

**MARYLAND STATE LOTTERY COMMISSION
APRIL MINUTES**

DATE: April 26, 2006
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
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Steve Meehan, Deputy Director, Sales
Jill Baer, Director, Creative Services
Jimmy White, Director, Communications
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 9:05 a.m.

APPROVAL OF MINUTES

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

EISNER COMMUNICATIONS

Mr. David Blum stated back by popular demand are two ad campaigns. The first is an edited version of the \$20 Million Mania lip sync commercial. The ad highlights the fact that a \$1 million prize is still available. Also, the sports spoof ad campaign would be run. This is round three of the campaign that was developed a few years ago. These ads would be shown during various sports programs. Ms. Baer stated these are inexpensive for the Lottery to do because the footage is already available. Mr. Blum showed the ads to the Commissioners.

Commissioner Payne stated in the lip sync commercial he did not see any black people and asked to the Lottery to be aware of diversity in any advertising. Chairman Bonaventure stated the Commission fully supports diversity and Commissioner Payne's comment is duly noted.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated on-line conversion preparations continue. Most of the VSAT's are scheduled for installation. There are a few remaining retailers that have not signed the authorization forms. Beginning May 1, 2006, Scientific Games would remove the old terminals and start installing the Extrema terminals that will run on the Master Link System. In July, the terminals would switch over from the Master Link System to the Aegis System. Training of Lottery retailers around the State will begin. Chairman Bonaventure asked if there is any development on the installation of the satellites on federal buildings. Ms. Athey responded a number of blind stands are located in federal buildings and a letter was received from the blind association asking that the satellites be installed. Scientific Games is following up on this matter. Commissioner Wagner asked if the conversion was on schedule. Ms. Athey responded conversion is on schedule and she will keep the Commission updated.

COMMISSION BUSINESS

Chairman Bonaventure asked Ms. Smith to respond to a letter he received from a Lottery player concerning instant tickets.

Chairman Bonaventure stated last month he asked Vice Chairman Marriner to review the current advertising contract with Eisner Communications. Vice Chairman Marriner advised that the Commission has no intention to approve the second renewal option of the advertising contract. He made a motion that the Lottery should not renew the Eisner contract for a second year so that the Lottery can begin the preparation of the advertising RFP. Commissioner Payne seconded the motion on the table. The motion passed by unanimous vote of the Commission. Mr. Roogow stated it is the Lottery's intent not to go forward beyond the current one year extension period. Mr. Howells stated preparation of development of the RFP would begin sometime later in the calendar year. Mr. Roogow stated the Lottery would include Vice Chairman Marriner in the RFP process. Mr. Roogow stated that Eisner has done a good job for the Lottery.

Mr. Roogow stated that Ms. Tracey Cohen, the Director of Product Development and Advertising has had a physical setback and would be having surgery on Friday. The outlook is optimistic. The Commission wished Ms. Cohen a speedy recovery.

DIRECTOR'S REPORT

Mr. Buddy Roogow distributed to the Commission a copy of the Budget Amendment from the Joint Chairmen's Report concerning the Lottery. There was language in last year's budget that proposed that no funding could be spent for Class II or Class III gaming machines. The Lottery received information that this language would be dropped during the Conference Committee meeting at the end of the legislative session. The Senate Subcommittee wanted the language dropped. The House Subcommittee wanted the language kept. It was put back in during Conference Committee. Chairman Bonaventure asked if the language was put back in when no one from the Conference Committee was present. Mr. Dorsey responded only a few members still remained in the room and there was a quorum present. Mr. Roogow stated the ones that were interested in this language being deleted were the ones that left the room. The language was then put back in.

Mr. Roogow stated the \$2 million for additional advertising was approved in next year's budget. However, \$100,000 cannot be expended until the Lottery provides a report to the Budget Committee by December 1, 2006 on its MBE procurement practices related to advertising services.

Chairman Bonaventure asked if the Lottery is in a position to challenge the budget language concerning Class II or III machines. Ms. Johnson responded the Lottery can challenge it. Chairman Bonaventure asked if there was enough information to challenge it. Mr. Roogow stated there were adequate Conference Committee members in the room at the time. Chairman Bonaventure asked if this language is binding on the Commission. Ms.

