

**MARYLAND STATE LOTTERY COMMISSION
JUNE MINUTES**

DATE: June 27, 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
Robert Howells, Director of Procurement
Paul Dorsey, Director of Policy and Development
Michael Eaton, Internal Auditor
Raynard Owens, Communications Assistant Director/Public Relations
David Jones, District Sales Manager
Marie Torosino, Executive Associate

OTHERS

PRESENT: Sean Athey, Scientific Games Online Entertainment Systems
Lori Denton, Pollard Banknote
Alice March, Lottery Agents Association

CALL TO ORDER

There being a quorum present, Chairman Marriner called the meeting of the Maryland Lottery Commission to order at 9:01 a.m.

APPROVAL OF MINUTES

Chairman Marriner asked if there were any changes to the May Commission Minutes. Hearing none, he made a motion to approve the May Commission Minutes and the motion was seconded by Commissioner Wagner. The May Minutes were approved by unanimous vote of the Commission.

COMMISSION BUSINESS

Commissioner Thomas stated he wanted to comment on the Communications staff that worked at the Philippine Festival in Prince George's County. There was a crowd of approximately 6,000. The Lottery did an excellent job and he hopes they will be able to return next year.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated roll out of the Maryland Hold'em game began last week. Nine retailers should be installed by the end of the week. A question was asked if these locations are test sites. Ms. Athey responded yes. Commissioner Fine asked how do sales of Maryland Hold'em compare to RaceTrax and Keno. Ms. Athey responded Maryland Hold'em sales are running ahead of RaceTrax sales. Scientific Games marketing staff have been at agent locations teaching people how to play the game and driving enthusiasm for the game. Commissioner Wagner asked if any of the Maryland Hold'em locations are in Anne Arundel County. Ms. Athey responded Crabtowne USA has Maryland Hold'em. Chairman Marriner asked if any feedback has been received from the agents. Ms. Athey responded there has been a mixture of views, but in general a lot of enthusiasm. A research program will take place shortly. Ms. Athey will e-mail a list of the Maryland Hold'em locations to the Commissioners.

Mr. Roogow congratulated the SGI and Lottery IT staff who worked hard to get the Maryland Hold'em game out.

POLLARD BANKNOTE

Ms. Lori Denton stated a new \$10 scratch-off ticket is launching called Cash Diamond. This is a patent product that has a hologram in the scratch-off play area of the ticket.

Ms. Denton stated the date for the Commissioners to visit the Pollard plant in Michigan will be the week of August 27, 2007. She will be in contact the Commissioners at a later date. A Maryland scratch-off ticket should be printing while they are there for the visit.

DIRECTOR'S REPORT

Mr. Buddy Roogow introduced Ms. Alice March, President of the Lottery Agents Association who was present at the Commission meeting.

Mr. Buddy Roogow stated sales are doing well. Sales are ahead of last year by \$11.8 million. The Lottery should end the fiscal year at \$15 million or more ahead of last year. Pick 3 sales are down approximately \$5 million compared to last year. Pick 4 has gained and sales are \$3.5 million ahead of last year. Keno sales are \$19 million behind as compared to last year. Scratch-off sales are ahead of last year by \$8 million. Mega Millions sales are down because there has been only one big jackpot. Bonus Match 5 sales are about the same. Multi-Match sales are up because this is the first full year. Mr. Roogow stated RaceTrax is the big reason why Keno sales are down. There was some cannibalization. However, total monitor game sales are way up.

Mr. Roogow stated revenue loss in the Pick 4 game is due to a number of high payouts this past year. Total revenue is down by \$8 million compared to last year. The only direct correlation is that the agent retailers received an extra \$8 million in commissions this year because of the on-half percent increase.

Mr. Roogow stated the drawing for the Countdown to Millions raffle style game has been changed to July 7, 2007. Currently 160,000 tickets have been sold. During the last raffle game, there was a tremendous surge in sales during the last week of sales in December. The drawing will occur whether or not the game sells out. The Lottery will continue with its strong public relations campaign. Radio stations are running endorsements with the announcers talking about the product. He stated the Lottery's Sales reps are working with the retailers to promote the game to the players.

Mr. Roogow stated the Maryland Hold'em monitor game launched on June 18, 2007 at Soda Pop Shop in Catonsville. Nine to ten lottery locations would be selling the game by the end of this week. Sales for the first week at three retailer locations were approximately \$11,600. Over half of the total of the first week's sales can be considered incremental and percentage cannibalization of the Keno and RaceTrax monitor games was less than 5%. The game's payout was modeled to be 66%. Players can bet on the featured table bet and/or side pot bet. To date, 43% of the sales wagered are on the side pots and 57% on the featured table hand. Player interviews would be conducted next week to obtain more information on what they think of the game.

