

**MARYLAND STATE LOTTERY COMMISSION  
JULY MINUTES**

DATE: July 26, 2006  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank 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  
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  
Michael Eaton, Internal Auditor  
Marie Torosino, Executive Associate

**OTHERS**

PRESENT: David Blum, Eisner Communications  
Sean Athey, Scientific Games Online Entertainment Systems  
Doug Pollard, Pollard Banknote  
Nancy Bettcher, Pollard Banknote

## **CALL TO ORDER**

There being a quorum present, Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:00 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure asked if there were any changes to the June Minutes. Hearing none, Vice Chairman Marriner made a motion to approve the June Minutes and Commissioner Wagner seconded the motion. The June Minutes were approved by unanimous vote of the Commission.

## **COMMISSION BUSINESS**

Chairman Bonaventure proposed to the Commission that the State statutes pertaining to the Lottery Commission be reviewed for any possible revisions. He proposed that he and Commissioner Reeder review the statutes and make any recommendations to the Commission at next month's meeting.

## **EISNER COMMUNICATIONS**

Mr. David Blum stated Eisner is working on materials for the upcoming fiscal year. Eisner is working on the production of four new television commercials for the scratch-off category, items for the Baltimore Ravens sponsorship, material for the on-line game promotion in September, material for the Maryland Million scratch-off game, and a new radio campaign.

## **POLLARD BANKNOTE**

Mr. Roogow introduced Mr. Doug Pollard and Ms. Nancy Bettcher from Pollard Banknote. He stated part of the instant ticket contract is to provide a Marketing Manager to manage the scratch-off program and have that person reside in Maryland. Ms. Bettcher would be performing those duties for the first three to six months. Ms. Bettcher and Mr. Pollard would be interviewing candidates for the permanent Marketing person. Vice Chairman Marriner asked if the Marketing person would be physically located at the Lottery. The response was yes, they would have an office at the Lottery.

Mr. Pollard thanked the Lottery for the opportunity to work with Maryland. Pollard Banknote will work hard to make the instant program successful for the Lottery. The first game should be released in another month.

Ms. Bettcher stated Lottery personnel are very creative and it is a great atmosphere to be a part of. Vice Chairman Marriner asked where the instant tickets are printed. Mr. Roogow responded they are printed in Ypsilanti, Michigan. Pollard Banknote's head office is in Winnipeg, Canada. The Commission was shown a sample of the upcoming tickets. Mr. Pollard gave a brief history of the company. Chairman Bonaventure thanked Mr. Pollard and Ms. Bettcher for coming and the Commission looks forward to working with them.

### **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated it is now two weeks past conversion and in general things are going well. There are still some issues to work on. Retailers on alternate communications would be moved to VSAT if possible. Chairman Bonaventure asked did the percentage of satellite hook-ups hold true. Ms. Athey responded yes.

Chairman Bonaventure asked what happened with VSATs on federal facilities. Ms. Johnson responded the Lottery was unable to install VSATs on federal facilities, but were able to install VSATs on State facilities.

### **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated he does not have a comparative sales report to present to the Commission today. The Lottery ended the fiscal year with \$501 million in revenue. The Lottery did \$1.560 billion in sales, \$902 million went to the players in prizes and \$102 million went to the retailers in commissions. Currently, the Lottery is doing \$10 million a week in revenue and it is ahead of last year by approximately \$4 million. The Commission offered its congratulations on a successful year.

Mr. Roogow stated the \$49 million Mega Millions jackpot was won in Maryland. The winner has not come forward as yet. The winning ticket was sold at Great Plaza Liquors in District Heights. Commissioner Reeder asked what happens if the winner does not come forward within the 182 day claiming period. Mr. Roogow responded if the winner does not come forward, Maryland would receive its share of the jackpot that created the \$49 million. This has happened once or twice in last several years. The money Maryland would receive would go into the Lottery's Unclaimed Prize Fund.

Mr. Roogow stated it has been approximately two and one-half weeks since conversion took place. He stated Ms. Johnson and her staff as well as Ms. Smith and her staff worked all night into the early morning hours on testing and issues.

