

**MARYLAND STATE LOTTERY COMMISSION  
JULY MINUTES**

DATE: July 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  
Robert Howells, Director of Procurement  
Paul Dorsey, Director of Policy and Development  
Ethan Powell, Intern, Office of the Attorney General  
Sameer Sidh, Intern, Office of the Attorney General  
Marie Torosino, Executive Associate

**OTHERS**

PRESENT: Richard McHugh, Scientific Games Online Entertainment Systems  
Richard Hadley, Scientific Games Online Entertainment Systems  
Sean Athey, Scientific Games Online Entertainment Systems  
Peter Gladstone, 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 the Commissioners' folders contained a copy of the June Minutes with some redline changes. Chairman Bonaventure asked the Commissioners to review these changes. Hearing no further changes, Chairman Bonaventure requested a motion for approval. Commissioner Reeder made a motion to approve the June Minutes with the changes and Commissioner Payne seconded the motion. The June Minutes with the changes were approved by unanimous vote of the Commission.

## **EISNER COMMUNICATIONS**

Mr. Peter Gladstone, Executive Vice President stated Mr. David Blum was recently promoted to Senior Vice President. Mr. Blum was on vacation and Mr. Gladstone stated he would be presenting Eisner's report this month. He stated Eisner is currently in the process of developing a Fiscal Year 2006 advertising/marketing plan.

Mr. Gladstone stated last weekend at the Toyota Pro Beach Volleyball Tournament in Ocean City, footage was shot for the next series of Scratch Squad commercials. They are in the process of putting together three commercials from this footage and it should be completed next week.

Mr. Gladstone stated there would be signage and other advertising in Ravens stadium for the Purple Passion scratch-off ticket. Ms. Cohen and Ms. Baer would have more details to present. Ms. Cohen distributed to the Commission detailed information on the Purple Passion scratch off ticket – 2005 Ravens Season. She stated the \$5 scratch-off ticket has a top prize of \$50,000 with a print run of 2 million tickets and a 72.02% prize payout. This ticket would launch on August 1, 2005, in time for football season. There is a second chance component associated with the ticket. Three trips to the Pro Bowl Game in Hawaii will be awarded.

Ms. Baer stated two versions of the point-of-sale for the Purple Passion ticket would be produced. One piece will highlight the trip and the other piece would focus on the football aspect and they are still in development. As soon as they are available, she would present them to the Commission. Ms. Baer stated yesterday members from the Lottery and Eisner went to Ravens stadium to do a photo shoot with Tony Siragusa who will appear in a number of elements of the program associated with the Purple Passion point-of-sale. Lottery advertising would appear on the SmartVision sign at the stadium with the Let Yourself Play branding message. There would be LED signage around the rim of the stadium with the scratch-off and jackpot messages. Ravens Game Day program will feature the Purple Passion tickets and Tony Siragusa. The Lottery would have a kiosk on

Ravens walk at every home game and this would be home base for the Tailgate Patrol. The Tailgate Patrol would scout the parking lot for best tailgate and do on-air interviews. The Purple Passion instant ticket would also be promoted on the Baltimore Ravens website. The Lottery will be the presenting sponsor of the Game Plan radio show on Thursday evenings on JACK and WJFK and also receive spots and opening/closing billboards in each Ravens Radio pregame show. The Lottery is on target to be present at the first pre-season home game on August 20, 2005. The handout also contained a copy of the Purple Passion instant ticket that was previously approved by Commission.

Chairman Bonaventure stated for the second chance component, the report states the trip is valued at \$7,500 and the winner is given \$7,500 spending money, which equals \$15,000. Yet it is stated that the cost to the Lottery is \$22,222.23. Could you explain this difference. Ms. Cohen stated the taxes paid are the difference between the \$15,000 and the \$22,222.23. Mr. Roogow stated the winner might still have to pay additional taxes when they file their return. Chairman Bonaventure asked does the Lottery let the winner know that the taxes would be paid. Ms. Baer stated the official rules stated the Lottery would pay required estimated State and Federal taxes. The rules also stated that further amounts may be owed.

