

**MARYLAND STATE LOTTERY COMMISSION  
OCTOBER MINUTES**

DATE: October 26, 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  
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  
James Butler, Assistant Attorney General  
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 9:04 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure made a motion to approve the September Minutes and Commissioner Wagner seconded the motion. The September Minutes were approved by unanimous vote of the Commission, with Vice Chairman Marriner abstaining.

Chairman Bonaventure requested that approval of the July Minutes again be deferred until the November meeting because of additional concerns.

## **EISNER COMMUNICATIONS**

Mr. David Blum, Senior Vice President stated Jill Kaufman, Senior Account Executive has been hired to assist with the Lottery account. Mr. Blum stated he would not be present at next month's Commission meeting and Ms. Kaufman would present the Eisner report.

Mr. Blum stated ongoing marketing efforts are taking place for the Ancient Treasures scratch-off game that will culminate with the game show in June. Mr. Steve Rouse will be the host of the game show. Auditions for a co-host would be held at a later date. Mr. Roogow stated the Ancient Treasures scratch-off game is doing well. This \$10 game would lead to the 30-minute game show in June. The Lottery only does a game show every few years because of the extensive work that is involved. Mr. Blum stated Eisner just completed filming the television commercial advertising the Ancient Treasures scratch-off featuring Mr. Roogow and Mr. Rouse. It has to be edited and then would air next week. Mr. Blum played two samples of radio commercials advertising the Ancient Treasures scratch-off featuring Mr. Roogow and Mr. Rouse.

Commissioner Reeder stated there was an article in the recent issue of La Fleurs magazine that mentioned Eisner Communications and the Bovine campaign. He stated this is a good plug of advertising for the Maryland Lottery.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated as you know Scientific Games was awarded the new on-line system contract. Ms. Athey stated the Multi-Match game would be implemented in early February after the testing phase. The play slips have been approved.

Ms. Athey stated that Scientific Games is preparing for the conversion phase of the new on-line system. They are preparing schedules and assigning duties. As the incumbent, there is less disruption to the retailers with the phase in of the new terminals. Chairman Bonaventure asked what is the timeframe for the conversion. Ms. Athey responded in early April they would begin the phase in process and it should take three months. Commissioner Wagner asked are locations with the current Ovation terminals receiving the Integra replacement terminals or the newer ones. Ms. Athey responded the Integra terminals are being placed at these retailer locations. Ms. Athey stated the new terminal is called an Extrema and it has a touch screen. A question was asked what color would the Lottery's new terminals would be. The response was the new Extrema terminals would be a deep red. Chairman Bonaventure asked if it was possible to bring in a new terminal for demonstration purposes. Ms. Athey responded she would have one set up at the Lottery in the next few months for demonstration purposes. Commissioner Reeder asked if the thermal printer could also be set up. Ms. Athey responded yes. She stated the thermal paper gives the Lottery additional promotional opportunities to advertise. Mr. Roogow stated this was part of the contract, and the Lottery would have much greater capability to advertise on the ticket itself or a trailer ticket. Scientific Games would manage the program.

A question was asked what would the Lottery do with the revenue brought in by selling advertising on the tickets. Mr. Roogow stated legislation would be needed to allow the Lottery to collect revenues for this program. Mr. Butler stated the Lottery looked into this a few years ago and currently advertising is prohibited under the law. Chairman Bonaventure asked that Mr. Butler update the Commission as to what has been done in the past. Chairman Bonaventure asked could the advertising messages on the tickets be changed. Ms. Athey responded yes, but it depends on whether the advertising is on the front or back of the tickets. Commissioner Wagner asked if any other lotteries currently advertise on their tickets. Ms. Athey responded New Hampshire ties their promotions in with the ticket. She would check to see if other states are currently advertising and get back to the Commission.

### **COMMISSION BUSINESS**

Chairman Bonaventure stated due to the holiday season the dates for the December 2005 and December 2006 Commission meeting would be changed to December 21, 2005 and December 20, 2006.

Chairman Bonaventure stated he would like to schedule another date for the strategic session with the Director and his senior staff. It was suggested that Wednesday, November 16, 2005 be set for the strategic meeting. Chairman Bonaventure stated the meeting could take place at his office and would be from 9:30 a.m. to approximately 1:00 p.m. The Commission would meet with the Lottery staff first. Ms. Cohen would put together an agenda. The strategic session has been scheduled for November 16, 2005 at 9:30 a.m. at Chairman Bonaventure's office.