Mr. Roogow stated there are 20 to 25 locations out of 4,000 around State that were not on-line as yet. Some locations could not accept VSAT and DSL communications were installed. One area in particular is Lexington Market. There was difficulty in obtaining approval for the VSAT installation and in addition the wiring would have been quite complex. A CDMA was selected for them.

Sales have been sluggish due to the summertime and the new system. Some better retailers have not been able to see sales rise as fast as they would like. The Lottery knew it would have a slight lack of sales at the end of the fiscal year and with the conversion. The Lottery would be running numerous promotions such as the Keno Doubler, the Pick 3 30<sup>th</sup> Anniversary promotion, and the Maryland Million scratch-off with the second chance component.

Mr. Roogow stated the Racetrax game would debut at the State Fair and then would roll out to agent locations.

Vice Chairman Marriner asked when was the last major conversion. Mr. Roogow responded the last conversion occurred in 1996. Vice Chairman Marriner asked if there was any information from that conversion. Mr. Roogow responded in 1996 the system converted from GTECH to AWI. He stated there was some controversy. Legislative hearings were held because of the bidding process and GTECH's protest of the contract award. This conversion is going much more smoothly.

Mr. Roogow stated the MACO conference is being held in Ocean City, Maryland from August 17 to 19, 2006. Please contact Ms. Torosino if you are interested in attending. The Lottery will have a booth there and the theme this year is the Wild West.

Mr. Roogow stated the NASPL Conference will be held in Chicago, Illinois from October 10 to 13, 2006. Please contact Ms. Torosino if you are interested in attending. He stated to keep in mind that the Maryland Million is on October 14, 2006, which is the travel day back from the conference.

Commissioner Reeder stated on behalf of the Commission he wanted to thank the Lottery for all the hard work done in the on-line conversion process.

## **REPORTS**

### *Legal Division* – **Andrea Johnson, Principal Counsel**

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

Ms. Johnson gave the Commission an update on the assignment legislation. There were three petitions to assign lottery prizes filed in Baltimore City Circuit Court. Another issue being reviewed is the ability of foreign business trusts to register in Maryland and do business in accordance with State law. This issue would probably be reviewed by Baltimore City Circuit Court. Also, because there are a significant number of sub-assignments, this issue could go to the Court of Special Appeals.

Ms. Johnson stated the review of the merger of GTECH – Lottomatica was completed by the consultant hired by NASPL. A final report was sent to the Lottery. There do not appear to be any major obstacles to prevent the merger.

Ms. Johnson stated the Attorney General received a request from Ben Cardin as to the Attorney General's position on the proposed federal legislation concerning Internet Gambling Prohibition and Enforcement Act, H.R. 4411. He asked for the Attorney General's support for passing the legislation to combat illegal internet gambling. On July 11, 2006, the bill passed in the House. However an amendment for removal of all exemptions from the bill, including state lotteries and horseracing, was defeated. Copies of the Attorney General's response and H.R. Bill 4411 were included with her report to the Commission. She will keep the Commission updated.

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

Ms. Gina Smith stated she is working on the Fiscal Year 2006 close-out. Stout, Causey and Horning will then come in and convert the year end data to GAAP. The GAAP will be presented at the October Commission Meeting.

Ms. Smith stated AFO continues to work on conversion issues with Scientific Games concerning the Games Management System Accounting Program. It is a great tool and will benefit the Lottery. Chairman Bonaventure asked if the Lottery had access to these types of reports prior to this conversion. Ms. Smith responded yes, but this system is quicker and more user friendly.

Ms. Smith stated the AFO Budget person that prepared the sales and revenue sheets retired in June. His assistant is assuming most of the duties and she is learning quickly and doing a great job. The Sales and Revenue sheet will be available at next month's Commission Meeting.

Ms. Smith stated under the new contract, Scientific Games will provide a Tel-Sell unit. Tel-Sell consists of a supervisor and nine clerical people who will contact the agent network regarding instant tickets. The order is placed into the system and goes to the warehouse where the books are pulled and packed. Pollard Banknote has contracted with UPS where the orders are picked up daily between 5 and 6 p.m. and delivered to the agent locations by the next day. This system is working very well. In addition, Mr. Ollie Brown, Warehouse Manager, can load new games into system that may not launch for month or so. The tickets can then be packed and prepared for shipment when the launch date is set. The entire agent network would receive the new game on the same day whereas before it took two days for the game to be distributed to the entire agent network. After the Tel-Sell rep establishes a relationship with the agents, then the agent will better understand the system and that there is not need for them to hoard inventory.

