

**MARYLAND STATE LOTTERY COMMISSION
DECEMBER MINUTES**

DATE: December 21, 2005
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Vice Chairman E. Randolph Marriner
Commissioner Osborne Payne
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
Michael Eaton, Internal Auditor
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 9:00 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure stated he was not present at the entire meeting last month and requested that the approval of the November Minutes be delayed until Commissioner Payne arrives.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated the Multi-Match software has been turned over to the Lottery for testing. The Game launch is February 2006.

Ms. Athey stated the conversion progress update program plan has been given to the Lottery. Commissioner Wagner asked when would the new terminals be distributed to retailers. Ms. Athey responded the phase-in process would begin in April 2006. Scientific Games would take out the old terminals and install the new Extrema terminals that would run on the Master Link system. Commissioner Wagner asked are the new terminals distributed based on sales volume. Ms. Athey responded no decision has been made as yet. Geographical factors and training would be taken into consideration before new terminals are distributed.

Commissioner Wagner asked does the retailer have to complete new training before receiving a new terminal. Mr. Roogow responded yes. Commissioner Wagner asked if the retailers would be trained on site. Ms. Athey responded locations throughout the State would be set up for training sessions. She stated Scientific Games would have training available in an area for one week so that all owners and their staff have an opportunity to attend training. Chairman Bonaventure asked have you received any feedback from the retailers about attending training. Ms. Athey responded the retailers have not been informed as yet, but they are excited to get the new technology.

Commissioner Wagner asked if the Race Trax monitor game would start when the new on-line system begins in July. Mr. Roogow responded the goal is to begin the Race Trax monitor game by Labor Day with a soft launch.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President wished the Commission a Happy Holiday and best wishes for the New Year.

Mr. Blum presented to the Commission the advertising board on the new Multi-Match Game that shows the unique selling feature of the game. He stated other pieces of point-of-sale are being developed.

Mr. Blum stated the \$20 Million Mania scratch-off game would launch on January 30, 2006. He showed the Commission the point-of-sale pieces for the \$20 Million Mania ticket. For the launch of the \$20 Million Mania scratch-off game, the Lottery would advertise on television, radio as well as on outdoor boards in prominent locations across the State. During the first ten days, the billboards would show a partially uncovered ticket. After the next ten days, more of the ticket would be revealed. Then just before the ticket launch, the billboards would reveal entire ticket.

Vice Chairman Marriner asked what is the current Lotto jackpot. Mr. Roogow responded the current jackpot is \$3.7 million. The jackpot could be in the \$5 million range if it is not hit between now and the end of January. We would not know until the last drawing of Lotto what the beginning jackpot for the Multi-Match game would be. If the Lotto jackpot were hit on the last drawing date, then the Multi-Match jackpot would start at \$500,000.

The Commission wished Ms. Athey and Mr. Blum a Happy Holiday.

MINUTES

Chairman Bonaventure stated Commissioner Payne has arrived for the meeting. Chairman Bonaventure asked the Commission if there was a motion to approve the November Minutes. Commissioner Wagner made a motion to approve the November Minutes. Vice Chairman Marriner seconded the motion. The November Minutes were approved by unanimous vote of the Commission, with Chairman Bonaventure abstaining from the vote.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated as he previously mentioned, the Lottery intends to transfer the ending Lotto jackpot to the first draw of the Multi-Match game, unless the Lotto jackpot is hit. In that case, the Multi-Match jackpot would start at \$500,000. The Lottery would have until the Wednesday prior to the first drawing of Multi-Match and the last drawing of Lotto to advertise what the jackpot would be.

Mr. Roogow stated last week the Lottery set two sales records. Pick 4 sales were approximately \$4.8 million. Sales of Keno and Keno Bonus combined reached \$9.4 million. Normally, weekly Keno sales are approximately \$8 million. The Keno Sprinkler promotion is working quite well. He was concerned that doing a Doubler and Tripler game promotion at the same time would lose some of its value. Mr. Roogow congratulated Ms. Cohen and her team. This week Pick 4 and Keno sales are also running at levels higher than last week. Mr. Roogow stated Pick 3 sales are \$1.7 million behind as compared to last year. Sales of the other games are ahead as compared to last year.

