

**MARYLAND STATE LOTTERY COMMISSION
FEBRUARY MINUTES**

DATE: February 22, 2006
TIME: 8:30 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Vice Chairman E. Randolph Marriner
Commissioner Osborne Payne
Commissioner Bruce Reeder
Commissioner George Wagner

Buddy Roogow, Director
Gina Smith, Assistant Director and CFO
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Steve Meehan, Deputy Director, Sales
Tracey Cohen, Director, Product Development and Advertising
Jill Baer, Director, Creative Services
Jimmy White, Director, Communications
Robert Howells, Director of Procurement
Paul Dorsey, Director of Policy and Development
Deborah Sharpless, Controller
Michael Eaton, Internal Auditor
Marie Torosino, Executive Associate

OTHERS
PRESENT: 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 8:30 a.m.

ALLOCATION OF ADMINISTRATIVE EXPENSES PRESENTATION

Ms. Gina Smith stated a few weeks ago, she met with Chairman Bonaventure to further discuss the cost accounting concept. It was decided that before moving forward, an explanation should be give to the Commission as to how the Lottery allocates administrative costs. Ms. Smith and Ms. Deborah Sharpless then gave a detailed explanation to the Commission. A handout was also distributed.

COMMISSION BUSINESS

Chairman Bonaventure stated he would like to affirm that the Commission would voluntarily follow the restriction that is placed on Lottery employees that bar them from playing or winning the Lottery. The Commissioners are not subject under Maryland law to the restriction placed on Lottery employees. He stated he wanted to reconfirm that the Commissioners would be subject to the same rules that the Maryland Lottery employees are subject to in playing the Lottery. This restriction on the Commissioners does not extend to family members of the Commissioners. All Commission members present were in agreement.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated Scientific Games is working on the on-line conversion. She stated Scientific Games is in the process of putting together the retailer and internal training programs.

Ms. Athey stated Scientific Games was pleased with the launch of the Multi-Match game and the impact it has had on sales. Sales are significantly ahead of Lotto, at approximately 70%.

Commissioner Wagner asked if Scientific Games was in charge of the Racetrax monitor game. Ms. Athey responded yes. Commissioner Wagner asked when would the Racetrax game be implemented. Mr. Roogow responded it would be implemented around Labor Day. Commissioner Wagner asked if the new system would handle it and if an additional monitor would be needed. Ms. Athey responded it would be placed on the new system, and it would run on a different channel on the monitor. Mr. Roogow stated the games would run on the monitor and the channel could be changed from Racetrax to Keno.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated total sales of all games are \$59 million ahead of last year. Revenues are \$15 million ahead of last year. Pick 3 sales are running about the same as last year. Pick 4 sales are \$7.5 million ahead of last year. Keno and Keno Bonus sales combined are \$14 million ahead of last year. Instant sales are improving with three straight weeks of \$10 million or more in sales. The Mega Millions jackpot this week is \$203 million. The Lotto game has ended. The Multi-Match game is at \$3 million in sales.

Mr. Roogow stated Pick 3 prize payouts have been higher than normal and Pick 3 revenue is down \$10 million compared to last year. Pick 4 revenues are \$9.5 million ahead as compared to last year and all other games revenues are ahead of last year. The Lottery is ahead of its \$484 million goal.

Mr. Roogow stated the Lottery's budget hearing with the Senate Subcommittee was on Monday, February 20, 2006. The budget analyst made three recommendations. The first recommendation was to retain the language adopted last year that no funds may be expended to develop new games using class II or class III machines unless authorized by an act of the General Assembly. The second recommendation was that the State Lottery shall prohibit lottery agents from operating any gaming devices besides State-approved lottery devices. The third recommendation was to reduce advertising funds by \$2 million. The budget hearing before the House Subcommittee is today at 1:00 p.m. The Chairman of the House Subcommittee is Peter Franchot.

Mr. Roogow stated SB 179, State Lottery–Vending Machines–Access by Minors that was introduced by Senator Hooper, had a hearing before the Senate Finance Committee. The bill was withdrawn.

Mr. Roogow stated SB 149/HB 366, State Lottery Proceeds–Problem Gambling Council of Maryland would designate \$100,000 in State Lottery proceeds be provided to a problem gaming group. The Department of Health and Mental Hygiene would handle the distribution of the funds. The bill would have a hearing before House Ways and Means Committee.

