

**MARYLAND STATE LOTTERY COMMISSION
APRIL MINUTES**

DATE: April 28, 2004
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

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

Gina Smith, Assistant Director and CFO
Andrea Johnson, Principal Counsel
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
Dot Colvin, Communications, Assistant Director – Public Affairs
Paul Dorsey, Director of Policy and Development
Shirley Basse, Internal Auditor
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS

PRESENT: John Williams, Scientific Games Online Entertainment Systems
David Blum, Eisner Communications
Michael Young, Stout, Causey & Horning
Paul Shifrin, Stout, Causey & Horning

CALL TO ORDER

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:00 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure stated the corrected Minutes for the February 2004 were sent via e-mail to the Commission. Chairman Bonaventure made a motion to approve the February Minutes and Vice Chairman Marriner seconded the motion. The February Minutes were approved by unanimous vote of the Commission.

Chairman Bonaventure asked that the approval of the Minutes for March 2004 be tabled until the next meeting.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. John Williams stated he was unable to attend last month's meeting due to personal issues. He is pleased that the Commission granted Scientific Games MBE waiver request. Scientific Games continues to work to find additional MBE suppliers. As previously mentioned, MBE vendors for office supplies and temporary services were located.

Mr. Williams stated Bingo, a new game theme for In Win will begin on Monday in addition to the themes of Tic Tac Toe and Black Jack. Total net sales, minus coupons at start up, are over \$2 million. He is hoping Bingo will create an additional interest. Scientific Games is also working on other initiatives, including the mid-day drawing on Sunday and the hybrid instant ticket.

Commissioner Wagner asked what length of response time should a Lottery retailer expect for a terminal problem. Mr. Williams responded the requirement is a 90 minute response time under normal service call situations. Scientific Games contacts a representative in the area to visit the retailer. Commissioner Wagner said someone called him and said it took four days. A question was asked if it was a major terminal problem or involved equipment replacement. Commissioner Wagner responded it was for a terminal screen replacement. Commissioner Wagner asked if there is any pecking order when a retailer calls. Mr. Williams responded calls are handled in the order they are received. The 90 minute response time is in the contract and they usually meet that deadline. If it is not met, there are potential penalties. Mr. Williams stated they track and monitor these calls each week.

EISNER COMMUNICATIONS

Mr. David Blum stated he had a variety of items to share with the Commission. The first set of commercials is for the scratch-off product. The theme of the commercial is that

scratch-offs are fun no matter how you scratch it and they are designed to be tagged at the end with new scratch-offs.

Mr. Blum stated he will also show the television commercial for the Orioles 50th Anniversary Golden Ticket promotion with voice over by Chuck Thompson. The footage is from the original 1954 parade when the Orioles first came to Baltimore. There is a jumbotron scoreboard feature that goes along with the Golden Ticket promotion.

Mr. Blum stated Eisner is working on an extension of the Lottery Minute program. The Lottery Minute ran on WJZ and WUSA for a number of years. The Lottery wishes to expand the program to include the Hispanic marketplace. He stated Eisner is working with Univision, an MBE subcontractor.

Mr. Blum presented the commercials to the Commission.

STOUT, CAUSEY & HORNING (SCH)

Mr. Michael Young and Mr. Paul Shifrin stated they had not yet had the opportunity to meet the Commission and wanted to introduce themselves. They have completed the special monthly audit through February and are currently working on the month of March. Also, a mid-term management letter was issued a few months ago. It was stated that Lottery personnel have done a wonderful job in providing SCH with the information needed to do their job. He asked if the Commission had any questions or concerns.

A question was raised if SCH is going to be working with the Lottery to develop the Internal Auditor program. The response was that SCH would be glad to work with the Lottery to give them direction in that area and will contact Ms. Gina Smith. A question was raised if a timeline has been determined for the implementation of the Management Letter recommendations. SCH stated that the Lottery was aware of the items. Chairman Bonaventure told SCH to feel free to contact the Commission if they have any concerns.

DIRECTOR'S REPORT

Ms. Smith stated that Mr. Roogow was in Annapolis with the recent Mega Millions winners and they will be meeting with the Governor. In Mr. Roogow's absence, she presented the Director's Report.

Ms. Smith stated sales are approximately \$60 million ahead compared to last year. Scratch-off sales continue to grow and are \$31.3 million ahead of last year. Mega Millions sales are \$17.2 million ahead of last year. Keno and Keno Bonus continue to be strong performers.

