

**MARYLAND STATE LOTTERY COMMISSION
MARCH MINUTES**

DATE: March 22, 2006
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
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
Romaine Williams, Assistant Attorney General
Robert Howells, Director of Procurement
Paul Dorsey, Director of Policy and Development
Michael Eaton, Internal Auditor
Marie Torosino, Executive Associate

OTHERS

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

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 made a motion to approve the February Minutes with the changes made by Vice Chairman Marriner. Commissioner Wagner seconded the motion. The February Minutes with the changes were approved by unanimous vote of the Commission.

Chairman Bonaventure stated after Eisner and Scientific Games present their reports, he would close the meeting to consult with counsel for legal advice and then the meeting would be re-convened. Pursuant to Maryland Annotated Code, SG 10-508(a), a statement for closing a meeting is attached to these minutes.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated work continues on the on-line conversion process. Approximately 3,000 retailers have submitted their authorization forms for VSAT installation and installations began in March. Terminal installations would begin in May. The terminals would run on the Master Link system and then switch to the new system in July. Software is being modified. She stated 300 terminals are being received each week and being tested by field personnel prior to deploying. Ms. Athey stated that Mr. Roogow has been following up with those retailers who have not submitted their authorizations for the satellite installations. Scientific Games is beginning to schedule the mandatory training sessions for the agent retail network.

EISNER COMMUNICATIONS

Mr. David Blum stated he had three items to present to the Commission today. The first item is the material associated with the Ancient Treasures game show. The updated television commercials will introduce the co-host Gabrielle Abiera who joins Steve Rouse, the master of ceremonies. They are featured in two spots.

Mr. Blum stated the second item is the combined effort between Maryland and Virginia for Mega Millions advertising. There are two 15-second commercials. One commercial is completed and they are working on the sound effects on the second commercial.

Mr. Blum stated the third item is a 10 and 15-second radio commercial associated with the Pump It Up gas promotion. Players send in \$5 worth of \$1 and \$2 non-winning scratch-off tickets for a chance to win a \$100 gas card.

Mr. Blum played the Ancient Treasures and Mega Millions television commercials as well as the Pump It Up gas radio commercial for the Commission.

Vice Chairman Marriner asked if there was any issue in the Ancient Treasures commercial with the mention by Ms. Abiera of a mini bar and masseuse. Mr. Roogow responded he does not know of any comments received.

At 9:15 a.m., the meeting was closed to consult with legal counsel. The meeting reconvened at 9:50 a.m.

COMMISSION BUSINESS

Chairman Bonaventure stated at next month's meeting he would like to discuss the Eisner contract. He asked Vice Chairman Marriner to meet with Ms. Baer, Mr. Howells and Ms. Cohen to review the current advertising contract. At next month's meeting, he would like a recommendation regarding exercising the second contract renewal option next year.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated sales continue to be very strong. Sales of all games are \$75 million ahead of last year. Revenues are \$18 million ahead of last year. Pick 3 sales have come back in the last few months. Pick 4 sales continue to reach near record levels each week. Keno and Keno Bonus sales are doing well. The \$20 Million Mania scratch-off ticket is a huge success and 60% of the tickets have been sold in the past five to six weeks. There is a second chance promotion associated with this ticket. The Lottery will produce another \$20 scratch-off ticket.

Mr. Roogow stated the Mega Millions jackpot continues to roll. The new Multi-Match game is doing well. Sales of new games tend to drop off in the beginning and the Lottery will watch this closely. There has been no jackpot winner as yet. This game is not focused on the jackpot and the odds are better for winners.

Mr. Roogow stated revenue is doing well. The Lottery's original BRE estimate was \$484 million. In December, the BRE estimate was raised to \$491 million.

Mr. Roogow stated there is a bill in place that would use excess funds raised by the Lottery for other pursuits. Mr. Dorsey stated there are ten bills being heard on Wednesday that would take excess revenues over the Lottery's BRE goal and distribute it to the horse racing industry and for the funding of parks and recreation.

Chairman Bonaventure asked if the Stadium Authority funds would be used for the proposed equestrian center. Mr. Dorsey responded no. He stated the Governor had put in the budget \$10 million to be used by the Racing Commission for purse enhancements. During legislative hearings on the budget, the Legislature cut the \$10 million from the

budget and then members introduced a bill that would do the same thing the Governor attempted to do in his budget.