### **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated today she was going to give the Commission a quick overview of the end of the Racetrax monitor game and the Multi-Hand Easy Win Game. She also introduced Mr. Patrick McHugh, Vice President of Corporate Operations and Mr. Richard Haddley, Regional Director.

Ms. Athey stated the Racetrax monitor game ended on July 24, 2005, and the equipment has removed from retailer locations. It was a very successful test pilot program for the Lottery and Scientific Games. One agent in Baltimore City, Soda Pop Shop, had sales of \$24,500 last week. Average agent sales were \$10,400.

Commissioner Wagner asked did it have any effect on other lottery games. Ms. Athey responded there was not a lot of cannibalism of Keno. Mr. Christian Ross will be doing an analysis. Ms. Cohen stated a final report is due in September.

Commissioner Wagner asked who owns the Racetrax game. Ms. Athey responded Tabcorp owns the game and Scientific Games worked with them.

Ms. Athey stated lounges had the best sales average at \$4,253 per week, while convenience stores had average sales of \$3,200 per week and liquor stores had average sales of \$2,678 per week. At the start of the monitor game equipment was installed at average lottery retailers then later installed at high-end retailers.

Ms. Athey then gave an overview of the Multi-Hand Easy Win Game. This game would replace the current Lotto game. The Pennsylvania and Delaware Lotteries run similar games. She stated that players are more supportive of a game with lower tier prizes and more play involvement. Chairman Bonaventure asked how was that determined. Ms.

Athey responded research was done and that emerged as more appealing to Maryland players. The game would consist of three plays for \$2.00. Overall odds of the game would be 1:8.5 as opposed to Lotto odds of 1:30. Players could win top prizes and as well as other prizes. Ms. Cohen stated research showed that people wanted more ways to win on Lotto. Ms. Athey stated that Scientific Games has send the Business Requirement Specifications to their IT Department as well as the Lottery.

Chairman Bonaventure thanked Ms. Athey for the presentation. Commissioner Reeder asked when would Lotto be phased out. Mr. Roogow responded Lotto would be phased out possibly in late winter.

Chairman Bonaventure stated that Mr. Gladstone mentioned Eisner was developing a 2006 Advertising Plan and asked if the Commission could obtain a copy of the plan. Ms. Baer responded the document is still in draft form, but she does have a Product Plan that she can provide to the Commission.

### **COMMISSION BUSINESS**

Chairman Bonaventure stated a photograph was taken at the Orioles baseball game that the Commission recently hosted and asked how they could obtain copies. Ms. Smith responded she talked to the photographer and she is waiting for him to send a copy of the photograph. Chairman Bonaventure stated he would like copies sent to any legislators that attended. It was suggested that we wait to see the photograph before making a decision to have copies made and sent to the Legislators that attended. Mr. Roogow stated the Lottery could have a number of copies made and distributed as appropriate.

### **DIRECTOR'S REPORT**

Mr. Buddy Roogow distributed a copy of the Lottery's year-end sales report. The Lottery's sales for FY2005 were \$1.485 billion, which is an increase of \$87.7 million over last year or 6.28%. It was a very successful year. Pick 3, Pick 4 and Keno and Keno Bonus sales have increased. Instant sales increased \$35 million or 10%. Mega Millions sales increased approximately \$10 million over last year. Lotto had a small decrease in sales from \$36 million to \$34 million.

Mr. Roogow stated the Racetrax monitor pilot program ended and sales were over \$1 million. He felt that it was a successful game.

Mr. Roogow stated Lottery revenue for FY2005 was \$477.5 million, which is an increase of \$19 million over the last fiscal year. The Lottery exceeded its BRE goal of \$461.9 million by \$16 million, and this surplus would go to the General Fund. Vice Chairman Marriner asked if the goal was raised for next year. The response was yes, our BRE estimate is \$484.3 for FY2006.

