

**MARYLAND STATE LOTTERY COMMISSION
FEBRUARY MINUTES**

DATE: February 28, 2007
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

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

Buddy Roogow, Director
Gina Smith, Assistant Director, CFO
Andrea Johnson, Principal Counsel
John Gallagher, Chief Information Officer, Information Technology
Tracey Cohen, Director, Product Development and Advertising
Carole Everett, 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
Paige Fadden, Trahan, Burden & Charles
Megan Oster, Trahan, Burden & Charles
Lori Denton, Pollard Banknote
Alice March, Maryland Lottery Agents Association

CALL TO ORDER

There being a quorum present, Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:05 a.m.

APPROVAL OF MINUTES

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

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated Scientific Games has reached its goal of the installation of 1,000 Racetrax agents. Scientific Games is in the process of working on new Racetrax betting options that will be launched in April 2007. Ms. Athey stated Scientific Games is also working on another monitor game for the Lottery.

Ms. Athey stated Scientific Games is working on the final release in mid-March for corrections to the system.

Ms. Athey stated that the installation of 1,000 Racetrax retailers was the target supplied by the Lottery. All new Keno installations will now automatically include Racetrax. Retailer installations are done at a rate of four per day. Mr. Roogow stated there are approximately 2,200 Keno retailers and approximately half of those retailers now have Racetrax. Now that the goal has been reached, it will grow more slowly and sales will be monitored. Chairman Bonaventure asked if there have been any system issues. Ms. Athey responded the system has been running smoothly.

Ms. Athey stated Jeff Sinacori is doing a presentation today to the Sales reps and some retailers. She would like to invite the Commission to the seminar. Mr. Roogow stated approximately 100 retailers will be attending the seminar this afternoon. Commissioner Reeder asked if the seminar would be presented at other locations in Maryland. Ms. Athey responded there would be four dates scheduled throughout the State. She would advise the Commission when the seminars are scheduled.

TRAHAN, BURDEN & CHARLES

Ms. Paige Fadden, Account Supervisor introduced Ms. Megan Oster, Account Supervisor. Ms. Oster showed the Commission the television spot that was shown during the Super Bowl this year. This generic spot can be used for all lottery game advertising. A question was asked as to where this spot was filmed. It was filmed at Jimmy's in Fells Point.

Ms. Fadden stated that Trahan is working to introduce the next Countdown to Millions game. Television, point-of-sale and radio from the first campaign will be revised and re-used.

Ms. Fadden stated Trahan is working on an extensive advertising campaign with television, new point-of-sale, how-to-play brochures, radio and creative media across the State to promote the Racetrax game.

Ms. Oster stated Trahan is working on the development of a new ad campaign for the instant Pick 3 game that would enter the marketplace in April 2007. Bonus prizes on the scratch-off tickets would offer players a free ticket for the Pick 3 game. The Lottery is focusing on advertising the Pick 3 scratch-off on television, radio and point-of-sale. She showed the point-of-sale poster for Pick 3 scratch-off game to the Commission.

Vice Chairman Marriner stated he heard a new lottery jingle on WBAL radio. Mr. Roogow responded that is something WBAL radio did on their own. Ms. Baer said she was surprised that it was heard on the radio because it is a television jingle.

POLLARD BANKNOTE

Ms. Lori Denton stated Pollard Banknote is working on a statistical analysis to devise the best plan for the production of scratch-offs for the Lottery.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the Lottery has tentatively entered into a contract with Maryland Public Television (MPT) through Trahan, Burden and Charles to provide additional coverage of the lottery drawings in areas not covered by WBAL-TV Channel 11. MPT would provide this service for \$189,000. MPT would tape the drawings and rebroadcast them after the live drawings are shown on WBAL-TV. Vice Chairman Marriner asked if it would be shown statewide. Mr. Roogow stated this would be duplicative statewide coverage.

Mr. Roogow stated he recently went to Louisville, Kentucky to attend a NASPL Executive Committee meeting. The NASPL annual conference will be in Louisville this year. The meeting will be combined with the World Lottery Association (WLA). The current President of WLA is Arch Gleason, the Director of the Kentucky Lottery. Mr. Roogow would provide the conference dates to the Commission.

Mr. Roogow stated from June 18 to 25, 2007, the NASPL Spring Directors' Meeting is being hosted by the Maryland Lottery and will be held in Annapolis. He would supply additional information at a later date.

Mr. Roogow welcomed to the Commission meeting Ms. Alice March of the Maryland Lottery Agents Association.

Mr. Roogow stated at the meeting in Kentucky an issue was raised concerning retailer integrity in Canada that could spill over to the US Lotteries. There was a case in Ontario where a retailer was palming tickets. An elderly man presented his winning ticket to the retailer and the retailer told the man that it was not a winner. Later that day, the ticket was claimed by the retailer. There was strong circumstantial evidence that the retailer took the gentleman's ticket and claimed it for himself. Retailer integrity is important and the Lottery is aware of these issues.