Mr. Roogow stated that at a recent La Fleur's Conference, he made a presentation on jackpot games. He stated Mega Millions game sales for Maryland are way up this year as compared to last year at \$16 million or 37%. Players are waiting for bigger and bigger jackpots. He stated the Lottery needs to find other ways to pick up the slack. The Lottery has had strong sales overall and that results in higher jackpots, which in turn results in higher sales. The Lottery must work harder every time there is a bigger jackpot.

Mr. Roogow stated revenue is approximately \$10 million ahead of last year. Higher payouts in the Pick 3 and 4 games have slightly reduced the revenue.

Mr. Roogow stated the Lottery is preparing for the 2006 legislative session. He has not heard when the Lottery budget hearings would be scheduled. He would keep the Commission informed.

Mr. Roogow stated that from time to time, the Lottery receives inquiries from the legislature. A Delegate calls each year requesting sales information by game by zip code. The Lottery does provide sales data that is available.

Mr. Roogow stated there have been informal discussions with the horse racing industry to work with them to advertise horseracing on the Race Trax monitor and possibly offering free tickets to the track, etc. The Lottery will see where that leads.

Mr. Roogow stated meetings have been held with the responsible gaming group. It is an organization that deals with problem gaming.

Vice Chairman Marriner asked Mr. Roogow if he received a response from David Nevins regarding advertising the Lottery at University of Maryland sporting events. Mr. Roogow responded he has not heard anything as yet. Vice Chairman Marriner stated the Commission would wait to become more involved until Mr. Roogow follows up with Mr. Nevins.

REPORTS

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated over 300 Integra terminals have been installed at this point in time. He stated the Lottery continues to install terminals at Food Lion locations.

Mr. Meehan stated the ITVM Activation Task Force continues to monitor instant game activations in Key accounts. The Ancient Treasures instant ticket district manager activation contest winner was Leroy Thorne. The Sales force continues to educate retailers regarding the instant game closure policy. Sales is currently recruiting additional Keno locations.

Mr. Meehan stated the Sales force is scouting for locations for anticipated Player Activated Terminals (PATs).

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated they are developing launch plans for the new Multi-Match game promotion. The first day of sales is February 2, 2006 with the first drawing on February 4, 2006.

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

Game #583 *Fortune Teller* is a \$2.00 ticket with a prize payout of 63.96% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$753,038. If 100% of the tickets are sold, the profit would be \$923,514.

Game #584 *Green Stuff* is a \$5.00 ticket with a prize payout of 72.15% and a print run of 3.0 million tickets. If 85% of the tickets are sold, the profit would be \$2,258,288. If 100% of the tickets are sold, the profit would be \$2,707,737.

Game #587 *Double Blackjack* is a \$2.00 ticket with a prize payout of 64.20% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$744,633. If 100% of the tickets are sold, the profit would be \$913,625.

Game #588 *Deluxe 7-11-21* is a \$2.00 ticket with a prize payout of 63.94% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$753,739. If 100% of the tickets are sold, the profit would be \$924,338.

Vice Chairman Marriner made a motion to approve Game #583 *Fortune Teller*, Game #584 *Green Stuff*, Game #587 *Double Blackjack*, and Game #588 *Deluxe 7-11-21*. Chairman Frank Bonaventure seconded the motion. Game #583 *Fortune Teller*, Game #584 *Green Stuff*, Game #587 *Double Blackjack*, and Game #588 *Deluxe 7-11-21* were approved by unanimous vote of the Commission.

Chairman Bonaventure requested a presentation be made to the Commission at next month's meeting to discuss the state of the instant games, e.g., how many games are available, which tickets sell out, average amount of time to sell out of \$1, \$2, etc. tickets.

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

Game #441 *Crossword* was 99.91% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$2,952,642.41.

Commissioner Wagner stated the original estimated profit for the Crossword instant game was \$1.8 million if 100% sold, but the game was actually 99.91% sold and the profit was

higher. Why was there a difference in the profit. Ms. Cohen responded when originally presented, the number of tickets to be printed was 4.0 million, but then Lottery changed the print run to 5.9 million tickets.