Mr. Roogow then asked Mr. Dorsey to present any other bills to the Commission.

Mr. Dorsey stated SB 737, State Lottery-Revenue for Community and Recreation Centers sponsored by Senator McFadden would distribute lottery proceeds to counties for recreation and community centers.

Mr. Dorsey stated SB 785, Maryland Vessel Gaming Act would authorize video lottery games on certain vessels at docks or underway in State waterways. It would be administered by the Department of Labor, Licensing and Regulation.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated there were no revocations to present to the Commission today.

Ms. Johnson stated Legal continues to work with other NASPL Lottery Counsel regarding the GTECH merger with Lottomatica. NASPL will take the lead and hire an outside firm to conduct a due diligence review on the merger. She will keep the Commission updated on this issue.

Ms. Johnson stated Legal is working with the California Lottery concerning the Mega Millions court case. Mr. Roogow and Ms. Smith submitted affidavits to the California courts attesting to the State's policies on jackpot prizes. The case could be heard next month. Mr. Roogow stated he is the only original Lottery Director remaining since Mega Millions first began. Ms. Johnson stated she would keep the Commission updated on this issue.

Ms. Johnson stated NASPL Counsel have established an Intellectual Property workgroup to discuss intellectual property matters that impact state lotteries. The workgroups get together twice a month by teleconference call.

Ms. Johnson stated SB 417/HB 663, Procurement-Board of Contract Appeals-Award of Costs allows the Board of Contract Appeals to award attorney's fees to prospective bidders/offerors who file a protest. These bills are being opposed by various State Agencies. She will monitor the bill and keep the Commission updated.

Ms. Johnson stated in *Groves v. Ehrlich*, the court ruled against the State. State Agencies are now required to supply a list of employees that were terminated and allege attribution to political motives. The State is appealing the Court's decision. She will keep the Commission updated on this issue.

Ms. Johnson stated Legal continues to work with IT in reviewing documents concerning the on-line conversion process.

Chairman Bonaventure asked Ms. Johnson to report on federal legislation at next month's Commission meeting.

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

Ms. Gina Smith stated at the last meeting she advised the Commission that the Lottery would stop processing agent applications during the conversion period. As of last Friday, the Lottery stopped ordering telephone communication lines. However, the Lottery would continue to accept and process applications and advise approved applicants that a terminal

would not be available until late spring or early summer. She stated exceptions would be made for change of ownerships where the telephone lines are already installed.

Ms. Smith stated AFO continues to review and comment on the conversion documents. AFO is beginning to designate areas they want tested in the new system (account balances and liabilities).

Ms. Smith stated AFO continues to work on reconciling the W2-G's that are due to the IRS by next week.

Ms. Smith stated the Auditing and Accounting Contract with Stout, Causey and Horning expires on June 30, 2006. The Lottery wishes to exercise option number one of three renewal options and to modify the Not to Exceed amount due to additional Management Service hours that are required.

Chairman Bonaventure asked is the renewal option with Stout, Causey and Horning for one year. Mr. Howells responded contract has three one-year renewal options and the Lottery is exercising the first of three.

Information Technology – Sandy Johnson, Chief Information Officer

Ms. Sandy Johnson stated numerous meetings were held this month concerning the on-line conversion process. WhiteSand, the RFP consultant, came in this month to assist the Lottery with some testing. They met with Scientific Games and the conversion team members.

Ms. Johnson stated work continues to obtain approvals from all retailers for installation of the satellite on the rooftops. This is a bigger effort than originally anticipated. Some retailers do not own the property and have to ask the landlord to sign the authorization. Authorization forms from approximately 1,100 retailers have been received with approximately 2,600 pending. She is hoping by the March 24, 2006 to have this completed. Phone calls are being made to retailers to insure that they talk to owners of the property. Working with federal and state buildings to obtain permission for the site survey and satellite installation. Retailers at these government locations are blind or visually impaired. The Lottery is working with the Division of Vocational Rehabilitation to adapt the technology. Chairman Bonaventure asked if they are technically blind. Ms. Johnson responded some can see and use the keyboard and the others may have an assistant that works with them.

Commissioner Wagner asked what if there is some problem between the tenant and the landlord. Ms. Johnson responded the biggest problem is that the tenant is being asked by the landlord to pay more money. Commissioner Wagner asked is there another communications system available if an agent is located in a remote area. Ms. Johnson responded if the location cannot use satellite, then the Lottery would use an alternative method of communication.

