

**MARYLAND STATE LOTTERY COMMISSION
OCTOBER MINUTES**

DATE: October 25, 2006
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Commissioner Osborne Payne
Commissioner Bruce Reeder
Commissioner George Wagner

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Tracey Cohen, Director, Product Development and Advertising
Jill Baer, Director, Creative Services
Carole Everett, Assistant Director, Communications-Public Affairs
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

CALL TO ORDER

In Chairman Bonaventure's absence, Commissioner Wagner conducted the meeting. He called the meeting to order at 9:15 a.m. He stated currently a quorum is not present and that he would begin the meeting with each Division's report. All other matters would be held until a quorum is present.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated Scientific Games is currently working on the installation of Racetrax locations. There are 327 agents installed and they are averaging approximately \$2,600 per week in sales. Scientific Games is monitoring any effect Racetrax might have on Keno. Preliminary research shows that players like to play both Keno and Racetrax. She stated Scientific Games has been receiving phone calls from other agents requesting the game. The goal is to have 1,000 agents installed with the Racetrax game over the next few months. Commissioner Reeder asked if Racetrax locations are being installed by geographic areas. Ms. Athey responded yes. Mr. Roogow asked if there were any Racetrax agents located in the Frederick area. Ms. Athey responded she would provide a list of Frederick area Racetrax retailers to Commissioner Reeder.

Commissioner Wagner stated he spoke with two people in the past month who are trying to get Keno and Lotto and asked once they are approved, how long does it take for terminal installation. Ms. Athey responded installation of VSAT or CDMA usually takes ten days. If it is DSL communications, it takes longer. However, most of the communications installations are VSAT. Commissioner Wagner asked what is the length of time from the request for an application to the time of approval. Mr. Roogow responded it usually is an average of four to eight weeks unless there are issues concerning security or financial clearances.

Commissioner Reeder asked was the Racetrax game well received at the Maryland Million race. Ms. Athey responded Racetrax was very well received. Mr. Roogow responded Racetrax sales are averaging \$2,600 to \$2,700 per week and he hopes that sales continue to grow. Commissioner Reeder if any one Racetrax location is doing better than another. Mr. Roogow responded Cub Hill Citgo was averaging \$30,000 to \$40,000 a week in sales and last week their sales were \$53,000. However, yesterday their sales were only \$214.

CALL TO ORDER

At 9:22 a.m. Commissioner Wagner officially called the Commission meeting to order stating there was a quorum present.

APPROVAL OF MINUTES

Commissioner Wagner asked if there were any changes to the September Minutes. Hearing none, Commissioner Payne made a motion to approve the September Minutes and Commissioner Reeder seconded the motion. The September Minutes were approved by unanimous vote of the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated Pick 3 sales are slightly behind last year while Pick 4 is gaining. Both games are now growing. He stated Keno sales are a bit slow. A Keno Doubler/Tripler Sprinkler promotion is scheduled for next month. Instant sales are up slightly. The majority of sales loss is in Mega Millions with sales down \$13 million as compared to last year. He stated Multi-Match sales and Bonus Match 5 sales are steady. Sales for the Racetrax game are \$2.5 million. Total sales for all games are \$14 million behind compared to last year.

Mr. Roogow stated revenues are \$5.8 million behind compared to last year. Of that reduction in revenue, one-half of one percent or approximately \$2.5 million, is due to additional agent commissions.

Mr. Roogow stated Ms. Sandy Johnson is retiring in December 2006. She has done a wonderful job for the Lottery and she will be missed.

Mr. Roogow stated he recently attended the NASPL Conference in Chicago and he gave a talk on monitor games. The conference was very informative and there were many outstanding speakers.

Mr. Roogow stated the second chance component associated with the Maryland Million instant ticket was a success. He stated a tape of the show would be shown at next month's Commission meeting. Ms Gabrielle Abiera hosted this game type show at Laurel racetrack. There were 12 contestants and through a process of elimination, one player was awarded the top prize. Mr. Anthony Stubbs from Cambridge won the \$1 million top prize. Very positive comments were received regarding this promotion.

Mr. Roogow stated the Countdown to Millions game would begin on November 20, 2006. This is a limited edition game and only 420,000 tickets would be sold through the on-line terminal.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated the assignment litigation hearings went well last month. In one of the assignment cases, there was an issue before the Court concerning the ability of a

foreign business trust not registered in Maryland seeking a prize payment assignment. The Court agreed with the Lottery that any company seeking to receive lottery payments must be registered in Maryland to do business in Maryland.

Ms. Johnson stated in the second assignment case, the Court approved the assignment. However, the Comptroller's Office filed a jeopardy assignment against the annuitant and the finance company because the finance company was not going to collect State withholding taxes from the lump sum payment. The Comptroller's Office asked the Lottery not to proceed until the issue was resolved. The finance company agreed to pay the money to the Comptroller at the time of settlement.

Ms. Johnson stated Legal assisted the Lottery with the game rules and second chance drawings for the Maryland Million event.

