

**MARYLAND STATE LOTTERY COMMISSION
AUGUST MINUTES**

DATE: August 24, 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

Buddy Roogow, Director
Gina Smith, Assistant Director and CFO
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
James Butler, Assistant Attorney General
Robert Howells, Director of Procurement
Paul Dorsey, Director of Policy and Development
Marie Torosino, Executive Associate

OTHERS
PRESENT: David Blum, Eisner Communications

CALL TO ORDER

Vice Chairman Marriner 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

Vice Chairman Marriner stated the Commissioners' folder contained a copy of the May Minutes with changes and asked the Commission to review them. Also, he asked if the Commission wished to approve the July Minutes. Vice Chairman Marriner made a motion to approve the May Minutes and to hold the approval of the July Minutes until the September meeting. The motion was seconded by Commissioner Payne and passed by unanimous vote of the Commission.

COMMISSION BUSINESS

Chairman Bonaventure stated it is the Commission's duty to review the statutes and to make any suggested changes. He proposed that a Committee be formed to review the statutes and make any appropriate suggestions to the Administration for new legislation subject to ratification by the Commission at the next Commission meeting. Chairman Bonaventure and Commissioner Wagner would head up the Committee to review the statutes. Vice Chairman Marriner made a motion that the Commission move forward with the review of the statutes and it was seconded by Commissioner Reeder. The Commissioners should contact Chairman Bonaventure with any suggestions. Chairman Bonaventure asked Principal Counsel to review the existing statutes with Commission.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President, stated that at last month's meeting, Ms. Baer shared with the Commission a number of elements associated with the Purple Passion scratch-off ticket. He stated this is an integrated campaign that the all Lottery Divisions and Eisner have worked on. He stated the ticket is being marketed from two aspects, one for football enthusiasts and one for non-football enthusiasts. Mr. Blum showed the Commission the die cut point-of-sale with the football theme and the point-of sale with the Hawaiian theme. Mr. Tony Siragusa is featured on the point-of-sale. Vice Chairman Marriner asked if there were any issues with the similarity between the shirt Mr. Siragusa is wearing and the NFL. Mr. Blum responded the Baltimore Ravens approved everything. There are no Ravens logo marks. Ms. Baer stated that Mr. Siragusa wore the shirt on the Saturday night broadcast of the football game.

Mr. Blum showed the Commission the piece that would appear on the letyourselfplay.com website. He also showed the Commission the signage artwork that would appear at M & T Bank stadium. Mr. Blum stated each week a different person would be featured on the scoreboard "busting a move". Mr. Roogow stated that the first one was shown Saturday

night and it was well received. Mr. Blum showed the tape of the other people who would appear on the scoreboard. Vice Chairman Marriner asked how were these people chosen for this spot. Mr. Blum responded people auditioned at the Ravens training camp. Eisner narrowed the field down to 12 people who went to M & T stadium for the filming.

Mr. Blum stated LED signs promoting the Purple Passion ticket would appear four times throughout the games. They are the signs that rim the stadium.

Mr. Blum stated the latest round of Scratch Squad commercials were shot in Ocean City with Chip Franklin. He showed the spots to the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated sales have been a bit sluggish this summer, but the Lottery is still running ahead of last year. Current year to date sales for all games are \$210 million compared to sales of \$206 millions for last year. Lottery revenues are down by \$3 million due to higher than normal payouts in Pick 3 and Pick 4 games. The Lottery's current BRE estimate is \$484 million.

Mr. Roogow stated the Keno Doubler promotion is currently running. The Purple Passion scratch-off ticket is going out to retailers. Ms. Cohen will talk about the television show associated with the Ancient Treasures scratch-off ticket.

Mr. Roogow stated since California has joined Mega Millions, the jackpot has rolled quickly as expected. One more jackpot roll and it will reach \$100 million. This is the first since California joined. The jackpot is \$97 million for Friday's drawing. Mega Millions sales represent 6% to 7% of Maryland's Lottery sales. In some states, it represents 50% of their sales.

