

**MARYLAND STATE LOTTERY COMMISSION
MAY MINUTES**

DATE: May 24, 2006
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Commissioner Osborne Payne
Commissioner Bruce Reeder
Commissioner George Wagner

Gina Smith, Assistant Director and CFO
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Steve Meehan, Deputy Director, Sales
Jimmy White, Director, Communications
Robert Howells, Director of Procurement
Michael Eaton, Internal Auditor
Marie Torosino, Executive Associate

OTHERS
PRESENT: David Blum, Eisner Communications

CALL TO ORDER

Commissioner Reeder stated there was a quorum present and he called the meeting of the Maryland Lottery Commission to order at 9:06 a.m.

APPROVAL OF MINUTES

Commissioner Reeder stated the approval of the April Minutes would be deferred until the June 2006 Commission Meeting

EISNER COMMUNICATIONS

Mr. David Blum stated advertising on transit buses in Prince Georges, Montgomery and Baltimore Counties, and Baltimore City to promote the \$25 Million Frenzy scratch-off ticket launch Mania scratch-off ticket would begin this week. He showed the sample board of the advertising to the Commissioners.

Mr. Blum stated in regards to the Baltimore Orioles sponsorship, there is signage at the stadium and the Home Run Derby promotion is running. An entry is chosen as Fan of the Game and the contestant could win \$1,000 for each home run that is hit or \$500 if no home run is hit. At end of season entries not chosen would have a chance to win a \$500,000 prize.

Mr. Blum stated the final radio spot in the Ancient Treasures series featuring Steve Rouse would air this week. It promotes the Ancient Treasures Game show and the Watch and Win promotion.

Mr. Blum played the Orioles Home Run Derby television commercial as well as the radio spot for Ancient Treasures.

Mr. Blum stated Eisner would begin filming a winner awareness spot this week featuring the recent Multi-Match winner and the winner of the \$2 million in \$20 Million Mania second chance promotion. He stated there usually isn't too much opportunity to shoot live, and they would take advantage of this opportunity.

Mr. Blum stated on June 3, 2006 at the University of Maryland College Park Clarice Center the taping of Ancient Treasures Game Show would take place from 1:00 to 4:00 p.m. If the Commission and their guests are interested in attending, contact Mr. White for tickets.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Johnson stated members from Scientific Games were not available this morning because of conversion testing and she would present an update to the Commission.

Ms. Johnson stated Scientific Games is moving ahead with relocation of their Lanham and Baltimore facilities.

Ms. Johnson stated as of yesterday, the new Extrema terminal was installed at 881 agent locations and 3,052 VSATs have been installed. Phase I started with some minor problems. Two communication outages occurred that affected ten retailers. Scientific Games has been bringing in staff from Alpharetta to assist with the conversion. Overall, things are going well with the conversion.

DIRECTOR'S REPORT - Gina Smith, Assistant Director/CFO

Ms. Gina Smith stated she will be presenting the Director's report, the AFO report as well as the instant ticket report for Ms. Cohen.

Ms. Smith stated Mr. Roogow and Mr. Dorsey are out of town attending the Gaming Technology Summit and Mr. Roogow is scheduled to give a speech at that Conference.

Ms. Smith stated total sales are \$79 million ahead as compared to last year. Sales of all games are up. On the revenue side, the Lottery has experienced more than normal high payouts in the Pick 3 game. Although Pick 3 revenue is behind, Pick 4 is making up for the slack. Total revenues are \$17 million ahead of last year. The Lottery is running ahead of the BRE estimate.

Ms. Smith stated at last month's meeting Commissioner Wagner asked why the Sales and Revenue report still listed the original BRE estimate and not the revised BRE estimate. Ms. Smith provided to the commission a Sales and Revenue report that show the original and revised estimate. This is an internal document used by the Lottery.

Ms. Smith stated AFO staff would be attending budget close-out training. She is in the process of preparing the FY2008 budget. The baseline budget submitted this year is what the Lottery would receive in FY2008. At a later time, the Lottery can submit under-funded requests, e.g., request for additional advertising money.

Ms. Smith stated she met with new Budget Analyst assigned to the Lottery by the Department of Budget and Management to discuss the Lottery and the budget submission.

Ms. Smith stated AFO is heavily involved with the on-line conversion and is primarily responsible to review all the accounting reports to ensure data is converted properly and is accountable.