Johnson responded she feels it is binding on both the Commission as well as the Lottery. Chairman Bonaventure stated there is statutory language that Commission can do special studies. Ms. Johnson responded she does not think that was the intent. Chairman Bonaventure stated he finds this limits the statutory authority of the Commission. Ms. Johnson stated she would look at this matter and get back to the Commission.

Mr. Roogow stated the conversation that Commissioner Reeder had with Delegate Clagett was helpful in keeping \$2 million advertising budget increase intact.

Mr. Roogow stated the \$20 Million Mania scratch-off ticket and the \$10 Ancient Treasures scratch-off ticket both have a \$1 million prize remaining. The \$20 Million Mania ticket is 80% sold and the Ancient Treasures ticket is 65% sold. There has been an increase in Ancient Treasures sales in part because of the focus on the remaining \$1 million prize. The taping of the Ancient Treasures game show is scheduled for June 3, 2006 at the University of Maryland College Park. There are 260 eligible participants and 20 game show contestants would be chosen this Saturday at the Bay Bridge Boat Show.

Mr. Roogow stated sales are \$75 million ahead of last year. Revenues are \$20 million ahead of last year. Commissioner Wagner stated the original BRE estimate was \$484 million and then it was revised to \$491 million. He asked why the original estimate is still shown on the Sales and Revenue sheet. Mr. Roogow responded this is an internal document and it can be changed to reflect the revised estimate. He stated next month's report would reflect the updated estimate.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

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

Ms. Johnson stated the General Assembly enacted a provision in the Budget Bill in Senate Bill 110 Section 52 that prohibits any state agency that does advertising and promotion from using the likeness or voice of any candidate for statewide office in any promotion. This is effective from July 1, 2006 through January 10, 2007. The Attorney General would be looking at state agencies that do advertising to assure that they are in compliance. Chairman Bonaventure asked what about the websites. Ms. Johnson responded she would look into that.

Ms. Johnson stated the assignment bill legislation has been passed. She is working with AFO and IT to create forms and establish procedures. This bill becomes effective July 1, 2006. The Lottery has received numerous calls from finance companies. There are over 500 annuitants that can assign their annuities for lump sum payment.

Ms. Johnson stated a lawsuit was filed in Virginia by a finance company against a Maryland lottery annuitant and the Lottery. The annuitant entered into an assignment agreement in 1999 with a finance company, and the annuitant did not forward the annual payments to the finance company. A Motion to Dismiss has been filed. She will keep the Commission updated on this matter.

Ms. Johnson stated the Legal Division continues to work with IT on the on-line conversion and general office matters.

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

Ms. Gina Smith stated she is working with the Legal Division to move forward to make necessary changes to prepare for the assignment bill.

Ms. Smith stated she continues to review and comment on conversion documents supplied by Scientific Games.

Ms. Smith stated the SAS 70 Audit would begin in May 2006. Stout, Causey and Horning are under contract to perform the SAS 70.

Ms. Smith stated several meetings have been held with Verizon on the Interactive Voice Response System. The target date is May 15, 2006.

Ms. Smith stated work has begun on the FY2008 budget request. She is preparing for the FY2006 year end close-out. She stated in Ms. Cohen's absence, she would be presenting the instant tickets for approval.

Chairman Bonaventure asked if the Lottery has a policy on the type of establishments it approves. Ms. Smith responded the primary business cannot be lottery only. Chairman Bonaventure asked shouldn't the Lottery shy away from certain types of retailers. Ms. Johnson stated this is a policy call as to the types of business to license. Chairman Bonaventure asked if there was any concern that Maryland Lottery was in the Hustler Club. Commissioner Wagner asked if there were any similar establishments with lottery. Mr. Roogow responded there are similar establishments that are licensed with Lottery agents. Mr. Bonaventure voiced his concern over the placement of Lottery products in such locations. Chairman Bonaventure asked if the Lottery should have a policy regarding the issuance of a lottery license for certain types of businesses. Mr. Roogow stated there have been no complaints or issues over the years. The Lottery does a thorough criminal and financial background check of the businesses. Chairman Bonaventure stated he understands the issues and asked that the Lottery look into this subject further.