Mr. Roogow stated by law money in the Unclaimed Prize Fund must be returned to the players. The Lottery does this by using the funds to support promotions such as the Pick 3 Bonus, Keno Doubler and Keno Tripler and the upcoming television game show. By using money from the Unclaimed Prize Fund, the Lottery has higher sales thus bringing in higher revenues. Mr. Roogow stated there is approximately \$10 million in the Unclaimed Prize Fund and the fund grows by \$1 to \$1.5 million per month. Any money left in the fund rolls to the next fiscal year. In the past the Legislature has introduced legislation to attempt to take this money, but there usually is not enough support. The television game show will run in June. There are prizes associated with the Ancient Treasure scratch-off ticket as well as prizes associated with the television game show. The maximum prize liability for the game show is less than \$1.5 million and this would be paid with money from the Unclaimed Prize Fund. Chairman Bonaventure asked if the \$1.5 million is the total cost for the television game show. Mr. Roogow responded no, it is just for the game show prizes.

Mr. Roogow stated the Lottery had a great booth at MACO and thanked Mr. White and his group. Chairman Bonaventure stated the Governor stopped by and was pleased with the booth. He also took some photographs with Lottery employees.

Mr. Roogow stated the on-line RFP process is progressing and he will have more information at next month's meeting.

REPORTS

Legal Division – James Butler, Assistant Attorney General

In Ms. Andrea Johnson's absence, Mr. James Butler presented the Legal Division's report. Mr. Butler stated there were no revocations to present to the Commission this month. However, next month there is an appeal hearing scheduled for Vaudeville, Inc., T/A Bobby B's located at 2132 Turkey Point Road, Baltimore, Maryland 21221. The agent's lottery license was revoked for low sales. He has been a lottery agent since April 1998. The hearing is schedule to start at 11:00 a.m.

Mr. Butler stated a new Assistant Attorney General would be starting on August 29, 2005. She was previously employed by the Attorney General's Office at the Lottery some time ago. She also served as Special Assistant to the Attorney General, and was Executive Director of the Mayor's Coordinating Council on Criminal Justice. She most recently worked for the Federal Public Defender's Office. A question asked if the Lottery gained a new position. Mr. Butler responded that this is a contractual position.

Mr. Butler stated the Legal Division is working on the modification to the Instant Ticket Printing Contract with OGT. The existing contract allows for a minimum printing of two million tickets. The modification would to allow the Lottery to print a smaller quantity of tickets. The pricing for a smaller ticket run is more than the cost of printing two million tickets. This modification will be sent to the Department of Budget and Management (DBM) and will be approved either by DBM or the Board of Public Works.

Mr. Butler stated legal action was filed against California regarding their joining the Mega Millions game. The basis of the suit was that the legislature did not authorize California to enter into a Mega Millions agreement; an open meeting did not support that approval given by the Commission; and that California is comprising their high standards. Mr. Butler stated the answer to the lawsuit was due August 15, 2005, and would include several affirmative defenses. A bill has been introduced into the California legislature that limits the expense that the Lottery can spend for Mega Millions operating expenses. The bill also prohibits California from doing business with any group that does business with international lotteries or uses a device that resembles a slot machine without a vote by California residents.

Mr. Butler stated that Ms. Johnson would give the Commission a report on the tribal gaming issue at the September Commission Meeting.

Mr. Butler distributed a copy to of the statutes to the Commission that Chairman Bonaventure referenced earlier.

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

Ms. Gina Smith stated the photograph from the Orioles night was received. She stated if any Commissioner is interested in receiving a copy, please complete and return the order form to her.

Ms. Smith stated she is working with the Sales Division to develop a plan to reduce redundancy and speed up the agent application process.

Ms. Smith stated she has spent considerable time in closing the books for this year. She has started work on the budget for FY2007. A request was submitted to the Department of Budget and Management for an extension beyond the original due date of September 1, 2005. The Lottery received approval for the extension to submit its budget and the new date is September 22, 2005.