Commissioner Wagner stated he has received complaints from agents about the current on-line equipment. Mr. Roogow stated once the new contract is awarded, the agents would receive new updated equipment. Commissioner Wagner asked would the old equipment be at the agent locations until July 2006. Mr. Howells responded yes. Mr. Howells stated the goal is to go to the Board of Public Works on October 8, 2005 for approval of the new contract. After Contract approval there would be a nine-month transition period.

Chairman Bonaventure requested an update on the On-line RFP process. Mr. Howells stated the Lottery is on schedule. The proposals were received last Friday and the Evaluation Committee began their review yesterday. Chairman Bonaventure asked how many responses were received. Mr. Howells responded he could not comment on that at this time.

Vice Chairman Marriner asked what amount of money is in the Unclaimed Prize Fund. Ms. Smith responded there is approximately \$10 million in the Unclaimed Prize Fund.

Mr. Roogow stated Lottery sales for FY2006 are ahead of last year by \$442,038, but revenues are behind last year by \$1.7 million. This is due to some large payouts on the Pick 4 game.

Mr. Roogow stated the Lottery had preliminary discussions with the Legislative Auditors concerning the discussion notes. There were three findings. The Legislative Auditors are still working on the IT audit and it should be completed shortly.

Mr. Roogow stated some things that the Lottery plans to do this year to meet its BRE estimate is to continue to run Keno Doubler and Keno Tripler. The Lottery also plans to introduce a \$20 scratch-off game this year called King Kong that would coincide with the release of the new King Kong movie on December 14, 2005. The Legal Division is working on some issues with Universal Studios in relation to this scratch-off. Commissioner Wagner asked what does the Lottery have to pay Universal Studios. Ms. Cohen responded the Lottery would pay a licensing fee of \$25,000.

Mr. Roogow stated the Lottery plans to run another televised game before the end of the fiscal year. This game show would be associated with the Ancient Treasures scratch-off. Players would collect four symbols for entry into the game show.

Mr. Roogow stated he had some discussion with members of the Lotto South group (Virginia, Georgia and Kentucky Lotteries) regarding a possible multi-state lottery game.

Mr. Roogow stated that the Board of Public Works approved the one-year extension for the Televised Drawings of the lottery's On-line Games contract with WJZ-TV 13. The contract period is November 2005 to November 2006.

## **REPORTS**

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

Ms. Johnson stated there were no revocations to present to the Commission this month. However, there is an appeal hearing scheduled for Wednesday, September 28, 2005 at 11:00 a.m. with Bobby B's. She stated that at the last Commission meeting a question was asked if legal counsel would represent the agent. She responded no, legal counsel would not represent the agent. She stated the hearing should take approximately two hours.

Ms. Johnson stated she has been working closely with the Procurement Officer on the on-line RFP process.

Ms. Johnson stated an incident occurred where a Keno monitor had fallen on someone at an agent location and allegedly caused injury. She will keep the Commission updated on this investigation.

Ms. Johnson stated as a result of California entering Mega Millions, legal action has been filed against California. The basis for the lawsuit is that the California legislature did not authorize the California Lottery to enter into a multi-state game; that the Lottery Commission did not have an Open Meeting for approval to enter into an agreement; and that California is compromising its high standards by entering into an agreement with other states which may not act with such high standards, thereby exposing California to liability. The California Lottery Counsel is confident they will be successful in defending this matter. Ms. Johnson stated she would keep the Commission updated. A question was asked if Maryland was named in this lawsuit. Ms. Johnson responded no.

Ms. Johnson stated the legal interns would give a brief presentation to the Commission. Mr. Ethan Powell spoke on the Prohibition of Internet Gambling/Federal Legislation, the Wire Act of 1961 and the Unlawful Internet Gaming Enforcement Act of 2005. Mr. Sameer Sidh spoke on the Recent World Trade Organization Ruling on Internet Gaming and the WTO decision on the Antigua complaint. The Commissioners were given copies of detailed information on the above presentations. Ms. Johnson stated that she would continue to keep the Commission updated on these matters. The interns were complimented on their excellent presentation.