## **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated the Board of Public Works approved the on-line system contract last week. The Governor was aware that this contract could have been fraught with controversy. However, there was none. He stated that the Governor congratulated the Lottery on a job well done. Mr. Roogow stated the Contract process went smoothly. The Commission thanked the staff that worked on this RFP. They appreciate their efforts. Mr. Roogow stated both GTECH and Scientific Games submitted outstanding proposals.

Mr. Roogow stated retailer commissions would be increased from 5% to 5½% next year costing the Lottery approximately \$8 millions in revenue. This agent commission increase was placed in the Budget Reconciliation Finance Act. It did not go through regular legislation. Chairman Bonaventure asked how do Lottery retailer commissions in Maryland compare to retailer commissions in other state lotteries. Mr. Roogow responded Maryland is in the higher level. Most lotteries have 0% to 1% for cashing tickets and Maryland has 3% for cashing tickets.

Mr. Roogow stated the Lottery is working with Scientific Games on implementing the on-line system conversion process. The Lottery would be setting up teams to handle various conversion responsibilities. The Lottery wants to ensure that the rollover to the new systems happens on time in July 2006.

Mr. Roogow stated total sales are \$23 million ahead of last year. Pick 3 sales are slightly behind last year. Pick 4 is performing well and Keno and Keno Bonus, and scratch-offs are still growing. Mega Millions is currently doing quite well. Lotto and Bonus Match 5 are struggling. Lottery revenue is \$10.6 million ahead of last year. The Lottery's revenue goal for this year is \$484 million.

Mr. Roogow stated he has spoken with the Governor's Office regarding pull-tabs. There are some legal issues to deal with. There is a huge market in the area of pull-tabs and the Lottery is looking towards the future. Commissioner Reeder asked if legislation is required to change the regulations. Mr. Roogow responded that is debatable. Pull-tabs are nothing more than instant tickets. He stated he would keep Commission informed on this issue.

Chairman Bonaventure asked if the Lottery is submitting any legislation for the 2006 session. Mr. Roogow responded the Lottery is considering submitting legislation requiring publicity of Mega Millions jackpot winners. Many other states require publicity of jackpot winners.

## **REPORTS**

### *Legal Division – James Butler, Assistant Attorney General*

In Ms. Andrea Johnson's absence, Mr. James Butler presented the Legal Division's report. He stated next month Ms. Johnson would discuss the COMAR Chapter 3 revisions, the California Lottery lawsuit and tribal gaming.

Mr. Butler stated there were two revocations to present to the Commission today. He stated Day and Day Corporation, T/A The French Quarter is located at 1120 E. Fort Avenue, Baltimore, Maryland 21230. This agent failed to make timely and proper settlement of ticket sales revenue on numerous occasions. The Lottery requested the agent to post a bond and the agent failed to do so.

Mr. Butler stated Chuck's is located at 3137 Eastern Avenue, Baltimore, Maryland 21224. The agent has exceeded the Keno security limit on several occasions. Letters were sent to the owner requesting that he meet with the Director. The owner received the requests and declined to meet with the Director. The retailer requested that the Lottery pick up the lottery equipment.

Mr. Butler stated based upon the facts presented, the Director is requesting the Commission to uphold the revocation of the lottery licenses of The French Quarter and Chuck's. Chairman Bonaventure made a motion to accept the revocation of the lottery licenses of The French Quarter and Chuck's. Commissioner Wagner seconded the motion. The lottery licenses of The French Quarter and Chuck's were revoked by unanimous vote of the Commission.

Mr. Butler stated the Office of the Attorney General prosecuted the case of a lottery winner who had an excessive winning and cashing pattern of lottery tickets. He was found guilty and sentenced to three years in jail with six months suspended. He was granted home detention due to a medical condition. He failed to report over \$158,000 in lottery winnings and has until February 2006 to pay the back taxes. Commissioner Wagner asked what does this have to do with the Lottery. Mr. Butler responded winnings over \$600 are reported to state for taxes. The Lottery issues a W-2 to the winner and it is up to the winner to claim the winnings on his taxes. Ms. Smith stated at year-end the Lottery sends lottery winnings information to the IRS and State Comptroller.