Ms. Smith stated recruitment continues for various Lottery vacancies. There is a person starting in the Attorney General's office on Monday. The vacancies for Personnel Specialist and Public Affairs Officer have been filled. Work continues to fill the position in IT and the Accounting Supervisor's position.

Ms. Smith stated numerous applications were received and reviewed for the Internal Auditor position, but a majority of the applicants did not have auditing experience. Five candidates were interviewed and the two best candidates with auditing experience were recommended. Ms. Smith stated those two resumes were forwarded to the Chairman for scheduling a second interview with he and the Vice Chairman. Vice Chairman Marriner stated to coordinate this through Chairman and Ms. Torosino.

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

Ms. Sandy Johnson stated last month she mentioned a communications problem involving the agent network. She met with the Regional Director from Verizon as well as and other Verizon staff. The primary line was moved back to Baltimore, but then had to be switched back to Lanham two days later. On August 17, the line was switched back to Baltimore. Currently, we have a full operating system.

Ms. Johnson stated the Racetrax monitor game ended on July 24, 2005. Equipment and communications lines were removed from the agent locations. The equipment remained in the Lottery Claims Centers for ticket validations purposes and would be removed at the end of today.

Ms. Johnson stated that the current Ovation terminal at approximately 300 to 400 retailers would be replaced with the Integra Terminal. The Ovation Terminal is obsolete and there were a limited number of spares available. Scientific Games used terminals from Delaware for spare parts to repair the Ovation terminals, but were running low on parts. The Integra

terminal has been tested over a three-week period. They were formerly used in Florida. This terminal runs faster and read the play slip better. Vice Chairman Marriner asked when the new on-line contract is awarded, what color will new terminals be. Mr. Howells responded the color has not been chosen as yet, but the Lottery will have a wide choice of colors. Ms. Johnson stated the Lottery would be using one of the Integra terminals at the State Fair and one or two will be used in the Claims office.

Ms. Johnson stated she received the IT audit discussion notes. She would be reviewing the discussion notes and preparing a response for the Director. Vice Chairman Marriner asked when would you have a full audit report. Ms. Smith responded she would give the Commissioners a copy of the discussion notes and the Lottery's responses. In a week or so, the Lottery would have an exit conference meeting with the auditors, and then the auditors would prepare their final report.

Ms. Johnson stated she is currently working on the on-line RFP process.

Communications – Jimmy White, Director

Mr. Jimmy White stated the Communications Division has been very busy this month participating in events throughout the State.

Mr. White stated recent news clipping were evaluated by Eisner and valued at \$8,236.19. Mr. White stated the Promotional Partners Program supplied its promotional partners with \$3,700 worth of scratch-off tickets and received a promotional value of \$61,200 in on-air mentions.

Mr. White stated the VIP Club sent four informational e-mails and three contest e-mails awarding baseball and concert tickets to its membership. There are currently 26,000 VIP Club members.

Mr. White stated his report included a list of past and upcoming events that the Lottery will be participating in.

Mr. White distributed information regarding the upcoming State Fair. The Lottery would be there from Friday, August 26, 2005 through Monday, September 5, 2005. The booth is located inside the Exhibition Hall and the Lottery would be selling tickets. The Lottery would be involved in three events. The first event is on Friday August 26, 2005 and it is Maryland Lottery Day with 98 Rock. The Pick 3, Pick 4 and Bonus Match 5 drawings would take place that evening at the Fair. On Tuesday, August 30, 2005, the Lottery would be working with WZBA The Bay radio station and the Ted Nugent Concert. The first 2,005 people to arrive for the concert will be given a \$1.00 crab scratch-off ticket and on queue everyone would scratch at once. The Lottery would check to see if this sets or breaks any kind of record. On Saturday, September 3, 2005, the Steve Rouse band would be playing on the Lottery stage. People who listen to WCEI radio can win chance to be on the Lottery stage to play games and win prizes.