Ms. Smith stated the Golden Ticket was launched and has been successful. In three days the first 100 people who collected the set of 50 baseball cards came to the Lottery to claim

their \$1,000, the certificate of authenticity, and tickets to bullpen party with a chance to win more cash prizes. The Lottery then added a second phase to the promotion. The next 1,000 people who collected the set of 50 baseball cards won \$100, received a certificate of authenticity and have a chance to win a Corvette or \$50,000 and plasma televisions. The Lottery is now in phase three for the next 1,000 people who collect the set of 50 baseball cards. They receive a certificate of authenticity and a limited edition Orioles pin. This would be the final phase added to the promotion.

Ms. Smith stated last week, Mr. Roogow, Ms. Sandy Johnson and Mr. Gary Smith traveled to Alpharetta, Georgia to tour the Scientific Games plant and visit with personnel. The Director met with Lorne Weil, Chairman and CEO and they discussed several new game ideas. He will keep the Commission updated.

Ms. Smith stated last week the Director traveled to the California Lottery to make a presentation on the Mega Millions Game. California will wait for a new Director to be appointed before making a decision as to whether or not to join Mega Millions.

Ms. Smith stated ticket sales for Sunday mid-day drawings are scheduled to begin on May 17, 2004. The first Sunday mid-day drawing will be May 23, 2004. The Director talked to Governor to obtain approval.

Ms. Smith introduced Ms. Shirley Basse, the Lottery's new Internal Auditor. Ms. Basse stated she has worked in the banking industry and with the IRS for several years.

REPORTS

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

Dr. Tchicaya Ellis stated her report included Executive Summaries for the December 2003 Tracking Study, the December 2003 Annual Employee Survey, and the Lotto Super Draw Promotion.

Dr. Ellis stated the December 2003 Tracking Study shows that player participation remains consistent. The Lotto Super Draw Promotion shows that sales increased by 20% during the five-week promotion period as compared to anticipated sales with the promotion. A presentation of the results of the Annual Employee Survey was given to all employees this year.

Dr. Ellis stated the Lottery's MBE participation through March 2004 was included in her report. This report indicates a total Agency participation rate of 7%. Her report also includes a MBE participation report by contractor. The statewide MBE participation rate is 25%.

Dr. Ellis stated an MBE Education Symposium was held on April 22, 2004 and was very successful. Basic information was provided to the MBE community such as MBE

opportunities at the Lottery and MBE reporting requirements. Dr. Ellis stated she would be hold a debriefing with her staff to see if anything could have been done differently.

Chairman Bonaventure asked Dr. Ellis to briefly discuss demographics with regards to the Lottery's player base. Dr. Ellis responded Maryland is one of the more mature lotteries and has reached a limited saturation point. A number of the newer lotteries have an opportunity to grow. The Maryland Lottery has a fairly high player participation rate.

Legal Division – Andrea Johnson, Principal Counsel

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

Ms. Johnson stated on April 2, 2004, she appeared before the Maryland Court of Appeals regarding the FACE Trading Company Ad tab dispensing machines that were placed in Worcester County. The Court asked questions about permissible gaming in Maryland and the nature of gaming machines and their operation. No decision has been made as of yet and she will keep the Commission informed.

Ms. Johnson stated the Florida Lottery has an on-line game called Mega Money that has drawings on Tuesdays and Fridays. There has been some confusion between the Florida game and the Mega Millions game. She talked the Mega Millions Legal Committee to review this matter further. A question was raised if the terms Mega Millions and Mega Money Ball are protected. The response was that the terms are protected.

Ms. Johnson stated on April 9, 2004, former Lottery employee, Darryl Kane pled guilty to felony theft charges in connection with the theft of instant tickets. The other former employee, Thomas Barnes was found guilty in July 2003. Press releases were attached with her report regarding this matter. There was further detailed discussion regarding the background on the theft of the instant tickets and how this occurred.

Ms. Johnson stated she also participated in the MBE symposium. Some of the issues discussed with the MBE subcontractors included MBE certification, contract performance and payment terms.

Ms. Johnson stated she has a draft ticket policy she will be giving to the Commission for their review.

Administration, Finance & Operations – Gina Smith, CFO

Ms. Gina Smith stated the Commission was sent the audited Special Purpose Financial Statement for February 2004 as well as the March 2004 unaudited Special Purpose Financial Statement.

Ms. Smith stated the Legislature adopted the budget cuts recommended by the Legislative Analyst. The cuts to the Lottery's budget totaled \$699,750. After these cuts, the Lottery's budget for fiscal year 2005 totals \$52.9 million.