Commissioner Wagner asked what is a SAS 70 Audit. Ms. Smith responded a SAS 70 Audit or Statement on Auditing Standards is a review of the controls placed in operation as well as tests of operation effectiveness. An audit of the Scientific Games operations would be done.

Ms. Smith stated she had five new instant games to present to the Commission.

Game #589 *Chasing the 8's* is a \$1.00 ticket with a prize payout of 59.00% and a print run of 3.5 million tickets. If 85% of the tickets are sold, the profit would be \$778,589. If 100% of the tickets are sold, the profit would be \$954,574.

Game #600 *Mr. Boh Slots* is a \$5.00 ticket with a prize payout of 72.93% and a print run of 3.0 million tickets. If 85% of the tickets are sold, the profit would be \$2,183,935. If 100% of the tickets are sold, the profit would be \$2,615,307. There is still the licensing issue to resolve and the Lottery is requesting approval subject to clearing up any licensing issue.

Game #603 *High Card* is a \$1.00 ticket with a prize payout of 59.27% and a print run of 3.5 million tickets. If 85% of the tickets are sold, the profit would be \$770,315. If 100% of the tickets are sold, the profit would be \$944,840.

Game #604 *Wild Cherries* 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 #605 *3-D Tic Tac Toe* is a \$3.00 ticket with a prize payout of 67.13% and a print run of 4.0 million tickets. If 85% of the tickets are sold, the profit would be \$2,095,994. If 100% of the tickets are sold, the profit would be \$2,548,624.

Chairman Bonaventure made a motion to approve Game #589 *Chasing the 8's*, Game #603 *High Card*, Game #604 *Wild Cherries*, and Game #605 *3-D Tic Tac Toe*. He stated approval of Game #600 *Mr. Boh Slots* would be subject to resolution of the licensing issue. Chairman Marriner seconded the motion. Game #589 *Chasing the 8's*, Game #603 *High Card*, Game #604 *Wild Cherries*, and Game #605 *3-D Tic Tac Toe* were approved by unanimous vote of the Commission. Game #600 *Mr. Boh Slots* was approved by unanimous vote of the Commission subject to resolution of the licensing issue.

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

Game #523 *Triple 7's* was 96.88% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$772,506.06. The second page shows the initial estimates of a 100% sold profit of \$884,064 and a 95% sold profit of \$839,861 with the estimated administrative expense.

Games # 530 *Funky Monkey* was 96.65% sold. With the subtraction of the adjustment for the administrative allocation, the profit was \$675,913.06. The second page shows the initial estimates of a 100% sold profit of \$812,206 and a 95% sold profit of \$771,596 with the estimated administrative expense.

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

Ms. Sandy Johnson stated IT is concentrating this month on obtaining VSAT authorizations and retailer training. She stated 102 Lottery employees attended terminal training last week. Retailer training starts on Monday and there would also be class with a Korean instructor. A significant amount of time was spent reviewing training materials prepared by Scientific Games. A retailer reference card and training manual would be given to retailers to keep at their terminal location. Approximately one week after training, the new terminal would be installed.

Ms. Johnson stated currently 2,406 VSATs have been installed. The goal is to have 2,500 installed by the end of April. The challenge is obtaining authorization forms from the remaining retailers who have not signed on for the VSAT. The Director has been making follow-up telephone calls to these retailers. Some landlords do not want the satellite on their roof. Commissioner Wagner asked how do you get around that issue. Ms. Johnson responded the Lottery wants one consistent system, but any place that technically cannot have a satellite would have alternative communications. There are 3,345 retailers that have signed authorization forms. This leaves 451 retailers, which includes approximately 90 Giant food stores and negotiations are underway to reach an agreement with Giant. Chairman Bonaventure asked if there is any liability for damages caused by installation of satellite equipment. Ms. Johnson responded Scientific Games is financially responsible for any damages. Vice Chairman Marriner asked is there a performance bond in place. Ms. Johnson responded the principal contractor has a performance bond.

