

**MARYLAND STATE LOTTERY COMMISSION
SEPTEMBER MINUTES**

DATE: September 27, 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/CFO
Sandra Johnson, Chief Information Officer, Information Technology
Tracey Cohen, Director, Product Development and Advertising
Jill Baer, Director, Creative Services
Jimmy White, Director, Communications
James Butler, 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: David Blum, Eisner Communications
Sean Athey, Scientific Games Online Entertainment Systems

CALL TO ORDER

There being a quorum present, Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:04 a.m.

APPROVAL OF MINUTES

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

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the sales and revenue sheet contained in the Commissioners folders are for sales through last week. Sales are down \$14 million compared to last year, of which \$11 million is in Mega Millions sales. Last year Mega Millions had higher jackpots. This year Mega Millions is getting hit at low jackpot amounts. The recent jackpot of \$163 million was won in Georgia, and then the jackpot was hit again at \$12 million and again at \$15 million. Sales cannot develop when jackpots hit at those levels.

Mr. Roogow stated other games have been stagnant. Some of the possible reasons are the hot summer weather and gas prices. The new system has experienced some small glitches, but that has only played a small role in lower sales.

Mr. Roogow stated revenues are improving slightly. Last week revenues were down \$1.75 million as compared to last year and this week there has been no substantial change. Payouts on Pick 3 and Pick 4 have been good and Racetrax is doing well with sales at \$500,000 last week. Racetrax sales are averaging \$2,500 to \$3,000 per week per retailer. Mr. Roogow stated the payout for Racetrax is approximately 65%. Keno payout is approximately 60%. There are currently 230 locations up and running with Racetrax and the Lottery is analyzing the impact on Keno. The Lottery hopes to have 700 to 800 locations installed with Racetrax by the end of the year and the Sales team is currently identifying those locations. Commissioner Reeder asked if any other lotteries have the Racetrax game. Mr. Roogow responded the British Columbia Lottery has a similar game and other lotteries are looking at the game.

Mr. Roogow stated there have been some issues with the on-line system experiencing outages and Scientific Games is exploring why this is happening. He stated some issues continue with the financial reports not providing what they should. Ms. Smith and Ms. Johnson are working with Scientific Games on that issue.

EISNER COMMUNICATIONS

Mr. David Blum stated he and Ms. Baer would be combining their reports this morning. Ms. Baer stated the Catch the Poodles promotion is part of the branding image for Let Yourself Play. The Catch the Poodles promotion begins October 2, 2006 and runs through October 29, 2006. It is an nth ticket promotion for all on-line games. Coupons could be marked with one, two or three poodles, and the number of poodles determines the prize amount. Coupons marked with the Let Yourself Play symbol are eligible for a weekly drawing of two \$10,000 prizes. A summary of the Catch the Poodles promotion was distributed to the Commission.

Mr. Blum stated to get the word out quickly on the Poodles promotion, phase one would consist of two street teams posting flyers and talking to people on the street as well as airing a 15-second television spot. Phase two consists of the street teams visiting the top 100 lottery retailer locations to educate the players and airing 30 and 60 second television spots. The street team would also post signs and obtain initial feedback from the store clerks and regular customers. The street team would be wearing pink t-shirts with poodles on the front to gain attention. The Lottery's website would also contain information on the Catch the Poodles promotion.

Mr. Blum showed to the Commission the 15 and 60 second Catch the Poodles promotion television commercials and the poster created for the promotion.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated an enormous effort is being made to get 230 retailers installed with Racetrax and new monitors. Scientific Games is working with the Lottery's Sales staff to train the retailers for Racetrax.

Chairman Bonaventure asked if there have been any software issues. Ms. Athey responded there have been some software issues. Vice Chairman Marriner asked what kind of issues. Ms. Athey stated there has been a small group of problems with the transaction engine (TXE). The TXE server handles all transactions and puts out a lot of chatter from the terminal going back and forth to the system.

REPORTS

Legal Division – James Butler, Assistant Attorney General

In Ms. Andrea Johnson's absence, Mr. James Butler presented the Legal Division report. He stated at the September 11, 2006 court hearing there was an issue raised concerning one of the assignments where an unregistered foreign business trust was seeking to receive the lottery annuity. The case was postponed until September 27, 2006. He will keep the Commission updated.

Mr. Butler stated the Legal Division is working three Maryland Human Relations matters that are pending.