Mr. Roogow stated that Steve Rouse was previously associated with WQSR radio station which was replaced with JACK radio. Mr. Rouse was a guest host for a week on WBAL radio, sitting in for David Durian. Mr. Roogow stated that Channel 2 asked Steve Rouse to do a 30-minute show called Baltimore Tonight on Saturday nights at 11:30 p.m. Channel 2 asked the Lottery to be one of the sponsors of the show. There were some issues but the Lottery worked out a favorable agreement. The show is angled towards the younger age group. Mr. Roogow would do a segment similar to the jaywalking segment that is done on the Jay Leno show. The first segment was filmed at the Inner Harbor last week. Scratch-off tickets would be given to people who are interviewed. This will provide the Lottery with the opportunity to advertise its games.

Product Development and Advertising – Tracey Cohen, Director

Creative Services – Jill Baer, Director

Ms. Tracey Cohen distributed to the Commission information on the Ancient Treasures scratch-off game. Ancient Treasures is a \$10 scratch-off ticket with a collectable element and an on-line component. The player collects the four symbols to win a \$500 prize and a chance to be a contestant on the television game show. The Lottery did a similar collectable element on the Golden Ticket last year. Ancient Treasures has a top prize two \$1 million annuities. There is a 3.5 million ticket print run and the payout is 75.07%. The ticket will launch on September 12, 2005. The television game show will be taped in June 2006. Ms. Baer stated there is also an on-line component associated with this ticket. Five weeks prior to the taping of the television game show, a message would appear on the top of every nth on-line ticket informing players to watch for a chance to win \$1,000.

Ms. Baer stated advertising of the Ancient Treasures scratch-off ticket would remain strong from the launch of the ticket for several months to sustain enthusiasm. She stated advertising would include a 30-second television spot, one or two 15-second television spots, Internet presence on letyourselfplay.com and some print.

Ms. Baer stated the scratch-off ticket and game show would also be supported with point-of-sale. She showed the layout for first piece that introduces the ticket and informs the player of the collectible aspect. Additional pieces are in production that would sustain interest in the game throughout the promotional period and highlight the television game show.

Ms. Baer stated to support the ticket and the television game show, media would be similar to the point-of-sale strategy. The ticket launch would be supported with three weeks of statewide television advertising. In early January, seven one-week television spots would be used to highlight winner awareness and/or act as a countdown of number of entries still outstanding. Also messages to tune in to the game show will air the week prior to the game show. This same type of support would also run on radio.

Ms. Baer stated taping of the 30-minute game show would take place in June 2006. She stated they conducted a vast search throughout Maryland to locate a place for the taping.

The game show will be taped at the Clarice Smith Performing Arts Center at the University of Maryland at College Park.

Ms. Baer stated the total cost for the game production and media is \$2,112,500 and the total prize liability is \$1,465,000. Mr. Steve Rouse has been selected as host of the game show. In early September, the Lottery would be holding auditions for a co-host.

Ms. Baer stated they are working with the Lottery's Public Relations Division to develop an extensive public relations plan for the ticket launch and design of the games for the game show.

Ms. Cohen stated the revised game financial report shows the revised advertising expenditures. If the game is 95% sold, the estimated profit would be approximately \$3.148 million. If the game is 100% sold, the estimated profit would be approximately \$3.445 million. Ms. Cohen requested approval of the revised game financial report for Game #568 *Ancient Treasures*. Commissioner Payne made a motion to approve the new game financial report for Game #568 *Ancient Treasures* and Commissioner Reeder seconded it. The motion was passed by unanimous vote of the Commission.

Vice Chairman Marriner asked if the Lottery has spent any money as yet on *Ancient Treasures* to date. Ms. Baer responded \$35,000 has been spent on point-of-sale development and print.