Game #473 *Bonus Lucky 7's* was 99.91% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$1,723,117.58.

Game #475 *Silver 7's* was 99.89% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$1,742,457.37.

Game #504 *Holly Jolly Tripler* was 90.76% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$848,032.28.

Game #507 *Another Chance of Snow* was 97.98% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$491,865.39.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated the Lottery is preparing for the launch of the \$20 Million Mania instant ticket. Outdoor board advertising should begin on January 2, 2006. A 15-second ad that something big is coming from the Lottery would appear on television on December 23, 2005. Advertising of the ticket begins on January 30, 2006. The Lottery would continue to support the ticket with commercials.

Ms. Baer stated the Lottery plans to launch the Multi-Match game with a big print campaign. Vice Chairman Marriner asked assuming there is a surplus after the February 1st Lotto drawing, would the Lottery inform the players in the ad teaser. Ms. Baer responded the plan is to reveal the jackpot in print. She is working with the newspapers on their deadlines.

Communications – Jimmy White, Director

Mr. Jimmy White stated Communications was busy the last two months with holiday retailer events, sporting activities and numerous winners.

Mr. White stated the Promotional Partners Program supplied its promotional partners with \$7,453 worth of scratch-offs and received a promotional value of \$204,951 in on-air mentions.

Mr. White stated recent news clippings were evaluated by Eisner and valued at \$8,744.87. He stated most of the clippings deal with the Mega Millions jackpot and the announcement of the new contract with Scientific Games.

Mr. White stated the Purple Passion promotion is winding down. The last drawing for the trip to the All Star Game in Hawaii would be on January 4, 2006.

Mr. White stated work continues on the TV game show for the Ancient Treasures second chance promotion. He stated work continues on writing the rules and procedures.

Mr. White stated work continues on the launch of the Multi-Match game. He is working on obtaining a new drawing machine and the development of a new set design at the television studio.

Information Technology – Sandy Johnson, Chief Information Officer

Ms. Sandy Johnson stated IT is busy with the conversion process and Ms. Athey previously gave a short briefing to the Commission. Numerous internal meetings have been held to determine the specific needs of the Lottery and the customizing of the Scientific Games systems. The color of the Extrema terminals, the player-activated terminals (PATs) and pre-validators are red. Scientific Games has negotiated to lease space on the first floor in Montgomery Park. The backup facility in Lanham would be relocated. The ICS subcontractor demonstrated the features of the new ICS and expanded its operation. A demonstration of the new terminal was given to the conversion team. The conversion team was asked to provide requirements for Maryland's customization of the terminal.

Ms. Johnson stated the distribution of the Integra terminals has been completed. There are 430 Integra terminals in the field.

Ms. Johnson stated Multi-Match software has not yet been turned over to the Lottery for testing due to problems with the operating systems software that require programming changes.

Ms. Johnson stated both she and the Lottery's DP Director attended the NASPL IT subcommittee meeting. She worked with the Connecticut Lottery Director as part of a roundtable discussion at the conference. She obtained a lot of good information there.

Ms. Johnson stated she would be assisting the Department of Budget and Management with interviews for an IT Procurement Specialist position.

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

Ms. Gina Smith distributed to the Commission a copy of Scientific Games presentation from the strategic planning session that was held earlier this month. She stated that the 2004 gaming figures contained in the report are unaudited and Scientific Games has requested that they not be released without Scientific Games' permission. They would be happy to provide the audited figures once they are made public.

Ms. Smith stated she received the SAS-70 Audit Report. There were no significant findings. Another SAS-70 would be scheduled after the conversion.

Ms. Smith stated the Commission was supplied with a copy of the Management Report from Stout, Causey and Horning. She stated there are no new findings. The prior findings listed in the report have been corrected with the exception of one finding. The finding was that the Lottery document the policies and procedure performed by accounting. They note in the report that we are working on it.

