

**MARYLAND STATE LOTTERY COMMISSION
MARCH MINUTES**

DATE: March 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
James Butler, Assistant Attorney General
John Gallagher, Chief Information Officer, Information Technology
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
Michael Hofferbert, Strategic Planning Manager
Sami Toivola, Games Analyst
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

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.

COMMISSION BUSINESS

Chairman Bonaventure stated he received a phone call from the Governor's Appointments Office last week informing him that both he and Osborne Payne were not being re-appointed to the Maryland Lottery Commission. Two new members would be confirmed by the Senate on Friday. He stated it was a pleasure and an honor to serve on the Commission. He thanked the Commissioners and everyone present. Chairman Bonaventure stated he would be resigning today at the end of the Commission Business session of the meeting. He stated action was taken in January 2007 that in the event of his absence, Randy Marriner would become Chairman of the Lottery Commission.

AUDIT COMMITTEE

Chairman Bonaventure stated the Audit Committee met and Vice Chairman Marriner will present the report. Vice Chairman Marriner stated the Audit Committee consisted of Frank Bonaventure and himself. They met with Michael Eaton, Internal Auditor, a few weeks ago and requested him to develop a ticket policy. A policy had been started two years ago but was put on hold.

Vice Chairman Marriner stated the Audit Committee also asked Mr. Eaton to explore the possibility of privatizing the Sales force thereby enabling the Lottery the ability to offer incentives to an outsourced contractual Sales force. He is not sure if this is possible since the Lottery is a State Agency. Since the Commission has the authority to conduct studies, Mr. Eaton is requested to perform these studies and report back to the Commission with the results.

Commissioner Reeder stated it has been a pleasure serving as a Commissioner with Chairman Bonaventure and he wished him the best. Commissioner Wagner stated he also concurs with Commissioner Reeder's comments. The Chairman did a remarkable job and it was a pleasure to serve with him. Vice Chairman Marriner stated he and the Chairman served together these past years and most assuredly the Chairman will be missed.

Chairman Bonaventure stated his resignation is now effective, and Vice Chairman Marriner now becomes Chairman.

Vice Chairman Marriner assumed the roll of Chairman. He asked Commissioner Wagner to assume the roll of Vice Chairman. Commissioner Reeder requested that the Commission wait until the April Commission Meeting when the new Commissioners would be present. It was agreed by the Commission to table this item until the April Commission Meeting.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated Scientific Games continues to support the Lottery with their promotions, such as the Happy Hour Keno promotion that runs this weekend, Racetrax betting enhancements and the upcoming Countdown to Millions II game. Scientific Games looks forward to driving sales through the last half of the fiscal year.

Ms. Athey stated Scientific Games is working with the Lottery on another monitor game. Commissioner Wagner asked what is the status of the Texas Hold'Em monitor game. Ms. Athey responded the monitor game is still in the design phase. The animation is nearing completion and would be moving into the testing phase. Commissioner Wagner asked if this game is in operation in other states. Ms. Athey responded this type of game is operating at a few Lotteries. Scientific Games is looking at what has worked and what has not work in these states. She stated Scientific Games has done research and it should be a successful game for the Lottery.

TRAHAN, BURDEN & CHARLES

Ms. Paige Fadden, Account Supervisor, stated the 7th Inning Stretch scratch-off ticket was launched. She presented the scratch-off ticket point-of-sale poster to the Commission. Ms. Fadden also played the two 7th Inning Stretch television spots for the Commission.

Mr. Hofferbert stated the 7th Inning Stretch \$1.00 baseball themed scratch-off ticket has a top prize of \$777 and launched on March 26, 2007. Ms. Baer stated the sponsorship includes the ability of players taking non-winning 7th Inning Stretch tickets to the Orioles box office to purchase half priced discount tickets on upper reserved or club level seats, subject to availability. She stated Lottery signage would appear behind home plate. She stated Lottery advertising would also appear on the Jumbo Tron billboard and matrix scoreboard. The Lottery is able to use the Oriole logo on items associated with the ticket promotion. She stated other sponsorship elements include the ability to sell lottery tickets at the stadium. Mr. Hofferbert stated the Lottery would license the Orioles to sell lottery tickets at the Orioles Eutaw Street store that is open all year. The store is accessible from inside and outside the stadium. The Lottery would also be selling lottery tickets on the Club level as well as have three ITVMs located throughout the lower level of stadium at Best Time Café, the deli on the first base side and the deli on the third base side. Winning tickets can be claimed at the Orioles Eutaw Street store. The Lottery will have a booth set up on 10 dates throughout the season – April 9 and 21, May 24, June 14 and 26, July 14 and 28, August 11 and 21 and September 8. The booth would be located on Eutaw Street next to Boog's. The Communications Division would be working at the booth selling lottery tickets and highlighting the Racetrax and Keno games. Ms. Baer stated television advertising would appear on MASN, highlighting Mega Millions jackpots and Countdown to Millions II game.