Ms. Smith stated AFO is preparing for conversion to the new instant ticket vendor. Renovations to the Lottery's warehouse have begun. New equipment and racking being installed to prepare for pick and pack that would begin in July 2006. Coordinating with UPS in obtaining supplies because the instant ticket packing and shipping procedures would change.

Ms. Smith stated last week she and other Lottery staff members attended the NASPL Subcommittees Conference in Dallas, Texas. The conference subcommittees included Accounting, Auditing, Sales and Marketing, and Warehousing. It was an informative conference and a great opportunity to meet their peers to learn what they are doing in other state lotteries.

Commissioner Reeder asked how many states currently have a lottery. The response was 40 states plus the District of Columbia currently have a lottery.

Ms. Smith stated she is working on the Lanham claims office relocation. She will supply the new address at later date.

Ms. Smith stated there was one new instant game to present to the Commission.

Game #606 *Casino Nights* is a \$2.00 ticket with a prize payout of 63.98% and a print run of 2.0 million tickets. If 85% of the tickets are sold, the profit would be \$747,772. If 100% of the tickets are sold, the profit would be \$918,150.

Commissioner Wagner made a motion to approve Game #606 *Casino Nights* and Commissioner Payne seconded the motion. Game #606 *Casino Nights* was approved by unanimous vote of the Commission.

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

Game #481 *Triple Tripler* was 98.77% sold. Sales were \$6,194,108 with a net profit of \$1,271,436.46. The second page shows the initial estimate of a 100% sold profit of \$1,155,690 and a 95% sold profit of \$1,097,906 with estimated administrative expense.

Game #491 *Low Carb Cash* was 66.82% sold. Sales were \$2,815,200 million with a net profit of \$611,683.19. The second page shows the initial estimate of a 100% sold profit of \$971,565 and a 95% sold profit of \$922,986 with the estimated administrative expense.

Commissioner Wagner asked why was a game pulled at a lower sold percentage. Ms. Smith asked Mr. Gary Smith, Instant Ticket Product Manager to come into the meeting to explain the procedure. Commissioner Wagner stated the Low Carb Cash instant game was pulled at 66% sold and was it pulled because it was slow game or were the large prizes claimed. Mr. Smith stated the instant game system is limited to holding 100 games. The system is at the 100 game threshold so when four new games are launched than four games

must be closed. Commissioner Wagner asked if the Lottery is pulling the instant games when the top prizes are claimed. Mr. Smith responded usually by the time a game is pulled, there are very few prizes remaining. Commissioner Wagner asked wasn't the Lottery criticized for still selling tickets with the top prizes claimed. Ms. Johnson responded there is language on the back of the instant tickets, a notice is sent to agents regarding the remaining top prizes. Mr. Smith stated there are procedures in place. Commissioner Wagner asked if a ticket is not sold how does it get to the unclaimed prize fund. Ms. Smith responded if an instant book is not activated the prizes would not go into unclaimed prize fund. The Lottery recognizes the expense when an instant book is activated and put in sold status. . Commissioner Wagner asked what happens if a game is pulled someone has a winning ticket. The response was that this is a 182 days claim period from the date of the game closure.

Game #501 *Royal Flush* was 82.99% sold. Sales were \$3,441,600 with a net profit of \$757,480.32. The second page shows the initial estimate of a 100% sold profit of \$936,131 and a 95% sold profit of \$889,324 with estimated administrative expense.

Game #524 *Hot \$27* was 84.23% sold. Sales were \$2,190,000 with a net profit of \$402,427.86. The second page shows the initial estimate of a 100% sold profit of \$490,681.60 with estimated administrative expense.

Game #532 *Lucky Symbols* were 91.66% sold. Sales are \$2,563,500 with a net profit of \$627,950.31. The second page shows the initial estimate of a 100% sold profit of \$777,596 and a 95% sold profit of \$738,716 with estimated administrative expense.

Game #553 *Double Doubler* was 95.71% sold. Sales were \$2,717,700 with a net profit of \$713,028.60. The second page shows the initial estimate of is a 100% sold profit of \$802,112 and a 95% sold profit of \$762,006 with estimated administrative expense.

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 on June 1, 2006, the new assignment legislation goes into effect. She stated 15 forms have been drafted for use in the assignment process. Numerous phone calls have also been received from finance companies for assignment information. She has also talked with members of the Department of Assessment and Taxation, the Department of Licensing and Regulation and the Maryland Securities Division regarding the scope of finance company operations in Maryland.

Ms. Johnson stated she is working with the IT Division on the on-line conversion process.