Mr. Roogow stated the Maryland Association of Counties summer conference will be held in Ocean City from August 15 to 18, 2007. If any of the Commissioners are interested in attending, please contact Ms. Torosino.

Mr. Roogow stated the combined NASPL/World Lottery Association conference will be held from October 3 to 6, 2007 in Louisville, Kentucky. Mr. Arch Gleason is the current president of the World Lottery Association as well as president of the Kentucky Lottery. If any of the Commissioners are interested in attending, please contact Ms. Torosino.

Mr. Roogow stated Oberthur Gaming Technologies (OGT) is being bought out by Scientific Games International. He stated other lotteries are concerned about the reduction of vendors who can supply on-line and instant products. SGI supplies both on-line and instant products. OGT supplies only instant products. GTECH (who merged with Lottomatica) supplies on-line products and also bought out Creative Games, a former instant product provider. Pollard Banknote only supplies instant products. Intralott, a European company supplies on-line products. This company supplies services to one U.S. lottery.

Mr. Roogow stated he is in touch on a regular basis with Ms. Peggy Watson, the Governor's Deputy Chief of Staff to keep her up to date on what the Lottery is doing.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson presented one revocation to the Commission. She stated Alvii, Inc., T/A All-American Sports is located at 1205 N. Crain Highway, Glen Burnie, Maryland 21061. On May 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 four non-sufficient fund transfers and three dishonored ACH transfers. The agent owes the Lottery \$5,648.63 and a lien was filed in March 2007. The terminal was shut down on February 8, 2007.

The return receipt card for the certified letter of revocation was signed for on May 29, 2007 and received by the Lottery on May 30, 2007. The owner had ten days to file an appeal and no response was received from the agent. Based upon these facts, the Lottery Director is recommending to the Commission that the lottery license of Alvii, Inc., T/A All-American Sports be revoked.

Commissioner Wagner made a motion to accept the revocation of the lottery license of Alvii, Inc., T/A All-American Sports and Commissioner Thomas seconded the motion. The lottery license of Alvii, Inc., T/A All-American Sports was revoked by unanimous vote of the Commission.

Ms. Johnson stated four litigation matters were handled. The first concerns a former Lottery agent whose husband and business partner ran the business and transferred the business several times before her husband died in 2005. She maintains that her name was fraudulently used in order to obtain a lottery license and she is not liable for monies due. The outstanding debt was over \$1,500 and her tax refund was intercepted to satisfy the debt. A hearing with the Office of Administrative Hearings has been scheduled for June 26, 2007. She will keep the Commission updated.

Ms. Johnson stated the second litigation case concerns the tort matter of a Lottery driver hitting another vehicle. The Lottery driver maintains he did not hit the vehicle and the other driver maintains the Lottery driver did hit his vehicle. The case will be heard in January 2008. A trial by jury was requested by the plaintiff. She will keep the Commission updated as the case progresses.

Ms. Johnson stated the third case concerns a complaint filed with the Maryland Human Relations Commission (MHRC). The MHRC issued a finding of No Probable Cause and would dismiss the case if no appeal is filed. Subsequently, the MHRC did not receive notice that an appeal was made and the case would be closed.

Ms. Johnson stated the fourth matter concerns Carrollton Bank and Eisner Communications. As of Monday, the Lottery filed a notice to consolidate with Morgan State University. Carrollton Bank had no objection. The hearing date is July 18, 2007. She will keep the Commission updated on this matter.

Ms. Johnson stated the Legal Division worked on various contractual agreements for the Product Development/Creative Services, Communications, AFO and Sales Divisions.

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

Ms. Gina Smith stated the Lottery is wrapping up the FY2006 and FY2007 budgets, moving forward with the FY2008 budget and developing the FY2009 budget. The Department of Budget and Management has requested the Lottery to decrease its FY2008 budget by \$2.3 million. However, the Lottery has requested that it be allowed to revert the \$2.3 million in FY2007 instead of FY2008 since it will have that amount in the FY2007 budget due to savings in the instant ticket contract. The Department of Budget and Management has tentatively agreed to this request and the Lottery is waiting for a confirmation in writing.

Ms. Smith stated that at the last Commission meeting Commissioner Fine asked for an analysis of the difference between the Special Purpose Report and GAAP. She stated attached to her report was the explanation. If there are any questions, please let her know.

