

**MARYLAND STATE LOTTERY COMMISSION
AUGUST MINUTES**

DATE: August 25, 2004
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

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

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Stephen Meehan, Deputy Director, Sales
Tchicaya Ellis, Ph.D., Director, Research and Planning
Jimmy White, Director, Communications
Erinn Williams, Advertising Coordinator, Creative Services
Gary Smith, Instant Ticket Product Manager, Product Development
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS

PRESENT: Sean Athey, Scientific Games Online Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

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

APPROVAL OF MINUTES

Chairman Bonaventure had e-mailed revisions to July's Minutes to the Commissioners for their review. Approval of the Minutes was tabled until the end of the meeting to give the Commission an opportunity to review the changes.

EISNER COMMUNICATIONS

Mr. David Blum stated Eisner and the Lottery are working on a variety of media packages. The Lottery moved forward with the Olympic media package on WBAL-TV. The Lottery received a regular spot scheduled during opening and closing ceremonies. In addition, the Lottery received 15-seconds of a 30-second promotion announcement that highlights the Lotto Super Draw promotion.

Mr. Blum stated preparations are taking place for the Phase I prize awards associated with the Golden Ticket scratch-off game. It will take place at Orioles Park at Camden Yard and will be featured on a 30 minute television show on Comcast celebrating the Orioles 50th Anniversary. The Lottery will have five or six cut-ins during show.

Mr. Blum stated the Maryland Lottery, in conjunction with the Virginia Lottery, is working on the details of the sponsorship with the Redskins. The WJFK radio sponsorship program consists of a Mega Millions Drive of the Game promotion and the Lottery will receive a 30-second spot in pre and in-game programming with additional 30-second spots airing on the station throughout the season.

Mr. Blum stated the WQSR Ravens Radio Tailgate Patrol sponsorship consists of visits to tailgaters around the stadium, sampling food, talking to fans and collecting entries for the grand prize trip to the big game in February. We are not allowed to use the term Super Bowl in the broadcast. A tailgate winner is chosen at these home games. The Lottery receives two interviews during the pre-game show and additionally receives 30-second spots that air before and during the game broadcast. This is the fourth year for this promotion. Vice Chairman Marriner asked why couldn't you use the term Super Bowl. Mr. Blum responded that the term Super Bowl is a licensed NFL trademark, and the NFL controls the property use.

Mr. Blum stated Maryland Terp football and basketball sponsorship packages are being finalized.

Mr. Blum stated work began to develop a marketing and advertising plan for 30-minute game show for next spring. He will have more information at a later date.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Roogow introduced Ms. Sean Athey, the new account executive for Scientific Games. She worked for many years at OGT as Vice President of Corporate Marketing. Ms Athey thanked the Director for the introduction. She stated she also worked at the Virginia Lottery for five years.

Ms. Athey stated new promotional software would be put in place in October. This software enhancement would allow agent locations to cash the promotional coupons at agent locations rather than come to Lottery. Vice Chairman Marriner asked for an example of the software to cash during promotion. Ms. Athey responded the Lottery just ran a Pick 3 promotion where the agents were not able to cash the bonus coupons and the winners had to come to Lottery headquarters to cash the bonus coupons.

The Commission welcomed Ms. Athey and looks forwarding to working with her.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated sales are \$21 million ahead of last year. Pick 3 sales are \$2.2 million ahead of last year. Pick 4 sales are \$2.7 million ahead of last year. Keno and Keno Bonus combined sales are \$5.2 million ahead of last year. Instant sales are \$4.2 million ahead of last year. Mega Millions sales are \$8.3 million ahead of last year. Lotto and Bonus Match 5 sales are behind last year's sales. He stated revenue is \$3.7 million ahead of last year.

Mr. Roogow introduced Steve Meehan, the new Deputy Director of Sales. He has been on board for three weeks and came from Comcast. Prior to that, he was Deputy Director of Marketing at the Pennsylvania Lottery. Mr. Meehan stated he is pleased to meet the Commission.