Ms. Johnson stated work continues on the retailer terminal screen. At some point, the Lottery would invite some retailers in to see the new monitor screen.

Ms. Johnson stated bi-weekly meetings regarding the on-line conversion process are being held with the Director.

Ms. Johnson stated Scientific Games would be relocating their office to Montgomery Park on the first floor. Scientific Games would make space available to the Lottery at Montgomery Park as well as the Lanham office.

Ms. Johnson stated this month the Lotto game was terminated and the Multi-Match game was launched. A few of the retailers had to be rampacked with the Multi-Match software because they failed to get the download.

Ms. Johnson stated IT is working on Lotto subscriber refunds and payoffs of any winnings.

Ms. Johnson stated testing continues on the Pick 3 Bonus Match-Up promotion. This promotion starts February 27, 2006 and runs through April 9, 2006. IT is supporting the \$20 Million Mania incentive program for the retailers as well as the two coupon promotions for the Multi-Match game.

Ms. Johnson stated IT worked with AFO to complete the 1099 processing and is currently working on the W2-G processing for creation of the IRS files.

Communications – Jimmy White, Director

Mr. Jimmy White stated the launch of the \$20 Million Mania scratch-off ticket and the Multi-Match game was supported with local television and radio advertising. Mr. Roogow and the Communications staff did 24 television and radio interviews. On March 6, 2006, the first of five preliminary drawings for the \$20 Million Mania contest occurred. The five contestants will then go to WJZ for the first preliminary contest. Mr. Brian Johnson would host and it would be shown after an evening lottery drawing. One contestant would move to the final contest, possibly in the fall, where a contestant could win the \$2 million prize.

Mr. White stated the first drawing for the award of gas cards for the Pump It Up promotion was done on March 17, 2006. He stated the Pick 3 Bonus Match-Up promotion starts next month. The first weekly drawing for prizes of \$50,000 and \$5,000 will be March 6, 2006.

Mr. White stated there were 15 news clippings last month. They were evaluated by Eisner and valued at \$11,485.75. Mr. White stated the Promotional Partners program supplied the promotional partners with \$2,278 worth of scratch-offs and received a promotional value of \$37,310 in on-air mentions.

Mr. White stated also contained in the Commission's folders is the Lottery's Annual Report for 2005 as well as the current editions of Winning Ways, the Retailer Report and the Promotional Partners newsletters.

Creative Services – Jill Baer, Director

Ms. Jill Baer distributed Ancient Treasures game show information to the Commission and gave a brief update. She stated that the game show is associated with the \$10 Ancient Treasures scratch-off ticket. Out of all the entries received, the Lottery will select 20 contestants to participate on the game show.

Ms. Baer stated the game show taping date is Saturday, June 3, 2006 at the University of Maryland College Park -- Clarice Smith Performing Arts Center. Page three of the handout shows the theater seating style. The Lottery will utilize a number of students and employees on the set. The taping will begin in the early afternoon and last most of the day. Page four shows where the Lottery is headed with the overall look of the set.

Ms. Baer stated five different games will be played on the game show She asked Mr. White to discuss the games. Mr. White stated the five games are Racetrax, Pyramid Drop, Nile Style Poker, Mummy Money and Million Dollar Treasure Chest. He gave a brief summary of how each game is played.

Commissioner Reeder asked if the prizes would be paid from the unclaimed prize fund. Ms. Baer responded the \$1.3 million prize expense would come from the unclaimed prize fund and that is the maximum prize amount if contestants win the maximum prizes. It could be less. The game show host is Mr. Steve Rouse and the co-host will be Ms. Gabrielle Abiera, who is an on air traffic reporter at FOX 45. The Lottery is working on a series of commercials to introduce the co-host. Mr. Roogow stated the taping of the next series of Ancient Treasures commercials would take place at Producer's Video on Thursday, February 23, 2006 from 11:00 a.m. to 1:30 p.m. If the Commission would like to attend, Ms. Baer can supply you with directions.

