

**MARYLAND STATE LOTTERY COMMISSION
MAY MINUTES**

DATE: May 30, 2007
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman E. Randolph Marriner
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
Jody Zafir, Trahan, Burden & Charles
Lori Denton, Pollard Banknote

CALL TO ORDER

There being a quorum present, Chairman Marriner called the meeting of the Maryland Lottery Commission to order at 9:07 a.m.

APPROVAL OF MINUTES

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

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated Scientific Games continues its support of the Lottery with the Keno Doubler/Tripler/Sprinker promotion and the Countdown to Millions raffle game.

Ms. Athey stated after the meeting today, the Commission will be shown a simulated rendition of the Maryland Hold 'em game. Mr. Roogow stated that he suggested it be shown after the meeting so that there is more time for questions.

Commissioner Wagner asked if the Lottery is delaying the installation of instant ticket vending machines (ITVMs). Mr. Roogow responded the Lottery does not intend to purchase any additional ITVMs because installation of the Player Activated Terminals (PATs) will begin in September 2007. PATs will have the ability to sell scratch-off tickets as well as on-line games. Ms. Athey stated the machines are being built and the software is being developed. A second wave of PATs will be installed after January 1, 2008. Mr. Roogow stated the Lottery is being very judicious as to where PATs will be installed. Commissioner Wagner asked if any criteria had been established as to where the PATs will be installed. Mr. Roogow responded PATs would be installed at agent locations that need additional support to increase their sales volume such as grocery stores. Ms. Athey stated upon completion of testing, 300 units will be initially installed. She stated the units weigh 700 pounds and the agent has to have the space for it. Ms. Athey stated PATs are currently installed in Georgia in grocery stores, convenience stores, bars and restaurants. Pennsylvania also has PATs installed in bars and restaurants. Colorado uses PATs in grocery stores and convenience stores. Commissioner Thomas asked will the Lottery target a geographic area in the first phase. Mr. Roogow responded the Lottery is not targeting a certain geographic area.

POLLARD BANKNOTE

Ms. Lori Denton stated the \$20 Mega Bucks Jackpot scratch-off ticket has launched. Pollard Banknote continues to assist the Lottery in increasing its scratch-off sales. Pollard Banknote is also working with the Lottery on a date when the Commission can visit the Michigan plant to see the printing of a scratch-off ticket.

TRAHAN, BURDEN & CHARLES

Ms. Jody Zafrir stated advertising for the \$20 Mega Bucks Jackpot scratch-off ticket launched on Monday. An oversized picture of the scratch-off ticket appears on a wall at Lombard and Light Streets. In Baltimore and DC, buses will be wrapped with advertising. On the Metro in DC, train card advertising will be placed. She showed the Commission samples of the advertising. She also showed the Commission the "Megans" television commercial that should begin airing on Monday.

Commissioner Fine stated he wanted to disclose to the Commission that he represents the billboard company that leases the sign at Lombard and Light Streets.

Chairman Marriner stated he recently saw Allen Charles and Tom Hollerbach from Trahan, Burden and Charles and commended them for the great job the ad agency is doing for the Lottery.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated scratch-off sales have gained each week and are ahead of last year's sales by one-half million dollars. Pollard Banknote and Ms. Denton have done a great job for the Lottery. There have been ten weeks of sales gains over last year on the scratch-off side. The Lottery is doing a re-run of the Pick 3 scratch-off because it was so successful.

Mr. Roogow stated total game sales are \$1.5 million behind last year.

Mr. Roogow stated the Racetrax monitor game is doing well and sales to date for this fiscal year are \$43 million. Keno sales are slightly behind last year's sales. He feels Lottery sales and revenues will suffer this summer similar to last summer because of gasoline prices. The new Maryland Hold'em monitor game should have a positive impact on sales.

