

**MARYLAND STATE LOTTERY COMMISSION
APRIL MINUTES**

DATE: April 27, 2005
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
Gina Smith, Assistant Director and CFO
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Steve Meehan, Deputy Director, Sales
Tracey Cohen, Director, Product Development and Advertising
Jill Baer, Director, Creative Services
Jimmy White, Director, Communications
Paul Dorsey, Director of Policy and Development
Robert Howells, Director of Procurement
Shirley Basse, Internal Auditor
Marie Torosino, Executive Associate

OTHERS

PRESENT: Jeff Hale, Scientific Games Online Entertainment Systems
Christian Ross, Scientific Games Online Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

Chairman Bonaventure stated there was a quorum present and he called the meeting of the Maryland Lottery Commission to order at 9:00 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure stated he had forwarded to the Commissioners the March Minutes with some redline changes. Chairman Bonaventure asked if there were any further changes and hearing none, requested a motion for approval. Vice Chairman Marriner made a motion to approve the March Minutes with the changes and Commissioner Payne seconded the motion. The March Minutes with the changes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Jeff Hale stated an update on the Racetrax monitor game would be presented today. Research on the pilot program would be completed by the end of August. Ms. Cohen presented the update on the Racetrax monitor game. She stated the purpose of pilot is to determine if a market exists for another monitor based game in addition to Keno. Since inception of the pilot program, the game has done \$450,000 in sales, paid \$317,000 in prizes, paid \$32,000 in agent commissions and brought in revenue of \$101,000. Average retailer sales per week are \$2,570. There are seven lounges with \$3,210 average weekly sales, four package goods store with \$1,825 average weekly sales, and four convenience stores with \$1,555 average weekly sales that currently sell the Racetrax game. She stated CJ's Tavern in Laurel, a Keno agent, has done \$5,300 per week and Milford Mill Liquors, a non-Keno agent has done \$2,955 per week in sales. Vice Chairman Marriner asked if CJ's proximity to Laurel Park and Milford Mill Liquors proximity to Pimlico had any bearing on sales. Ms. Cohen responded these agents were not chosen because of their closeness to the track, but there was a slight increase in traffic at CJ's after a meet at the track. Commissioner Reeder asked if the average weekly sales are in the evening or afternoon hours. Mr. Christian Ross responded he has visited the locations three or four times and not many people were playing from the afternoon until early evening. It might be a small player base but it is a heavy player base. There are probably some core players, but it is hard to determine. Ms. Cohen stated preliminary research findings indicate that what players like the most about game was that it is fun and entertaining and what they liked least was not winning.

EISNER COMMUNICATIONS

Mr. David Blum stated ongoing efforts continue to increase the presence of the Mega Millions game in advertising. He stated some additional places have been identified for outdoor opportunities at prime locations around Baltimore and they continue to look for

additional locations throughout the State. Shopping center outdoor signs have been placed in eight in strip malls. A question was asked what is the size of the sign. Mr. Blum responded the sign measures three feet by six feet. A central box, that is the same technology as used for the current billboards, controls these outdoor signs.

Mr. Blum stated a new series of television advertising for the Hot Family scratch-off has been completed. He showed the commercial to the Commission.

COMMISSION BUSINESS

Chairman Bonaventure welcomed back Mr. George Wagner as a member of the Commission.

Chairman Bonaventure stated last year the Commission members adopted a resolution that the Commission would voluntarily follow the restriction that is placed on Lottery employees that bars them from playing or winning the Lottery. The Commissioners are not subject under Maryland law to the restriction placed on Lottery employees. He stated he wanted to reconfirm that the Commissioners would be subject to the same rules that the Maryland Lottery employees are subject to in playing the Lottery. This restriction on the Commissioners does not extend to family members of the Commissioners. This resolution passed by unanimous vote of the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the Legislative session has ended. He stated for the fiscal year 2006 budget, the Lottery received an additional \$1.5 million in advertising and four new positions were approved. He stated language was added to the Special Fund Appropriation that the Lottery cannot use funds to acquire or purchase gaming devices that are Class II or III or function similar to Class II or III gaming devices similar to a slot machine or video lottery terminal unless authorized by an act of the General Assembly.

