

**MARYLAND STATE LOTTERY COMMISSION
APRIL MINUTES**

DATE: April 25, 2007
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman E. Randolph Marriner
Commissioner Bruce Reeder
Commissioner George Wagner
Commissioner Stanley Fine
Commissioner Matthew Thomas

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
Tom Hollerbach, Trahan, Burden & Charles
Jody Zafirir, Trahan, Burden & Charles

CALL TO ORDER

There being a quorum present, Chairman Marriner called the meeting of the Maryland Lottery Commission to order at 9:09 a.m.

Chairman Marriner introduced Mr. Matthew Thomas and Mr. Stanley Fine the new members of the Commission.

APPROVAL OF MINUTES

Chairman Marriner requested a motion to approve the March Commission Minutes as submitted. Commissioner Reeder moved that the March Commission Minutes be approved and it was seconded by Commissioner Wagner. The March Minutes were approved by unanimous vote of the Commission.

COMMISSION BUSINESS

Mr. Roogow stated that the next Commission Meeting is scheduled on May 23, 2007. He asked the Commission if they would consider moving the meeting to May 30, 2007 because he and other staff members will be attending as well as speaking at the Gaming and Technology Conference. The Commissioners agreed to move the meeting to May 30, 2007.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated Scientific Games is supporting the Lottery as it comes into the final quarter of the fiscal year. She stated Countdown to Millions will be starting soon. She stated Scientific Games is implementing the introduction of the advance Racetrax bets. Scientific Games is also supporting the Keno Doubler/Tripler promotion scheduled for the end of the quarter.

Commissioner Reeder asked how many retailers are currently have Racetrax installed at their location. Ms. Athey responded over 1,100 retailers have been installed with Racetrax. Commissioner Thomas asked Ms. Athey to give him a brief history of Scientific Game. Ms. Athey responded Scientific Games is the only vendor in the lottery industry that can provide both instant and on-line games. The offices are located on the first floor at Montgomery Park and the Commissioners were invited to tour the facility.

TRAHAN, BURDEN & CHARLES

Mr. Tom Hollerbach stated there are five television spots to present to the Commission. They are for Racetrax, Pick 3, and Countdown to Millions.

Ms. Zafrir stated the Preakness Grand Prize promotion associated with the Racetrax game begins on April 16, 2007 and runs through May 5, 2007. A 15-second Racetrax spot is on the air now to promote the game as well as the promotion. The award of the grand prize drawing would be televised on WBAL-TV on May 19, 2007 after the Barbaro Stakes race at Preakness.

Ms. Zafrir stated to help kick start interest in the Countdown to Millions game throughout the State advertising will begin on radio, television and point-of-sale.

Mr. Hollerbach showed the commercial for the Pick 3 game. Mr. Roogow stated the Pick 3 scratch-off game was introduced a few weeks ago. It is a high selling ticket and warehouse inventory is almost depleted. Ms. Cohen stated a free on-line play is associated with this ticket. Chairman Marriner suggested the Lottery document this advertising campaign for next year budget meeting with the Legislature.

Mr. Hollerbach showed the next two commercials for the Countdown to Millions game. Ms. Zafrir stated the Countdown to Millions game is a \$20 ticket. The target audience for this game is 35 to 64 year old adults. Ms. Cohen stated an early bird promotion is associated with the Countdown to Millions game to encourage players to buy early before the tickets sell out.

Chairman Marriner stated that the quality of work that Trahan, Burden and Charles has brought to the Agency has been quite good and he thanked them.

Commissioner Fine wanted to bring to the Commission's attention that after leaving the Lottery years ago, he represented lottery-related companies. These companies included Scientific Games, its subsidiary MDI, and Trahan, Burden and Charles. He no longer represents any of these companies. In addition, he stated that Ms. Zafrir is a family friend and he is the family's lawyer. He wanted to make full disclosure to the Commission of these past and present associations. Chairman Marriner responded that the Commission appreciates this being brought to their attention.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated Countdown to Millions is a \$20 ticket raffle style game. There are four \$1 million prizes, eight \$50,000 prizes and 800 prizes between \$500 and \$1,000. After expenses, the Lottery should net \$3 million. He stated in the last Countdown to Millions game, sales were artificially low in the beginning due to lack of advertising. For this game trailer tickets would be produced between April 26, 2007 and May 19, 2007. This ticket would have a serial number and the player could win \$500. Prize costs are \$48,000 for this promotion. This should help promote early sales of the game. The scheduled date of the drawing is June 21, 2007 or when the tickets sell out. Chairman Marriner asked if the tickets sell out prior to June 21, 2007, would the Lottery conduct the drawing earlier. Mr. Roogow responded the drawing would be held earlier if the tickets sell out prior to the scheduled drawing date. He stated Florida's raffle style game sold out in 11 days and Pennsylvania's raffle style game also sold out quickly. Commissioner Fine

asked if the Lottery is required to sell out the tickets before the drawing. Mr. Roogow responded the Lottery would attempt to sell out the game before the drawing is held.