Mr. Roogow stated the Lottery had a budget hearing with the House and Senate Subcommittees. The Senate Subcommittee hearing went well and was chaired by Patrick Hogan. The Senate Subcommittee approved the \$2 million in advertising, removed the language that would prohibit the Lottery from using funds associated with Class II or III machines (slots), and removed the language that lottery agents with legally licensed gray machines that are used in an illegal manner, would lose their lottery license and that this would be enforced by the Lottery.

Mr. Roogow stated in the budget hearing with the House Subcommittee, which is chaired by Peter Franchot, the language to prohibit the lottery from spending money associated with Class II and III was retained. They wanted the \$2 million in advertising cut. The Subcommittee agreed that the language regarding agents losing their lottery license for using the gray machines in an illegal manner should be deleted.

Mr. Roogow stated the Legislative session ends on Monday, April 10, 2006.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated she had one revocation to present to the Commission. She stated Comprehensive Services LTD, T/A Comprehensive Services is located at 2400 North Point Road, Baltimore, Maryland 21222. The agent defaulted on weekly settlements and on an arranged payment plan. The agent currently owes the Lottery \$9,138.17. The agent also signed his wife's name to the personal guaranty, without her knowledge or consent. The agent has been in communication with the Lottery and has worked out a payment plan. The agent stated he would not contest the revocation. A Summary of Facts dated March 6, 2006 was sent to the Commission. Chairman Bonaventure asked if the certified return receipt was received by the Lottery. Ms. Johnson responded the agent did not pick up the certified mail at the Post Office, but he did call the Lottery after he received the letter sent through regular mail. The Lottery sent the agent a letter on March 7, 2006 confirming these facts. Chairman Bonaventure stated based upon the presentation, he made a motion to accept the revocation of the lottery license of Comprehensive Services and Commissioner Wagner seconded the motion. The lottery license of Comprehensive Services was revoked by unanimous vote of the Commission.

Ms. Johnson stated in COMAR an applicant whose application for a lottery terminal is denied can, after the appeal process, re-file his application after a one-year waiting period. However, an agent whose lottery license is revoked can re-apply immediately because there is no set time period to re-file. A question was asked if one year is sufficient time for reapplication. Ms. Johnson responded the Lottery is reviewing this. Chairman Bonaventure

asked Ms. Johnson if she would be drafting the regulation. Ms. Johnson responded she would be drafting the regulation.

Ms. Johnson stated the procurement appeal filed by Merjo Advertising Company was resolved and a copy of the Board of Contract Appeals decision was included in the Commissions' packet of information. The Maryland State Board of Contract Appeals ruled on behalf of the Lottery and dismissed Merjo's appeal. She thanked Ms. Romaine Williams and Mr. Robert Howells for their work in dealing with this issue.

Ms. Johnson stated a deceased annuitant listed a trust as a beneficiary and also listed a non-profit organization as a beneficiary. There was an issue as to whether the Lottery was required to deduct taxes before submitting payment to the non-profit entity. After discussion with the IRS and the Comptroller's Office, the Lottery has an obligation to withhold taxes. It would be the responsibility of the organization to file for refund of the taxes withheld.

Ms. Johnson stated in *Groves v. Ehrlich*, a hearing has been scheduled for April 4, 2006 to hear the State's Motion to Stay Pending Appeal and the Motion to Dismiss filed by Groves. Mr. Roogow stated no one at Lottery was terminated and all State Agencies did not have this situation. Ms. Johnson stated the Lottery is still required to produce any relevant material.

Ms. Johnson stated Internet Gambling Prohibition legislation was included in the Commission's packet of information. Ms. Romaine Williams would give a brief overview of the legislation. Ms. Williams distributed additional information to the Commission. She briefly summarized the highlights.

Ms. Williams stated the bill updates and expands the Federal Wire Act definition of "wire communication" to cover all forms of gambling and new technologies; defines gambling more broadly; addresses offshore gambling business and credit card use; changes the penalties; and acknowledges individual state authorized jurisdiction. She would monitor this bill. Also included in her handout was a Section-by-Section breakdown of the legislation for the Commission's information.

