

**MARYLAND STATE LOTTERY COMMISSION
DECEMBER MINUTES**

DATE: December 19, 2006
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank Bonaventure
Vice Chairman E. Randolph Marriner
Commissioner Bruce Reeder

Buddy Roogow, Director
Gina Smith, Assistant Director, CFO
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Jimmy White, Director, Communications
Jill Baer, Director, Creative Services
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
Tom Hollerbach, Trahan, Burden & Charles
Paige Fadden, Trahan, Burden & Charles
Alice March, Maryland Lottery Agents Association
Jane Springer, Maryland State Licensed Beverage Association

CALL TO ORDER

There being a quorum present, Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:08 a.m.

APPROVAL OF MINUTES

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

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated it has been a great week in sales. The Lottery is going into the end of the year in a good position. The Racetrax game has been installed at 700 agent locations. The goal is to install 1,000 Racetrax locations by the first few weeks of January 2007. To date, sales for Racetrax have been over \$11 million. Chairman Bonaventure said at last month's meeting it was stated there was a 9% cannibalization rate and asked if this rate is still true. Ms. Athey responded yes and Scientific Games would continue to monitor this.

TRAHAN, BURDEN & CHARLES

Mr. Roogow introduced Mr. Tom Hollerbach, President of Trahan, Burden & Charles. He also introduced Ms. Paige Fadden who worked with the Lottery under the Eisner contract and is now with Trahan, Burden & Charles working in Public Relations. Mr. Hollerbach stated he formerly worked at the ad agency that handled the advertising for the California Lottery.

Chairman Bonaventure stated the Commission would not be voting on the advertising agency contract this morning because there is not a quorum of independent Commissioners present. Vice Chairman Marriner stated he is abstaining from the vote because he worked on the emergency procurement for advertising. Chairman Bonaventure stated he is also abstaining from the vote because his law firm currently does work for Trahan, Burden and Charles. Chairman Bonaventure stated that this meeting would temporarily adjourn and would reconvene by phone today at 4:00 p.m. to include Commissioners Wagner and Payne who are currently not present.

DIRECTOR'S REPORT

Mr. Roogow introduced Ms. Jane Springer, Executive Director of the Maryland State Licensed Beverage Association and Ms. Alice March, the current President of the

Maryland Lottery Agents Association. Mr. Roogow welcomed them both and stated he looks forward to a continuing partnership with their Associations.

Mr. Roogow stated Pick 3 sales are improving and Pick 4 continues to exceed last year's sales. Although the combination of Keno and Keno Bonus sales is behind last year, Keno sales have been very strong. Mega Millions sales are down 40%. Countdown to Millions is more than one-third sold. There are a total of 420,000 tickets to sell. Advertising for the game begins tomorrow on television and radio. Mr. Roogow stated he would be meeting with staff today to develop a process to extend the Countdown to Millions game if it does not sell out by New Year's Eve. He stated yesterday evening, he and Brian Johnson prepared a series of spots for television for the time reserved on WJZ-TV Channel 13 to air the Countdown to Millions drawing.

Mr. Roogow stated Racetrax continues to perform well with approximately 700 agents installed and another 100 about to be installed.

Mr. Roogow stated Lottery revenue is gaining with the shortfall decreasing from approximately \$15 million to approximately \$9 million.

Mr. Roogow stated a transition team for the new Administration has not yet been assigned to the Lottery.

Mr. Roogow stated the Lottery is preparing for the upcoming legislative session and preparing to testify concerning the Lottery's budget.

Vice Chairman Marriner asked if the Countdown to Millions spot was available. Ms. Baer played the Countdown to Millions radio spot and television spot, and showed the Commission the print ad that would appear in the Sunpapers.

Commissioner Reeder congratulated Mr. Roogow on being elected Director of Region I of NASPL Executive Committee.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson presented one revocation to the Commission. She stated Rita's Mini Mart is located at 6920 Donachie Road, #101, Baltimore, Maryland 21236. On November 13, 2006, the agent was sent a letter of revocation stating that the revocation was based on defaulted weekly settlements. The agent currently owes the Lottery \$2,919.86. A lien was filed on May 11, 2006. The Post Office attempted delivery of the certified letter sent to the business address and the letter currently remains unclaimed at the Post Office. A copy of the letter was also sent by regular first class mail to the home address. Once the agent is given adequate notice, he has 10 days to file an appeal. A Summary of Facts was previously sent to the Commission. Chairman Bonaventure stated based upon the presentation, he made a motion to accept the revocation of the lottery license of Rita's Mini

Mart and Vice Chairman Marriner seconded the motion. The lottery license of Rita's Mini Mart was revoked by unanimous vote of the Commission.