Mr. Roogow stated total games sales are \$10 million behind last year. Mega Millions sales are \$20 million behind last year due to poor jackpots. Keno sales are down and Racetrax sales have brought in \$36 million. The slow sales season for the Lottery is mid-April to August.

Mr. Roogow stated revenues are down \$15 million as compared to last year. Pick 3 revenues are ahead as compared to last year. Pick 4 revenues are behind as compared to last year because of high payouts. Keno and Keno Bonus revenues are down. Racetrax revenues are up. Mega Millions revenues are \$8 million behind because of poor jackpots. Current Mega Millions jackpot is \$58 million and hopefully it will continue to roll for a few drawings. Of that \$15 million in revenue, \$8 million can be attributed to the Legislative approval last year of the one-half percent increase in lottery retailer commissions.

Mr. Roogow stated as part of the Merriweather sponsorship, the Lottery would be conducting its first hosting party at Merriweather Post Pavilion on May 12, 2007. Various media people have been invited to attend. The hosting party starts at 6:00 p.m. and is followed by the Martina McBride concert at 7:30 p.m. If the Commission is interested in attending, please let him know. There will be an additional hosting party scheduled later this summer.

Mr. Roogow stated at next month's meeting, a new monitor card game similar to Texas Hold 'Em would be presented to the Commission. The Lottery is hoping to introduce the game in mid-June to one Lottery retailer at a time to insure the software is working correctly.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson welcomed the two new Commissioners. She stated the Office of the Attorney General provides legal advice to the Lottery Agency and to the Commission. She gave a summary of some of the matters Legal has worked on over the past of 30 days.

Ms. Johnson stated there were no revocations to present to the Commission today.

Ms. Johnson stated effective July 2006, the prize assignment law went into effect where a lottery annuitant could assign their remaining prize payments to a finance company. She discussed the current prize assignment case that Legal is handling.

Ms. Johnson stated a Reconsideration Hearing on the denial of an application for a lottery terminal for Hobbits' Liquors was held on March 22, 2007. Ms. Johnson gave a summary of the events that occurred when the Hobbit's lottery license was revoked in 2004. At the

hearing Hobbit's requested a second chance. After review and consideration of the matter, the Lottery decided the lottery license would not be granted at this time. The Lottery indicated it would reconsider the matter upon operation of a full three year period of no lottery sales activity. Hobbit's has a right to appeal the decision. She will keep the Commission informed.

Ms. Johnson stated Merjo Advertising and Sales Promotions frequently does business with the Lottery on small purchase order procurements. The company was late with delivery in one of its procurements. The Lottery gave Merjo written notice of its intent to impose liquidated damages. Merjo had an opportunity to respond before such damages were imposed. Merjo did not properly file an appeal with the Maryland State Board of Contract Appeals. Instead, the company filed a complaint with the Baltimore County District Court. The Court referred the company back to the Maryland State Board of Contract Appeals. Merjo then filed a Belated Claim with the Maryland State Board of Contract Appeals concerning the liquidated damages assessed by the Lottery. The Lottery is waiting for their decision.

Chairman Marriner asked if the Lottery could stop using this vendor. Ms. Johnson responded the company is an eligible bidder. She is checking to see if other agencies have had difficulties with this company. Ms. Johnson stated bids are based upon price and low bids are awarded the solicitation. Mr. Howells stated the company has not done anything to be disbarred. Ms. Johnson stated the Lottery will continue to monitor this situation.

Ms. Johnson discussed the judgment lien obtained many years ago against Lester Posner. Commissioner Fine stated he is familiar with this issue because he was Lottery Director at the time this occurred. Ms. Johnson presented a summary of the facts. She stated her office is working with the attorney for the estate of Lester Posner to bring this matter to a close.

Ms. Johnson stated the Legal Division worked on three requests for use of the Lottery logo, drafted numerous contracts for promotions or Lottery public affairs events throughout Maryland, and drafted or reviewed documents submitted for 7-11 Lottery retailers.

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

Ms. Gina Smith stated the Commissioners were sent the unaudited Special Purpose Financial Statement for March 2007 and the audited Special Purpose Financial Statement for February 2007.