Commissioner Wagner asked if Tel-Sell handles orders for pencils, ticket stock, etc. Ms. Smith responded Tel-Sell deals with scratch-off tickets only. Scientific Games handles orders for supplies and the agents have a number to call to place orders for supplies.

Commissioner Wagner asked if it is possible to do promotions in only one area of the State. Ms. Smith responded yes, but the Lottery has not run any types of those promotions as yet. Mr. Roogow stated a promotion can be done with one retailer or within one area. For example, the Lottery might want to do a promotion in Territory 1 and 2 then compare the results. Commissioner Wagner asked who would determine the promotion and the area of the State. Ms. Smith responded ideas and suggestions for promotions would be presented to the Director. Commissioner Wagner asked if it would also be presented to the Commission. Mr. Roogow responded all promotions are presented to the Commission.

Commissioner Wagner asked if the agents would still receive the sample tickets for display purposes. Ms. Smith stated all new games should have sample inserts that are packed with the instant tickets. She will check to make sure that this is being done.

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

Ms. Sandy Johnson stated the on-line conversion was relatively successful and some agents were left behind who required alternate communications. She stated she would like to acknowledge all the people at the Lottery who were part of the on-line conversion process who worked long hours everyday on the project.

Commissioner Wagner when would new applicants be installed. Ms. Johnson responded the Lottery would begin with a group of 30 or 40 approvals next week. Applications were still processed prior to conversion and one or two training sessions have been held since conversion.

Chairman Bonaventure extended his thanks to the Lottery staff for all their hard work.

Ms. Johnson stated testing continues on the upcoming Racetrax game.

Ms. Johnson stated IT was approved to purchase the Storage Area Network (SANS) at a cost of \$269,000.

Ms. Johnson stated IT is beginning the process of terminating the telecommunications service formerly provided by Verizon. This would end the State's annual \$4.5 million contract for more than 4,000 lines.

Ms. Johnson stated work completed on the in-house software applications to support the agent commission increase.

Ms. Johnson stated she is continuing recruitment for three vacancies in the IT Division.

*Communications – Jimmy White, Director*

Mr. Jimmy White stated this was a big month for winners. The first \$1 million winner of the \$25 Million Frenzy scratch-off came forward as well as the final \$1 million winner of the \$20 Million Mania. Radio and television interviews were done throughout the State. The \$49 million Mega Millions jackpot was hit but the winner has not come forward as yet. The ticket was sold in District Heights.

Mr. White stated the Director did interviews with the Baltimore Sun and Washington Post on the Lottery's year end numbers as well as numerous television and radio interviews.

Mr. White stated entries for the Maryland Million scratch-off second chance drawing have been received. The first preliminary drawing of six contestants will occur at the on September 2, 2006 at the State Fair.

Mr. White stated the Home Run Derby promotion has given away over \$80,000 to fans of the game. At the end of the season, the \$500,000 prize would be awarded.

Mr. White stated the Pick 3 30<sup>th</sup> Anniversary promotion began last week. Players can win \$30 for matching last two numbers of the Pick 3 number to the last two digits of the serial number on their bonus coupon. In addition, players could win \$30,000 for matching the serial number drawn each evening. At the end of the promotion, the \$300,000 prize would be given away.

A question was asked if these promotions are funded with money from the Unclaimed Prize Fund. Mr. Roogow responded the Lottery accumulated \$10 million at end of last fiscal year. This year we should accumulate approximately an additional \$15 million and that \$25 million is going back into promotions to help the Lottery meet its revenue goal.

Mr. White stated the news clippings were evaluated by Eisner and valued at \$22,513.46. He stated the Promotional Partners Program supplied its promotional partners with \$5,507 worth of scratch-off tickets and received a promotional value of \$101,300 in on-air mentions. The VIP Club has a database of 31,390 members. Merriweather concert tickets were given away to VIP Club members as well as various lottery information.