Ms. Johnson stated in regards to prize assignments, two hearings were held in November 2006 and the court granted the assignments. In December a court hearing was held to assign partial assignment of a prize, the finance company contract contained a clause that the annuitant could be charged liquidated damages if they sold the remainder of the prize to another finance company. After her office cited several consumer protection concerns, the finance company agreed to remove the clause from the contract. Ms. Johnson stated revisions to the assignment statues would be necessary in order to protect lottery winners. Chairman Bonaventure asked if the same judge has been hearing all the assignment cases. Ms. Johnson responded the same judge has been hearing these cases.

Ms. Johnson stated a court hearing was held in Baltimore County District Court concerning a lawsuit filed by Merjo Advertising and Sales. Merjo was assessed \$3,600 in liquidated damages for failure to timely deliver the product. Merjo objected to the liquidated damages and he also did not pursue his legal rights in a timely manner. The District Court Judge ruled in the Lottery's favor and the case was dismissed.

Ms. Johnson stated she has been working with the Lottery in regard to the default of Eisner on the Advertising Services Contract. Her office has also been coordinating calls and correspondence from third party vendors and their counsel seeking payment from the Lottery.

Ms. Johnson stated the Keno Bonus Multiplier Patent is in litigation. Depositions will be scheduled for early January 2007.

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

Ms. Gina Smith stated she is working with IT and Scientific Games to finish the W2G process by the end of next month so they can be sent to lottery winners.

Ms. Smith stated the Sales team has been putting in extra hours promoting the Countdown to Millions game for past three weekends at mall locations and retail outlets. Sales staff have also been working at the Ravens games. Over 30 Countdown to Millions tickets have been sold at each of these events.

Ms. Smith stated Sales continues to recruit locations for expansion of the Racetrax game. The goal is to have 1,000 locations up and running by the end of January 2007.

Ms. Smith stated by January 2007 the Lottery should have a printed copy of the CAFR and a copy would be provided to the Commission. The Commissioners received the September Financial Statement and the October and November Financial Statements would be available next month. She stated she would begin review of the Mega Millions Agreed Upon Procedures. Ms. Smith stated a copy of the SAS 70 Audit Report done by Stout,

Causey and Horning was previously provided to the Commission and she is meeting with the auditor this afternoon to review the report.

Ms. Smith stated a few questions were received from the Department of Budget and Management, Bureau of Revenue Estimates and Legislative Analyst regarding the Lottery's FY2008 budget request. Ms. Smith is currently working on a sales analysis to include FY2001 to the present.

Chairman Bonaventure asked when does the contract with Stout, Causey and Horning (SCH) end. Ms. Smith responded two additional one-year renewal options remain. She stated the Lottery is pleased with their work. SCH recently assigned a new member to work with the Lottery. Chairman Bonaventure asked if SCH has a rule that they have to rotate partners after so many years. Ms. Smith responded she did not know and would obtain the answer to that question.

In Ms. Cohen's absence, Ms. Smith presented one new game to the Commission this month.

Game #644 *Casino Cash Out* is a \$10.00 ticket with a prize payout of 75.00% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$2,449,696. If 100% of the tickets are sold, the profit would be \$2,908,908.

Vice Chairman Marriner made a motion to approve Game #644 *Casino Cash Out*. Chairman Bonaventure seconded the motion. Game #644 *Casino Cash Out* 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 #502 *Luck of the Dice* was 98.97% sold with a net profit of \$963,588.98.

Game #541 *Wild Cash Doubler* was 99.91% sold with a net profit of \$2,587,965.26.

Game #565 *Purple Passion* was 98.83% sold with a net profit of \$1,330,451.28.

Game #574 *Candy Cane Cash* was 98.77% sold with a net profit of \$1,352,734.20.

Game #575 *Downhill Double Dollars* was 98.17% sold with a net profit of \$677,592.80.

Commissioner Reeder stated in reading Ms. Smith's report, he notes that Mr. Leslie Cox of Cox General Services sent a letter of complaint to Scientific Games. He asked if Scientific Games had responded to Mr. Cox. Ms. Smith responded the Lottery is waiting for Scientific Games' written response as to how they would handle the complaint. Scientific Games utilizes Cox General Services for installation of Racetrax at agent locations. Cox General Services has also filed complaints prior to the current one. Commissioner Reeder asked if Cox General Services had filed a letter of complaint with the Lottery. Mr. Howells responded he received a copy of the complaint and sent a letter of acknowledgment to Cox

General Services. Mr. Howells stated the Lottery is deferring any response to Cox General Services until it receives and reviews Scientific Games' response.

Information Technology – Sandra Johnson, Chief Information Officer

Ms Sandra Johnson stated she would be retiring at the end of December 2006 and this is her last attendance at the Commission meetings. There are some issues still remaining to be completed and she is leaving things in good shape for the next person.