Ms. Johnson stated a trademark registration was file earlier this year for the Multi-Match name and logo. The Lottery has received a Notice of Allowance from US Patents and Trademarks.

Ms. Johnson stated HR 4411 Internet Gambling Enforcement Act passed. This bill deals with the use of credit cards on the internet. She will provide the Commission with a full report at next month's meeting.

Ms. Johnson stated the NASPL Legal Subcommittee recently met in Myrtle Beach. Ms. Laura Tilley was to be a guest speaker but was unable to attend due to the death of her father.

Information Technology – Sandy Johnson, Chief Information Officer

Ms. Sandy Johnson stated IT has been busy with post-conversion issues. IT is working to address the Open Items List. The list is being prioritized and some issues have been resolved. The Poodle software release was included with the October release.

Ms. Johnson stated the WhiteSands contract has ended. Additional hours were needed and the contract was amended. The additional hours were related to the Racetrax game software testing.

Ms. Johnson stated one of the improvements with the new on-line system is the GMS reporting system. There are still a few issues to resolve. Retailer complaints have been discussed with Scientific Games and changes to the reports have been identified.

Ms. Johnson stated 300 locations are currently installed with Racetrax and 107 locations would be installed over the next few weeks.

Ms. Johnson stated a system problem occurred during the week of September 29, 2006. When the Poodles software was downloaded, agents could not sign onto the system or place wagers for three hours. Scientific Games has taken steps to prevent this issue in the future.

Ms. Johnson stated work continues to move agents with cellular communication to VSAT or DSL communications. Cellular communications do not work as well with the on-line system as VSAT and DSL.

Ms. Johnson stated the Business Requirements Specification was completed for the Countdown to Millions promotion. Following review by the Lottery Divisions, it will be forwarded to Scientific Games for systems design and programming.

Ms. Johnson stated the assignment bill system should be in place by the end of October to support any approved assignment payments.

Ms. Johnson stated the vacant positions for Manager of Systems and Programming and Computer Operator were recently filled. New personnel would begin on November 8, 2006. There are still two vacancies remaining and recruitment is being conducted.

Ms. Johnson stated she is working with Verizon to terminate the old communications system and this is nearing completion. The final payment amount is pending.

Ms. Johnson stated IT is working on the requests for the Holiday Keno Doubler/Tripler Sprinkler Keno promotion and an instant pouch game.

Communications – Carole Everett, Assistant Director - Public Affairs

In Mr. Jimmy White's absence, Ms. Carole Everett presented the Communications Division report. She stated Communications participated at the Mid-Atlantic Food and Beverage Expo at the Convention Center, the Maryland Association of Realtors Conference in Ocean City, the Legacy Chase at Shawan Downs, at Ravens games and Redskins games, the Taste of Baltimore, the Taste of Bethesda, and the Baltimore Marathon.

Ms. Everett stated that Maryland Million second chance promotion drawing was conducted at Laurel Park on October 14, 2006. Mr. Anthony Stubbs from Cambridge won the grand prize of \$1 million and Mr. Bob Ignatowski from Parkton won the second prize of \$25,000.

Ms. Everett stated 11 news clipping were evaluated by Eisner and valued at \$3,944.94. These articles appeared in Western Maryland, Baltimore County, Eastern Shore and Frederick area newspapers.

Ms. Everett stated the Promotional Partners Program supplied its promotional partners with \$5,848 worth of scratch-off tickets and received a promotional value of \$89,400 in on-air mentions.

Ms. Everett stated 13 contacts were made with VIP Club members regarding jackpot information and concert tickets. Current VIP Club membership is 33,000.

Ms. Everett stated the second chance promotions are winding down. Maryland Million second chance promotion received 55,000 entries. The \$25 Million Frenzy second chance promotion has received 112,000 entries.

Ms. Everett stated the winner of the \$500,000 grand prize in the Mega Millions Home Run Derby second chance promotion was Janice Brink from Curtis Bay.

Ms. Everett stated the Catch the Poodles promotion has had two \$10,000 winners thus far from Upper Marlboro and Suitland. She stated the Countdown to Millions promotion starts on November 20, 2006.

Ms. Everett stated Ms. Paulina Nicolaidis, the Lottery's webmaster has left the Lottery to work for another State agency. Mr. Doug Lloyd will take over as the webmaster.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated she would have a copy of the Maryland Million drawing to show the Commission next month.

Ms. Baer stated she is working on the advertising development for the scratch-off pouch game. She stated the Mega Millions Home Run Derby winner was announced on television last night during the third game of the World Series. The spot was shot at Camden Yards and featured the Director and the winner. She stated the Director would be featured on Fox 45 doing the Pigskin Picks.

Ms. Baer stated advertising to support the Poodles promotion would continue through the end of the week.

Ms. Baer stated the television commercial for the Countdown to Millions promotion is being shot and she expects the first rough cut today. She will show it to the Commission at next month's meeting.