Commissioner Reeder stated that Ms. Johnson was going to report on tribal gambling. Mr. Butler stated she would report on tribal gaming next month.

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

Ms. Gina Smith stated the Lottery received the Legislative Auditor's final report. And a copy was sent to the Commission. There were no changes from the draft. The Lottery's

responses are located in the back of the report. The Lottery agreed with the six findings and has taken action on these findings.

Ms. Smith distributed copies of the audited financial statements for June, July and August 2005 as well as the June 30, 2005 GAAP Special Purpose financial statement. If there were any questions after the Commission's review, she would answer them at the next Commission meeting. There is nothing unusual to report in the financial statements. The unaudited financial statement for September would be mailed to the Commission.

Ms. Smith stated the new Accounting Supervisor has been hired and she would start on November 1, 2005. She formerly worked at State Retirement Agency and the work she did there is almost identical to the work done at the Lottery.

Ms. Smith stated she is working on the submission of the Comprehensive Annual Financial Report (CAFR) that is due in December.

Ms. Smith stated the FY2007 budget has been submitted to Department of Budget and Management (DBM) and a meeting with DBM to discuss the budget is scheduled for November 9, 2005. A new budget analyst has been assigned to the Lottery.

Ms. Smith stated work continues on the plan to terminate existing Lotto subscriptions and offer new ones for the Multi-Match Game, the replacement game for Lotto.

Ms. Smith stated she is currently working on handling the on-line conversion, specifically dealing with the new procedure of pick and pack that involves warehouse distribution of scratch-off tickets. She stated she is looking at the operation of other state lotteries warehouses. The warehouse packs over \$7 million of scratch-off tickets per week. This is a tremendous amount of work and very rarely are there any mistakes. Chairman Bonaventure asked if there would be any control issues. Ms. Smith responded there would be no loss of control of the tickets.

Chairman Bonaventure asked what is the status of the cost accountant position. Ms. Smith responded she stated is working on that recommendation.

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

Ms. Sandy Johnson stated she would be involved in the planning and implementation of the conversion plan for the new on-line contract. The new system is expected to be in place by July 2006.

Ms. Johnson stated two programmer analyst vacancies were filled. One person would start on November 2, 2005 and the other person would start on November 7, 2005. She stated also another member of the IT staff, who was responsible for software testing and assisting in contract management, recently transferred to the Lottery's Sales Division. Ms. Johnson stated she is working on filling that position with in-house personnel.

Ms. Johnson stated there was another communications failure of the primary T1 lines in Baltimore. There may be something wrong with the infrastructure in a manhole. However, as a result of the new on-line contract, the Lottery would be getting a new satellite communications system and the Verizon contract would be ending.

Ms. Johnson stated plans for distribution of the Integra terminals was paused for a short period of time due to a few retailers' complaints concerning performance speed and erroneous terminal messages. Contact was made with the retailers to collect additional information that will be analyzed. She stated the program would continue on Monday. A question was asked as to why the Lottery is installing these Integra terminals when new terminals would be installed in seven to eight months. Ms. Johnson responded when the current Ovation terminals break down, there are no replacement parts available and they have to be replaced with the Integra terminals.

Ms. Johnson stated work has been initiated on action items noted in the Lottery's responses to the Legislative Auditor's Report. As part of the response to one item, the function of placing modified/new programs in production would be moved from Systems and Programming where there was the risk of conflict of interested to Operations where that risk does not exist. Other action items would be addressed next month including research on filtering software for firewall logs and development of a security program.

Ms. Johnson stated work continues on the Lotto replacement game called Multi-Match. Changes to the subscription system, programming and testing tasks would be ongoing for the next several months.

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

Mr. Jimmy White stated Communications efforts have been geared toward the Ancient Treasures scratch-off ticket and all events are themed toward this scratch-off.

Mr. White stated he is working with the Game Development Committee on the games to be played on the game show scheduled for next year.

Mr. White stated Communications was at the Ravens Game on October 20, 2005 participating in the Tailgate Patrol as well as being present on Ravens Walk promoting the Purple Passion scratch-off ticket.

Mr. White stated the Lottery would be participating in the Pam Schriver tennis tournament again this year, promoting the Ancient Treasures and Purple Passion scratch-off tickets.

