

**MARYLAND STATE LOTTERY COMMISSION  
SEPTEMBER MINUTES**

DATE: September 28, 2005  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure  
Commissioner Osborne Payne  
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  
Jimmy White, Director, Communications  
Robert Howells, Director of Procurement  
Paul Dorsey, Director of Policy and Development  
Romaine Williams, Assistant Attorney General  
Marie Torosino, Executive Associate

**OTHERS**

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

## **CALL TO ORDER**

Chairman Bonaventure stated there was a quorum present and he called the meeting of the Maryland Lottery Commission to order at 9:07 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure made a motion to approve the August minutes and Commissioner Wagner seconded it. The August Minutes were approved by unanimous vote of the Commission.

Chairman Bonaventure requested that the July Minutes be deferred until the October meeting since Vice Chairman Marriner had some concerns and he was not present at today's meeting.

## **EISNER COMMUNICATIONS**

Mr. David Blum, Senior Vice President stated he would present new radio spots and television commercials to the Commission today. The radio spot is for the Pick 3 Bonus Match-up promotion. This spot features the same two gentlemen who were heard on a prior radio spot for Bushel of Crabs. They were able to get all the information about the promotion into this improv type commercial. Mr. Blum played the radio spot for the Pick 3 Bonus Match-up promotion for the Commission.

Mr. Blum distributed to the Commission a sample Ancient Treasures scratch-off ticket. This ticket features an extra play area where players collect four different symbols on non-winning tickets for a chance to be part of the television show in the spring. A television spot was created to focus on the collection of these symbols and it is a parody of the antiques road show. The four television spots were shown to the Commission. The spots will air starting on October 3, 2005 and run through May 2006. The taping date for the television game show is Saturday, June 3, 2006 at the Clarice Smith Performing Arts Center at the University of Maryland at College Park.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated Scientific Games has been working on the Multi-Hand Easy Win game. This game will replace the current Lotto game. Scientific Games is in the process of preparing the Business Requirement Specification document. The potential launch date is February 2006.

Ms. Athey stated as a result of closing out Scientific Games' operation in Florida, some Integra terminals became available. These terminals work off the same software and in the

same way as the Ovation terminals that Maryland currently uses. Integra terminals will be installed at approximately 252 high volume agents over the next eight weeks for testing.

Commissioner Wagner asked if these terminals would only be at the test agents until the new contract begins. Ms. Athey responded yes.

Ms. Athey stated Scientific Games is supporting the \$100 payoff in the Pick 3 Bonus Match-Up promotion.

Commissioner Wagner asked what game is replacing Lotto. Ms. Athey responded Multi-Hand Easy Win. It is a Lotto style game. Commissioner Wagner asked in the event Scientific Games is not awarded the new on-line contract, would the game still launch. Ms. Athey responded the game would still launch in February 2006. Scientific Games contract does not end until July 2006. This new game offers better odds at winning a prize. Overall odds for the current Lotto game are 1:32 and the new game will offer overall odds of 1:8. Ms. Cohen stated she would go over the Multi-Hand Easy Win game with Commissioner Wagner after the meeting.

### **COMMISSION BUSINESS**

Chairman Bonaventure stated the appeal hearing scheduled for today with Bobby B's has been cancelled and Ms. Johnson would give the Commission an update with her report.

Chairman Bonaventure stated he would like to set up a retreat between the Commissioners and Lottery staff. He asked that Mr. Roogow supply him with possible dates. Mr. Roogow stated he would get back to Chairman Bonaventure as soon as possible.

Chairman Bonaventure stated the December 2005 Commission meeting is scheduled for Wednesday, December 28, 2005 and suggested that it be moved to Wednesday, December 21, 2005. The Commissioners agreed to this change.

Chairman Bonaventure stated last month the Commission named himself and Commissioner Wagner to head the Committee to look at possible legislation for the 2006 legislative session. The Committee met and would not be proposing any legislation for the 2006 session. He stated the Committee would meet again and look at the regulations for any possible changes.