Ms. Smith stated there is a Customer Resource Center located at Montgomery Park and in Lanham. She stated page one of her report contains the number and dollar amounts of claims processed for the Baltimore and Lanham offices as well as Agent Plus claims. The report also shows amounts intercepted for child support and restitutions. She stated page two contains Agent Administration statistics. She gave a brief description of the agent bond review, non-sufficient fund review, applications received, approved and terminals installed as well as terminations, withdrawals and revocations.

Chairman Marriner asked what are the amounts of the agent bonds. Ms. Smith responded the bond amounts are specific to each agent. Commissioner Fine asked if the Lottery used a commercial bonding company. Ms. Smith responded the agent is responsible for locating a bonding company. The Lottery cannot direct them to any particular company. After a one year period, if the agent maintains a clean history with no NSF's, the Lottery would release the bond.

Ms. Smith stated three years' budgets are worked on simultaneously. For FY2006, the Lottery is ensuring that the expenditures are paid. For FY2007, she would be sending out close-out information to the Divisions shortly. For FY2008, budget appropriations have been approved and the Lottery is waiting to receive written documentation so that the funds can be divided among the Divisions.

Commissioner Thomas asked for further information on vendors being paid for work done for the Lottery through Eisner. Mr. Roogow responded the Lottery became aware of the Eisner situation approximately two weeks before they went out of business. When the Lottery discovered they were not paying the vendors, the funds in the amount of \$2 million were placed in a special account. Eisner's bank is now claiming that money. This is an ongoing legal issue. Ms. Johnson will further apprise you of the situation. Chairman Marriner stated the new RFP for Advertising Services was written to protect the Lottery and vendors in the future.

Ms. Smith stated Human Resources is recruiting for a position in the Agent Administration area and the Lottery would also be hiring summer interns.

Ms. Smith invited the Commissioners to tour the warehouse operations and view the state of the art technology the Lottery is using for instant ticket distribution.

Ms. Smith stated in FY2008 Sales will work to recruit additional agents. She will be meeting with the Sales group to discuss the recruitment plan. She is working on getting the Sales force the management tools needed to perform their job.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated work continues to finalize the outstanding invoice for the termination of the contract with Verizon. He is also working with the Department of Budget and Management on this matter. Conference calls are held weekly. He hopes to resolve this issue before the end of the fiscal year.

Mr. Gallagher stated IT continues to support the Racetrax game's enhanced betting, Preakness Promotion and Pick 3 scratch-off instant ticket cross promotion.

The Commission requested an update on Tel-Sell. Ms. Gallagher and Ms. Smith gave a review of Tel-Sell procedures.

Commissioner Fine asked Mr. Gallagher to comment on player activated terminals (PATs). Mr. Gallagher responded PATs are a self-service system where players can make their lottery purchases without retailer intervention. Mr. Gallagher stated PATs can be configured with specific on-line games at each retailer location, e.g. making Keno available on PATs at busy retailer locations. Commissioner Thomas asked what will this cost the Lottery. Mr. Gallagher responded it is part of the SGI on-line contract and he expects them to be provided by September 2007.

Chairman Marriner asked Mr. Gallagher to provide the Commission with a comparison of the prior and current on-line contract.

Communications – Carole Everett, Director

Ms. Carole Everett stated the Commission's folders contain copies of newspaper articles, press releases, the Promotional Partners report, the VIP Club report and a schedule of upcoming events.

Ms. Everett stated approximately 22,000 entries have been received for the \$25 Million Frenzy second chance promotion. The \$2 million grand prize will be awarded in September 2007 at the State Fair.

Ms. Everett stated over 2,000 entries have been received for the Preakness promotion. Three finalists would be selected for chance to win \$100,000, \$50,000 or \$25,000. Each finalist would receive two VIP Preakness "Day at the Races" passes. The three winners would learn which prize they have won after the Barboro Stakes race. It would be broadcast on WBAL-TV. Communications will also be on site at the Preakness.

Ms. Everett stated Promotional Partners were provided with \$6,045 worth of scratch-off tickets and the Lottery received a promotional value of \$85,640 in on-air mentions.

Commissioner Fine asked what is the Promotional Partners program. Ms. Everett responded it is a relationship that has developed over the years with radio stations throughout the State. The Lottery receives on-air mentions in exchange for scratch-off ticket giveaways.

Ms. Everett stated the VIP Club continues to grow and currently there are 36,645 members.

Ms. Everett stated VIP Club members receive information on upcoming promotional events, new games, and special contests. The Lottery also conducts some research with the members.