Mr. Roogow stated that other language that was included in the budget language was an increase in agent commissions. This would be effective in fiscal year 2007 with a one-half percent commission increase. Currently agents earn five percent sales commission. The Lottery was not previously informed of this budget language. The impact would be \$8 million in revenue in fiscal year 2007. This cannot be vetoed on a line-by-line item.

Mr. Roogow stated the assignment bill legislation passed. The Lottery did not take a position on the bill this year. This will also create a manpower burden on the Lottery. The Lottery is preparing for the numerous requests when this takes effect on July 1, 2005.

Mr. Roogow stated the Mega Millions jackpot is \$205 million. Maryland's sales performance in Mega Millions continues to improve. Out of the 11 Mega Millions states, Maryland is third in per capita sales, trailing New York and New Jersey. Considering that

Maryland is a small state, our sales have been greater than Washington and Massachusetts and Maryland recently exceeded Virginia in sales.

Mr. Roogow stated total sales of all games are approximately \$80 million ahead of last year with revenue approximately \$20 million ahead of last year. The Bonus Match 5 game is showing a surge in sales but is still slightly behind last year. He stated he is optimistic about making the revenue goal and we should exceed the goal by the end of June.

Mr. Roogow stated work continues on the On-line RFP and a number of people are involved in this process. He will keep the Commission informed of the progress.

REPORTS

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated as part of the internal reorganization of the Sales Division, he is considering converting corporate accounts to key accounts and converting the Corporate Reps to District Managers. He gave a brief summary of what this would entail. Mr. Meehan stated that Mr. Alvin Ringgold has been hired as the Network Services Manager and he would begin next week. Mr. Ringgold would assist with the monitoring of the ITVM equipment, help develop a statewide strategy for needs and equipment, develop statewide training and provide support for new Sales employees. Mr. Meehan stated he also would be hiring a District Manager Recruitment Specialist who will assist with ADA compliance issues.

Mr. Meehan stated he is currently reviewing the needs, performance and placement of ITVMs and develop a statewide strategy for placement of current ITVMs for the best sales results.

Commissioner Reeder stated he noted that 20 changes of ownership have occurred. And asked what happens if the new owner is not ADA compliance. Ms. Smith responded the owner has 30 to 60 days to submit to the Lottery a Corrective Action Plan. If they fail to do so or fail to submit documentation that it is cost prohibitive, then they could be terminated.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated the World Championship Poker scratch-off game is still the best selling \$5.00 instant ticket. She stated the Lottery created its own version of the game to avoid having to pay a licensing fee.

Ms. Cohen stated the on-line Pick 3 promotion Let Yourself Play will run from May 9, 2005 through June 5, 2005. The Pick 3 and Pick 4 Cash in the Field promotion will run

from June 6, 2005 through July 10, 2005. The Keno Doubler promotion will run from July 11, 2005 through September 4, 2005.

Ms. Cohen stated she does not have any closed games to present today.

Ms. Cohen stated she had 14 new instant games to present to the Commission.

Game #549 *Pharaoh's Gold* is a \$5.00 ticket with a prize payout of 73.86% and a print run of 4.0 million tickets. The estimated profit is \$3,288,127.82.

Game #550 *A Bushel of Crabs* is a \$1.00 ticket with a prize payout of 58.37% and a print run of 2.5 million tickets. The estimated profit is \$374,560.45.

Game #551 *2 Bushels of Crabs* is a \$2.00 ticket with a prize payout of 64.10% and a print run of 2.0 million tickets. The estimated profit is \$651,006.14.

Game #552 *3 Bushels of Crabs* is a \$3.00 ticket with a prize payout of 68.00% and a print run of 2.0 million tickets. The estimated profit is \$975,269.61.

Game #553 *5 Bushels of Crabs* is a \$5.00 ticket with a prize payout of 73.00% and a print run of 2.0 million tickets. The estimated profit is \$1,430,307.81.

Advertising costs have been included for the Bushel of Crabs series of instant tickets.

Game #554 *Wild 7's Doubler* is a \$1.00 ticket with a prize payout of 59.00% and a print run of 2.8 million tickets. The estimated profit is \$583,896.65.

Game #555 *Triple Money* is a \$1.00 ticket with a prize payout of 58.08% and a print run of 2.8 million tickets. The estimated profit is \$610,431.35.