Ms. Smith stated a copy of the Management Letter timeline was sent to the Commission, and said if there are any questions to please contact her.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson stated IT tested the software for the Sunday mid-day drawing scheduled to begin in May 2004. There were some initial start up problems, but they have been addressed. IT also worked on testing the software for the hybrid ticket and this went well. The Big Ben Bucks agent incentive program ended this month. A new agent incentive program was started that will award tickets to Orioles games to qualifying retailers selling InWin tickets.

Ms. Johnson stated two requests for contractual assistance were initiated this month. One request involves a performance analysis by UNISYS. This service is needed to identify problems that slow down the performance of the systems applications running on the Agency's mainframe. The second request is for Dell or a company with Dell certified technicians to provide hardware maintenance and repair service for computers and servers no longer covered under an extended warranty.

Ms. Johnson stated IT is working with Scientific Games and other Lottery Divisions on specifications for further automation of a raffle bonus promotion tentatively scheduled for October 2004. This type of promotion had been done previously in conjunction with the Pick 3 game.

Ms. Johnson stated there were several Verizon carrier failures this month that affected multiple communication lines that may or may not have impacted all the retailers on the lines.

Ms. Johnson stated IT tested a number of enhancements for the InWin game. Some of the enhancements may involve major software changes.

Ms. Johnson stated IT continues to battle Spam and viruses on the computer system. IT is evaluating a software package and will decide at the end of the month whether or not to purchase it.

Ms. Johnson stated she also attended the meeting at Scientific Games in Georgia with the Director. Scientific Games is merging all the call centers into their headquarters in Alpharetta, Georgia. She was impressed with the call center and the retailers will not notice any difference when calling.

Ms. Johnson stated she attended the NASPL Standards meeting in Chicago. The NASPL Executive Committee approved the Best Practices Standard for Requirements Definition, Software and Hardware Development, and Acceptance Testing. They are working on the certification guidelines. Lotteries and vendors will be able to obtain certification.

Ms. Johnson stated she attended the technology meeting at the LaFleurs Conference in Washington, D.C. She met with the D.C. and New Jersey CIOs to share information on current projects and technical solutions.

Commissioner Wagner asked if there were any preferential treatment for work for the Lottery to be performed in the United States. Ms. Meltzer stated that all major contracts benefit Maryland.

Communications – Dot Colvin, Assistant Director of Communications – Public Affairs

Ms. Colvin stated that Mr. White was at the meeting with the Director in Annapolis. In Mr. White's absence, she presented the Communications report. She stated that on April 20, 2004, a press conference was held to introduce the recent the Mega Millions winners. The Communications Division participated in numerous events across the State, including the 7-Eleven Trade Show, the Home Show at the Baltimore Convention Center, and the Orioles Advocates 5K Home Run/Fun Walk at Camden Yards.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated advertising of the Golden Ticket is primarily running on Comcast Sports Net and Orioles Television Network. The scratch spots that Mr. Blum presented will air in early May. An event is being planned for the first Big Ben Bucks scratch-off winner who will be leaving from BWI to London via British Airways on May 7, 2004. Also, they will be recording sound bytes from the other Big Ben Bucks winners at this event to place into a winners awareness radio spot.

Ms. Baer stated Mega Millions advertising would begin in the radio market when the jackpot reaches the \$40 to \$50 million level. Advertising will begin on television at the \$70 million level. Working with Comcast on the taping of the Golden Ticket grand prize drawing that will take place at Camden Yards in September. This segment will then air during a 30-minute Orioles Anniversary Special on Comcast. Filming of new Scratch Cam with Chip Franklin will be done at the Flower Mart in Baltimore and Wine in the Woods in Columbia.

Sales – Joseph Jason, Deputy Director

Mr. Joseph Jason stated the Lottery is having a very good sales week. The Sales Division is focusing on the Golden Ticket scratch-off and Mega Millions jackpot. Commissioner