Ms. Everett stated the televised lottery drawings on WBAL-TV are going well. She will schedule a date for the Commission to go to WBAL-TV to view how the drawings are conducted.

Ms. Everett stated she would like to obtain a photograph and short bio of the two new Commissioners for the Lottery's website.

Product Development and Advertising – Tracey Cohen, Director
Creative Services – Jill Baer, Director

Ms. Tracey Cohen stated copy of her report was provided to the Commission.

Ms. Cohen stated the Lottery plans to launch three 7/7/7 themed scratch-off tickets with price points of \$1.00, \$2.00 and \$5.00 to capitalize on the "luckiest day of the century". She is working with Communications and Sales to develop support of the ticket.

Ms. Cohen stated the \$20 scratch-off ticket called \$25 Million Frenzy was re-launched in February 2007. She stated the Lottery is moving forward with the next \$20 scratch-off called Mega Bucks Jackpot. These tickets go on sale on May 21, 2007. Two weeks later the Lottery will begin supporting this game with television, radio, print and outdoor advertising. Ms. Baer showed to the Commission the billboard and transit advertising. There will be more information to present to the Commission next month.

Ms. Baer stated Pick 3 television advertising is winding down. Racetrax advertising will continue through mid-May. On April 26, 2007, the Lottery will kick-off television and radio advertising of the Countdown to Millions game throughout the State.

Ms. Baer stated the current Mega Millions jackpot is \$58 million. The Lottery would begin radio advertising tomorrow, April 26, 2007. If the jackpot rolls to \$100 million plus, then television advertising would begin.

Ms. Cohen stated there are three new tickets to present to the Commission this month.

Chairman Marriner asked Ms. Cohen to give a brief explanation of the information on the New Game Finance Report the Commission receives for each new scratch-off game. Ms. Cohen gave a brief explanation of the report to the Commission.

Game #658 *Quick 7's* is a \$1.00 ticket with a prize payout of 59.01% and a print run of 3.3 million tickets. If 85% of the tickets are sold, the profit would be \$743,450. If 100% of the tickets are sold, the profit would be \$901,561.

Game #659 *Blackjack Multiplier* is a \$3.00 ticket with a prize payout of 66.99% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$1,164,485. If 100% of the tickets are sold, the profit would be \$1,396,895.

Game #657 *21 Tripler* is a \$1.00 ticket with a prize payout of 58.90% and a print run of 3.3 million tickets. If 85% of the tickets are sold, the profit would be \$760,149. If 100% of the tickets are sold, the profit would be \$921,206.

Commissioner Wagner made a motion to approve Game #658 *Quick 7's*, Game #659 *Blackjack Multiplier*, and Game #657 *21 Tripler*. Commissioner Thomas seconded the motion. Game #658 *Quick 7's*, Game #659 *Blackjack Multiplier*, and Game #657 *21 Tripler* were approved by unanimous vote of the Commission.

Ms. Cohen stated Pollard Banknote prints the Lottery's instant tickets. If the Commission is interested, a visit can be arranged to view the printing process. She stated there is a permanent Pollard Banknote employee assigned to the Lottery. Chairman Marriner asked that next month the Commission be given an overview of Scientific Games and Pollard Banknote and what they provide the Lottery.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he has completed the Internal Control over Financial Auditing. He is preparing the first draft of the report and will be providing it to management in the coming weeks.

Mr. Eaton stated he is working on the sales incentive project. He is contacting other state lotteries for information on their sales incentive plans.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the proposals for the Advertising RFP are due on April 26, 2007. This RFP was split into four areas -- Media, Creative, Public Relations and Research. Vendors can submit proposals on any one of or a combination of the four areas. This will allow smaller firms the ability to submit proposals. He stated next month he will further update the Commission.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated Baltimore City has introduced a bill to allow more amusement machines in bars, restaurants and convenience stores. The bill would expand from five to six the number of amusement devices per business. It is awaiting the vote of the City Council.

COMMISSION BUSINESS

The Commission's Presiding Officer asked the Lottery's Principal Counsel to provide a briefing and advice on pending Lottery legal matters, in order to update the newly-appointed Commissioners. This warranted a closed session of the Commission. All Commissioners agreed to close the meeting. See attached Statement for Closed Meeting, pursuant to State Government Article 10-508(a)7.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, May 30, 2007 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

After the briefing on pending Lottery legal matters, Chairman Marriner brought the meeting to open session. After asking if there was any further business of the Commission to discuss, he moved that the meeting be adjourned. The meeting adjourned at 12:00 noon.

Respectfully submitted,

Buddy Roogow