Mr. Roogow stated a Mega Millions Directors' meeting is scheduled for September 13, 2004 in Atlanta, Georgia. Mr. Roogow, Dr. Ellis and Ms. Nash will be attending this meeting. He stated Powerball representatives will also be attending and will present a proposal for a joint game show. At the meeting, Dr. Ellis will discuss research that was done for Mega Millions by an outside consultant.

Mr. Roogow stated that the Administration has directed each Agency to develop a budget for fiscal year 2006 that is 12% lower than the current fiscal year. The Lottery may have to give up \$5 million or \$6 million. This cost may come out of advertising, which could have a severe impact on the Lottery's generation of revenue. Chairman Bonaventure asked when the report is due. Mr. Roogow responded the report is due on August 31, 2004. The

Lottery would share it with the Chairman. At end of September 30, 2004, another budget must be provided with what the Lottery actually needs. The Commission requested that they be kept informed. Vice Chairman Marriner asked what was the revenue amount for this fiscal year. Mr. Roogow responded it was \$458 million. Vice Chairman Marriner asked what is the revenue projection for fiscal year 2005. Mr. Roogow stated it was \$462 million. Commissioner Reeder asked what percentage of total revenue goes towards the administration of the Lottery. The response was less than 4%, which includes vendor fees for Scientific Games and OGT. The Maryland Lottery has one of the lowest administrative costs in the world.

Mr. Roogow stated the Lottery entered into a contract with Pollard Banknote for a double-sided scratch-off ticket called Break the Bank. Within 10 weeks, the scratch-off was 83% sold. The Lottery would like to do another game. Pollard Banknote holds the patent and is the only company that can produce this ticket. The Lottery intends to produce up to five of the tickets similar in nature to the Break the Bank ticket. The new contract is valued at \$1 million and will have to be approved by the Board of Public Works. The Lottery would like to present the contract at the September 22, 2004 Board of Public Works meeting. A copy of the contract will be sent to the Commission for their review. It was stated that September 22, 2004 is also the date of the next Commission meeting. The Commission made the decision to move the September Commission meeting to Wednesday, September 15, 2004.

Commissioner Wagner asked what is the average amount of uncashed lottery tickets. Mr. Roogow responded approximately \$1 million a month is placed in the Unclaimed Prize Fund. This includes both large and small prizes. For example, the Cash Encounter scratch-off top prize of \$1 million was unclaimed as of the end of the claiming period. Most of the unclaimed money is from Pick 3, Pick 4 and scratch-offs. Commissioner Wagner asked if the law states that it must be returned to the players. Mr. Roogow responded the law states it must go back to players in the form of prizes.

Chairman Bonaventure asked if the Lottery would be proposing any new legislation. Mr. Roogow responded Mr. Dorsey is working on legislation for State Lottery Performance Incentives. The legislation must be submitted by September 7, 2004. A copy will be provided to the Commission. Chairman Bonaventure stated that if there is any legislation the Commission would like to propose, to let him know.

It was stated that Mr. Roogow is now the President of the Mega Millions group. The Commission congratulated him.

REPORTS

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

Dr. Tchicaya Ellis stated the summary of the June 2004 Tracking Study was included with her report. She stated that last year lottery player participation increased to 49%. She

stated one of the special topics included in the survey was retailer service satisfaction. The overall rating went up 5% since last year. The variety of scratch-off tickets at agent locations and interactions with store clerks played a big role in this increase. Dr. Ellis stated Lottery advertising recall remained steady. Respondents who have a positive opinion of Lottery advertising remained steady at 47%. Overall position opinion of the Lottery was 42%, up three points from last time.

Vice Chairman Marriner stated he notes that advertising recall in DC is decreasing. Dr. Ellis stated a variety of issues contributed to this such as the overall gross rating points this past quarter were lowest in many quarters. Mr. Blum stated there has been a decrease in radio spending.