Mr. Butler stated a dispute arose concerning a small procurement. An in-state MBE contended that they should have received preference over the out of state Pennsylvania firm that was awarded the bid. The Maryland State Board of Contract Appeals (MSBCA) ruled in the Lottery's favor and dismissed the appeal. The MSBCA stated that Maryland has no in-state or MBE preference for prime contractors and that no in-state preference exists in Maryland other than a reciprocal preference. Pennsylvania law, like Maryland, offers no in-state preference. A copy of the decision was contained in Legal report to the Commission.

Mr. Butler stated proposed legislation by the Lottery and Commission was reviewed and submitted by the Lottery to the Legislative Office in Annapolis.

Mr. Butler stated the Racetrax Game agreements with Scientific Games were signed, including the agreement where SGI holds all legal rights to the game.

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

Ms. Gina Smith stated the Lottery submitted its FY2008 budget request to the Department of Budget and Management. It was within the baseline provided by the Department of Budget and Management and totaled \$58.2 million.

Ms. Smith stated Accounting is working towards the October 1, 2006 deadline to have the GAAP submitted to the General Accounting Division. Once the GAAP is completed, the Commission will receive the monthly financial statements.

Ms. Smith stated the Human Resources Division is recruiting for various positions in IT and the Sales Divisions.

Ms. Smith stated Sales is supporting the Poodles promotion by making sure point of sale is posted at retailer locations and also training the retailers who are selling the Racetrax Game. Sales is also working on future promotions. Today the Regional Sales Managers are attending a training class titled the Perfect Sales Call.

Ms. Smith stated she is working to support the assignment legislation. Two assignments have been approved and the third one is in Court today. Four additional assignments requests have been received. Over 400 annuitants have less than five years remaining in their annuity payments.

Vice Chairman Marriner asked if any action has been taken to fill the Deputy Director of Sales positions. Ms. Smith responded no action has been taken as yet.

Commissioner Reeder asked why no data was listed on AFO's report for Agent Plus claims processed. Ms. Smith responded none have been processed due to an issue with the W2G file since the conversion. She is working to resolve this matter.

Information Technology – Sandy Johnson, Chief Information Officer

Ms. Sandy Johnson stated work continues to identify any open items that need to be fixed since conversion. The list has gone through several reviews by Scientific Games and the Lottery. A release was done for the Poodles promotion software and some other software changes. The next release is due in the December/January timeframe to address other items.

Ms. Johnson stated the Racetrax game was launched on August 25, 2006 at the State Fair. Software for Racetrax and other improvements was to be downloaded to all lottery retailers and locations for Racetrax, but this failed and only 600 retailers were downloaded and the first 50 Racetrax retailers were not part of the 600 downloaded. Scientific Games sent field technicians to those locations to install the software manually.

Ms. Johnson stated there was a system outage on September 18, 2006. When the system came back up, Keno and Racetrax were still down for a period of time. Also during the month, there were incidents with Keno monitors freezing and not showing the drawings. Racetrax was similarly affected. Vice Chairman Marriner asked is there a liability to Scientific Games for these outages. Mr. Roogow responded yes, but it has not been calculated as yet. Vice Chairman Marriner asked how does this on-line conversion compare to the last on-line conversion. Mr. Roogow responded there were more issues during the last conversion. Vice Chairman Marriner asked if the Lottery is pleased with the on-line conversion thus far. Ms. Johnson responded the Lottery is generally pleased with Scientific Games.

Ms. Johnson stated work continues to move retailers with cellular communications to DSL or VSAT.

Ms. Johnson stated IT is working with Scientific Games and other Lottery Divisions on the requirements for the Raffle promotion.

Ms. Johnson stated IT continues to work to support the assignment bill. Testing by IT is near completion and should be turned over to the Lottery's Claims Division for further testing by October or November.

Ms. Johnson stated recruitment to fill IT vacancies are in various phases. One vacancy was filled at the end of August and another vacancy was filled by promoting someone internally. The other vacancies should be filled by the end of October.

Ms. Johnson stated she continues to work with Verizon to terminate Telco services and make payment on the final bill.

Ms. Johnson stated testing was completed for the poodles promotion software and open items included in the October software release.

Chairman Bonaventure stated revenue is down approximately \$1.9 million and asked how much of that is associated with conversion problems and how much is attributed to system downtime. Ms. Johnson responded that is difficult to answer, but some loss of revenue could be attributed to terminal problems.