Chairman Marriner asked if there are any projections on the expectations of this sponsorship. Mr. Roogow responded not as yet. He stated that last year the Massachusetts Lottery participated in a sponsorship with the Boston Red Sox and did very well.

Commissioner Wagner asked why is the top prize only \$777. Ms. Baer responded \$1 sports themed scratch-offs are not as popular as other games. Commissioner Wagner asked how many top tier prizes are there. Ms. Denton responded there are 15 top tier prizes and three million tickets are being printed. This is a typical top prize for a \$1.00 scratch-off game. Commissioner Reeder asked what happens if a person from out of town wins over \$600. Mr. Hofferbert responded the winner can send their ticket to the Lottery's Claim Center or cash it at one of the Lottery's Agent Plus locations. Commissioner Reeder asked would Agent Plus be available at stadium. Mr. Hofferbert responded they are not authorized as an Agent Plus location. Commissioner Reeder asked if they could be approved to cash winning tickets over \$600. Ms. Smith responded the Lottery can set a definite cash limit. Mr. Roogow asked that this be looked into.

Ms. Baer stated the Lottery has entered into a Preakness sponsorship plan. Ms. Fadden showed the Commission the point-of-sale poster for Racetrax advertising. Mr. Hofferbert stated the Lottery would advertise that the Racetrax game is available at 1,000 plus lottery retailer locations, that new Racetrax game betting enhancements would soon be available and also advertise the Preakness Grand Prize Promotion. When a player purchases a Racetrax ticket between April 16, 2007 and May 6, 2007, they may receive a randomly generated Preakness Grand Prize entry form. The player completes the entry form and mails it to the Lottery. On May 11, 2007, the Lottery would select three winners from the entries received and the winners could receive a prize of \$100,000, \$50,000 or \$25,000. Each winner also receives VIP passes for Preakness Day. The three winners must be present at Preakness to receive one of the cash prizes. Ms. Baer showed the Commission the advertising pieces for the promotion. She stated a commercial was shot, but it is not yet available. She will show it to the Commissioners at next month's meeting. There will be television and radio advertising as well as point-of-sale at locations where Racetrax is sold. The Lottery would be doing specific advertising for the Preakness Grand Prize promotion. The Lottery would cross promote with the Maryland Jockey Club through radio and television and local print. The Lottery would also be an Under Card Race sponsor for the ninth race on Preakness Day.

Mr. Hofferbert stated Racetrax betting enhancements have been developed to make the game play more like live racing. Players will be able to make multiple horse selections on one play slip.

Ms. Oster stated the Countdown to Millions II game point-of-sale has been developed and she showed the point-of-sale to the Commission. It has a unique format with die cuts to stand out from other point-of-sale materials at agent locations. Mr. Hofferbert stated advertising of Countdown to Millions II would continue through June 21, 2007. He stated sales begin on April 26, 2007 with 56 days of selling tickets. There are 420,000 tickets available. The final drawing could be held sooner if the tickets sell out. A message would appear on the top of the Countdown to Millions II ticket that the drawing date is flexible. The prize structure is the same as first the first game. There will be four \$1 million prizes – odds 1:105,000; 8 \$50,000 prizes – odds 1:52,500; 200 \$1,000 prizes – odds 1:2,100; 600 \$500 prizes – odds 1:700. The Lottery is offering an early sale promotion. If a player purchases a Countdown to Millions II ticket between April 26, 2007 and May 19, 2007,

they would receive a bonus coupon with a unique number and be automatically entered into a daily drawing with a chance to win one of four \$500 prizes.

Mr. Hofferbert stated a Countdown to Millions II performance based agent incentive program would run and would offer a reward to retailers who exceed their prior Countdown to Millions sales by a quota determined by the Lottery. The retailer could win a two week game enhancement of either Keno Doubler or Instant Win at their location. The two week enhancement would be held during a time period when the Lottery would not be conducting a statewide promotion. Commissioner Wagner asked how that could be done. Mr. Roogow responded with new on-line system, the Lottery can do a single store promotion. Commissioner Wagner asked would it be advertised. Mr. Hofferbert responded the retailer would be responsible for advertising the promotion at their location. Commissioner Wagner asked if the Lottery has established the quota for each retailer. Mr. Roogow responded quotas have been established. Chairman Marriner asked if there are any restrictions or issues. Mr. Roogow responded the promotion is open to all lottery retailers. Commissioner Wagner asked how long would the special promotion run at the retailer's location. Mr. Hofferbert responded all qualifiers would have the promotion during the same two week period as designated by the Lottery.