Dr. Ellis stated the Mega Millions multi-state research project would be wrapping up. She should be able to provide a summary at the next month's meeting.

Dr. Ellis stated that last month she reported that an MBE waiver request was received from Oberthur Gaming Technologies (OGT) and the Chairman requested that OGT appear before the Commission to explain their reason for the waiver request. She has reviewed the request and will meet internally to discuss the recommendation prior to OGT's presentation. No date has been set as of yet.

Dr. Ellis stated there are two new reports that the Lottery will be required to submit by July 31, 2004, relative to MBE. They are a detail report of MBE waivers requested and granted, and an Agency summary of MBE waivers.

Dr. Ellis distributed to the Commission the Lottery's MBE Participation Report for FY04. The total Agency spending for MBE participation is 10.85%. MBE participation for in-house spending is 7.35% and large procurement spending is 11.03%. The Agency needs to be at 25% or greater for total agency spending.

Commission Reeder asked for more information on the monitor game. Mr. Roogow responded in November, the Lottery intends to start a pilot program with 10 to 20 agent locations to test this new monitor game. It will be a virtual horseracing game. The monitor game will not be expanded to the entire network for several years. Player can play different combinations such as win, place, and show. The Lottery recently sent personnel to visit the Rhode Island Lottery to look at their monitor game. Commissioner Wagner asked what criteria would be used to pick the 10 agent locations. Research has to be done as to whether or not it will fit in Maryland's marketplace. Research spending and parameters for selecting retail locations to be included in the pilot study were recently provided to the in-house group for their review. Dr. Ellis stated she should have more information next month.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated there are no revocations to present to the Commission this month. However, the Commission was sent a copy of an emergency lottery license suspension letter that the Director sent to Hobbit's Liquors. Hobbit's Liquors is an agent plus location and there is credible evidence that the agent engaged in fraudulent activity. The Lottery is looking into this matter and it has been referred to the Office of the Attorney General for further review. The suspension is for 30 days, at which time the Director would make a determination whether to revoke or reinstate the agent's lottery license. Ms. Johnson gave a summary of the facts that lead to the suspension of the agent's lottery license.

Ms. Johnson stated on July 30, 2004 a prehearing conference was held before an Administrative Law Judge at the Office of Administrative Hearings regarding the Maryland Commission on Human Relations matter concerning ADA. After the hearing, there was discussion concerning the possibility of an amicable settlement as long as the Lottery can reserve its right to contest the jurisdiction of the Maryland Commission on Human Relations over the Lottery. Discussions of settlement are ongoing but a trial date will most likely be set in November 2004. She will keep the Commission updated on this matter. Commissioner Wagner asked if it would be a monetary settlement. Ms. Johnson responded no it would not.

Ms. Johnson stated a 19 year old man presented a Mega Millions ticket for cashing. After further investigation, it was determined that the ticket had been altered. The matter was referred to the Criminal Investigations Unit of the Office of the Attorney General. The District Court of Maryland sentenced this person to six months probation during which time he has to complete 50 hours of community service.

Ms. Johnson stated the Lottery filed to register two trademarks that included the term "keno". The applications were suspended due to a prior filing by another entity to register the name "keno". The Notice of Protest filed by the Lottery was denied, and the Lottery subsequently filed Notices of Opposition with the U.S. Trademark Trial and Appeal Board. The other entity did not respond and the Lottery won by default. She stated that the two applications would be removed from suspension and published for opposition.

Ms. Johnson stated the Lottery received a petition for cancellation of a portion of the Lottery registered trademark for Festivus Maximus. A group in California wishes to use the term on golf products. The Lottery proposed the option of concurrent use rather than cancellation of the Lottery's trademark.