Mr. White stated Employee Appreciation week is August 7 to 12, 2006. There would be various employee activities held throughout the week. The week ends with the award presentations for Taking Pride in People winners, perfect attendance awards and longevity awards.

Mr. White stated at the Maryland Million race the Lottery would be giving away the \$1 million prize associated with the Maryland Million scratch-off ticket second chance contest. One of the games used in the Ancient Treasures game show would be utilized. The Lottery would start with the 12 randomly selected contestants with one contestant winning the \$1 million prize. Gabrielle Abiera has been invited to host the event. Commissioner Reeder asked what time is the drawing on October 14, 2006. Mr. White

responded the first race is at 12:30 p.m. He stated the Lottery is working with Fox 45 and the drawing would be sometime between 12:00 noon and 5:00 p.m. Chairman Bonaventure asked if the Lottery is sponsoring a race again this year. Mr. White responded yes and there will be a photo opportunity after the race.

*Creative Services – Jill Baer, Director*

Ms. Jill Baer stated she is working on the television commercial for the Maryland Million scratch-off. She stated three weeks of radio advertising was purchased. The plan is to run a variety of commercials on scratch-offs, promotions and language from the Director that it's a new day at Lottery. It will give the Lottery the ability to rotate advertising as marketing priorities change.

Ms. Baer stated Mr. Boh Slots advertising would appear on a number of billboards in the Baltimore area. They will go up today and run through the end of August. Advertising of the Pick 3 30<sup>th</sup> Anniversary promotion would appear on the interior and exterior of transit buses in Baltimore and the DC metro area.

Ms. Baer stated Mr. Boh Slots advertising is featured in the Best of Baltimore issue of Baltimore Magazine. She showed a copy of the magazine to the Commission.

*Product Development and Advertising – Tracey Cohen, Director*

Ms. Tracey Cohen stated Maryland Million scratch-off information was previously covered at the meeting.

Ms. Cohen stated she had 11 new games to present to the Commission this month.

Game #607 *Super Red Hot Crossword* is a \$5.00 ticket with a prize payout of 72.00% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,268,670. If 100% of the tickets are sold, the profit would be \$2,695,936.

Game #608 *Flamingo Bingo Doubler* is a \$3.00 ticket with a prize payout of 67.00% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$1,141,580. If 100% of the tickets are sold, the profit would be \$1,369,949.

Game #609 *Red Hot Doubler* is a \$1.00 ticket with a prize payout of 58.00% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$698,886. If 100% of the tickets are sold, the profit would be \$849,132.

Game #610 *Triple Tripler* is a \$1.00 ticket with a prize payout of 58.37% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$702,572. If 100% of the tickets are sold, the profit would be \$853,468.

Game #611 *Lucky Slots* is a \$1.00 ticket with a prize payout of 58.00% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$712,330. If 100% of the tickets are sold, the profit would be \$864,948.

Game #612 *Bonus 21 or Better* is a \$2.00 ticket with a prize payout of 65.39% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$775,101. If 100% of the tickets are sold, the profit would be \$938,797.

Game #613 *\$10,000 Jacks* a \$2.00 ticket with a prize payout of 65.36% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$769,701. If 100% of the tickets are sold, the profit would be \$932,444.

Game #614 *Tic Tac Turkey* is a \$1.00 ticket with a prize payout of 58.00% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$712,330. If 100% of the tickets are sold, the profit would be \$864,948.

Game #615 *Riverboat Riches* a \$5.00 ticket with a prize payout of 72.00% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,301,709. If 100% of the tickets are sold, the profit would be \$2,734,806.

Game #616 *Wild Winnings* is a \$2.00 ticket with a prize payout of 64.93% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$791,899. If 100% of the tickets are sold, the profit would be \$958,559.

Game #617 *Heads or Tails* is a \$2.00 ticket with a prize payout of 64.53% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$794,760. If 100% of the tickets are sold, the profit would be \$961,925.