Game #556 *Tac Tac Wow* is a \$1.00 ticket with a prize payout of 59.69% and a print run of 2.8 million tickets. The estimated profit is \$563,995.63.

Game #557 *Gold Card* is a \$5.00 ticket with a prize payout of 73.08% and a print run of 3.0 million tickets. The estimated profit is \$2,497,909.61.

Game #558 *Go Maryland* is a \$1.00 ticket with a prize payout of 58.53% and a print run of 2.5 million tickets. The estimated profit is \$495,440.12.

Game #559 *Haunted House Doubler* is a \$1.00 ticket with a prize payout of 58.60% and a print run of 3.2 million tickets. The estimated profit is \$731,127.54.

Game #560 *Love That Loot* is a \$2.00 ticket with a prize payout of 63.87% and a print run of 2.0 million tickets. The estimated profit is \$785,482.62

Game #561 *Fabulous 5's* a \$5.00 ticket with a prize payout of 73.08% and a print run of 3.0 million tickets. The estimated profit is \$2,497,909.61.

Game #566 *Blackout Bingo* is a \$2.00 ticket with a prize payout of 64.48% and a print run of 6.0 million tickets. The estimated profit is \$2,990,425.24. This scratch-off is out continuously. It is pulsed in different colors. Question asked when is the game closed. Ms. Cohen responded the game is closed when the six million tickets are sold.

Vice Chairman Marriner made a motion to approve Game #549 *Pharaoh's Gold*, Game #550 *A Bushel of Crabs*, Game #551 *2 Bushels of Crabs*, Game #552 *3 Bushels of Crabs*, Game #553 *5 Bushels of Crabs*, Game #554 *Wild 7's Doubler*, Game #555 *Triple Money*, Game #556 *Tac Tac Wow*, Game #557 *Gold Card*, Game #558 *Go Maryland*, Game #559 *Haunted House Doubler*, Game #560 *Love That Loot*, Game #561 *Fabulous 5's*, and Game #566 *Blackout Bingo*. Commissioner Reeder seconded the motion. Game #549 *Pharaoh's Gold*, Game #550 *A Bushel of Crabs*, Game #551 *2 Bushels of Crabs*, Game #552 *3 Bushels of Crabs*, Game #553 *4 Bushels of Crabs*, Game #554 *5 Bushels of Crabs*, Game #554 *Wild 7's Doubler*, Game #555 *Triple Money*, Game #556 *Tac Tac WOW*, Game #557 *Gold Card*, Game #558 *Go Maryland*, Game #559 *Haunted House Doubler*, Game #560 *Love That Loot*, Game #561 *Fabulous 5's*, and Game #566 *Blackout Bingo* were approved by unanimous vote of the Commission.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated at last month's Commission meeting a question was asked regarding the expenses incurred for the Orange County Chopper game that was canceled. She stated the expenses that were incurred were \$21,425 and she is not aware of any other costs.

Ms. Baer stated the advertising spots for the Mega Millions jackpot ran in print, on radio and on television to support the growing jackpot.

Ms. Baer stated television advertising of the Hot Family scratch-off game would begin on Monday.

Ms. Baer stated the revised Mega Millions subscription application is in production and they are finalizing the How to Play brochure.

Communications – Jimmy White, Director

Mr. Jimmy White stated Communications has been busy this month working on the Lotto and Mega Millions jackpots. The Director and Communications staff were guests on numerous radio shows talking about the jackpots.

Mr. White stated Communications is preparing for the upcoming summer activities supporting lottery products. Two new drawings officials are now appearing on air and two additional drawings officials will begin training.

Mr. White stated his report contained recent copies of Lottery Winning Ways and Promotional Partners newsletters. He asked the Commission to stop by the newly redesigned Winner's Lounge after the meeting today.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson stated IT continues to support the Racetrax monitor game. Two more communications lines have been installed and the remainder should be done by the end of the week. The fourth phase of retailers would be installed next week.

Ms. Johnson stated the Keno website is currently being tested by a small group of VIP Club members. After testing is completed, the Lottery would receive the results and make any necessary improvements.

Ms. Johnson stated the Let Yourself Play promotion testing was successfully completed. The promotion is scheduled to begin on May 9, 2005.