Ms. Baer stated prior to the start of sales for the Countdown to Millions II game, a five day teaser advertising campaign would launch on television and radio. The Lottery would launch an advertising campaign to also include television and radio and advertising in the DC metro area with transit signs.

POLLARD BANKNOTE

Ms. Lori Denton stated Pollard is working with the Lottery on the 7th Inning Stretch scratch-off ticket. She stated Pollard is also working on the next \$20 instant product as well as working with the Lottery to develop a scratch-off products plan for the next fiscal year.

APPROVAL OF MINUTES

Chairman Marriner made a motion to approve the February Minutes as submitted. Commissioner Wagner seconded the motion. The February Minutes were approved by unanimous vote of the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated earlier this month the Lottery attended the decision session of the House and Senate subcommittees. The Committees recommended \$2.3 million to be cut from the Lottery's budget. This was a decision session and agencies could only speak if invited by the Subcommittees. The decision was reversed in the overall committee and

they will restore the \$2.3 million to the Lottery's budget. They also eliminated all the language that the House attached to it. It now goes to the Conference Committee.

Mr. Roogow stated the Mega Millions game had a good jackpot run before it was hit at \$390 million. Last month Mega Million sales were \$25 million behind the prior year and with this jackpot run, sales are now \$14 million behind last year. Total game sales are \$11 million behind last year. Revenues are \$13 million behind last year. Of that total, \$8 million can be attributed to the one-half percent increase to agent commissions.

Mr. Roogow stated there has been no action on the slots issues during the current Legislative session. However, there has been discussion of the possibility of a special session in September to deal with the revenue shortfalls. Chairman Marriner asked if the Lottery should be prepared to do any studies. Mr. Roogow responded that Mr. Dorsey has been monitoring this issue. Chairman Marriner asked if there are any restrictions. Mr. Dorsey stated the Lottery prepared an RFP for consultant services two to three years ago and will initiate this again if approved by the Administration.

Mr. Roogow stated two new members of the Commission have been appointed. Mr. Stanley Fine was confirmed by the Senate and would be sworn in. Mr. Matthew Thomas will be confirmed by the Senate today and will be sworn in the next few days. They will be present at the April Commission meeting. The Lottery would conduct an orientation program for the two new Commissioners. Mr. Fine was a previous Director of the Maryland Lottery.

Commissioner Wagner stated it was previously mentioned that the Commission would be able to visit WBAL-TV Channel 11 studios. Mr. Roogow responded the Lottery would try to set something up in May for the Commission to visit WBAL-TV Channel 11 studios.

REPORTS

Legal Division – James Butler, Assistant Attorney General

Mr. James Butler presented the Legal Division's report in Ms. Andrea Johnson's absence. He stated on behalf of the Legal Division, it has been a pleasure serving with Chairman Bonaventure and Commissioner Payne.

Mr. Butler stated the assignment case hearing for Mr. M. Rogers has been scheduled for April 2, 2007. This case involves a lottery winner's assignment to a finance company where it was determined the winner was not the original owner. The Commission will be kept updated on this case.

Mr. Butler stated a hearing was held before the Maryland State Board of Contract Appeals on March 22, 2007 involving Merjo Advertising & Sales Promotions and their Motion to File a Belated Claim. Ms. Romaine Williams was the Assistant Attorney General present at this hearing. The Lottery is required to file a brief within ten days of the hearing on the requested issues.

Mr. Butler stated that in the current on-line contract, the Lottery's on-line vendor is required to place source codes in escrow. In the event the on-line vendor is unable to provide its service to the Lottery, the source codes would be distributed to the Lottery so it can continue to operate. The Legal office has drafted an agreement and it has been discussed with the on-line vendor's counsel as well as the Lottery's IT Division.

Mr. Butler stated two lottery agents, Super Mart and Dennis Express, were involved in alleged fraudulent activities. Mr. Butler gave a brief explanation of the fraudulent activities involving these agents. The lottery license of Super Mart was suspended and the agent cannot sell or cash lottery tickets. The Agent Plus authorization for Dennis Express was removed, but the agent is still able to sell lottery tickets and cash winning tickets under \$600. The Lottery's investigation of this matter is ongoing.