Ms. Cohen stated work continues on the \$20 King Kong instant ticket. She will have a full presentation next month. King Kong is a licensed product. The top prize is \$100,000 and the minimum prize is \$25. One million tickets will be printed and it has a 78% payout. The ticket also has a second chance component. Launch date is late October 2005. She is currently working on the license agreement with Universal Studios. Vice Chairman Marriner stated he talked to the Governor while at MACO and the Governor mentioned this \$20 instant ticket. Vice Chairman Marriner stated he was unaware of this \$20 instant ticket.

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

Game #462 *Hit the Jackpot* had a print run of 2,098,320 tickets and was 99.83% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$1,708,018.33. The profit before the administrative costs were adjusted was \$1,319,092 if 95% sold and \$1,388,518 if 100% sold.

Game #454 *Friday Night Poker* had a print run of 2,100,100 tickets and was 99.58% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$1,732,019.49. The profit before the administrative costs were adjusted was \$1,343,555 if 95% sold and \$1,414,268 if 100% sold.

Game #470 *Midas Touch* had a print run of 1,988,550 tickets and was 96.99% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is

\$900,624.80. The profit before the administrative costs were adjusted was \$906,547 if 95% sold and \$954,260 if 100% sold.

Game #482 *Our Bay* had a print run of 2,092,800 tickets and was 99.76% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$483,475.89. The profit before the administrative costs were adjusted was \$541,147 if 95% sold and \$569,628 if 100% sold.

Game #483 *Stars & Stripes* had a print run of 2,597,700 tickets and was 91.93% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$589,665.69. The profit before the administrative costs were adjusted was \$666,179 if 95% sold and \$701,241 if 100% sold.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated the Sales Division has been quite busy. Key accounts has been meeting with Food Lion personnel. Food Lion has 70 locations. Some stores are in the process of remodeling and the Lottery wants to ensure that all remodeling has been completed before installation of the terminals.

Mr. Meehan stated the Sales Division is focusing its efforts on the instant products. Locations with ITVMs have been visited and the ITVMs functions have been checked and regular sales reports would be taken.

Mr. Meehan stated new territory assignments are in effect. The district managers have been familiarizing themselves with their new territories. Two permanent district managers and one contractual district manager have been hired to fill vacancies. The new regional manager, Valerie Blackwell, has been working in the Western Maryland area. The Sales Division is preparing for the fall initiatives.

Procurement – Robert Howells, Director

Mr. Robert Howells stated between last week and this week, the on-line evaluation committee has been making site visits to the bidders' headquarters and visiting two state lotteries. After completion of the site visits, the committee would meet to make a final decision.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated a copy of the Modification to the Instant Ticket Printing Contract with OGT was forwarded to the Commission for their review. This modification would allow the Lottery to print a smaller quantity of instant tickets. A motion was made by Vice Chairman Marriner to approve the modification to the Instant Ticket Printing Contract with

OGT and Commissioner Payne seconded it. The motion passed by unanimous vote of the Commission.

COMMISSION BUSINESS

Vice Chairman Marriner asked what is the status of the situation between the Lottery and the University of Maryland regarding advertising. Mr. Roogow stated that the Lottery has been dealing with Terrapin Sports Marketing and they market advertising for the University of Maryland. Dr. Dan Mote, President, nixed the project. Mr. Roogow has had conversations with Mr. David Nevins, Chairman of the Board of Regents and he is very supportive with moving forward. Dr. William Kirwan, Chancellor of the University, also seems supportive. Mr. Roogow stated the Lottery would wait and see what happens in the near future. He would keep the Commission informed. Vice Chairman Marriner stated that Mr. Robert Pevenstein is also on the Board and the Commission is prepared to get involved if needed. Mr. Roogow stated the Lottery would take one level at a time. Commissioner Reeder asked why was it nixed. Mr. Roogow responded no specific reason was given.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, September 28, 2005 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Vice Chairman Marriner motioned that the meeting be adjourned and Commissioner Payne seconded it. The meeting adjourned at 10:28 a.m.

Respectfully submitted,

Buddy Roogow