Ms. Johnson stated work continues on the software changes to the Mega Millions game for the inclusion of California.

Ms. Johnson stated work is progressing in the drafting of the On-line RFP.

Ms. Johnson stated testing of the first component of the Lottery's Disaster Recovery Plan was conducted on Sunday. IT operators telephoned or paged key personnel to ensure that contact numbers were current. IT continues to set up more component testing.

Chairman Bonaventure asked if the on-line RFP is still on schedule. Ms. Johnson responded we are on track as far as the timeline is concerned. She stated she anticipates an extension of the current on-line contract. Mr. Roogow stated the Lottery has agreed in principle with Scientific Games to extend the current contract at the same terms and conditions. If necessary, the Lottery would go to the Board of Public Works for approval. Mr. Howells stated a meeting has been scheduled with the Department of Budget and Management on May 3, 2005 to review the RFP draft. The final RFP would be then sent to the Department of Budget and Management for their review. They would make any necessary suggested changes then return it to the Lottery for correction. The Commission would be sent a copy of the final RFP. Chairman Bonaventure asked that legal counsel look at the RFP and brief the Commission.

Administration, Finance and Operations – Gina Smith, Assistant Director/CFO

Ms Gina Smith distributed the unaudited financial statement for March 2005 to the Commissioners. She stated there is nothing unusual to report in the statement.

Ms. Smith stated AFO has been busy working on the changes to the Mega Millions game. She outlined the action timeline that will be taken regarding existing Mega Millions subscriptions. Current subscribers are being sent a letter informing them of the changes. The existing subscriptions would be terminated and new applications would be sent to rejoin. The first drawing for subscribers is July 5, 2005. Chairman Bonaventure asked if these are annual subscriptions. Ms. Smith responded there are various plans up to one year.

Ms. Smith stated AFO is preparing for closeout of the fiscal year. She stated another CAFR would be completed and submitted this year.

Ms. Smith stated she is reviewing the assignment legislation to determine the procedures needed to comply with the legislation.

Ms. Smith stated the Legislative auditors are continuing their work at the Lottery and she does not have anything to report at this time.

Ms. Smith stated she would be meeting with the vendor who is assisting the Lottery in the expansion of its accounting system. This upgrade would improve efficiency and assist end users in their jobs.

Ms. Smith stated the SAS-70 Audit continues and it was expected to be completed by April 2005. This completion date has been extended to the end of May due to a scheduling problem with the auditors visit at Scientific Games' Georgia facility.

Ms. Smith stated ADA procedures are in place and agent administration continues to monitor ADA compliance. She stated retailers are being cooperative and making necessary changes.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Johnson stated the Lottery met all conditions regarding the accessibility agreement with the Maryland Human Relations Commission (MHRC). A question was raised as to what are the accessibility requirements. Ms. Johnson responded the requirement is to ensure that services are accessible. Attached with her report was a copy of the formal court order dismissing the case but there is ongoing jurisdiction by for MHRC to monitor compliance.

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

Ms. Johnson stated at the next month's Commission meeting the revocation appeal hearing for Genie's Liquors would be held. The Commission meeting would begin at 8:30 a.m. followed by a short break with the hearing beginning at 10:00 a.m. Each side would have three hours to present their case. Chairman Bonaventure asked that both sides be informed that the Commission is setting aside a full day for the hearing and to give the Commission as much notice as possible if they desire not to go forward.

Ms. Johnson stated that Giant Food stores are conducting an instant ticket scratch-off charitable game. Apparently Giant did not consider Maryland law related to charitable gaming events. The Office of the Attorney General is working with Giant in regard to this matter to see what they can do to go forward.

Ms. Johnson stated legislation allowing for the assignment of lottery prizes was passed by the Legislature. She distributed copies of Senate Bill 225 and House Bill 678 to the Commission and gave a brief description of the legislation. Finance companies have already been sending literature to lottery winners. A copy of the literature was provided to the Commission. The Office of the Attorney General may issue an advisory to winners. There are currently 571 annuitants.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, May 25, 2005 at 8:30 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned and Commissioner Wagner seconded the motion. The meeting was adjourned at 10:40 a.m.

Respectfully submitted,



Buddy Roogow