Administration, Finance and Operations – Gina Smith, CFO

Ms. Gina Smith was not present at the meeting. However, her report was previously sent to the Commission.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson stated she is working on the draft requirements for the next on-line RFP. A workgroup has been formed composed of representatives from each Lottery Division.

Ms. Johnson stated IT is preparing to test the winning numbers bonus software that will support cashing in the field. She stated work continues on the plans for a pilot program for a monitor game. She stated she went to Rhode Island with other Lottery staff to view their monitor game. Ms. Johnson stated IT is involved in developing plans for reports for Accounting and Research and setting up the game's communication network for this monitor game. Software testing activities are planned to start in mid-October.

Ms. Johnson stated work continues on the Keno website enhancement. Functional design requirements have been identified. Once the technical requirements have been approved, programming would begin.

Ms. Johnson stated a major communications outage occurred on August 4, 2004 during a severe thunderstorm. Both the primary and backup T1 lines in Baltimore and Lanham failed. The system was inaccessible for approximately 45 minutes. The entire agent network was affected except for one agent who is not on the T1 lines. This agent is located in Potomac and is on a less expensive alternate communications network.

Ms. Johnson stated work on the bond annuity system has been completed and turned over to AFO for testing. The August deadline was met.

Ms. Johnson stated the NASPL Standards Steering Committee would meet at the 2004 NASPL Conference. She will join the meeting via telephone. They will discuss instituting the instant ticket bar code. The NASPL Executive Board will have the final approval.

Ms. Johnson stated the NASPL IT, Legal and Security Subcommittees will meet in Cleveland from September 7 to 10, 2004. She will be attending and is working with NASPL to plan the agenda and speakers for the IT meeting.

Vice Chairman Marriner asked if any Lotteries are utilizing Internet credit card services. Mr. Roogow responded the Atlantic Lottery Corporation in Canada uses Internet. Internet gaming in the U.S. is prohibited. In Norway Internet gaming is 100% of their sales, and in other countries it is only 1% to 3% of their sales.

Creative Services – Erinn Williams, Advertising Coordinator

Ms. Erinn Williams presented the Creative Services report in Ms. Baer's absence. The Commission previously received a copy of the report. Ms. Williams stated that Mr. Blum

covered most of the information contained in the report. She stated work continues on the close out of the Golden Ticket scratch-off game prize awards for Phase I and Phase II.

Communications - Jimmy White, Director of Communications

Mr. Jimmy White stated the State Fair begins on August 27, 2004. At the State Fair on August 29, 2004, the prize awards for Phase II of the Golden Ticket scratch-off game would take place. There are 1,002 contestants eligible for the prize awards, which include a Corvette and plasma televisions. Two radio stations as well as Channel 2 will be there broadcasting.

Mr. White stated on September 10, 2004, the prize awards for Phase I of the Golden Ticket scratch-off game would take place at Orioles Park at a bullpen party. There were 100 qualified contestants who will participate in a variety of games to win prizes. Prize giveaways include cash prizes, trips to Spring training and season tickets. Steve Rouse from WQSR will host the event.

Mr. White stated last month he spoke about Employee Appreciation Week. There were three employees chosen for the Taking Pride in People awards. Dr. Tchicaya Ellis from Research and Development was chosen in the executive category. Mr. Mike Hofferbert from Sales was chosen in the supervisor category. Ms. Donna Williams from Creative Services was chosen in the employee category. The Security Division was chosen as the Division of the Year.

Product Development – Gary Smith, Instant Ticket Product Manager

Mr. Gary Smith presented Product Development's report in Ms. Cohen's absence. The Commission previously received a copy of the report.

Mr. Smith stated he has information to present to the Commission 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 #507 *Another Chance of Snow* is a \$1.00 instant ticket with a prize payout of 58.37%. If 95% of the tickets are sold, the profit would be \$553,477. If 100% of the tickets are sold, the profit would be \$582,607.