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

Ms. Gina Smith stated she does not have a June unaudited financial statement to present to the Commission because the Lottery is in the process of close out. As soon as that is completed, the Commission will receive the unaudited and audited statements. The Lottery is in the process of converting the financial statements to GAAP.

Ms. Smith stated last year the Lottery submitted a Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association (GFOA). She recently received a notice from the GFOA that the Lottery qualified for a Certificate of Achievement for

Excellence in Financial Reporting. The Lottery would receive a Certificate of Achievement plaque and also receive an award certificate for the Maryland Lottery Accounting Department. She would also like to recognize the people in Account who worked with her in putting the CAFR together. They were Deborah Sharpless, Controller and Cecilia Lee, Senior Accountant. On behalf of the Commission, Chairman Bonaventure extended his congratulations.

Ms. Smith stated attached with her report is the Legislative Auditors' discussion notes as well as the Lottery's responses.

Ms. Smith stated AFO is currently working on the closeout of the FY2005 budget. The FY2006 budget has been allocated to the individual Divisions and she is currently working on the FY2007 budget for submission to the Department of Budget and Management by the end of October.

Ms. Smith stated that the Department of General Services increased Category III's procurement delegation up to \$25,000 for all agencies. The Lottery's Procurement Unit is reviewing its procedures to determine what changes are required as a result of the increased delegation.

Ms. Smith stated that recruitment continues for various vacant positions at the Lottery.

Ms. Smith stated she received the draft of the SAS 70 Audit report from Stout. She gave a copy of the SAS 70 draft to the Legislative Auditors to show that it was done and this was sufficient for the auditors to clear their exception. She is working with Stout on the draft and it should be another month before a final report is received. There was nothing critical contained in the report.

#### *Information Technology – Sandy Johnson, Chief Information Officer*

Ms. Sandy Johnson stated she is working with Mr. Howells on the on-line RFP and they are currently preparing to evaluate the responses that were received

Ms. Johnson stated a network issue occurred in mid-July. The primary line in Baltimore failed on July 14, 2005 and communications were switched to the secondary line. It was suspected that the problem was in a manhole connected to the primary line. Around the same time, a major fiber cut occurred in the Elkridge area when a BGE truck knocked down three to four phone poles. The cut was repaired but there were still approximately 800 agents down. On July 18, 2005, the secondary line in Baltimore had problems and the system was switched to Lanham. The system is still operating in Lanham and the Lottery has no back up in Baltimore. Should Lanham fail as the primary, the Lottery would not have any communications capability and no means of selling Lottery products on-line. She is working with Verizon and would be meeting with the Vice President of Verizon on this issue. The problem seems to be in the manhole at Western Avenue. Ms. Johnson stated she would keep the Commission updated.

Ms. Johnson stated the Racetrax monitor game ended on July 24, 2005 and all telephone lines and equipment were removed from the agent locations. Equipment and telephone lines would remain at the Lottery's Claims Center for validation purposes.

Ms. Johnson stated everything went well with the implementation of the software to add California to Mega Millions. Subscription refunds were processed and the subscription program was modified.

Ms. Johnson stated security awareness training is underway for Lottery employees.

Ms. Johnson stated IT installed 12 new computers with the Solomons software upgrade and worked with the Solomons contractor to prepare the modified database for installation.

Ms. Johnson stated the IT representative from the Legislative Audit Office continues to audit IT Division procedures.

#### *Communications – Jimmy White, Director*

Mr. Jimmy White stated Communications has been busy participating in events throughout the State. Some of the events Communications participated in were the Municipal League Conference in Ocean City, the Catonsville Fourth of July Parade, the Toyota Pro Beach Volleyball Tournament in Ocean City. Communications would be participating at the Volleyball tournament again in August.

Mr. White stated the Promotional Partners Program supplied 70 radio stations with \$8,852 worth of scratch-off tickets and received a promotional value of \$129,657 in on-air mentions.