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

Ms. Gina Smith stated preparations are being made for the close out of the fiscal year. She stated preparations are also being made for the passing of the assignment legislation. She is working with the Legal Division to discuss how the Lottery would track and account for annuity assignments.

Ms. Smith stated she is meeting with Verizon today regarding the design of the Interactive Voice Response System.

Ms. Smith stated the Lottery, Maryland Department of the Environment, M & T Bank, and NCO and have formed a Tenants Council. The Counsel meets monthly to discuss building issues and present them to Montgomery Park. She stated she would serve as the representative from the Lottery. Chairman Bonaventure asked who owns the Montgomery Park building. Ms. Smith responded Mr. Sam Himmelrich is the building owner and Mr. Michael Zorkin handles the day-to-day activities.

Ms. Smith stated she continues to be involved in the on-line conversion process.

Chairman Bonaventure thanked Ms. Smith for last month's presentation on cost accounting. He stated he is doing some additional research with other Lotteries regarding their cost accounting procedures. He will forward the information when it is completed.

Information Technology – Sandy Johnson, Chief Information Officer

Ms. Sandy Johnson stated numerous meetings have been held regarding the on-line conversion process. Work continues on VSAT satellite installations and to date, 479 VSATs have been installed. She stated major efforts are being taken to obtain authorization forms from the agent network. The Lottery Director has been making calls to those agents who have not submitted the authorization forms. To date, 3,000 agents have submitted authorization forms for installation of the VSAT. She stated she thought the Lottery had reached an agreement with the General Services Administration for satellite installation on federal buildings, but now they are stating that they cannot be affiliated with gambling. Chairman Bonaventure asked if it was a dead issue. Ms. Johnson responded unless someone higher up in the organization agrees to the satellite installation, then it is a dead issue. Ms. Johnson stated things are moving along with satellite installations at State offices. She stated work continues with the Division of Rehabilitative Services for adaptation of the keyboard for use by the visually impaired.

Ms. Johnson stated letters are being sent to the agent network for mandatory terminal training. The half-day training sessions will be conducted throughout the State. A copy of the schedule was distributed to the Commission.

Ms. Johnson stated work continues on the retailer terminal screen and on the graphics for the Keno monitors. She stated the screens were shown to the conversion team and approximately 50 employees in the Sales Division for their comments.

Ms. Johnson stated build out of the Scientific Games office space at Montgomery Park and Lanham is continuing.

Ms. Johnson stated a draft of the Systems Network design was reviewed this month.

Ms. Johnson stated IT continues to support the second chance drawing associated with the Pick 3 bonus coupon promotion. She stated IT is working with the Sales Division to support the second \$20 Million Mania agent incentive program.

Ms. Johnson stated work has been completed on the end of year processing requirement for IRS submission.

Communications – Jimmy White, Director

Mr. Jimmy White stated Communications has been busy this month. There was an article in The Baltimore Sun by Nicole Fuller regarding the ending of the Lotto game and the start-up of the new Multi-Match game. The news clippings were reviewed by Eisner and valued at \$21,248.89.

Mr. White stated the Promotional Partners Program supplied its promotional partners with \$5,655 worth of scratch-off tickets and received a promotional value of \$66,620 in on-air mentions.

Mr. White stated the Lottery had 12 contacts with its VIP Club members regarding jackpots and updates of events. There are currently 16,000 on-line VIP Club members.

Mr. White stated a player in Ohio won the Mega Millions jackpot. The Maryland Lottery had six second tier winners who won \$250,000 each.

Mr. White stated the first of five \$20 Million Mania scratch-off preliminary winners were selected. The taping took place on Monday at WJZ-TV Channel 13 and it would air on March 30, 2006. Mr. Jeffrey Smith from Baltimore was selected to participate in the Grand Prize event later this year.

Mr. White stated the \$20 Million Mania scratch-off ticket is selling so well that the Lottery has moved up the entry deadlines and drawing dates for the second chance drawing. Any \$20 Million Mania tickets received after the final drawing will automatically be entered into the second chance drawing for the new \$20 scratch-off ticket.