Ms. Smith stated an incentive contest was conducted in the Sales Division between May 21, 2007 and June 17, 2007, to promote the \$20 Mega Bucks scratch-off ticket. The top two field reps whose agents sold the most books as well as the top field rep in each region whose agents sold the most books were rewarded with a trip to the Pollard Banknote plant in Michigan to learn how the scratch-off tickets are printed. They returned last night and she has not had an opportunity to obtain any feedback. This is one way the Lottery is able to reward the field reps for their work.

Ms. Smith stated during FY2008, the Sales Division will be asked to makeover agent retailer locations to assist the agents in increasing sales. Mr. Dave Jones, the field rep that covers the Eastern Shore area, took the opportunity to makeover a lottery location. Mr. Jones stated the retailer is an Ocean City gas station/convenience store that is located on the North side of Route 50 at Route 611. He showed to the Commission a Power Point presentation of the before and after photographs of the lottery location. He stated current

on-line sales are up 1% and scratch-off sales are up 18% as compared to last year. Mr. Roogow stated these kinds of changes have a positive impact on sales.

Commissioner Thomas asked what is the Lottery doing to entice other agent locations to follow suit. Ms. Smith responded a meeting was held with the Regional Managers and one of their goals for FY2008 is to makeover agent locations. Commissioner Thomas asked what about the cooperation of the agents. Ms. Smith responded the Sales reps are familiar as to which agents would be willing to work with the Lottery. Chairman Marriner thanked Mr. Jones for the presentation.

Commissioner Fine asked what is MFR. Ms. Smith responded Managing for Results are goals and objectives set for the Lottery. Meetings are held to set the strategies for the Lottery to meet its goals and objectives for the coming fiscal year. She stated it is similar to State Stat. She would include more information in next month's report.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated IT is working with SGI and GLI for any software changes to the Maryland Hold'em game. There have been no significant issues with the game.

Mr. Gallagher stated the outstanding bill from Verizon for 2006 for the telecommunications network has been finalized and paid.

Mr. Gallagher stated IT is working with SGI to improve customer service in the field services area. He has met with SGI senior management over the last month to discuss these issues and SGI's plan for addressing them both short and long term.

Mr. Gallagher stated the testing of Player Activated Terminals (PATs) continues. The Lottery would like to have a PAT on display at the State Fair in September and then have the pilot program begin in October 2007.

Mr. Gallagher stated work continues on the Sales Division's automated tool order pad which should be available by the end of this year.

Communications – Carole Everett, Director

Ms. Carole Everett introduced Mr. Raynard Owens, the new Assistant Director of Public Affairs in the Communications Division. He was welcomed by the Commission.

Ms. Everett stated Communications has been onsite at both minor and major baseball games, Merriweather Post Pavilion, and East Port A-Rocking in Annapolis. In July, Communications will participate at 14 events throughout the State.

Commissioner Fine asked what is typically done at an event. Ms. Everett responded the Lottery distributes information on upcoming events, sells tickets for all games and gives the

public a chance to win prizes on the prize wheel. There are usually large crowds at the booth at all the events.

Ms. Everett stated the five finalists for the second chance \$25 Million Frenzy grand prize event have been chosen. The five finalists will vie for the grand prize at the State Fair in September.

Ms. Everett stated the Lottery issued numerous press releases last month. Eleven articles appeared in various newspapers and they were valued at \$10,378.68.

Ms. Everett stated seven radio Promotional Partners were provided with \$2,670 worth of scratch-offs and the Lottery received a promotional value of \$49,380 in on air mentions.

Ms. Everett stated during the past month, VIP Club members were contacted with Lottery information and ticket giveaways for various events. There are currently 35,112 VIP Club members.

Ms. Everett stated the televised lottery drawings on WBAL-TV have been going well. She stated when today's meeting ends, the Commission will travel to WBAL-TV for a tour and to view the mid-day drawings.

Ms. Everett stated numerous winners have been coming in to the Claims Center – second and third tier Mega Millions winners, Bonus Match 5 winners and numerous top tier scratch-off winners.

Ms. Everett stated the Lottery would be on-site at the MACO conference in Ocean City in August. She stated the Lottery will also be on-site at the State Fair from August 24, 2007 through September 4, 2007.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated the Division has been busy working with the advertising vendor.

Commissioner Fine asked why was the “777” scratch-off ticket cancelled. Ms. Cohen responded because the Countdown to Millions drawing was changed to July 7, 2007, it was decided to hold the launch of the series of three scratch-off tickets until possibly the Fall.

Ms. Cohen stated there are eight new tickets to present to the Commission this month. Game #641 *Set for Life* is a \$5.00 ticket with a prize payout of 72.02% and a print run of 3.8 million tickets. If 85% of the tickets are sold, the profit would be \$2,269,023. If 100% of the tickets are sold, the profit would be \$2,802,235.