### **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated the hot summer has had minimum impact on sales. He received a call from WBAL radio regarding a news article in New Hampshire that claimed there was a severe decline in lottery sales due to the price of gas. Mr. Roogow stated that Maryland has not experienced such a decline.

Mr. Roogow stated that for the first two and half months of this fiscal year, sales were up by \$20 million and revenues were up approximately \$5 million.

Mr. Roogow stated a story would air tonight on Channel 2 during the early and late evening news regarding minors purchasing lottery tickets from instant ticket vending machines and problem gambling in Maryland. The first part of the story deals with minors going to various stores and purchasing instant tickets from ITVMs. The retailers that have ITVMs have a remote control device to turn off the machine if minors try to purchase tickets. All machines have several IDs on them stating it is illegal to play if under 18 years of age. The second part of the story deals with problem gambling. The Lottery does support problem gaming programs to some extent through non-financial means. The Lottery's website lists a contact phone number. The Lottery is not authorized to fund problem gambling programs. The Governor has submitted legislation for the past three years that would create funding through a slots bill, but those bills have not passed. Channel 2 also spoke to the Governor's Office. Ms. Johnson stated the Attorney General's Office also received an inquiry from Channel 2 and was working on a response.

Mr. Roogow stated that Ms. Smith would discuss the auditor's report in her presentation and that Mr. Howells would present an update on the on-line RFP. The Lottery will shortly begin preparation for the instant ticket RFP. The Lottery has invited various instant game organizations to brief the Lottery on their programs before the RFP is issued. The RFP for televised lottery drawings would also begin in the near future.

## **REPORTS**

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

Ms. Andrea Johnson introduced the new Assistant Attorney General, Ms. Romaine Williams. Ms. Williams stated she previously worked at the Lottery 14 years ago and was happy to be back as part of Ms. Johnson's team. She has over 20 years of legal experience with specific expertise in dealing with procurement and personnel issues.

Ms. Johnson stated the appeal hearing for Vaudeville, Inc., T/A Bobby B's has been resolved. She distributed a copy of the resolution letter from the Director. This agent's lottery license was revoked for consistent low sales. The agent has been advised that his location must sell an amount of \$5,000 in weekly sales or 50 percent of the average sales of the five closest agents. This agent's weekly sales average was \$195.00 as compared to the weekly sales average of the five closest agents of \$2,700. The resolution issued by the Director allows Bobby B's to remain a licensed lottery agent for a five-month period. At the end of the five-month period, the agent must have reached and maintained a \$1,200 per week sales average for a ten-week period. If the agent fails to reach the required sales average, they agree to voluntarily terminate their lottery license without the right to further appeal.

Ms. Johnson stated she is working with Mr. Robert Howells, Regulations Coordinator on the revisions to COMAR Chapter 3 that address the games that are offered by the Lottery. Chairman Bonaventure asked if the Commission would have to approve Chapter 3. Ms. Johnson responded yes and by the end of the month she would be sending the proposed changes to the Commission for their review.

Ms. Johnson stated regarding the status of the legal action filed against California Lottery concerning Mega Millions, California legislature has proposed legislation that would limit the operating expense for the Mega Millions game. This legislation would also prohibit the Lottery from participating in any multi-state games with a state lottery that participates in an international lottery or in an Internet based lottery. There is an issue as to whether “Cyber Slingo” would constitute an Internet-based game. The California Lottery polled other Mega Millions states about the language in their statutes regarding participation in Internet-based games. Ms. Johnson stated she would keep the Commission updated on this matter.

Ms. Johnson stated Commission Reeder had requested a review on tribal gaming issues. Since Commissioner Reeder was not present, she requested that the report be deferred until he returns. Chairman Bonaventure stated an article appeared in the Wall Street Journal yesterday on tribal gaming. Ms. Johnson stated tribal gaming is not a threat to Maryland at this point in time. The IRS is challenging the tax-exempt status.

Chairman Bonaventure stated he would like to conduct a closed session after today’s meeting with Principal Counsel and the Commissioners.