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

Ms. Gina Smith stated as a way to offer some type of incentive to Sales reps, she has the opportunity to send six Sales reps to attend the La Fleur's Conference in Washington DC in April 2007. This is a very informative conference for Sales to attend. A four week activation promotion centering on the \$20 scratch-off ticket was conducted for the Sales reps to qualify. The six winners will include four winners from the activation promotion and the two Sales reps who were winners of the second quarter.

Ms. Smith stated the agent feedback from the Jeff Sinacori presentation has been very positive. The agents who attended the presentation enjoyed it and were able to walk away with various techniques to increase their sales, e.g., Marlow Wing House used some of the techniques and increased their sales. A presentation will be held on April 18, 2007 on the Eastern Shore. There will also be presentations held in the Western Maryland area and in the Baltimore/Annapolis area at a later date.

Ms. Smith stated for the Countdown to Millions II game, the Sales force will concentrate its efforts in the DC market area posting additional point-of-sale. The Pennsylvania Lottery took an area that did not perform well for their raffle game and plastered stores with point-of-sale thereby increasing sales in those areas. The Lottery will test this method to see if it is successful in the DC marketplace.

Ms. Smith stated AFO and Sales continue to support the 7th Inning Stretch scratch-off ticket. Sales will be assisting the Orioles with servicing the ITVMs at the stadium and helping them to understand the accounting procedures.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated Release 3 was implemented which cleaned up all the outstanding issues from last summer. IT continues testing of the Racetrax betting enhancements and

the Preakness Promotion entry forms. The Business Resource Specification was completed for the Texas Hold'Em monitor game.

Mr. Gallagher stated he is meeting weekly by conference call with Verizon and the Department of Budget and Management on the issue of the outstanding bill from Verizon and they are close to a final settlement. Once the amount is finalized, the Lottery will transfer those funds to the Department of Budget and Management.

Chairman Marriner asked if Texas Hold'Em is proprietary property. Mr. Dorsey responded Maryland's game may be called Maryland Hold'Em and the Lottery would trademark whatever name Maryland uses.

Communications – Carole Everett, Director

Ms. Carole Everett stated the Lottery set up a booth at Towson University during a lacrosse game and will do another event there in the future. She stated approximately 40 radio and television stations from the Baltimore/Washington areas attended the recent Lottery's Promotional Partners meeting. The Lottery talked about Countdown to Millions II and other upcoming events.

Ms. Everett stated Lottery parties were held at Santoni's in Baltimore, and at agent locations in Pasadena and Frederick. There are several Lottery parties scheduled in April 2007.

Ms. Everett stated 42 articles appeared in various newspapers. She stated 15 Promotional Partners were provided with \$2,800 worth of scratch-off tickets and the Lottery received a promotional value of \$37,000 in on-air mentions.

Ms. Everett stated Lottery VIP Club members were contacted six times. The total VIP membership is currently 34,523.

Ms. Everett stated lottery drawings have been on WBAL-TV Channel 11 for two months and it is going well.

Ms. Everett stated the Lottery had approximately 600 Mega Millions winners in various tier levels since the jackpot began to roll. There was a jackpot winner this week.

Ms. Everett stated the fourth second-chance preliminary drawing for \$25 Million Frenzy occurred and the first group of five contestants was selected. Taping to select one semifinalist from this group will take place on Tuesday, April 3, 2007 and be shown on Thursday, April 5, 2007.

Ms. Everett stated the Communications Division will be at Preakness with a 10 x 20 booth featuring the Racetrax monitor game. Ms. Everett stated the winners from the Preakness promotion will be present for the second chance contest of Win, Place and Show.

Ms. Everett stated the Communications Division will be at ten Orioles games manning the booth focusing on the 7th Inning Stretch scratch-off game and the Countdown to Millions II game.

Ms. Everett stated Communications is supporting Countdown to Millions II with radio contests. The Lottery's website features a countdown clock.

Product Development and Advertising – Michael Hofferbert, Strategic Planning Manager

Mr. Michael Hofferbert presented the Product Development and Advertising Division's report in Ms. Tracey Cohen's absence. He presented two new scratch-off games to the Commission this month.

Game #649 *Cash on the Spot* is a \$1.00 ticket with a prize payout of 58.00% and a print run of 3.3 million tickets. If 85% of the tickets are sold, the profit would be \$768,650. If 100% of the tickets are sold, the profit would be \$931,207. Anticipated launch date is May 21, 2007.