Mr. Roogow stated the Countdown to Millions raffle game seems to be less popular here than in other lottery states. It is three weeks from the tentative drawing date and over one quarter of tickets have been sold. The Lottery has the ability to delay the drawing from June 21, 2007 to a later date. The Lottery will look at sales a few days before the tentative drawing date to decide whether or not to delay the drawing to a later date. Commissioner Wagner asked will the drawing take place if the tickets are not sold out. Mr. Roogow said

yes the drawing will take place. Ms. Cohen stated the Lottery will do additional advertising. The promotion that ran in the beginning did help game sales.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson presented one revocation to the Commission. She stated Bartol, Inc., T/A Starlight Diner & Lounge is located at 11929 Reisterstown Road, Reisterstown, Maryland 21136. On March 28, 2007, the agent was sent a letter advising him of the Lottery Director's intent to recommend the revocation of his lottery license. This agent had defaulted on numerous weekly settlements totaling seven non-sufficient fund transfers and owes the Lottery \$10,469.36. In November 2006, a public notice appeared in the newspaper that the owner was transferring the liquor license from someone who was not listed as an owner on the agent's original lottery application. In January 2007, the Lottery Sales Rep found the business closed and signs posted stating "No one was permitted on the premises." The business then reopened in February 2007. The Lottery Sales Rep informed the agent that updated information needed to be provided to the Lottery. However, the agent did not provide the requested documentation. The Lottery then sent a certified letter of license revocation that was signed for by the owner on April 12, 2007. The owner had ten days to file an appeal and no response was received from the agent. At this time the Lottery Director is recommending to the Commission that the license of Bartol, Inc., T/A Starlight Diner & Lounge be revoked.

Commissioner Fine asked if the lottery equipment was still at the agent location. Ms. Johnson responded the equipment was removed from the agent location in January 2007.

Commissioner Thomas made a motion to accept the revocation of the lottery license of Bartol, Inc., T/A Starlight Diner & Lounge and Commissioner Fine seconded the motion. The lottery license of Bartol, Inc., T/A Starlight Diner & Lounge was revoked by unanimous vote of the Commission.

Ms. Johnson stated on May 11, 2007, the Maryland State Board of Contract Appeals issued a decision denying Merjo Advertising and Sales Promotions the right to file a Belated Claim regarding liquidated damages for late delivery of one of its procurements to the Lottery. Merjo can appeal this decision. She will keep the Commission updated on this matter.

Ms. Johnson stated the Lottery received a copy of the lawsuit filed by Carrollton Bank alleging breach of contract by the Lottery. The bank is seeking the amount of \$2.1 million. This lawsuit arose as a result of the Eisner issue. The Lottery is joining with Morgan State University who was also sued by the bank. The Lottery will file a response to the complaint. She will update the Commission on this matter as it progresses.

Ms. Johnson stated that during the past month the Legal Division worked on various documents for the Agency. Seven requests were reviewed for Product Development concerning new scratch-off games. Seven contracts were drafted for Communications for promotions or public affairs events. Four agreements relating to 7-11 retailers were drafted or reviewed. Three items were drafted or reviewed for the AFO Division.

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

Ms. Gina Smith stated in December the Commission was given a copy of the Lottery's Comprehensive Annual Financial Report (CAFR). The Lottery submitted the CAFR to the Government Finance Officers Association (GFOA) for certification. She stated the Lottery's CAFR has been certified for the third consecutive year. On behalf of the Commission, Chairman Marriner congratulated Ms. Smith and the Lottery.

Ms. Smith stated work continues on the PC tablet that will be provided to the Sales force. A three day session was held with the vendor, Cole System, to go over what the Lottery wants on the system. It is a six month implementation process. The PC tablet will contain data on agent locations and give the Lottery the ability to communicate with the Sales force. Commissioner Wagner asked why not use a lap top. Ms. Smith responded the lap top dial up is horrible. Mr. Gallagher stated with the Cole System the Lottery will be able to update information much more quickly and it is more user friendly. The Sales Reps would be equipped with printers in their vehicles and be able to print out the data on site for the agent. Chairman Marriner requested that a presentation be given to the Commission as this project evolves. Ms. Smith responded she would take care of this request. Mr. Gallagher stated ten other lotteries use this type of PC tablet.