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

Ms. Gina Smith stated the financial statements are being converted to GAAP. The statements would be distributed at the October meeting. She stated work would begin on the CAFR again this year.

Ms. Smith stated the FY2007 budget was submitted to the Department of Budget and Management last week. The FY2007 budget request is the same as it was this year. Ms. Smith stated she would keep the Commission updated.

Ms. Smith stated AFO is supporting the functions associated with Ancient Treasures instant tickets by validating the claims as they are received.

Ms. Smith distributed to the Commission a draft copy of the Legislative Auditor’s Report for their review. There are six findings in the report and the Lottery would be preparing responses to those findings. It was noted in the auditor’s letter that the Lottery satisfactorily resolved 21 of the 24 findings in the previous audit report. The three findings related to AFO were: (Finding #1) the Lottery did not adequately monitor a company contracted to provide maintenance services for certain instant ticket vending machines; (Finding #2) the Lottery did not always request and obtain security deposits in a timely manner from lottery

ticket agents whose electronic fund transfers were dishonored by the bank; and (Finding #3) the Lottery lacked adequate control over cash receipts applicable to lottery game subscription purchases.

*Information Technology – Sandy Johnson, Chief Information Officer*

Ms. Sandy Johnson stated the two audit findings related to IT were: (Finding #4) the Lottery's internal computer network and a network operated by the Lottery's lottery games contractor were not sufficiently secured; and (Finding #5) controls over firewall logs and a dial-up connection to the Lottery's network were not comprehensive. Ms. Johnson stated she would be preparing responses to these two findings.

Ms. Johnson stated over the past two months she had informed the Commission of the communications problems involving the agent network. The Lottery has requested that liquidated damages be imposed on Verizon for \$51,085. Commissioner Wagner asked how was that figured determined. Ms. Johnson responded we take into consideration the number of lines affected and the time period. Mr. Roogow this contract for telecommunications is through the Department of Budget and Management and would change next year when the new on-line system contract takes effect.

Ms. Johnson stated plans were finalized to distribute approximately 525 Integra terminals obtained from Florida. These terminals were tested in house and also used at the State Fair. They would be distributed at a rate of 60 per week over an eight week period. The Lottery would monitor the performance of these terminals. Commissioner Wagner asked if the agents are being retrained to run the machines. Ms. Johnson responded yes they are being trained at their business site. There is not a big difference between the two terminals.

Ms. Johnson stated interviews were conducted this month for the two Programmer Analyst positions. Also, 11 applications were received for the Computer Information Services Specialist position and the applications are being reviewed. Interviews would be scheduled in the near future.

Ms. Johnson stated that Blackberry/Nextel devices with e-mail and telephone services were distributed to 17 employees.

Ms. Johnson stated that by the end of this week, all IT Systems and Programming employees would be provided training by UNISYS on the screen developer software package.

Ms. Johnson stated the Keno Doubler promotion ended this month and a new Pick 3 bonus coupon promotion began.

Ms. Johnson stated work continues on the Business Requirement Specification document for the new Lotto Game. Implementation of the new Lotto game is February 2006.

Chairman Bonaventure as if the February 2006 implementation date is too ambitious on the Lottery's part. Ms. Johnson responded IT is working with all Divisions on meeting this date, but will revisit the target date as time progresses. Mr. Roogow the Lottery needed to set a schedule, but changes can be made to the schedule if needed.

*Communications – Jimmy White, Director*

Mr. Jimmy White stated the summer schedule of events is winding down and Communications continues to work on other proposals. The State Fair was one of the Lottery's best, and the Lottery did \$155,734 in sales. He stated the Lottery participated in additional events at the Fair with radio stations and received additional exposure.

Mr. White stated the Lottery has a new exhibit on Ravens Walk during the pre-game tailgate patrol that supports the Purple Passion ticket.

Mr. White stated the Lottery would be participating at the Maryland Millions race in Laurel and at Cruisin' Ocean City.