Mr. White stated the Pick 3 Bonus Match-Up promotion has had three drawings to give away prizes of \$50,000 and \$5,000. To date, one \$50,000 prize and one \$5,000 have been claimed.

Mr. White stated to date, 223 players have claimed the \$500 bonus prize in the Ancient Treasures scratch-off game and have been entered for a chance to appear on the Ancient Treasures game show. The deadline for submission of the symbols is April 28, 2006.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated last month advertising was launched for the \$20 Million Mania scratch-off ticket and the Multi-Match game. This month 10-and 15-second radio commercials will begin airing statewide to support the Pump It up Gas Promotion. The Lottery would air Ancient Treasures as well as Multi-Match advertising during the ACC basketball

tournament in Baltimore and DC. She stated additional radio advertising would be aired for the current Mega Millions jackpot.

Ms. Baer stated the Commission had requested a financial overview regarding the Ancient Treasures game show. She distributed information to the Commissioners showing advertising spending for the game show broken down by production and media costs. She stated the cost for the production of the game show is \$631,318. This cost includes the five games discussed at last month's meeting, the retailer point of sale, the set design and the talent fee for the game show. Two of the games featured in show are being developed so that Communications can utilize them during Lottery promotions.

Ms. Baer stated there would be three waves of television commercials promoting the Ancient Treasures game show. They are Traveling Treasures, Steve Rouse and Buddy Roogow, and Steve Rouse and Gabrielle Abiera. The total production cost is \$1,092,106.

Chairman Bonaventure asked why is there such a large difference in cost between the Traveling Treasures commercial and the Steve and Gabrielle commercial. Ms. Baer responded there were a series of four Traveling Treasures commercials and the cost included the initial set design setup.

Ms. Baer stated total television media costs for the game show are \$967,628. The majority of media was shown in the October, November and December time frame for the launch of the Ancient Treasures scratch-off game and to introduce the second chance component. The cost was \$433,458. There was some television media run during the game to maintain interest at a cost of \$159,294. The media cost for the final push and to tune in and watch the show is \$374,876. The total cost for the game show production and media is \$2,059,734.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated the \$20 Million Mania scratch-off ticket would be sold out by May. The Lottery solicited VIP Club members asking what they like or disliked about the \$20 scratch-off ticket. The results were that they liked everything about the ticket, especially the second chance component. The Lottery would be launching another \$20 scratch-off ticket with a second chance component in May 2006.

Commissioner Wagner asked if installations of new retailers were being delayed until July. Ms. Johnson responded if it were needed, the terminal would be installed. Commissioner Wagner asked if any ITVM installations would be delayed also until after July. Ms. Smith responded the Lottery does not have any ITVMs currently available to install at agent locations. Commissioner Wagner stated the Lucky convenience stores are reopening and would they have the option for immediate installation or do they have to wait for the new equipment. Ms. Smith responded if it were a new retailer then the Lottery would wait until July. Ms. Smith stated once the situation is explained to the new agent applicants, they are willing to wait for the new equipment.

Ms. Cohen stated the Triple Crown Tripler scratch-off ticket is still in the works. The Jockey Club asked if the name of the ticket could be changed to Maryland Millions. The Lottery agreed to the name change and we were given verbal approval to use name at a nominal fee. On the day of the Maryland Millions race, the Lottery will award the \$1 million prize as part of the second chance component on the scratch-off ticket. A television commercial would be produced for this scratch-off ticket. Chairman Bonaventure asked if the Racing Commission had contacted the Lottery as yet. Mr. Roogow response they have been unresponsive.

Ms. Cohen stated she is working on the sponsorship details with the Orioles. A Home Run Derby promotion would run where the players send in \$5 worth of non-winning Mega Millions tickets. One contestant would be selected for each game and would have a chance to win \$1,000 for each Oriole home run hit during that game. If an Oriole does not hit a home run during the game, the contestant receives \$500. At the conclusion of the season, entries not selected are eligible for the Grand Prize drawing of \$500,000. Commissioner Wagner asked if the name Home Run Derby is trademarked. Ms. Cohen responded the Lottery has the right to use the Home Run Derby name. Mr. Roogow stated MDI Entertainment has reached a licensing agreement with Major League Baseball that would allow state lottery tickets and merchandise to feature trademarks associated with Major League Baseball.