Wagner asked if there was a problem with retailers obtaining instant ticket dispensers. Mr. Jason responded currently funds are not available in the budget for the purchase of additional instant ticket vending machines. The Lottery would have to issue a request for proposal because it cannot purchase additional instant ticket vending machines under the current contract. Commissioner Wagner stated with the profits that would be made, the machines would more than pay for themselves. Mr. Jason stated they try to place the machines in retailer locations that do not have sufficient counter space such as grocery stores and convenience stores.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen stated prior to presenting the hybrid ticket, Ms. Meltzer will request the Commission's approval of the licensing agreement. Ms. Meltzer stated Pollard Banknote is producing the Double Play hybrid ticket called Break the Bank. This is a sole source agreement since Pollard is the only vendor that can produce the ticket. It is a two year contract with a not to exceed amount of \$97,695.68. Chairman Bonaventure asked why is the agreement for two years. Ms. Meltzer responded it must include the 182 day claiming period. Commissioner Wagner stated that his concern is that this company is located in Canada. The response was that Pollard has the patent on this game and there is not another vendor who can supply the tickets. Commission Wagner made a motion to approve the licensing agreement and Vice Chairman Marriner seconded the motion. The licensing agreement was approved by unanimous vote of the Commission. Chairman Bonaventure abstained from the vote because he did not have an opportunity to review the agreement.

Ms. Cohen stated she is not sure what is going to happen with the InWin Game. It is not working as well as was expected. The Lottery will wait and see if the additional game themes help sales. Ms. Baer stated the Lottery is not spending advertising money. The Lottery has not made decision whether or not to end the game. It is still in the trial period stage and the Lottery will review the sales next month.

Ms. Cohen stated another Pick 3 raffle promotion would run this summer similar to the last promotion.

Ms. Cohen stated the Director has been elected as President of the Mega Millions group.

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 #483 *Stars & Stripes* is a \$1.00 instant ticket with a prize payout of 59.42%. If 95% of the tickets are sold, the profit would be \$666,179. If 100% of the tickets are sold, the profit would be \$701,241.

Game #484 *Super Match 3* a \$1.00 instant ticket with a prize payout of 59.47%. If 95% of the tickets are sold, the profit would be \$664,956. If 100% of the tickets are sold, the profit would be \$699,953.

Game #485 *Gone Fishin' Doubler* a \$1.00 instant ticket with a prize payout of 59.06%. If 95% of the tickets are sold, the profit would be \$539,973. If 100% of the tickets are sold, the profit would be \$568,392.

Game #486 *Bonus Blackjack* a \$1.00 instant ticket with a prize payout of 59.12%. If 95% of the tickets are sold, the profit would be \$673,518. If 100% of the tickets are sold, the profit would be \$708,967.

Game #487 *Lots of Bucks* a \$5.00 instant ticket with a prize payout of 72.00%. If 95% of the tickets are sold, the profit would be \$1,433,579. If 100% of the tickets are sold, the profit would be \$1,509,030.

Game #489 *Turkey Tripler 4* a \$1.00 instant ticket with a prize payout of 58.99%. If 95% of the tickets are sold, the profit would be \$541,343. If 100% of the tickets are sold, the profit would be \$569,834.

Game #493 *Jacks in the Box* a \$1.00 instant ticket with a prize payout of 59.02%. If 95% of the tickets are sold, the profit would be \$675,965. If 100% of the tickets are sold, the profit would be \$711,542.

Game #494 *9's to Win* a \$1.00 instant ticket with a prize payout of 59.03%. If 95% of the tickets are sold, the profit would be \$675,720. If 100% of the tickets are sold, the profit would be \$711,284.

Game #495 *Double Wild 7's* a \$1.00 instant ticket with a prize payout of 59.03%. If 95% of the tickets are sold, the profit would be \$756,800. If 100% of the tickets are sold, the profit would be \$796,632.

Game #490 *Break the Bank* a \$5.00 instant ticket. This is the hybrid ticket being produced by Pollard Banknote. It has a prize payout of 74.09%. If 95% of the tickets are sold, the profit would be \$574,151. If 100% of the tickets are sold, the profit would be \$605,200. Question was raised if this profit calculation is based on the revised projections. The response was yes and the information was in the revised estimates recently sent to the Commission.

Chairman Bonaventure made a motion to approve the above instant games and Commissioner Payne seconded the motion. The instant games were approved by unanimous vote of the Commission.

Based upon a question raised by Commissioner Wagner, there was discussion as to how the allocation of expenses was calculated in relation to each instant ticket.

Procurement Division – Suzanne Meltzer, Director

Ms. Suzanne Meltzer stated a copy of the SAS 70 Audit Request for Proposals was previously provided to the Commission and asked if the Commission had any questions or comments. She would be issuing the RFP shortly. Chairman Bonaventure made a motion to approve the RFP and Commissioner Wagner seconded it. The motion was approved by unanimous vote of the Commission.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, May 26, 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 10:50 a.m.

Respectfully submitted,

Gina Smith