Ms. Baer stated the airdate of the game show is Saturday, June 24, 2006 at 7:30 p.m. It would be shown in Baltimore on WJZ, in Washington, DC on WJLA and on the Eastern Shore on WBOC. These stations will be airing assorted messages in March and April leading up to the game show. On June 12 and 19, 2006, the stations would produce two new tune-in messages. The deadline for submission of entries is April 28, 2006. Page 12 of the handout shows the point-of-sale that will be produced and she showed the point of sale board to the Commission. The point-of-sale directs the public to the watch and win promotion during the show on June 24, 2006.

Chairman Bonaventure thanked Ms. Baer for the game show update.

Vice Chairman Marriner asked who is producing the game show. Mr. Baer responded Mr. Elliott Wiley is the producer and he also produced the last game show. The Director for the

game show is from California and he has done numerous game shows and live events using multiple cameras.

Ms. Baer stated the Lottery continues to support the Mega Millions jackpot.

Chairman Bonaventure asked once the production is complete, how does the Lottery gauge the success of the game show. Ms. Baer responded the major television ratings are the best way. The Lottery also gauges it by the success of the ticket and the number of entries. We look at the category as a whole and not at one particular effort. Mr. Roogow stated the show is similar to a 30-minute infomercial.

APPROVAL OF MINUTES

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

REPORTS (continued)

Product Development and Advertising – Tracey Cohen, Director

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

Game #579 *Cool 7's* is a \$5.00 ticket with a prize payout of 72.43% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$1,305,623. If 100% of the tickets are sold, the profit would be \$1,600,931.

Ms. Cohen stated the Lottery was approached by the Maryland Department of the Environment regarding the promotion of water conversation week in May. The Lottery developed a scratch-off ticket with point of sale to promote water conversation week. She showed the point of sale piece to the Commission. This game will be beneficial to both State Agencies. Game #585 *Liquid Treasures* is a \$2.00 ticket with a prize payout of 63.95% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$719,447. If 100% of the tickets are sold, the profit would be \$889,984.

Game #595 *Gumball Doubler* is a \$1.00 ticket with a prize payout of 59.01% and a print run of 3.5 million tickets. If 85% of the tickets are sold, the profit would be \$778,282. If 100% of the tickets are sold, the profit would be \$954,213.

Vice Chairman Marriner made a motion to approve Game #579 *Cool 7's*, Game #585 *Liquid Treasures*, and Game #595 *Gumball Doubler*. Commissioner Wagner seconded the motion. Game #579 *Cool 7's*, Game #585 *Liquid Treasures*, and Game #595 *Gumball Doubler* were approved by unanimous vote of the Commission.

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

Game #478 *Extra Change* was 89.28% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$850,832.71.

Game #487 *Lots of Bucks* was 97.58% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$1,769,730.14.

Game #492 *Extreme Cash* was 99.75% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$2,922,573.19.

Game #497 *Hit \$25* was 93.23% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$447,641.21.

Game #498 *Hit \$50* was 86.46% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$660,666.53.

Game #510 *Lucky 7's Double Play* was 93.29% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$2,040,827.81.

Game #511 *Emerald Green 7's* was 89.09% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$850,447.97.

Game #521 *Triple Cash* was 97.10% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$827,304.54.

Game #522 *Deuce's Wild* was 95.71% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$813,881.22.

Game #535 *Scratchelor/Scratchelorette* was 83.96% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$532,045.86. A question was asked as to what happened to the 16% that were not sold. Ms. Cohen stated they were shredded.

Chairman Bonaventure asked for an explanation of the Mega Millions animation commercial. Ms. Baer responded the Lottery has been working with the Virginia Lottery to develop a 15-second jackpot commercial for Mega Millions. The Virginia Lottery is animating the graphic commercial. Commissioner Wagner asked if Virginia is the only state that the Lottery has worked with doing joint advertising. Mr. Roogow responded yes because Maryland and Virginia both advertise in the same market. Ms. Cohen responded Maryland and Virginia alternate handling the campaigns. She stated the commercial should be available next month to show to the Commission. Commissioner Wagner asked if other state lotteries do this. Mr. Roogow responded the Lottery has tried in the past and has not been able to put anything together. Maryland and Virginia are the only states that have worked together. Ms. Baer stated both Lotteries were individually advertising Mega

Millions in the Washington market until this joint effort to advertise together. It is very expensive to advertise in the Washington market.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated an \$11 million instant sales week set a new high mark for the Lottery. A moratorium is planned on the installation of terminals. The Instant Ticket Task Force is working on the long-term management of instant tickets.