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

Game #594 *Tiki Tripler* is a \$2.00 ticket with a prize payout of 63.99% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$751,987. If 100% of the tickets are sold, the profit would be \$922,278.

Game #596 *10 Times the Money* is a \$10.00 ticket with a prize payout of 76.12% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$2,427,504. If 100% of the tickets are sold, the profit would be \$2,904,149.

Game #597 *Triple Tripler Bingo* is a \$5.00 ticket with a prize payout of 72.96% and a print run of 3.0 million tickets. If 85% of the tickets are sold, the profit would be \$2,106,555. If 100% of the tickets are sold, the profit would be \$2,537,232.

Game #598 *King Kong* is a \$5.00 ticket with a prize payout of 72.00% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$1,343,292. If 100% of the tickets are sold, the profit would be \$1,645,248.

Game #599 *Blackjack Tripler* is a \$1.00 ticket with a prize payout of 58.99% and a print run of 3.5 million tickets. If 85% of the tickets are sold, the profit would be \$778,895. If 100% of the tickets are sold, the profit would be \$954,934.

Game #601 *\$25 Million Frenzy* is a \$20.00 ticket with a prize payout of 78.36% and a print run of 1.6 million tickets. If 85% of the tickets are sold, the profit would be \$3,410,331. If 100% of the tickets are sold, the profit would be \$4,063,326.

Chairman Bonaventure made a motion to approve Game #594 *Tiki Tripler*, Game #596 *10 Times the Money*, Game #597 *Triple Tripler Bingo*, Game #598 *King Kong*, Game #599 *Blackjack Tripler*, and Game #601 *\$25 Million Frenzy*. Commissioner Wagner seconded the motion. Game #594 *Tiki Tripler*, Game #596 *10 Times the Money*, Game #597 *Triple Tripler Bingo*, Game #598 *King Kong*, Game #599 *Blackjack Tripler*, and Game #601 *\$25 Million Frenzy* were approved by unanimous vote of the Commission.

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

Game #468 *Blackout Bingo* was 98.79% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$2,987,845.79.

Game #529 *World Championship Poker* was 98.93% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$1,687,850.50.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated meetings were held with District Managers to review their bi-annual territory action plans. Senior Sales Managers are cross training and sharing Key Accounts and Regional Manager assignments. He stated vending machine issues regarding player activated terminal locations were discussed at a recent Instant Ticket Activation Task Force meeting.

Mr. Meehan stated Sales is monitoring the ITVM contract and meeting with the new subcontractor for ITVM fleet service and maintenance of the machines.

Mr. Meehan stated the Sales force continues to educate retailers on various items and are working on a long-term network growth strategy plan.

Mr. Meehan stated Sales is working on the design and testing of the Extrema Touch screen menu. He stated that obtaining consent forms for satellite installations is a high priority for the Sales Division. The Licensing Coordinator position will be filled shortly. Sales is maintaining support of \$20 Million Mania scratch-off ticket and the Pump It Up gas card promotion.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated in April he would begin the Sarbanes-Oxley (Section 404) review of internal controls over financial reporting. He is currently meeting with employees to

document the control process. A copy of the Audit Plan and Audit Charter was included with his report.

Procurement – Robert Howells, Director

Mr. Robert Howells stated he recently sent to the Commission a list of procurement items. The first four items were updates regarding ongoing procurements.

Mr. Howells stated the fifth item concerned a sole source contract with Oberthur Gaming Technologies for Cyber Portal™ and Cyber Games™ and related services. This item is being withdrawn and will be presented to the Commission at next month's meeting.

Mr. Howells stated the one-year extension of the Eisner Communications contract is scheduled to go before the Board of Public Works on April 5, 2006. The Commission had approved the one-year contract extension at last month's Commission meeting.

Chairman Bonaventure thanked Mr. Howells for the procurement schedule for advertising agencies services that was sent to the Commission and to meet with Vice Chairman Marriner to discuss this item.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, April 26, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure adjourned the meeting at 11:00 a.m.

Respectfully submitted,

Buddy Roogow