Game #647 *Fantastic 5'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 \$2,358,699. If 100% of the tickets are sold, the profit would be \$2,801,853.

Game #664 *Super Duper Doubler* is a \$1.00 ticket with a prize payout of 58.47% and a print run of 3.3 million tickets. If 85% of the tickets are sold, the profit would be \$770,028. If 100% of the tickets are sold, the profit would be \$932,828.

Game #670 *Polar Bear Bucks* is a \$1.00 ticket with a prize payout of 58.02% and a print run of 2.8 million tickets. If 85% of the tickets are sold, the profit would be \$631,694. If 100% of the tickets are sold, the profit would be \$770,082.

Game #672 *Lucky Lines* is a \$3.00 ticket with a prize payout of 67.03% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$1,008,092. If 100% of the tickets are sold, the profit would be \$1,212,904.

Game #673 *Sapphire Blue 7's* 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 \$825,393. If 100% of the tickets are sold, the profit would be \$997,964.

Game #674 *Fire & Dice Doubler* is a \$1.00 ticket with a prize payout of 58.01% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$696,842. If 100% of the tickets are sold, the profit would be \$846,728.

Game #676 *Holiday Cheer* is a \$1.00 ticket with a prize payout of 58.04% and a print run of 2.8 million tickets. If 85% of the tickets are sold, the profit would be \$632,046. If 100% of the tickets are sold, the profit would be \$770,497.

Chairman Marriner requested a motion to approve Game #641 *Set for Life*, Game #647 *Fantastic 5's*, Game #664 *Super Duper Doubler*, Game #670 *Polar Bear Bucks*, Game #672 *Lucky Lines*, Game #673 *Sapphire Blue 7's*, Game #674 *Fire & Dice Doubler*, and Game #676 *Holiday Cheer*. Commissioner Reeder made a motion to approve these instant games and it was seconded by Commissioner Wagner. Game #641 *Set for Life*, Game #647 *Fantastic 5's*, Game #664 *Super Duper Doubler*, Game #670 *Polar Bear Bucks*, Game #672 *Lucky Lines*, Game #673 *Sapphire Blue 7's*, Game #674 *Fire & Dice Doubler*, and Game #676 *Holiday Cheer* were approved by unanimous vote of the Commission.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated his report included a copy of the 2007 Internal Audit of the Internal Control over Financial Reporting Review. The report contains an Executive Summary, Project Objectives and Scope, Work Performed and Observations and Opportunities for Improvement. Mr. Eaton gave a section by section review of the report to the Commission. Mr. Roogow stated this report will help the Lottery identify the areas that the Legislative Auditors may look at. Commissioner Fine asked how often do the Legislative Auditors come to the Lottery. Ms. Smith responded they come in once every two to three years and currently it has been 2½ years since the last audit.

Procurement – Robert Howells, Director

Mr. Robert Howells stated in addition to the written information previously sent to the Commission, he had some additional information to report. On June 20, 2007, the Lottery appeared before the Board of Public Works to request approval of the one-month extension on the Trahan, Burden and Charles contract. The original contract expires on June 30, 2007. Two one-month extension options were built into the contract as a contingency. The Lottery is exercising the option of a one month extension of the contract.

Mr. Howells stated on July 11, 2007 the Lottery would appear before the Board of Public Works to request approval of the new advertising contract. This contract would begin on August 1, 2007 when the current advertising contract with Trahan, Burden and Charles expires. He stated he e-mailed to the Commission copies of the contracts, the Register of Proposals received, the ranking sheet showing technical and financial rankings, and a draft of the Board of Public Works Agenda. He stated all Offerors were notified of the opportunity for a debriefing. Offerors had seven days from the debriefing date to file a protest. The final debriefing was held on June 22, 2007.

Mr. Howells discussed the MBE goals on these contracts. He stated Sections I, III and IV had a 25% MBE goal and Section II had a 10% MBE goal.

Mr. Howells requested the Commission's approval to go forward with the Advertising, Research and Public Relations contracts at the Board of Public Works meeting scheduled for July 11, 2007. Commissioner Thomas made a motion to approve the contracts and it was seconded by Commissioner Fine. The contracts were approved by unanimous vote of the Commission.

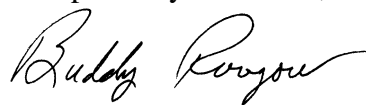
DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, July 25, 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 motioned to adjourn the meeting All the Commissioners voted in favor to adjourn. The meeting adjourned at 11:10 a.m.

Respectfully submitted,



Buddy Roogow