Mr. White stated the Lottery has received approximately 60,000 entries for the second chance giveaway of a trip to the All Star Bowl in Hawaii associated with the Purple Passion scratch-off ticket. One trip has been awarded and the next drawing is scheduled for November 14, 2005.

Mr. White stated the Lottery has received 44 entries associated with the Ancient Treasures scratch-off game. There are still 456 sets of symbols available to be claimed.

Mr. White stated Communications would be doing its mall tour again this year during the holiday season. Communications would be at the Harford Mall, Francis Scott Key Mall, Eastpoint Mall, and Laurel Mall promoting the holiday tickets.

Mr. White stated recent news clipping were evaluated by Eisner and valued at \$2,307. He stated the Promotional Partners Program supplied its promotional partners with \$8,820 worth of scratch-off tickets and received a promotional value of \$142,939 in on-air mentions.

Mr. White stated included with his report are copies of Winning Ways and Promotional Partners newsletters.

Mr. White stated Communications would also be involved in the on-line conversion plan to keep players informed as to what will be happening over the next nine months.

*Creative Services – Jill Baer, Director*

Ms. Jill Baer stated Ancient Treasures media ran on television in early October 2005. At the end of October 2005, the television spot featuring the Director and Steve Rouse will air. A radio spot would air for three weeks beginning the end of October highlighting million dollar prizes and the collectible component associated with the Ancient Treasures scratch-off ticket.

Ms. Baer stated the Mega Millions jackpot is being supported with radio and television spots around the State. She is working with the Virginia Lottery on a jackpot spot that would air in early December 2005.

Mr. Baer stated she is working with the Communications Division on the development of games that will be played on the game show associated with the Ancient Treasures scratch-off. The taping of the game show will take place in June 2006 at the Clarice Smith Performing Arts Center at the University of Maryland at College Park.

Ms. Baer stated she is working on a radio spot to support the Keno promotion currently in development. She stated the letyourselfplay.com. rollout continues to move forward. She stated a media plan is being developed for the \$20 Cash Extravaganza scratch-off ticket.

*Product Development and Advertising – Tracey Cohen, Director*

Ms. Tracey Cohen stated the Candy Cane Cash scratch-off ticket would launch on October 31, 2005. This is the Lottery's first scented ticket.

Ms. Cohen stated work continues on a new Keno Doubler/Tripler promotion that would launch on November 21, 2005.

Ms. Cohen stated research this year would focus on the emerging market (18-34 year olds). The goal after conducting this research is to launch a new and appealing product this fiscal year. Chairman Bonaventure asked if other states have addressed this issue. Ms. Cohen responded no one has done a study like this.

Ms. Cohen stated the launch of the \$20 scratch-off would be delayed until January 2006. She stated the Lottery is delaying the launch because there many other things going on in the marketplace, such as the two \$10 scratch-off products. Ms. Cohen stated the \$20 scratch-off ticket would be a 4" x 11" oversize tickets with a second chance prize of a \$2 million annuity. There would be a prize pool of over \$20 million. Commission Wagner asked if the ITVMs can handle the ticket is 4" x 11" ticket. Ms. Cohen responded an insert would be created for the ITVM.

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

Game #572 *\$20 Million* is a \$20.00 ticket with a prize payout of 78.44% and a print run of 1.3 million tickets. If 85% of the tickets are sold, the profit would be \$1,122,155. If 100% of the tickets are sold, the profit would be \$1,648,526.

Game #577 *Fast Cash* is a \$1.00 ticket with a prize payout of 58.60% and a print run of 3 million tickets. If 85% of the tickets are sold, the profit would be \$656,058. If 100% of the tickets are sold, the profit would be \$808,752.

Game #578 *Aces and 8's* is a \$1.00 ticket with a prize payout of 58.79% and a print run of 3 million tickets. If 85% of the tickets are sold, the profit would be \$651,068. If 100% of the tickets are sold, the profit would be \$802,881.

Vice Chairman Marriner made a motion to approve Game #572 *\$20 Million*, Game #577 *Fast Cash*, and #578 *Aces and 8's*. Commissioner Wagner seconded the motion. Game #572 *\$20 Million*, Game #577 *Fast Cash*, and #578 *Aces and 8's* were approved by unanimous vote of the Commission.

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

Game #445 *Season's Greetings* had a print run of 2,016,500 tickets and was 88.18% sold. With the subtraction of the adjustment for the administrative allocation, the profit is \$1,068,025.68. The profit before the administrative costs were adjusted was \$1,097,927 if 95% sold and \$1,155,713 if 100% sold.

