location, and decals. The InWin advertising pieces were shown to the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

In Mr. John Williams' absence, Mr. Tim Tobin, Operations Manager, presented the report. He stated that work continues on the hybrid ticket and the Sunday mid-day drawing. The Keno Tripler promotion ran for the first time. Also looking at the enhancement of prizes for the InWin game.

REPORTS (continued)

Product Development – **Tracey Cohen, Director**

Ms. Tracey Cohen stated work continues on the Golden Ticket. She distributed a sample pack of baseball cards to the Commission. The Oriole's baseball season starts on April 4, 2004. The Lottery will advertise that the Golden Ticket instant tickets are available. The Sales team will get them distributed in the Baltimore area. The baseball cards were printed at the Oberthur facility in Montreal and then shipped to the Oberthur facility in Texas. A question was raised if there was any issue with printing in Canada. Mr. Roogow responded that Oberthur, our instant ticket vendor, did everything and that there were no issues about printing out of the country.

Ms. 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 #479 *King Size Bingo* is a \$5.00 instant ticket with a prize payout of 72.99%. If 95% of the tickets are sold, the profit would be \$2,005,018. If 100% of the tickets are sold, the profit would be \$2,110,545. Three million tickets are being printed.

Game #490 *Break the Bank* 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 a double-sided ticket with two chances to win. Chairman Bonaventure asked if the revised projections were available. Since the projections were not available, the Chairman tabled the approval of this instant ticket until the next meeting.

Vice Chairman Marriner made a motion to approve Game #479 *King Size Bingo* and the motion was seconded by Commissioner Payne. Game #479 *King Size Bingo* was approved by unanimous vote of the Commission.

Procurement Division – **Suzanne Meltzer, Director**

Ms. Suzanne Meltzer stated two weeks ago the Board of Public Works approved the two-year Extension of the Contract for the Printing of Instant Tickets and Related Services.

Ms. Meltzer stated she is working on the RFP for the SAS 70 Audit. The Lottery wishes to contract with a CPA firm to audit the Lottery's service provider that is responsible for operating and maintaining the Lottery's on-line gaming system. Copies of the RFP were distributed to the Commission.

COMMISSION COMMENTS

Chairman Bonaventure stated on behalf of the Commission, they wanted to express their condolences to Commissioner Payne on the death of his daughter.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, April 28, 2004 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned. The meeting was adjourned at 10:22 a.m.

Respectfully submitted,

Buddy Roogow