Mr. White stated that the Director and other Lottery staff members have done radio interviews about the Mega Millions jackpot, year-end numbers and the Ancient Treasures scratch-off game.

Mr. White stated the first of three drawings was held for the trip to the All Star Football game in Hawaii that is associated with the Purple Passion scratch-off ticket. The first winner was from Grasonville, Maryland.

Chairman Bonaventure stated at MACO a photo was taken with the Governor and Lottery staff and asked if Mr. White had received a copy. Mr. White responded he had not received a copy but will make sure that the Chairman receives one. Commission Payne stated the Lottery personnel did an outstanding job at MACO.

*Product Development and Advertising – Tracey Cohen, Director*

Ms. Tracey Cohen stated the Ancient Treasures instant game launched on September 12, 2005. This is a \$10 scratch-off ticket with a collectable element.

Ms. Cohen stated the Lottery has been working on a \$20 scratch-off game called "King Kong". It was decided to wait until the spring for the launch of this ticket. There are still issues to resolve regarding this licensed product. Instead the Lottery would be launching a \$20 scratch-off game called the "\$2,000,000 Ticket". It is an oversized ticket. She showed the Commission a sample ticket that the Michigan Lottery had produced. Mr. Roogow stated the minimum prize on this ticket is \$25, the first time a minimum prize has been higher than the cost of the ticket. Chairman Bonaventure stated the Governor mentioned

the \$20 ticket scratch-off ticket to him on Sunday. He requested that a sample ticket been sent to the Governor as soon as possible.

Ms. Cohen stated she would be doing a presentation on Cyber Slingo at next month's Commission meeting. She stated she is also working on an IPOD scratch-off ticket to launch in the spring.

Ms. Cohen stated the \$10 scratch-off ticket called Candy Cane Cash is the Lottery's first scented ticket. She provided sample tickets to the Commission.

Ms. Cohen stated the Lottery is looking into a multi-state version of a Win for Life Game. Focus group research has been completed and she will keep the Commission updated.

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

Game #446 *Tic-Tac-Mistletoe* had a print run of 2,064,450 tickets and was 85.71% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$922,569.26. The profit before the administrative costs were adjusted was \$892,456 if 95% sold and \$939,427 if 100% sold.

Game #464 *Lucky Loot* had a print run of 2,058,840 tickets and was 99.91% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$1,769,344.50. The profit before the administrative costs were adjusted was \$1,369,975 if 95% sold and \$1,442,079 if 100% sold.

Game #485 *Gone Fishin'* had a print run of 2,092,200 tickets and was 89.09% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$427,649.37. The profit before the administrative costs were adjusted was \$539,973 if 95% sold and \$568,392 if 100% sold.

Game #486 *Bonus Blackjack* had a print run of 2,588,100 tickets and was 97.81% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$640,564.24. The profit before the administrative costs were adjusted was \$673,518 if 95% sold and \$708,967 if 100% sold.

Game #490 *Break the Bank* had a print run of 994,860 tickets and was 99.84% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$657,738.27. The profit before the administrative costs were adjusted was \$589,941 if 95% sold and \$620,990 if 100% sold.

Ms. Cohen stated there were no new instant tickets to approval today. Next month.

**Sales – Stephen Meehan, Deputy Director**

Mr. Stephen Meehan stated Sales is supporting the current TV promotion. Sales is preparing for the installation of 57 terminals at Food Lion locations. Wegmans, a higher echelon store, opened today and a lottery terminal is also located there.

Mr. Meehan stated the Instant Ticket Activation Task Force is monitoring instant activations in key accounts. The Sales force is educating retailers on instant games procedures.

Mr. Meehan stated the Keno recruitment initiative is taking place in the northeast and non-central Maryland areas. He stated Sales staff worked at the State Fair. Sales at the State Fair were \$155,734.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting is scheduled for Wednesday, October 26, 2005 at 9:00 a.m. at Lottery Headquarters.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned and Commissioner Wagner seconded it. The meeting adjourned at 10:26 a.m.

Respectfully submitted,

Buddy Roogow