Game #508 *Lucky Slots* is a \$2.00 instant ticket with a prize payout of 65.13%. If 95% of the tickets are sold, the profit would be \$842,354. If 100% of the tickets are sold, the profit would be \$886,688.

Game #509 *Crossword Double Bonus* is a \$3.00 instant ticket with a prize payout of 67.92%. If 95% of the tickets are sold, the profit would be \$219,933. If 100% of the tickets are sold, the profit would be \$2,315,088. A question was raised about the profit

difference 95% and 100%. Mr. Smith responded apparently there is an error in the 95% Sold Column. The number of tickets printed should be 4,000,000, not 400,000. The end result if 95% of the tickets are sold is a \$2,199,330 profit.

Game #510 *Lucky 7's Jackpot Double Play* is a \$5.00 instant ticket with a prize payout of 73.73%. If 95% of the tickets are sold, the profit would be \$1,668,836. If 100% of the tickets are sold, the profit would be \$1,756,669.

Game #513 *Show Me the Money* is a \$5.00 instant ticket with a prize payout of 72.97%. If 95% of the tickets are sold, the profit would be \$1,338,662. If 100% of the tickets are sold, the profit would be \$1,409,118.

Game #514 *Poker Showdown* is a \$5.00 instant ticket with a prize payout of 73.00%. If 95% of the tickets are sold, the profit would be \$1,335,727. If 100% of the tickets are sold, the profit would be \$1,406,028.

Commissioner Wagner made a motion to approve the above instant games with the totals for Game #509 being modified and Commissioner Payne seconded the motion. The above instant games were approved by unanimous vote of the Commission.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated his report contains the instant game launch schedule for August as well as the number of \$1, \$2, \$3, \$5, and \$10 scratch-off tickets in the field and available in the warehouse.

Commissioner Wagner asked what do you mean by available in the warehouse. Mr. Meehan responded as scratch-off games sell out, there are other new scratch-off games available in the warehouse for distribution to the agent network. Mr. Smith stated as long as the humidity and temperature are properly controlled the scratch-offs will remain good for several years with no deterioration of quality. Commissioner Wagner asked at what point do you pull the tickets from agent locations. Mr. Smith explained what determines when game is pulled. For example, if there are no remaining top prizes, if there is no inventory in the warehouse or if a scratch-off is not selling as it should.

Mr. Meehan stated the Sales force is doing an ongoing review of low performing agents. He stated he is currently assessing the health of the agent network with respect to terminal supply and demand, retailer sales, cost benefit analysis and anticipated impact from ADA.

Procurement Division – Suzanne Meltzer, Director

Ms. Suzanne Meltzer stated proposed changes to COMAR, Title 14, Chapter 4 Regulations Applicable to Agents have been updated to include changes in the law. Copies were sent to the Commission for review. Vice Chairman Marriner made a motion to approve the

proposed changes to COMAR, Title 14, Chapter and Commissioner Reeder seconded it. The proposed changes were approved by unanimous vote of the Commission.

Ms. Meltzer stated a contract for Baltimore Orioles prizes to support the Golden Ticket instant game was previously sent to the Commission for their review. This contract allows the Lottery to purchase from the Orioles the following items: autographed baseballs, 50th Anniversary pins, season tickets, trips to Spring training and a bullpen party. The contract amount is \$50,050.00. Commissioner Reeder made a motion to approve the contract and Vice Chairman Marriner seconded it. The contract was approved by unanimous vote of the Commission.

MINUTES

Vice Chairman Marriner stated the Minutes for the July meeting were presented with modifications for the Commission's review. Commissioner Reeder made a motion to approve the July Minutes with the modifications and Vice Chairman Marriner seconded it. The July Minutes with the modifications were approved by unanimous vote of the Commission.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, September 15, 2004 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Vice Chairman Marriner motioned that the meeting be adjourned. The meeting was adjourned at 10:50 a.m.

Respectfully submitted,

Buddy Roogow