Ms. Johnson stated a meeting was held to begin planning for implementation of Tell-Sell telemarketing for instant games. Scientific Games has provided the name of an individual they have selected to manage the Tell-Sell unit. She stated the Lanham facility is on schedule. By mid to the end of May, testing of the system at Montgomery Park would begin. The Lottery would do testing on a group of ten retailer locations to see how things go and then expand to 25 more retailer locations.

Ms. Johnson stated IT is working with Legal and AFO on the assignment situation.

Ms. Johnson stated IT continues to work with Sales to support the second \$20 instant ticket retailer incentive program. IT completed the random drawings for the Pick 3 second chance promotion and supported other promotions.

Communications – **Jimmy White, Director**

Mr. Jimmy White stated for the \$20 Million Mania second chance drawing, the fourth group of preliminary winners were selected and taping would take place on at WJZ to select one semi-finalist.

Mr. White stated in the Ancient Treasures scratch-off game, 255 players have collected all four symbols. The deadline to submit entries is this Friday. On Saturday at the Bay Bridge

Boat Show, the Lottery would select 20 contestants from the entries. Approximately 150 qualifiers are coming to the Bay Bridge Boat Show that day to witness the drawing.

Mr. White stated for the Pump It Up promotion, the Lottery would conduct six drawings to award the \$100 gas cards. He stated that 70 cards have been claimed to date.

Mr. White stated the first drawing for the Home Run Derby Fan of Game was held on Monday. There were 2,000 entries. The second drawing would take place on May 1, 2006.

Mr. White stated the Bay Bridge Boat Show would run for four days from Thursday through Sunday. On Saturday, the Pick 3 and Pick 4 midday drawings would be held live on WJZ Channel 13. Between 10:00 a.m. and 2:00 p.m. the Lottery would distribute Multi-Match coupons. WCEI, an Eastern Shore radio station would be working with the Lottery at the boat show and the radio station would do on-air reports.

Mr. White stated the Promotional Partners Program supplied its promotional partners with \$3,195 worth of scratch-off tickets and Multi-Match coupons. The Lottery received a promotional value of \$29,452 in on-air mentions. He stated the news clippings were evaluated by Eisner and valued at \$4,398.72. He stated the VIP Club currently has 30,000 members. Mr. White stated also included in the Commission's folders are two newsletters, Winning Ways and the Retailer Report.

Commissioner Wagner asked what is the VIP Club. Mr. White responded it is an on-line loyalty club and people sign up on the website or at Lottery events. When they show their VIP card at the lottery booth at various events, they receive a gift. Communications does various giveaways of tickets to baseball games, concerts, etc. via e-mail, as well as jackpot information and advance notice of promotions. Commissioner Wagner asked how do you recruit new members. Mr. White responded on the website and also at statewide events. For example, at the State Fair a special area is set up for people to sign up and at Merriweather a staff member is assigned to promote the VIP Club.

Commissioner Reeder asked how is the final winner for the Home Run Derby Fan of the Game selected. Mr. White responded at the end of the baseball season entries not selected as Fan of the Game are eligible for the Grand Prize drawing of \$500,000. Commissioner Reeder asked where would that drawing be held. Mr. White responded a location has not been selected as yet. Ms. Baer stated the grand prize drawing would be taped and aired during the play-offs.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated the Mega Millions jackpot is being advertised on various media.

Ms. Baer stated the Ancient Treasures and \$20 Million Mania scratch off-tickets still each have a \$1 million prize remaining. The Lottery is jointly promoting that fact. An ad recently appeared in the Baltimore Examiner as well as on radio and television.

Ms. Baer stated the Lottery would promote the Multi-Match Game at the Bay Bridge Boat Show. A television ad would air for two weeks beginning April 24, 2006.

Ms. Baer stated she is working on the Sports Scratch Campaign that consists of four spots that would air during sports programming in late April. The Lottery would use these commercials on an ongoing basis. She is also working on a Generic Scratch Campaign that consists of four spots that would be used to promote new scratch-off game launches. Spots are in the beginning stages of production and would be ready to air prior to the end of the fiscal year. The Lottery would use these ads over a long period of time to promote scratch-offs.