Communications – Jimmy White, Director

Mr. Jimmy White stated Communications has participated in various events throughout the State. Communications had a booth set up at the Jon Stewart concert at Merriweather, the Alan Jackson concert at First Mariner Arena, the Stone Soul Picnic in Rockville, and the State Fair where Racetrax was introduced. At the MACO conference, the Lottery won the prize for best costume.

Mr. White stated the news clipping were evaluated by Eisner and were valued at \$20,838.13. Approximately 20 newspaper articles appeared in various publications between July 19, 2006 and August 30, 2006, including articles on winners throughout the State, the Pick 3 30th Anniversary promotion, selling lottery tickets at Ravens stadium, and the launch of the Racetrax game.

Mr. White stated VIP Club members were awarded tickets to concerts and given information regarding promotions and jackpots. There are currently 31,918 members in the database of which 16,211 receive emails.

Mr. White stated upcoming events include the Legacy Chase at Shawan Downs in Hunt Valley, the Maryland Million promotion, Taste of Baltimore, as well as Ravens and Redskins games.

Mr. White stated 51,000 entries have been received for the second chance component of the Maryland Million scratch-off game. Six finalists were chosen in September and six more finalists would be chosen on October 4, 2006. These 12 finalists would then participate in the grand prize drawing event on October 14, 2006.

Mr. White stated the Home Run Derby promotion is coming to an end. The grand prize winner is coming to the Lottery this afternoon to complete the claims process. There were 55,000 entries received for this promotion.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated she presented the majority of her report earlier in the meeting. She stated promotion of the Maryland Million scratch-off ticket as well as race day activities

are being promoted on WBFF. She stated advertising support materials are being developed for the Countdown to Millions raffle ticket.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated there were no new games to present to the Commission this month.

Ms. Cohen distributed to the Commission information on the Countdown to Millions game. She stated the ticket cost is \$20 and 420,000 tickets would be sold. Tickets sales begin November 20, 2006 and would run through December 30, 2006. The winning number drawings would take place on New Year's Eve. Winning numbers would be made public through the Lottery's website and retailer information sheets. The proposed profit for this game is estimated at \$2.3 million. The Lottery would be giving away \$4.9 million in prizes. There will be four \$1 million prize winners, eight \$50,000 prize winners, 200 \$1,000 prize winners, and 600 \$500 prize winners. If this game is successful, then the Lottery may run another one during the year. Both Pennsylvania and Ohio have done similar games.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he is working on the Agency review process and has been interviewing Division employees and preparing flow charts. He is reviewing the claims process, Human Resources, payroll, and accounts receivable. He will review three more Divisions in November. He stated he is working with the Communications Division on the second chance promotional drawings.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated a Pennsylvania gaming legislative bill was introduced to modify the gaming law. Until this bill is passed, all VLT licenses would be put on hold. It could be the fourth quarter of 2007 before VLTs are operating.

Procurement – Robert Howells, Director

Mr. Howells stated the Commission was given for their review and approval a copy of COMAR Chapter 8 – Rules of Procedure for Commission Hearings with proposed revisions. The Lottery must submit its evaluation report covering COMAR Chapters 1, 5, 7, 8 and 9 to AELR by the end of 2006. The Commission requested that they be given each chapter as it is revised and then they will approve all the chapters at one time.

Mr. Howells stated the Televised Drawings RFP Evaluation Committee conducted site visits at the Offerors facilities which they had not anticipated doing. Also, the Evaluation

Committee found the need to consult with Eisner for assistance with the television ratings comparisons. Due to the need for the site visits and additional time needed to complete the evaluation process, the date to present the recommendation to the Board of Public Works was moved to December 6, 2006.

Mr. Howells stated with the additional time needed for the evaluation and the need for the new contractor or incumbent to design and build new sets and security cages, the Lottery is requesting a contract extension of the current televised drawings contract with WJZ-TV for a not to exceed 60 day period with the option to terminate. Chairman Bonaventure made a motion to approve the extension of the current televised drawings contract with WJZ-TV for a not to exceed 60 day period with the option to terminate. The motion was seconded by Vice Chairman Marriner. Motion passed by unanimous vote of Commission.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, October 25, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure motioned to adjourn the meeting. The meeting was adjourned at 10:18 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Buddy Roogow".

Buddy Roogow