Ms. Smith stated work continues on the FY2008 Sales plan. The plan includes establishing criteria for the installation of the Player Activated Terminals (PATs), recruitment of new agent locations and expanding the number of terminals at high volume retailer locations.

Ms. Smith stated one of the Regional Managers recently resigned and recruitment has been started to fill the position. The Regional Manager is responsible for supervising a certain number of Sales reps. Recruitment is also in progress for a contractual Sales Rep, two Fiscal Account Clerks, one in the Customer Resource Center and the other in Agent Administration, and a Budget Assistant. Also one of the Lottery's Security investigators is retiring in June.

Ms. Smith stated AFO is in the process of closing out the budget for FY2007. She is working with the Divisions to close out spending and payment of invoices.

Commissioner Fine stated Ms. Smith mention hiring a contractual Sales Rep and asked what the difference was between a permanent and a contractual position. Ms. Smith responded a person in a contractual position receives no State benefits and does not earn leave.

Commissioner Fine asked for an explanation of the Special Purpose Financial Statement and the GAAP Financial Statement. Ms. Smith stated next month she would provide a summary of the difference between the Special Purpose and GAAP reports. Commissioner Fine asked if this report is sent to the Governor and General Assembly. Ms. Smith responded at year end the Lottery sends a copy of the GAAP report to the Governor and General Assembly.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated IT continues to work with Attorney General's Office and State Archives concerning Electronic Discovery and how it relates to storage and retrieval of electronic information. He anticipates that this will be a lengthy process.

Mr. Gallagher stated the Department of Budget and Management continues to work with Verizon on the final telecommunications invoice amount. He would like have this closed by the end of this fiscal year.

Mr. Gallagher stated IT is working with Scientific Games on the issue of timely terminal installments and field services calls. Scientific Games has contracted with a subcontractor to assist with clearing up the backlog of terminal installations. It should be caught up by the end of June.

Mr. Gallagher stated testing of the software continues on the Maryland Hold 'em monitor game. He is working with Scientific Games on the Business Requirement Specifications for the Player Activated Terminals (PATs). The Lottery requested that a PAT be installed at the State Fair in September and then another small group installed at agent locations by the end of October 2007.

Communications – Carole Everett, Director

Ms. Carole Everett stated Communications participated in 19 events in the last month, including the Bridge Boat Show, Crusin' in Ocean City, Merriweather concerts, at the Preakness, and at Wine in the Woods in Columbia. In June, Communications will be participating at Zoomerang and the evening lottery remote drawing will be held there also. Communications has also been at several Lottery parties promoting Keno and Racetrax.

Ms. Everett stated the fifth and final group of semi-finalists were chosen in the \$25 Million Frenzy second chance contest. The grand prize will be awarded at the State Fair on September 1, 2007. Approximately 35,000 entries have been received.

Ms. Everett stated the Lottery issued 24 press releases. Twelve articles appeared in various newspapers and they were valued at \$16,526. She stated approximately 18 Promotional Partners were provided with \$6,966 worth of scratch-offs and the Lottery received a promotional value of \$78,150 in on air mentions.

Ms. Everett stated during the past month, VIP members were contacted nine times with event and contest information. There are currently 34,702 VIP Club members.

Ms. Everett stated the lottery drawings conducted on WBAL-TV are doing well. She suggested that after next month's Commission meeting, the Commissioners go to the studio for a tour and to witness the mid-day drawings. Please let Ms. Torosino know your availability.

Ms. Everett stated Mr. Raynard Owens was recently hired in the Communications Division as the Assistant Director for Public Relations. There are also two summer interns working in the Communications Division.

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

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

Game #662 *Wild Turkeys* is a \$1.00 ticket with a prize payout of 58.26% and a print run of 2.8 million tickets. If 85% of the tickets are sold, the profit would be \$642,330. If 100% of the tickets are sold, the profit would be \$782,596.