Ms. Baer stated preparations are underway for the launch of the next \$20 scratch-off ticket called \$25 Million Frenzy. She stated the Lottery would utilize the current Miss Maryland to highlight her in three or four existing programs.

Ms. Baer stated concerning the Mega Millions jackpot animation ad done jointly with the Virginia Lottery, they have approved the origami spot and jackpot customization begins on May 1, 2006. The spot would be ready to rotate with the ball ad in late May.

Ms. Baer stated she is working with Mr. White on the Ancient Treasures game show. She stated the games are in construction and scheduled for delivery at the University of Maryland on May 25, 2006. The sets are also under construction. Taping of the game show would be on June 3, 2006. The doors would open at 1:30 p.m. with taping beginning at 2:00 p.m. The taping should take approximately two hours. If the Commissioners would like to attend or if they need tickets for anyone else, please let her know.

Commissioner Wagner asked if the Lottery would have a presence at the Preakness this year. Ms. Baer responded the Lottery may be present at some Preakness week festivities. She is working with Mr. Dorsey on this.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated sales has been busy with the on-line conversion. ITVM quarterly reports are being reviewed. Sales continues to educate retailers on instant game closure policies. Sales force is working on redistribution of \$20 Million Mania scratch-off ticket. Sales is supporting the Multi-Match game and Pump It Up promotion.

Mr. Meehan stated the Sales force received internal terminal training. The Sales force is working with the retailers on the submission of the consent forms for VSAT. After conversion, Sales force will work to increase licensing efforts. Research was done for player activated terminal (PAT) placements and he is reviewing the data. Site surveys were performed for the Race Trax monitor installations.

Mr. Meehan stated is reviewing current Sales Division job descriptions. He stated Mr. Joe Sommerville from Key Accounts would be leaving. Also, the position of licensing

coordinator would need to be filled. This position was vacated by Ms. Lil Schwink, who transferred to the Creative Services Division.

Chairman Bonaventure asked Mr. Meehan to give an explanation of the chart on page 3 of his report. Mr. Meehan reviewed the information on sales, agent applications and installations, and ITVMs. Chairman Bonaventure asked Mr. Meehan to supply year to date information for comparison purposes. Mr. Meehan stated he would share that information at next month's meeting.

Commissioner Wagner asked how many applications are received by the Lottery and how many actually go on to be licensed. Mr. Meehan stated he would provide that information to the Commission.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he has met with AFO regarding review of internal controls over financial reporting. He stated he has conducted second chance drawing observations of the current lottery promotions. He stated he is working with AFO on the ticket conversion testing to be done in May or June.

He stated the Internal Audit Charter and the Audit Plan awaits the Commission's approval.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated four game law bills were passed. In Frederick County, more game raffles would be permitted. In Garrett County, more paper games would be permitted. In Baltimore County, an increase in the number of casino nights that can be held by qualified organizations has been increased to 12 per year. In Carroll County, casinos at senior centers would be permitted. Anne Arundel County government has authorized pull-tab monitor video games in their commercial bingo halls.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the Instant Ticket Games and Related Services RFP is in the final stages. He stated work has begun on the draft of the Televised Drawings of the Lottery's On-line Games and Related Services RFP. He will keep the Commission updated.

ADDITIONAL COMMENTS

Mr. Roogow stated MDI has entered into an agreement with Major League Baseball (MLB) that would allow MLB to enter into agreements with lotteries to use the team logos

and players for lottery promotions. This would allow the Lottery to sell tickets in the stadium during games. The Lottery is holding discussions with the Orioles. Mr. Roogow stated the Lottery is also talking with the Ravens concerning an agreement to sell lottery tickets on site. He will keep the Commission updated.

Mr. Roogow stated he and Mr. Dorsey would be attending the Gaming Technology Summit at the end of May 2006. Mr. Roogow was invited to give a speech at this Summit. However, it is the same time as the May Commission meeting and Ms. Smith would fill in for him. He would report back to the Commission on the Summit.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, May 24, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure requested a motion to adjourn. Vice Chairman Marriner made a motion to adjourn and it was seconded by Commissioner Wagner. The meeting was adjourned at 10:55 a.m.

Respectfully submitted,

Buddy Roogow