Ms. Johnson stated when conversion began there were 225 open issues and currently there are 40 open issues, both small and large. Release number three is coming out in February 2007 and should address the remaining 40 items. There will always be ongoing issues that will arise.

Ms. Johnson stated the launch of the Countdown to Millions game was successful. IT is working with Communications on the drawing plan and development of the webpage for players to check the winning numbers.

Ms. Johnson stated she forwarded to the Lottery's Legal Division the Escrow Agreement in the event any problems arise with Scientific Games. In that event, the Director would be able to obtain Scientific Games' program source code and continue to operate the Lottery. The Lottery had an Escrow Agreement as part of the previous contract.

Ms. Johnson stated IT is working with Scientific Games to obtain more information on hotline calls from the retailers. The information would help IT to see the number and type of problems retailers are experiencing so that it could develop strategies to address and reduce the number of calls. These reports should be available to Lottery by the end of the year.

Ms. Johnson stated Racetrax is currently installed at 712 locations with an additional 255 to be installed.

Ms. Johnson stated all hardware and software maintenance agreements are in place and up to date. The Lottery currently renewed the three year software agreement with Microsoft.

Ms. Johnson stated IT continues to work with Verizon to terminate the telecommunications services for the old system and determine the final payment. The Department of Budget and Management is also working with Verizon to resolve this issue.

Ms. Johnson stated she completed the updates to the Agency Disaster Recovery Plan and Agency Data Security Plan.

Ms. Johnson stated it has been a pleasure to serve the Lottery and the State and she wishes everyone a Happy New Year. On behalf of the Commission, Chairman Bonaventure thanked Ms. Johnson for her services to the Lottery and the State.

Communications – Jimmy White, Director

Mr. Jimmy White stated Communications has been busy in November and December promoting the Lottery at Mall locations across the State. They visited Reisterstown Road Plaza, Harford Mall, Arundel Mills Mall, and Westfield Mall. Communications has been working with the Sales team promoting the Countdown to Millions game to make up for the lack of advertising. Everyone has done a great job.

Mr. White stated that the Lottery would continue its presence at M&T Bank Stadium on Ravens Walk through the end of the season and possibly the playoffs. Chairman Bonaventure commented that the Lottery has done a great job at these games. Mr. White stated that Doug Lloyd, the two year member of the Communications Division, sets up and runs the operation on Ravens Walk. Carole Everett works with the Director on the Tailgate Patrol and both Communications and Sales staff man the booth.

Mr. White stated yesterday evening two versions of six one-minute spots for Countdown to Millions was taped for airing on WJZ-TV between 10:00 p.m. and 12:30 p.m. on New Year's Eve.

Mr. White stated he is working with the new televised drawings station, WBAL-TV. The Lottery Director recently approved the floor plan and set design, and construction is underway on the space. This week he is working on the timing portion of the drawing.

Mr. White stated Ms. Everett has been acting as the Lottery's gift guru again this year on TV and radio.

Mr. White stated this week the Lottery Minute would feature Carole Everett, Brian Johnson and Roslyn Nelson. The Lottery Minute runs on Friday mornings.

Mr. White stated beginning next month, the news articles would be evaluated by Trahan, Burden and Charles.

Mr. White stated Promotional Partners supplied it partners with \$4,550 worth of scratch-offs and received a promotional value of \$140,626 in on-air mentions.

Mr. White stated the VIP Club currently has 33,112 in its database with 16,323 receiving e-mails. In November, nine contacts were made regarding giveaways and informational updates.

Creative Services – Jill Baer, Director

Ms. Baer stated Lottery advertising would begin again on December 20, 2006 on television and radio. Print advertising has already begun. She is working with Trahan, Burden and Charles on an agreement with the billboard vendors to continue advertising with them.

Ms. Baer stated the Keno Sprinkler promotion is currently running through January 7, 2007. Mr. Roogow stated it is an extremely successful promotion, bringing in approximately \$1 million per week.

Ms. Baer stated to give the Pick 3 game a boost, a promotion is being developed to begin on February 5, 2007.

Ms. Baer stated she is working with Pollard Banknote on a \$10 party pack scratch-off. It would be a pre-packaged pack of \$2 scratch-off tickets. She stated the \$25 million Frenzy scratch-off would be re-launched in February 2007.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he distributed the process overview document, flowchart and narrative to staff for review. He would be following up with them this week.

Mr. Eaton stated he is working on the 2007 Lottery Audit Plan and it should be completed by the end of December 2006. He will send a copy to the Commission for their review.

Chairman Bonaventure asked if he had prepared a justification for an additional staff person. Mr. Eaton responded he would include the justification in the audit plan.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated from a pool of 24 candidates, Pennsylvania will be granting six licenses for VLT off-track sites. The Pocono facility is up and running and generating approximately \$575 per machine per day.