Game #463 *5 Times the Money* had a print run of 2,093,100 tickets and was 99.86% sold. With the subtraction of the adjustment for the administrative allocation, the profit is \$1,761,523.64. The profit before the administrative costs were adjusted was \$1,345,512 if 95% sold and \$1,416,328 if 100% sold.

Game #477 *Quick 7's* had a print run of 2,830,800 tickets and was 94.50% sold. With the subtraction of the adjustment for the administrative allocation, the profit is \$662,650,86. The profit before the administrative costs were adjusted was \$811,386 if 95% sold and \$854,091 if 100% sold.

Game #480 *Boardwalk Bucks* had a print run of 2,097,540 tickets and was 99.78% sold. With the subtraction of the adjustment for the administrative allocation, the profit is \$1,785,334.04. The profit before the administrative costs were adjusted was \$1,362,147 if 95% sold and \$1,433,839 if 100% sold.

Game #489 *Turkey Tripler IV* had a print run of 2,092,800 tickets and was 89.95% sold. With the subtraction of the adjustment for the administrative allocation, the profit is \$439,193.52. The profit before the administrative costs were adjusted was \$541,343 if 95% sold and \$569,834 if 100% sold.

Game #494 *9's to Win* had a print run of 2,452,200 tickets and was 93.56% sold. With the subtraction of the adjustment for the administrative allocation, the profit is \$568,632.57. The profit before the administrative costs were adjusted was \$675,720 if 95% sold and \$711,284 if 100% sold.

#### **Sales – Stephen Meehan, Deputy Director**

Mr. Stephen Meehan stated the ITVM Committee would be working to face the challenge with the oversized scratch-off ticket. The ITVM would feature the ticket even though it would not physically be in the ITVM. Sales is working on ways to ensure that it takes the opportunity to bring special attention to the ticket. Ms. Cohen stated point-of-sale inserts would be used in ITVMs for the oversized ticket.

Mr. Meehan stated Sales is working closely with the vendor to monitor installation of the Integra terminal upgrades at high volume agents.

Mr. Meehan stated training for 57 Food Lion locations would take place.

Mr. Meehan stated the Instant Ticket Activation Task Force is monitoring instant activations in Key Accounts of the Ancient Treasures scratch-off ticket. There is also a District Manager activation contest associated with the Ancient Treasures instant ticket.

Mr. Meehan stated the Sales force is educating retailers on the instant game closing procedures. Sales has also implemented a Keno recruitment initiative. Sales is retraining retailers on operation of ITVM bins and the shut off of service.

*Procurement – Robert Howells, Director*

Mr. Robert Howells distributed a tentative procurement schedule for the printing of instant ticket and related services contract. The current contract expires on May 18, 2006. Plans are to issue the RFP on January 3, 2006 with proposals due on February 15, 2006. A recommendation would be made to the Director on March 31, 2006 and the contract would be presented to the Board of Public Works on May 3, 2006. This would give the Lottery three to four weeks before the contract start date of May 19, 2006. This schedule is subject to change. He stated meetings would be scheduled to begin drafting this RFP. The Lottery would have several scratch-off tickets available to take it through to the next contract.

Chairman Bonaventure asked who are the possible vendors. Mr. Roogow responded the Lottery is aware of the following vendors: Creative Games, Scientific Games, Oberthur Gaming Technologies and Pollard Banknote.

*Policy and Development – Paul Dorsey, Director*

Mr. Paul Dorsey stated Pennsylvania expects to have their video lottery system up and running by late 2006 or early 2007. There would be 2,500 to 5,000 VLTs per facility. There is an issue on how to handle distributorship licenses and it has been stated that the distributorship issue is linked to the last harness track license. Commissioner Reeder asked what locations would be closest to Maryland. Mr. Dorsey responded there would be a location off I-83 near Harrisburg, Pennsylvania. Also, there would be a location in Chester, Pennsylvania near Delaware Park.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting is scheduled for Wednesday, November 23, 2005 at 9:00 a.m. at Lottery Headquarters.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure motioned that the meeting adjourn and Vice Chairman Marriner seconded it. The meeting adjourned at 10:40 a.m.

Respectfully submitted,

Buddy Roogow