Mr. Roogow stated total lottery sales are down \$20 million compared to last year. Revenue is down \$18 million compared to last year. One bright spot is the Mega Millions jackpot. This time last year there was a \$270 million jackpot. He would like to see the current jackpot roll to over \$300 million. The Lottery is working to keep sales strong and is making progress.

Chairman Bonaventure asked how the Racetrax monitor game was doing and he noticed that Keno sales are down \$15.5 million. Mr. Roogow responded analysis shows a cannibalization of 9 percent. Keno did not get off to great start last summer but sales were down because of some system issues, the extremely hot summer, and high gas prices. Also, the on-line conversion impacted Keno more so than the other on-line games. Keno is now operating better than ever. Last year the Lottery did promotions that had a huge impact in a short period of time. Promotions are still having a huge impact this year, but not as strong as last year.

Mr. Roogow stated Racetrax is having its biggest sales week. However, Racetrax did lose some sales in the last two and one-half weeks because of the weather.

Commissioner Reeder stated revenues are down \$17 million compared to last year and asked if that includes the \$8 million (extra one-half percent) the retailers are now earning in commissions. Mr. Roogow responded yes it does.

Commissioner Wagner asked if the non-smoking ban would be an issue that could impact sales, particularly Keno. Mr. Roogow stated it may have some impact in the beginning.

Mr. Roogow stated the Lottery is working with Scientific Games on a new monitor game called Texas Hold 'Em. He will have more information available next month. The game would be tested at 20 to 30 retailer locations in June 2007 before expanding the game to the entire retailer network. Commissioner Wagner asked if this game is operating in any other state. Mr. Roogow responded British Columbia, Kansas and Rhode Island Lotteries have run this game. The game was not as successful in Rhode Island and the Lottery would learn from their experience.

Mr. Roogow stated the Advertising, Research, and Public Relations Services RFP was issued. Chairman Bonaventure expressed his thanks to everyone involved in putting the RFP together. Vice Chairman Marriner stated everyone did a phenomenal job.

Mr. Roogow stated the Commission may have heard that Senate President Mike Miller plans to introduce a slots bill. Mr. Dorsey would obtain a copy of the bill and the Lottery would monitor it. Commissioner Reeder asked if the bill is similar to the bill that Delegate Clagett introduced. Mr. Roogow responded he assumes the bill is similar to the one that was introduced last year by the Administration.

Mr. Roogow stated a Racetrax advertising campaign was introduced last month to inform players that the game is available throughout the State. The Lottery would monitor the effects of advertising on Racetrax sales.

Ms. Cohen stated a Lottery promotion is being tied in with the Preakness this year. An nth terminal coupon would be issued that the players can send in to the Lottery and win admission to attend the Preakness. She would have more information available at a later date.

Mr. Roogow stated Countdown to Millions II is scheduled to begin on April 26, 2007. The Lottery is building in flexibility as to the drawing date. Vice Chairman Marriner asked if the same number of tickets would be sold. Mr. Roogow responded the same amount of 420,000 tickets would be sold.

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 an assignment case is scheduled for a March 9, 2007 hearing. Judge Cannon may have cases assigned to other judges and wants to put them on a “fast track” docket.

Ms. Johnson stated she continues to work with the Lottery on the default of the advertising agency services contract. Notices of off-set were sent to Eisner.

Ms. Johnson stated counsel for the Lottery and Scientific Games continue their settlement discussions regarding the Keno Bonus Multiplier Patent. She will keep the Commission updated on this issue.

Ms. Johnson stated a charge of alleged harassment has been filed by a former employee with the Maryland Human Relations Commission. The Lottery is reviewing this charge and will file an answer.

Chairman Bonaventure asked if Eisner has moved towards filing bankruptcy. Ms. Johnson responded within the next two weeks there may be a voluntary bankruptcy. There was further discussion on this issue and Chairman Bonaventure stated he would like to be

present on one of the conference calls. Mr. Johnson stated she would include the Chairman.

Ms. Johnson stated effective December 1, 2006 federal discovery rules were amended and a new category of discoverable information was created called electronically stored information (ESI). Usually the bulk of this type of information is contained on the computer. In the past items on the computer were deleted. State rules are being amended. She stated she has discussed this issue with Mr. Gallagher.

Ms. Johnson stated the Legal Division continues to work on estate and taxation issues, procurement contracts, and reviewing marketing materials.

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

Ms. Gina Smith stated the Commissioners were sent the Special Purpose Audited Financial Statement for December 2006 and contained in their folders is the unaudited Special Purpose Financial Statement for January 2007.