Game #652 *Mega Bucks* is a \$20.00 ticket with a prize payout of 77.99% and a print run of 1.4 million tickets. If 85% of the tickets are sold, the profit would be \$1,863,225. If 100% of the tickets are sold, the profit would be \$2,418,178. Anticipated launch date is June 4, 2007

Chairman Marriner made a motion to approve Game #649 *Cash on the Spot* and Game #652 *Mega Bucks*. Commissioner Wagner seconded the motion. Game #649 *Cash on the Spot* and Game #652 *Mega Bucks* were approved by unanimous vote of the Commission.

Mr. Hofferbert stated the Keno Sprinkler promotion would begin on May 28, 2007 and run through July 1, 2007. The promotion provides players with a chance to double or triple their winnings while playing Keno. The Lottery may add additional dates prior to May 28, 2007 and run a Happy Hour Sprinkler promotion beginning at 4:00 p.m.

Mr. Hofferbert stated the Instant Pick 3 \$1.00 scratch-off game would launch on April 9, 2007. The Lottery hopes to entice traditional scratch-off players to play the on-line Pick 3 game. The Lottery would advertise on television and radio as well as with point-of-sale.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated her report was combined with the presentation from Trahan, Burden and Charles.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he is in the process of testing the Internal Control over Financial Reporting. There have been no major findings and he plans to complete this review in the next few months.

Procurement – Robert Howells, Director

Mr. Robert Howells stated he previously sent to the Commission updated information regarding the progress of the Advertising, Research, and Public Relations Services RFP #2007-01.

Chairman Marriner stated due the change in his roll on the Commission, he will have to remove himself from the Advertising, Research, and Public Relations RFP Evaluation Committee. It was a pleasure serving on the Committee.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated West Virginia has passed legislation that will allow a referendum on table games in each county where the VLT parlors are located. He stated that a lawsuit has been filed to block the referendums from occurring. Commissioner Wagner asked did West Virginia determine where to put slot parlors other than at racetracks. Mr. Dorsey responded slot parlors are located at bars, restaurants and taverns and up to 9,000 licenses have been granted. Commissioner Wagner asked is there any special criteria. Mr. Dorsey responded that there is a bidding process for limited VLT licenses granted to bars, restaurants and taverns. Commissioner Wagner asked if this has been discussed in Maryland. Mr. Dorsey responded that the previous Administration, the Speaker of the House and the President of the Senate have all stated that they will not support legislation that allows VLTs at bars, restaurants and taverns.

Commissioner Wagner stated that if Maryland operates the lottery system it should be capable of monitoring slot machines. Mr. Dorsey stated that the Lottery would operate the central system which is capable of monitoring all the slot machines that will operate in the State. Mr. Roogow stated that legislation has given the Lottery direct control or oversight. Commissioner Reeder stated that in Frederick zoning changes had to occur to allow for off-track betting. Mr. Roogow suggested that further discussion on this subject take place at next month's Commission meeting. Commissioner Wagner asked if the Commission is authorized to discuss slots. Chairman Marriner responded probably not. A question was asked as to how many slot machines are allowed in Charlestown and at other on-site locations. Mr. Dorsey responded that Charlestown has the ability to operate up to 6,300 slot machines with each VLT generating \$230 per day.

RACETRAX

Mr. Sami Toivola, Games Analyst, presented an overview of the Racetrax Launch and its Impact on Keno Sales. He stated the Racetrax monitor game was launched at the State Fair on August 25, 2006. The game was then rolled out to selected retail locations in five phases starting on August 28, 2006. There are currently over 1,100 Racetrax locations throughout the State. Sales to date are \$29.8 million with prize expenditures of \$19.9 million. A Racetrax advertising campaign will begin the third week of April 2007.

Mr. Toivola stated an impact analysis was done after the Spring/Summer 2005 original pilot program. The result was that while Keno sales were cannibalized by 14% at the Racetrax locations, overall monitor games sales were up by 19%.

Mr. Toivola stated prior to the launch on August 28, 2006, Keno sales series were again modeled for the first 264 locations where the games were to be installed. The differences between projected and actual Keno sales were examined for ten weeks. The result of this second impact analysis was that Keno sales were cannibalized by 9% at the Racetrax locations, while overall monitor game sales were up by 22%. This analysis period ended on November 6, 2006 when the Lottery started the Holiday Keno Sprinkler promotion. During this promotion, Keno sales grew while Racetrax growth slowed down.

Mr. Toivola stated 67% of Racetrax players are 35 to 54 years old and approximately 55% of the Racetrax players also play Keno. Over 50% live in households with an annual income of \$55,000 or more and 65% of players are male and 35% are female.

Mr. Roogow stated the Lottery will look at the impact on Keno again after completion of the Racetrax advertising campaign.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, April 25, 2007 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Marriner 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 10:35 a.m.

Respectfully submitted,



Buddy Roogow