Mr. Meehan stated Sales is carefully monitoring the ITVM contract. Sales continues to educate retailers and enforcing instant game closure policies. Sales is developing a strategy for network growth post-conversion. Sales is implementing the Making a Difference sales improvement initiative. A Licensing Coordinator position has been added to aid in the processing of agent applications. Sales is supporting the \$20 Mega Millions instant ticket, Multi-Match launch, Pump It Up promotion, and the Mega Millions jackpot.

Procurement – Robert Howells, Director

Mr. Robert Howells stated he previously sent information to the Commission with four items that he would be discussing today.

Mr. Howells stated the RFP for Instant Ticket Games and Related Services #2006-01 was issued on January 26, 2006. The Lottery is in the process of responding to the questions submitted by the potential offerors. The proposals are due on March 8, 2006.

Mr. Howells stated the Advertising Services Contract #2002-01 with Eisner expires on May 31, 2006. The renewal option on the contract was for a two-year period. The Lottery has decided to renew the contract at this time for only a one-year period. A contract modification was sent to Eisner that extends the contract for one year and reserves the Lottery's right to renew for the remaining additional one year. Chairman Bonaventure asked if the Lottery were to decide not to renew the additional one-year renewal, when would an RFP be issued. Mr. Howells responded approximately late December 2006 or early January 2007.

Vice Chairman Marriner questioned if it was in the best long-term interest of the Lottery to renew or enter into new contracts like Eisner's that were variable fee and hourly charges for services and not fixed price. Perhaps before issuing a new RFP, we should take a hard look at ad agency compensation and experience requirements in order to maximize the number of qualified bidders.

Mr. Roogow suggested that Lottery staff work with the Commission in developing the next advertising RFP. Once the on-line conversion is completed in spring, then we can spend time putting together a good RFP. Chairman Bonaventure requested Vice Chairman Marriner to work with Lottery staff on the next advertising RFP.

Chairman Bonaventure stated on behalf of the Commission he had requested Mr. Eaton to review Eisner's performance prior to the contract renewal. Chairman Bonaventure stated that Mr. Eaton reviewed the contract and found it to be satisfactory.

Chairman Bonaventure made a motion to approve the one-year extension of the contract with Eisner Communications and Commissioner Reeder seconded it. The one-year contract extension was approved by unanimous vote of the Commission.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated the proposed Internal Audit Plan for fiscal years 2006 and 2007 has been completed. This plan represents an evaluation of activities of the Maryland State Lottery Agency. The plan is based on the Internal Audit Charter and establishes audit work schedule priorities, outlines systematic audit coverage, and sets clear objectives for measurement. For the remainder of FY2006 and FY2007, emphasis will be given to Sarbanes-Oxley internal control review, reviewing systems conversion of the on-line gaming system and performing audits of product development, communications and sales functions. A copy of the plan was forwarded to the Commission for review and approval.

Mr. Eaton stated a copy of the Internal Audit Framework for Reporting Matters was also forwarded to the Commission for review and approval. The oversight framework consists of five components: Control Environment; Risk Assessment; Control Activities-Internal Controls over Financial Reporting; Information and Communications both External and Internal; and Monitoring.

Mr. Eaton stated at the Chairman's request, he performed a review of the Eisner advertising contract and a full report would be presented to the Commission and Lottery management for review.

Chairman Bonaventure asked the Commissioners to review the Internal Audit Charter and it would be placed on next month's agenda for a vote.

Policy and Development – Paul Dorsey, Director

Mr. Dorsey distributed to the Commission a summary list of the legislative bills and stated he highlighted the new bills. Two bills titled Charitable Game-Regulation-County Gaming Commissions and Charitable Gaming-Reporting Requirements would expand the types of games played. Commissioner Wagner asked what were the bill numbers. Mr. Dorsey responded HB 1325 and HB 1426.

Mr. Dorsey stated HB 1411 Illegal Gaming Enforcement Act of 2006, sponsored by Delegate Franchot, would require the Comptroller to submit an annual report to the General Assembly regarding illegal operation of slot machines in Maryland. Mr. Dorsey stated HB

1438 Slot Machines and Other Video Gaming Devices-Cash Payouts-Notice and Penalties provides that cash payouts may not be awarded to players and that signs be displayed on each video gaming device that it is for amusement only.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, March 22, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure adjourned the meeting at 10:50 a.m.

Respectfully submitted,

Buddy Roogow