Ms. Baer stated work has begun on the advertising of the holiday scratch-off tickets. The Hampden Lights commercial would be brought back again. The Lottery has used this ad for five or six years. Commissioner Wagner asked if royalties had to be paid. Ms. Baer responded those people who are shown in it are paid royalties. The Lottery negotiates a seasonal rate. The ad only runs in the Baltimore market.

Commissioner Reeder asked if the Lottery would be advertising during the Terps basketball games this season. Ms. Baer responded after all the information is gathered, she would make a recommendation.

Product Development and Advertising – Tracey Cohen, Director

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

Game #630 *Cashino* is a \$5.00 ticket with a prize payout of 71.98% and a print run of 3 million tickets. If 85% of the tickets are sold, the profit would be \$2,321,261. If 100% of the tickets are sold, the profit would be \$2,757,808.

Game #631 *Fabulous Fortune* is a \$10.00 ticket with a prize payout of 74.96% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$2,417,019. If 100% of the tickets are sold, the profit would be \$2,870,465.

Game #629 *Hugs & Kisses* is a \$2.00 ticket with a prize payout of 63.98% and a print run of 960,000 tickets. If 85% of the tickets are sold, the profit would be \$251,065. If 100% of the tickets are sold, the profit would be \$327,366.

Commissioner Payne made a motion to approve Game #630 *Cashino*, Game #631 *Fabulous Fortune*, and Game #629 *Hugs & Kisses*. Commissioner Reeder seconded the motion. Game #630 *Cashino*, Game #631 *Fabulous Fortune*, and Game #629 *Hugs & Kisses* were approved by unanimous vote of the Commission.

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

Game #505 *Frosty the Doughman* was 98.09% sold with a net profit of \$1,266,202.90.

Game #506 *Happy Holidays* was 99.80% sold with a net profit of \$1,666,071.86.

Game #508 *Lucky Slots* was 93.80% sold with a net profit of \$774,127.11.

Game #516 *Monte Carlo* was 99.92% sold with a net profit of \$2,256,278.75.

Game #517 *Do-It-Yourself Dollars* was 99.85% sold with a net profit of \$1,675,761.16.

Game #534 *Cash Craze* was 91.67% sold with a net profit of \$642,107.75.

Game #537 *Tic Tac 2's* was 96.00% sold with a net profit of \$707,464.63.

Game #551 *2 Bushels of Crabs* was 60.93% sold with a net profit of \$362,541.81.

Game #554 *Wild 7's Doubler* was 98.22% sold with a net profit of \$748,100.81.

Game #569 *A Wreath of Franklins* was 98.34% sold with a net profit of \$399,593.85.

Mr. Roogow asked Ms. Cohen to explain to the Commission why the \$25 Million Frenzy scratch-off ticket was pulled. Ms. Cohen responded with the upcoming Countdown to

Millions promotion and other ongoing promotions, the Lottery decided to temporarily pull the \$25 Million Frenzy scratch-off ticket. The ticket would be re-released in January 2007.

Commissioner Wagner asked for an explanation of the Countdown to Millions promotion. Ms. Cohen stated this is a \$20 ticket and only 420,000 tickets would be sold. Tickets sales begin on November 20, 2006 and 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. There will be four \$1 million prize winners, eight \$50,000 prize winners, 200 \$1,000 prize winners, and 600 \$500 prize winners.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he observed the Maryland Millions second chance drawing as well as the Poodles promotion drawing this month. Everything went well

Mr. Eaton stated he recently attended the AICPA audit conference in Las Vegas.

Mr. Eaton stated he has been performing a review of internal control over financial reporting. He has identified an initial assessment of 66 sub-processes and 57 documented after identified controls.

Procurement – Robert Howells, Director

Mr. Howells stated last month he informed the Commission that the Evaluation Committee determined the need for a consultant to assist with the evaluation of the Televised Drawings RFP and that work is currently being performed. A report is due on October 31, 2006. As soon as it is received, a recommendation would be made. He would have additional information at next month's meeting.

Mr. Howells stated the current Televised Drawings Contract with WJZ has been extended and would be presented to the Board of Public Works on November 1, 2006. This contract extension runs through January 2007.

Mr. Howells stated included with his report for the Commission's review was a copy of revised COMAR Chapter 7 – Agency Procedures Under the Public Information Act. He stated that Chairman Bonaventure indicated that the COMAR chapters should be submitted to the Commissioners as they are completed. Once the Commission receives all the revised chapters, they would then make a motion to approve the revised COMAR chapters. Mr. Howells stated next month the Commission would receive the remaining three chapters. The revised COMAR chapters are due by December 31, 2006 to AELR.

COMMISSION COMMENTS

Commissioner Reeder stated that on Ms. Smith's report to the Commission no information was listed for the number of Agent Plus claims processed. Ms. Johnson responded that after conversion there was a problem with the processing of the W2Gs and they will be processed over the next month.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, November 22, 2006 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Commissioner Wagner requested a motion to adjourn the meeting. Commissioner Reeder made a motion to adjourn and it was seconded by Commission Payne. The meeting was adjourned at 10:15 a.m.

Respectfully submitted,

Buddy Roogow