Ms. Smith distributed to the Commission a copy of the SAS 70 Audit for the period May 1, 2005 to June 30, 2006. This time period covers the prior on-line system, Master Link that was in place during the audit period. This SAS 70 was procured by the Lottery. With the new gaming contract, the vendor will be responsible for procuring and conducting the SAS 70 audit. However, the Lottery has the right to approve the vendor and can designate what it wants audited. Chairman Bonaventure asked if Stout, Causey and Horning are included on the vendor list. Ms. Smith responded she believes that Scientific Games has a firm that does SAS-70's in other states but that Stout has expressed an interest. Chairman Bonaventure asked if there were any findings the Commission should be aware of. Ms. Smith responded there was one issue regarding the Disaster Recovery Program and Mr. Gallagher would talk more on that.

Ms. Smith stated Sales is working with Scientific Games on the Jeff Sinacori presentation. The Sales reps will attend the morning session and a group of Lottery retailers would attend the afternoon session. Members of Lottery Divisions that deal with the retailers on a daily basis would be present at the afternoon session. Retailers would be provided with a fact sheet of who to call with different types of questions. The Commission will be provided with the schedule for future dates throughout the State. Ms. Smith stated Scientific Games is preparing a handout and she would provide a copy to the Commission.

Ms. Smith stated Sales is working on a Countdown to Millions II plan to increase sales in areas of the State that were underrepresented in the first game, especially in the DC market. Sales will identify agent locations they believe have a good chance to sell more tickets and will work closely with them. Sales will post as much additional point-of-sale as possible at the retailer locations and will remind the retailers that for every Countdown to Millions sale they would earn \$1.10 in commission.

Ms. Smith stated the Commission had requested information on Sales rep incentive programs in other states. She provided the Commission with information from seven lottery states. She stated Florida and New York lotteries run similar programs like Maryland with statewide seminars and awarding rep of the month awards. The Pennsylvania Lottery has a unionized workforce and is developing an incentive program. The California Lottery has a unionized sales force. Sales reps can earn monetary awards from \$3,600 to \$3,950 per quarter as well as \$250 for recruiting new agent locations. The Texas Lottery's on-line vendor, GTECH, supplies their field staff and the Sales reps work for GTECH. The Sales reps at the Virginia Lottery receive monetary bonuses. Ms. Smith stated in the past the Lottery has submitted incentive program legislation. Chairman Bonaventure asked if Maryland Lottery sales reps are provided goals to meet. Ms. Smith responded a formula is devised taking into account the Lottery's revenue target and what the Lottery believes sales would be in each territory the next year. Chairman Bonaventure asked how many Sales reps the Lottery employs. Ms. Smith responded there are 48 Sales reps.

Commissioner Wagner asked how often should a Sales rep call on retailers, for instance, retailers who do more than \$60,000 weekly in sales. Ms. Smith responded the reps should be visiting the retailers at least once every two to three weeks. Mr. Roogow stated the retailers are also contacted by Tel-sell each week. All Sales reps sign in and sign out at each retailer location through the terminal. The Lottery then knows when and how long the reps are at the retailer locations. Ms. Smith stated if there are any concerns to please let her know and she will address them. Commissioner Reeder asked who monitors the sales reports. Ms. Smith responded top management reviews the reports. Commissioner Reeder asked is the Lottery satisfied with the frequency of retailer visits. Ms. Smith stated the retailer will call the Lottery if rep has not visited them. Ms. March stated agents visits have improved.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated IT is preparing for daylight savings time change.

Mr. Gallagher stated IT is in the process testing Release 3. This release will clear up many issues in the Open Items List. Service dispatches are down 16% this year running on the VSAT system. There were some issues on the bad weather days.

Communications – Carole Everett, Director

Ms. Carole Everett stated Communications was involved in a number of events this past month, such as the 11th Annual Maryland State Police Polar Bear Plunge at Sandy Point State Park that Buddy Roogow participated in, the Black Heritage Art Show, the Motor Trend Auto Show, Mardi Gras in Annapolis and several lottery parties.

Ms. Everett stated 42 articles appeared in various newspapers. She stated nine Promotional Partners were provided with \$2,310 worth of scratch-offs and the Lottery received a promotional value of \$21,890 in on-air mentions.

Ms. Everett stated the VIP Club received a boost of 1,300 additional members last month with the pet photo contest that was run. Participants had to become a VIP Club member to enter. The Lottery is looking at doing more of these types of contests in the future.

Ms. Everett stated WBAL-TV Channel 11 began airing the drawings on January 29, 2007. There is a new set design being developed and it is being hosted by a variety of new faces.

Ms. Everett stated the Lottery has received a number of entries for the second chance portion of \$25 Million Frenzy scratch-off. A drawing will be held in March 2007 to select the first group of semi-finalists.