Game #665 *Cashword* 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 \$827,842. If 100% of the tickets are sold, the profit would be \$1,000,845.

Game #667 *Luck of the Draw* is a \$10.00 ticket with a prize payout of 74.98% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,750,586. If 100% of the tickets are sold, the profit would be \$3,262,896.

Game #668 *Super Match 3* is a \$2.00 ticket with a prize payout of 63.95% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$836,498. If 100% of the tickets are sold, the profit would be \$1,011,028.

Game #669 *Poker Face* is a \$1.00 ticket with a prize payout of 58.76% and a print run of 3.3 million tickets. If 85% of the tickets are sold, the profit would be \$764,125. If 100% of the tickets are sold, the profit would be \$925,884.

Game #675 *Instant Pick 3* is a \$1.00 ticket with a prize payout of 58.00% and a print run of 2.8 million tickets. If 85% of the tickets are sold, the profit would be \$651,679. If 100% of the tickets are sold, the profit would be \$793,594.

Commissioner Fine asked if it would be possible to receive the instant ticket financial information for review in advance of the monthly meetings. Chairman Marriner stated previously the Commission received only a color copy of the tickets and the tickets were approved based on that. The Commission requested that they receive the financial

information in order to approve the tickets. Ms. Cohen stated the financial information is the same on each ticket except if advertising administrative costs are added. She stated she will have the information sent to the Commissioners in advance of the meeting.

Chairman Marriner made a motion to approve Game #662 *Wild Turkeys*, Game #665 *Cashword*, Game #667 *Luck of the Draw*, Game #668 *Super Match 3*, Game #669 *Poker Face*, and Game #675 *Instant Pick 3*. Commissioner Wagner seconded the motion. Game #662 *Wild Turkeys*, Game #665 *Cashword*, Game #667 *Luck of the Draw*, Game #668 *Super Match 3*, Game #669 *Poker Face*, and Game #675 *Instant Pick 3* were approved by unanimous vote of the Commission.

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

Game #564 *Super Slots* was 99.83% sold with a net profit of \$1,611,630.87.

Game #576 *Frozen Assets* was 99.78% sold with a net profit of \$1,724,536.88.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he is in the process of obtaining Management's responses on the Internal Control over Financial Report Review. This month he started the Sales Process Review and it should be completed by the end of June.

Mr. Eaton stated at the request of the Commission, he conducted a survey of Sales Incentive Programs at other Lotteries. He provided the Commission with a copy of a detailed report of the results. Surveys were sent to 34 state Lotteries and 19 responses were received. Out of the 19 responses, 11 Lotteries had incentive programs in place. Three of those 11 Lotteries were formed as corporations. Sales reps earn compensation for a combination of on-line and instant products during the year. Compensation is earned on a quarterly or annual basis and incentive plan earnings range from \$2,000 to \$60,000.

Mr. Eaton also provided to the Commission a report published in the April 2007 issue of *La Fleur's Magazine*. The article states that 17 out of 42 lotteries have an incentive program in place. In Oklahoma, Sales reps are employed by Scientific Games and they currently do not have an incentive plan. However, an incentive plan has been proposed. In West Virginia, Scientific Game supplies the Sales Reps and they do not have an incentive program in place.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the proposals for the Advertising, Research and Public Relations Services RFP were due on April 26, 2007. He received several proposals. Oral discussions with the Offerors and assignment presentations for their functional areas were held between

May 11 and 21, 2007. The process is going well. He hopes to be able make a recommendation to the Commission by next month.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated Chairman Marriner requested an overview of the on-line, instant and drawings contracts. The overviews are contained in the Commissioners folders. After review, if there are any questions, please contact him.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, June 27, 2007 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

Chairman Marriner asked if there was any further business to discuss. There being none, Commissioner Wagner made a motion to adjourn the meeting and it was seconded by Commissioner Fine. All Commissioners voted in favor to adjourn. The meeting adjourned at 10:55 a.m.

Respectfully submitted,

Buddy Roogow