Chairman Bonaventure made a motion to approve Game #607 *Super Red Hot Crossword*, Game #608 *Flamingo Bingo Doubler*, Game #609 *Red Hot Doubler*, Game #610 *Triple Tripler*, Game #611 *Lucky Slots*, Game #612 *Bonus 21 or Better*, Game #613 *\$10,000 Jacks*, Game #614 *Tic Tac Turkey*, Game #615 *Riverboat Riches*, Game #616 *Wild Winnings*, and Game #617 *Heads or Tails*. Commissioner Wagner seconded the motion. Game #607 *Super Red Hot Crossword*, Game #608 *Flamingo Bingo Doubler*, Game #609 *Red Hot Doubler*, Game #610 *Triple Tripler*, Game #611 *Lucky Slots*, Game #612 *Bonus 21 or Better*, Game #613 *\$10,000 Jacks*, Game #614 *Tic Tac Turkey*, Game #615 *Riverboat Riches*, Game #616 *Wild Winnings*, and Game #617 *Heads or Tails* were approved by unanimous vote of the Commission.

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

Game #474 *Gold Ticket* was 99.76 % sold with a net profit of \$2,522,885.30.

Game #512 *Jackpot Gold* was 99.86% sold with a net profit of \$3,139,378.54.

Game #513 *Show Me the Money* was 99.79% sold with a net profit of \$1,752,568.02

Game #525 *Hot \$77* was 79.26% sold with a net profit of \$474,732.24.

Game #543 *Cash on the Cob* was 96.33% sold with a net profit of \$851,864.77.

Game #550 *Bushel of Crabs* was 81.99% sold with a net profit of \$399,986.48.

#### *Internal Audit – Michael Eaton, Internal Auditor*

Mr. Michael Eaton stated on-line conversion testing was completed and he is reviewing the testing with the external auditor. He also continues to work on the internal control over financial reporting.

Mr. Roogow stated Mr. Eaton is a great team member and has helped the Lottery with the conversion process. He is very happy to have him working with the Lottery.

#### *Policy and Development – Paul Dorsey, Director*

Mr. Paul Dorsey stated the Lottery is in the process of reviewing State Lottery regulations. Every eight years State agencies are required to review the regulations and make any necessary changes. The Lottery will be reviewing Chapters 1, 5, 7, 8 and 9. He stated he would provide the Commission with any changes to be made. The changes have to be submitted by December 31, 2006 to the AELR Committee.

Chairman Bonaventure asked what is the status of any legislation being submitted by the Lottery. Mr. Roogow stated the Lottery has two pieces of legislation to recommend. The recommended legislation deals with creating exemptions for the Lottery in the procurement and personnel areas. The Commission would be provided a copy. The recommended legislation is due to the Governor's Office in September.

#### *Procurement – Robert Howells, Director*

Mr. Robert Howells stated RFP #2006-10 for Televised Drawings of the Lottery's On-Line Games and Related Services is on schedule. The proposals are due on August 2, 2006.

Mr. Howells stated Consulting Services Related to a Lottery On-Line Gaming Computer System Contract #2005-01 with WhiteSand Consulting needs to be modified in the amount of \$120,000. WhiteSand Consulting has been involved in all four phases to assist and advise the Lottery in the development and implementation of an on-line gaming system. Phases I, II and III have been completed. Phase IV began with the new on-line contract and additional hours are needed to complete Phase IV. The modification was sent to the Department of Budget and Management for inclusion on the August 9, 2006 Board of

Public Works agenda. A copy of the modification was sent to the Commission for their review.

Vice Chairman Marriner made a motion to approve Modification #1 to Consulting Services Related to a Lottery On-Line Gaming Computer System Contract #2005-01. Commissioner Wagner seconded the motion. The motion passed by unanimous vote of the Commission.

Mr. Howells stated he has put together a rough draft for the Advertising Agency Services RFP and forwarded a copy to Ms. Cohen and Ms. Baer to review. Work on the RFP should begin in the next 30 days. Vice Chairman Marriner requested that Mr. Howells send him a copy of the rough draft.

Ms. Smith invited the Commission to see the instant ticket Pick and Pack process at the Lottery's warehouse after today's meeting.

**DATE AND TIME OF NEXT MEETING**

The next Commission Meeting is scheduled for Wednesday, August 23, 2006 at 9:00 a.m. at Lottery Headquarters.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure made a motion to adjourn the meeting and it was seconded by Commissioner Payne. The meeting was adjourned at 10:35 a.m.

Respectfully submitted,



Buddy Roogow