Ms. Johnson stated Legal has been assisting the Communications and Creative Services Division with the Ancient Treasures Game Show in drafting rules and procedures, preparing contestant claims forms and reviewing the games for the show.

Ms. Johnson stated Legal has been working with Mr. Howells on procurement licensing agreements. Mr. Howells would be discussing the National Boh Licensing Agreement. Ms. Johnson stated that the Director spoke with the Chairman concerning the name being associated with beer. It is the Lottery's belief that it has distanced itself from the alcohol relationship and the Commission should be aware that those concerns were raised. There is no mention of beer or alcohol on the instant ticket. Commissioner Wagner asked if the Lottery is paying Pabst Blue Ribbon the fee. The response was the Lottery was paying a licensing fee to them to use the name. This is the same as all other licensing agreements the Lottery has done. The Lottery pays a fee for the right to use the trademark and/or logo. Mr. Howells stated the name "Mr. Boh" is more a Baltimore icon than a beer icon. A question was asked as to what is the amount of the licensing fee. Mr. Howells responded the licensing fee is \$20,000.

Information Technology – Sandy Johnson, Chief Information Officer

Ms. Sandy Johnson stated work continues on the on-line conversion. Continuing contacts with landlords and agents to obtain signed authorizations for VSAT installation and to schedule training.

Ms. Johnson stated acceptance testing for Phase II is scheduled to begin on May 22, 2006. This involves testing of the Racetrax Game, Tel-Sell and Extremas. There are eight Extrema terminals dedicated to testing. WhiteSand Consulting is heading that up.

Ms. Johnson stated approximately 135 agents still have not submitted VSAT authorization forms. In some instances, the landlord is not being cooperative. The Lottery is making a last ditch effort to visit the agents. She stated she is beginning to look at alternative communications. Commissioner Wagner asked if there have been any language barriers in dealing with the agents. Ms. Johnson responded Scientific Games has two to three staff members who speak Korean since there are many Korean retailers.

Ms. Johnson stated the Verizon Contract was approved by the Board of Public Works. The Lottery wanted to be sure that everything goes well and the actual conversion takes place before giving up any contract relative to system. The Board of Public Works and Verizon are aware of VSAT plans and that continuance of the existing system is only an alternative in the event of any problems with VSAT.

Ms. Johnson stated IT is working with AFO on the assignment legislation.

Ms. Johnson stated IT is continuing to support a number of promotions including the Ancient Treasures Watch and Win promotion, the agent incentive program associated with

the \$20 Million Mania instant ticket, and an agent incentive program associated with the new \$25 Million Frenzy instant ticket.

Communications – Jimmy White, Director

Mr. Jimmy White stated Communications has been busy this month at Merriweather concerts, charity golf tournaments, the Harford Live-Home and Garden Show, the Bay Bridge Boat Show, and the Hagerstown Suns baseball games. He stated last weekend Communications was on site at Wine in the Woods in Columbia, Crusin Ocean City, and at the Preakness.

Ms. White stated the Lottery is involved with the Resort Video Guide in Ocean City. Mr. Brian Johnson completed the taping of the first portion in Ocean City last Friday.

Mr. White stated the WHFS festival is this weekend at Merriweather and the Lottery will be on site for both days. The Lottery will also be on-site both days at Rockville Hometown holidays. The \$2 million prize associated with the \$20 Million Mania second chance drawing will also be awarded to one of the five contestants at the event in Rockville.

Ms. White stated the second jackpot winner in the Multi-Match game was a subscription winner. The Lottery was able to contact the winner's son and he cooperated by helping the Lottery set up a surprise presentation.

Mr. White stated the news clippings were evaluated by Eisner and valued at \$5,437.71. He stated the Promotional Partners Program supplied its promotional partners with \$2,900 worth of scratch-off tickets. The Lottery received a promotional value of \$24,912 in on-air mentions. The Lottery has also been supplying Multi-Match coupons to the promotional partners.

Mr. White stated he is working on the second chance contest associated with the Maryland Millions scratch-off ticket. This will culminate with a second chance contest at the Maryland Million Race in October at Laurel Racetrack.

Mr. White stated that included with his report is the latest issue of the Winning Ways newsletter. The newsletter goes on hiatus for a few months while the Legislature is out of session and will come back in October or November when the Legislature starts to return to Annapolis for the 2007 session.