Ms. Smith stated for the cost accountant position, 20 letters were sent to those individuals listed on the State eligibility list as “most qualified”. Three applications received but their experience had no relevance to cost accounting. Letters were then sent to those individuals listed as “qualified”. One response was received. After the Lottery exhausts this eligibility list, it can go to the Department of Budget and Management to develop a specific position recruitment. The Department of Budget and Management would rank the resumes received and then a new list would be generated. Chairman Bonaventure requested Ms. Smith to set up another meeting with him regarding the position and to include Stout, Causey and Horning as well.

Ms. Smith stated AFO completed the mailing to advise subscribers of the Lotto game termination.

Ms. Smith stated work continues on the Comprehensive Annual Financial Report. This is due to the GFOA by December 30, 2005. Eisner Communications assisted the Lottery in putting this together. The Commission would receive a copy by the next meeting.

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 today.

Mr. Butler stated Legal completed work on the revisions to COMAR Chapter 3 regulations. The Commission’s approval would be requested later during this meeting.

Mr. Butler stated in regards to the California Lottery litigation, a judge raised questions concerning the unclaimed funds of various states in addition to the setting of the Mega Millions jackpots and the claiming period. The California Lottery would be holding a conference call to obtain input from other Mega Millions counsel.

Mr. Butler stated Legal continues to work with the Procurement Officer on the Instant Ticket Printing and Related Services RFP.

Mr. Butler stated he attended the NASPL Legal Subcommittee conference and participated on a panel to discuss issues concerning licensing and marketing matters.

Procurement – Robert Howells, Director

Mr. Robert Howells stated all state agencies are required to do a review of their COMAR regulations every eight years. The Lottery has to do a complete review of all its regulations during 2006. Portions of the Lottery's regulations have been reviewed and revised during the past eight years, so this should not be a huge task. The Lottery must provide a report to the Governor and AELR.

Mr. Howells requested the Commission's approval of COMAR Chapter 3 regulations. Copies of the changes were previously provided to the Commission. Chairman Bonaventure made a motion to adopt COMAR Chapter 3 regulations and Vice Chairman Marriner seconded the motion. COMAR Chapter 3 regulations were adopted by unanimous vote of the Commission.

Mr. Howells stated a draft version of the Instant Ticket Printing and Related Services RFP was sent to the Commission last week via e-mail. A copy was also sent to the Department of Budget and Management on December 9, 2005 for their review and approval. To date, the Lottery has not received their response. He does not expect any big changes, but the Lottery needs their approval before issuing the RFP.

Mr. Howells stated the Lottery is moving forward with the seven-week extension of the current instant ticket printing contract to coincide with the beginning of the new on-line contract. After discussion, Chairman Bonaventure made a motion to approve the seven-week extension of the current instant ticket printing contract. Commissioner Wagner seconded the motion. The seven-week extension of the current instant ticket printing contract was approved by unanimous vote of the Commission.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated the Lottery negotiated with Oberthur Gaming Technologies and GTECH for an equipment exchange of Counterpoint Instant Ticket Dispensing Units for Instant Ticket Vending Machines. Oberthur Gaming Technologies had the contract for the counterpoint units and purchased the units from GTECH. The Lottery had to negotiate with both companies for this exchange of equipment. The Lottery has signed a Letter of Intent with GTECH. Mr. Dorsey stated he would provide the Commission with a copy of the Letter of Intent.

Mr. Dorsey stated the Pennsylvania Lottery's deadline for VLT applications was December 28, 2005. They received one application. It will be the third quarter of 2006 before any locations are open.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he would be meeting with Lottery upper management to perform a strategic analysis to learn about each Lottery Division. By February 2006, a Strategic Analysis, Risk Assessment, and Audit Plan should be completed. At next month's meeting, he would provide an Internal Audit Charter for the Commission's review and approval.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, January 25, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

Chairman Bonaventure stated on behalf of the Commission, he wanted to wish everyone Happy Holidays and Happy New Year. The Commission looks forward to working with everyone in the coming new year.

There being no further business, Chairman Bonaventure adjourned the meeting at 10:15 a.m.

Respectfully submitted,

Buddy Roogow