The VIP Club had promotions awarding tickets to Merriweather concerts and Orioles games. The most popular promotion was the Orioles tickets with 1,126 members opting in to win. VIP members were also sent updates on upcoming events and jackpot information.

Mr. White stated 16 news clippings were evaluated by Eisner and valued at \$5,780.92.

Mr. White stated the Lottery is currently in the middle of Employee Appreciation week. Various events for employees are being held throughout the week, culminating with the annual Taking Pride in People awards.

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

Ms. Jill Baer stated the next segment of Scratch Squad was shot during the Pro Beach Volleyball tournament in Ocean City with Chip Franklin as host. The three commercials would air statewide on August 17, 2005.

Ms. Baer stated work is nearing completion on the point-of-sale and in-stadium advertising for the Purple Passion scratch-off ticket.

Ms. Baer stated work continues to develop an advertising plan and a budget for the Ancient Treasures game show. She will have an update on this next month.

*Product Development and Advertising – Tracey Cohen, Director*

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

Game #572 *Holiday Gift Tag* is a \$5.00 ticket with a prize payout of 72.83% and a print run of 1.0 million tickets. The estimated profit is \$711,612.21. Ms. Cohen stated the *Holiday Gift Tag* scratch-off ticket has an advertising expenditure of approximately \$54,000.

Game #574 *Candy Cane Cash* is a \$10.00 ticket with a prize payout of 75.95% and a print run of 1.0 million tickets. The estimated profit is \$1,337,048.87. This is a scented ticket.

Game #575 *Downhill Doubler* is a \$1.00 ticket with a prize payout of 58.78% and a print run of 2.8 million tickets. The estimated profit is \$737,313.36.

Game #576 *Frozen Assets* is a \$5.00 ticket with a prize payout of 72.95% and a print run of 2.0 million tickets. The estimated profit is \$1,671,831.49.

Chairman Bonaventure made a motion to approve Game #572 *Holiday Gift Tag*, Game #574 *Candy Cane Cash*, Game #575 *Downhill Doubler*, and Game #576 *Frozen Assets*. Commissioner Payne seconded the motion. Game #572 *Holiday Gift Tag*, Game #574 *Candy Cane Cash*, Game #575 *Downhill Doubler*, and Game #576 *Frozen Assets* were approved by unanimous vote of the Commission.

Ms. Cohen stated working continues on the Terps package. Hopefully by the next meeting she will have more information.

Ms. Cohen presented to the Commission the final analysis of four instant games that closed.

Game #457 *Tic Tac Toe* had a print run of 2,000,100 tickets and was 96.9% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$502,515.90. The profit before the administrative costs were adjusted was \$550,933 if 95% sold and \$579,929 if 100% sold.

Game #459 *Ruby Red 7's* had a print run of 2,000,100 tickets and was 99.57% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$927,621.88. The profit before the administrative costs were adjusted was \$908,895 if 95% sold and \$956,732 if 100% sold.

Game #465 *Super Hot 7's* had a print run of 2,000,00 tickets and was 99.8% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$1,292,322.78. The profit before the administrative costs were adjusted was \$1,084,402 if 95% sold and \$1,141,476 if 100% sold.

Game #466 *Money Mania* had a print run of 2,000,100 tickets and was 96% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$917,982.30. The profit before the administrative costs were adjusted was \$906,938 if 95% sold and \$954,672 if 100% sold.

**Sales – Stephen Meehan, Deputy Director**

Mr. Stephen Meehan stated Sales is in the process of implementing the new sales territory assignments. He stated the ITVM blitz has been completed and regularly sales reports will be taken. Mr. Meehan stated the Instant Ticket Activation Task Force initiative is set to begin.

**Policy and Development – Paul Dorsey, Director**

Mr. Paul Dorsey stated next month he will have available for the Commission a list of the Lottery's current contracts with contract amounts, starting/ending dates, etc.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting is scheduled for Wednesday, August 24, 2005 at 9:00 a.m. at Lottery Headquarters.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure adjourn the meeting at 11:00 a.m.

Respectfully submitted,

Buddy Roogow