Commissioner Reeder asked how many subscription players does the Lottery currently have. Ms. Smith responded she would obtain that information for the Commission. Commissioner Reeder asked how the Home Run Derby promotion was doing. Mr. White responded it has been successful and there have been two or three games with four or five home runs hit and the contestant wins \$1,000 for each homerun. The Lottery is collecting photos of the winners for an ad being planned that would show the people who have won and how much they have won.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the memo he sent to the Commission contained five items. Item number three, the Statewide Lottery Network Circuits Contract was for informational purposes only. This is a Department of Budget and Management Contract. This service would be required through July 6, 2006, the startup of the Lottery's new on-line contract. The Lottery would pay a per circuit per month charge. Gradually the service would be discontinued now that communications would be by satellite. Verizon is aware of this.

Mr. Howells stated he is requesting the Commission's approval today of the Printing of Instant Tickets and Related Services Contract. The Lottery will present the contract for approval to the Board of Public Works on June 7, 2006. Pollard Banknote was awarded the primary contract. Oberthur Gaming Technologies and Scientific Games were awarded secondary contracts.

Mr. Howells stated that the Drawings of the Lottery's On-line games RFP is almost completed and is being reviewed by the Legal Division. He is hoping to issue the RFP in mid-June 2006. The current Contract expires at the end of November 2006. The RFP is subject to approval by the Legal Division and the Department of Budget and Management before being issued.

Mr. Howells stated he is requesting the Commission's approval of the Maryland Million Licensing Agreement (#2006-17) with Maryland Million, Ltd., and the Mr. Boh Licensing Agreement (#2006-18) with Pabst Brewing Company. The documents were previously sent to the Commission for their review.

Commissioner Reeder asked if these documents have been reviewed by the Legal Division. Mr. Howells responded the two licensing agreement and the contract were reviewed and approved by Legal. The RFP is currently being reviewed.

Commissioner Wagner made a motion to approve the Printing of Instant Tickets and Related Services Contract, the Maryland Million Licensing Agreement #2006-17 and the Mr. Boh Licensing Agreement #2006-18. Commissioner Payne seconded the motion. The motion passed by unanimous vote of the Commission.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he is continuing to prepare documentation for review of the internal controls over financial reporting. He has received full cooperation from all employees. He is continuing to observe the second chance drawings.

Mr. Eaton stated the Internal Audit Charter and the Audit Plan were approved by the Audit Committee on May 2, 2006.

Mr. Eaton stated he is working with WhiteSand Consulting on game system testing related to the on-line conversion.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated Sales is focusing on the on-line conversion initiative. Training of retailers and Sales personnel have been taking place. Sales is pushing forward with installation of the new VSAT.

Mr. Meehan stated the Commission raised a question last month regarding the agent application process. Specifically, what percentage of applications completed by the applicants goes on to become lottery retailers. Mr. Meehan distributed an Application Tracking Summary to the Commission. The summary states that over 90% of those applicants that complete the paperwork and return it to the Lottery go on to be approved as agents. There are some compliance requirements that must be met, including complying with ADA, taxes, a criminal background check, Worker's Compensation and a Sales site survey. Less than 10% of the applications returned are denied because of these types of reasons. Since September 2004, the Lottery has issued approximately 2,455 applications. Of those 45% to 50% were not returned. Applications are delivered to the applicant by the District Manager and the District Manager tries to ease the impact on the agents by walking them through the process. Approximately 1,250 retailers have become new agents in the past two years. He stated Maryland requires approximately 600 new agents per year to maintain the network.

Commissioner Wagner what is the requirement for an agent to obtain a second terminal. Is there a figure if doing this amount they possibly could get second terminal. Mr. Meehan responded Sales looks at the average agent sales in order to justify additional equipment if we believe adding another terminal would increase sales.

Ms. Smith stated to answer Commissioner Reeder's previous question, there are currently 17,452 Mega Million subscribers and 14,017 Multi-Match subscribers.

Mr. White stated on the same day of the June Commission Meeting, The Lottery would hold an open house between 11 a.m. and 2 p.m. in the Communications studio. The new terminal equipment would be set up to view. He invited the Commissioners to stop by after the June meeting.

Commissioner Wagner stated an organization had talked to someone from Lottery regarding a speaking at one of their meetings. They received a negative feedback. The Commission meetings are open meetings. Presentations are done to rotaries and other clubs all the time. Commissioner Wagner does not know the particulars as to who they talked to. He would talk further with Mr. Meehan.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, June 28, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Commission Reeder requested a motion to adjourn. Commissioner Wagner made a motion to adjourn and it was seconded by Commissioner Payne. The meeting was adjourned at 10:40 a.m.

Respectfully submitted,

Gina Smith