Ms. Everett stated in January 2007 the Pick 4 number 9999 was drawn and then in February 2007 the Pick 4 number 4444 was drawn. The Lottery took quite a hit on those two numbers.

Ms. Everett stated Maryland recently had a \$250,000 second tier Mega Millions winner.

Mr. Roogow stated regarding the MACO summer conference, the Lottery has been informed that the booth area in the main hall has been sold out. The Lottery is one of the most popular booths and has been a presence at the conference for the past 12 years. The Lottery has sent a letter David Bledsoe. Commissioner Reeder asked if the Director minded if he made some phone calls regarding this issue. Mr. Roogow responded to feel free to talk to anyone that might be able to help.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated a 30-second television spot advertising the Pick 3 Let It Snow Promotion is currently airing and would end this week.

Ms. Baer stated the Lottery is in the marketplace for the re-launch of \$25 Million Frenzy with a commercial featuring Buddy Roogow and Steve Rouse. The commercial will re-introduce the game and educate players how to play the game. The Lottery will also air 60-second radio ads as well as place billboard ads.

Ms. Baer stated the Lottery is supporting the Mega Millions jackpot with radio, television and print advertising. The Mega Millions jackpot also being advertised during ACC basketball games.

Chairman Bonaventure stated he had met with Buddy Roogow, Gina Smith and Jill Baer last week with clients his firm is representing regarding an advertising concept. He wanted to state for the record that he is recusing himself from any discussion.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated additional information on Countdown to Millions II, Racetrax, and the Orioles would be presented at next month's meeting.

Ms. Cohen presented five new games to the Commission this month.

Game #635 *Cash Diamonds* is a \$10.00 ticket with a prize payout of 74.99% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$2,300,280. If 100% of the tickets are sold, the profit would be \$2,733,125.

Game #648 *Lucky Spin* is a \$5.00 ticket with a prize payout of 71.97% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,333,631. If 100% of the tickets are sold, the profit would be \$2,772,361.

Game #650 *Blazing 7's* is a \$5.00 ticket with a prize payout of 71.99% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,271,626. If 100% of the tickets are sold, the profit would be \$2,699,414.

Game #653 *Cool Cash* is a \$2.00 ticket with a prize payout of 64.00% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$822,891. If 100% of the tickets are sold, the profit would be \$995,020.

Game #656 *Star Spangled Tripler* is a \$3.00 ticket with a prize payout of 66.99% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$1,004,136. If 100% of the tickets are sold, the profit would be \$1,208,250.

Chairman Bonaventure requested a motion to approve Game #635 *Cash Diamonds*, Game #648 *Lucky Spin*, Game #650 *Blazing 7's*, Game #653 *Cool Cash*, and Game #656 *Star Spangled Tripler*. Commissioner Reeder made a motion to approve the above games and it was seconded by Commissioner Wagner. Game #635 *Cash Diamonds*, Game #648 *Lucky Spin*, Game #650 *Blazing 7's*, Game #653 *Cool Cash*, and Game #656 *Star Spangled Tripler* were approved by unanimous vote of the Commission.

Ms. Cohen presented to the Commission the final analysis of one instant game that was closed.

Game #572 *\$20 Million Mania* was 96.11% sold with a net profit of \$1,974,835.47.

Commissioner Reeder asked since the installation of 1,087 Racetrax locations, has the Lottery looked at Racetrax sales to see if sales still continue to increase. Mr. Roogow responded there is not enough history of sales to review as yet. Scientific Games is monitoring this. A report would be presented to the Commission when available.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated key control testing would begin on March 5, 2007 and run for five weeks. It will consist of the Sarbanes Oxley Internal Control Over Financial Reporting Review of AFO and IT. He will be contacting the Divisions by memo today to inform them of the audit.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated contained in the Commissioners' folders is a copy of the Pennsylvania Gaming Control Board's gaming revenue numbers. Pennsylvania has done \$1 billion in slots since the beginning of the year.

Mr. Dorsey stated also contained in the Commissioners' folders is a copy of Lottery/Gaming Legislation information.

Mr. Dorsey stated the West Virginia table games proposal is moving forward in the legislature. Four counties with slots parlors will be allowed to decide if they want table games in their facilities in their jurisdictions.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the tentative schedule for the Advertising, Research and Public Relations Services RFP is the Preproposal Conference on March 9, 2005 at 12:00 noon and Proposals due on April 12, 2007. He would like to present the contract to the Board of Public Works on June 20, 2007. He will keep the Commission updated.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, March 28, 2007 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

Chairman Bonaventure requested a motion to adjourn the meeting. Commissioner Wagner moved that the meeting be adjourned and it was seconded by Commissioner Reeder. The meeting adjourned at 10:21 a.m.

Respectfully submitted,

Buddy Roogow