Procurement – Robert Howells, Director

Mr. Robert Howells stated COMAR Chapters 5, 7 and 8 were reviewed and revised. COMAR Chapters 1 and 9 were reviewed and do not require revisions at this time. This brings the Lottery COMAR Chapters up to date. Mr. Howells requested the Commission's approval of the recommended revisions so that he can move forward and file the report with the AELR Committee. Chairman Bonaventure raised a question concerning Section 14.01.05.02.C. Prize Payment, "The winner shall have the actual original ticket in order to make a claim." Ms. Johnson stated Ms. Williams worked on these regulations and recommended the addition of the word for clarification purposes. Apparently, an issue arose at another state lottery that prompted her to make the change. Chairman Bonaventure stated he has a concern regarding the definition of "actual" and does it add anything to the regulation. Ms. Johnson requested that Commission approve the regulations and she would clarify that issue at next month's meeting. Chairman Bonaventure made a motion to approve the regulations subject to review by counsel to clarify the question raised

regarding Section 14.01.05.02.C. Prize Payment. The motion was passed by unanimous vote of the Commission.

Mr. Howells stated the Emergency Contract for Advertising Sponsorship with Baltimore Ravens Limited Partnership was approved by the Commission at the November 2006 Commission meeting subject to review by the Assistant Attorney General. A fully signed copy of the contract approved by the Assistant Attorney General was sent to the Commission.

Mr. Howells stated when the Commission meeting is reconvened later this afternoon, he would request the Commission's approval of the Advertising Agency Services Contract with Trahan, Burden & Charles.

Mr. Howells stated included with his report was a copy of the Televised Drawings Contract with WBAL-TV Channel 11 and a copy of the Evaluation Committee's Report. This Contract is scheduled to be presented to the Board of Public Works on December 20, 2006. Mr. Howells requested the Commission's approval of the Contract. Chairman Bonaventure made a motion to approve the Televised Drawings Contract and the motion was seconded by Vice Chairman Marriner. The motion passed by unanimous vote of the Commission.

TEMPORARY ADJOURNMENT

Chairman Bonaventure made a motion to temporarily adjourn the Commission Meeting and reconvene by telephone conference call at 4:00 p.m. today, December 19, 2006, to discuss the Advertising Agency Services Contract. The motion was seconded and passed by unanimous vote of the Commission.

COMMISSION MEETING RECONVENED

The Commission meeting was reconvened at 4:00 p.m. today, December 19, 2006. Present were Buddy Roogow, Andrea Johnson, James Butler, and Robert Howells. Present on the telephone conference call were Chairman Frank Bonaventure, Vice Chairman Randy Marriner, Commissioner Bruce Reeder and Commissioner George Wagner. Commissioner Osborne Payne was not available.

Chairman Bonaventure stated there was a quorum present. However, there was not a quorum present of Commissioners who could vote on the advertising contract. Chairman Bonaventure recused himself from voting because of his firm's relationship with Trahan, Burden and Charles. Chairman Bonaventure stated that he is also recusing himself from taking part in any discussion of this Contract. Vice Chairman Marriner abstained from the vote due to his participation on the Advertising Agency RFP Committee. Chairman Bonaventure would request a straw vote from Commissioners Reeder and Wagner. Chairman Bonaventure stated at the January 2007 Commission meeting, an official vote would be taken to ratify the Advertising Agency Services Contract.

Mr. Howells stated before the Commission votes on this Contract, he wanted to note one area of omission. An error was made on the Not to Exceed Amount in Section 4.39. The amount listed references only the vendors' fees. The total contract amount has to also include the Lottery's advertising budget of \$12 million. The Lottery neglected to include that amount in the Contract. Ms. Johnson stated the correct Not to Exceed amount was reflected in the RFP and the Contract has to be consistent and reflect what is contained in the RFP. Mr. Howells stated he would forward a corrected copy of the document to the Commission.

Chairman Bonaventure requested a vote from Commissioner Reeder and Commissioner Wagner. Commissioner Reeder stated he supports the Lottery entering into the advertising contract. Commissioner Wagner stated he also approves the contract.

Chairman Bonaventure stated at the January 2007 Commission meeting with all Commissioner members present, the Commission would ratify the Contract. Chairman Bonaventure stated that Vice Chairman Marriner did a great job working with the Agency on the advertising RFP, and would like to impose upon Vice Chairman Marriner again to monitor the contract on behalf of the Commission.

DATE AND TIME OF NEXT MEETING

Due to a conflict with the next scheduled Commission meeting date, the January Commission Meeting is being scheduled on Thursday, January 25, 2007 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

The Commission wished those present a Merry Christmas and a Happy New Year. Chairman Bonaventure moved that the meeting be adjourned and it was seconded by Vice Chairman Marriner. The meeting adjourned at 4:20 p.m.

Respectfully submitted,

Buddy Roogow