

**MARYLAND STATE LOTTERY COMMISSION
NOVEMBER MINUTES**

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

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

Buddy Roogow, Director
Gina Smith, Assistant Director/CFO
John Gallagher, Chief Information Officer, Information Technology
Tracey Cohen, Director, Product Development and Advertising
Carole Everett, Director, Communications
Paul Dorsey, Director, Policy and Development
Robert Howells, Director of Procurement
Michael Eaton, Internal Auditor
James Butler, Assistant Attorney General
Marie Torosino, Executive Associate

OTHERS

PRESENT: Jeff Hale, Scientific Games Online Entertainment Systems
Tom Hollerbach, Trahan, Burden and Charles
Jody Zafir, Trahan, Burden and Charles
Chris Barrick, Gray, Kirk/VanSant
Ed Kully, Crestwood Associates

CALL TO ORDER

There being a quorum present, Chairman Fine called the meeting of the Maryland Lottery Commission to order at 9:00 a.m.

APPROVAL OF MINUTES

Chairman Fine stated the October Commission Minutes were sent to the Commission members for review. Vice Chairman Marriner made a motion that the Commission approve the Minutes. Commissioner Reeder seconded the motion. The October Commission Minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Jeff Hale stated Scientific Games continues to roll out the MD Hold'em game to agent locations. By the end of November 2007, over 100 agents would be installed.

TRAHAN, BURDEN & CHARLES

Mr. Tom Hollerbach briefed the Commission on the recent changes at Trahan, Burden & Charles (TBC). He stated Ms. Sandy Hillman resigned on November 9, 2007 and opened a Public Relations firm. The following Monday a number of TBC staff resigned to join Ms. Hillman's PR firm. He stated a meeting was held immediately with Mr. Roogow and the Lottery staff to discuss this situation. At Chairman Fine's, request Mr. Hollerbach gave a description of the new TBC Public Relations team. Mr. Hollerbach stated TBC is going to broaden its PA role and move towards other events and sports marketing.

Ms. Jody Zafrir showed the Commission the Party Bucks Pouch instant ticket as well as the retail dispenser. Advertising would begin statewide on December 31, 2007 on television and radio and in MBE publications.

Commissioner Wagner asked why the Party Bucks Pouch isn't being launched as a holiday scratch-off ticket. Ms. Cohen responded the Lottery already has \$1, \$2, \$5, and \$20 price point holiday scratch-offs available for gift giving. The Lottery is holding off on launching this game until December 31, 2007 so as not compete with the holiday tickets. Ms Zafrir stated advertising will consist of television, radio, internet, out of home elements, point-of-sale and print.

Ms. Zafrir stated the Mega Millions jackpot is at \$70 million and the Lottery will begin advertising on radio.

GRAY KIRK/VANSANT

Mr. Roogow introduced Mr. Chris Barrick from Gray Kirk/VanSant (GKV). Mr. Barrick stated print advertising ran in the Baltimore Business Journal promoting Lottery tickets as corporate employee gifts. He showed the Commission the four holiday scratch-off television commercials. Holiday radio advertising is currently on the air.

Ms. Cohen introduced Ed Kully of Crestwood Associates. They are a research firm conducting tracking studies and scratch-off testing for the Lottery.

LICENSING CONTRACT

Chairman Fine asked Mr. Howells to present the MDI contract. Mr. Howells stated he previously sent to the Commission a copy of the Two Game Licensing Contract (#2007-04) with MDI Entertainment, a wholly-owned subsidiary of Scientific Games, for two instant ticket games -- "Deal or No Deal" and "Let It Ride". It is a sole source contract in the amount of \$135,600. The Contract was approved by the Department of Budget and Management and is on the December 12, 2007 Board of Public Works (BPW) Agenda. Mr. Howells is requesting the Commission's approval of the Contract. Chairman Fine asked when the Contract would be signed by the Lottery. Mr. Howells responded the Lottery signs the Contract after approval by the BPW.

Chairman Fine asked if there were any further any questions. Hearing none, he requested a motion. Commissioner Reeder made a motion to approve the Two Game Licensing Contract (#2007-04) between the Lottery and MDI Entertainment, effective December 15, 2007 through May 29, 2010, in the amount of \$135,600. The motion was seconded by Commissioner Wagner. Chairman Fine requested a vote. The Contract was approved by unanimous vote of the Commission.

PROPOSED REGULATIONS

Chairman Fine stated at last month's meeting the Commission received a copy of the proposed changes to the rules and regulations. At that time, the decision was made to defer approval until the November Commission meeting to give the Commission an opportunity to review the proposed changes concerning Commission Vice Chair, Assignment of Lottery Prizes and Changes of Ownership.

Chairman Fine asked if there were any questions. Commissioner Thomas asked if election of the Vice Chairman would occur at the same time as election of the Chairman. Chairman Fine responded it would occur at the same time.

After further discussion of the proposed changes, Chairman Fine requested a motion. Vice Chairman Marriner made a motion to approve the three proposed changes to the rules and

regulations. The motion was seconded by Commissioner Thomas. The proposed changes to the rules and regulations were approved by unanimous vote of the Commission.

AUDIT UPDATE

Chairman Fine asked Ms. Smith for an update of the prior discussions concerning increasing independent audit capabilities. Ms. Smith distributed a handout to the Commission and updated the Commission on her conversations with Mr. Paul Shifrin of Stout, Causey & Horning (SCH) on how the Lottery can make its structure more independent. Chairman Fine stated it is the consensus of the Commission to work out the details. Ms. Smith stated she has been working with Mr. Howells regarding the Contract Modification, and any Modification must be submitted to the Department of Budget and Management for approval. If the Contract Modification is over \$50,000, it would also have to be placed on the BPW Agenda. She will meet further with SCH.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the owner of Super Mart, a lottery location, in Colmar Manor, Maryland has been accused in a lottery scheme of stealing elderly customers' identities. Upon the Lottery learning of this scheme, the retailer's lottery license was suspended and the case was turned over to the Lottery's Legal Division. Mr. Butler distributed to the Commission a copy of the press article detailing the lottery scheme. He then gave a further explanation of the investigation of this matter.

Mr. Roogow stated the House Ways and Means Committee invited him to provide a briefing about the Lottery's progress during the year and any legislation it is considering. This meeting would take place at the Donaldson Brown Riverfront Conference Center on December 10, 2007.

Mr. Roogow stated total sales are \$70.5 million ahead of last year and revenue is \$22.7 million ahead of last year. Racetrax sales are approximately \$20 million ahead of last year. Scratch-off sales are \$36.7 million ahead of last year. Mega Millions sales are approximately \$18 million ahead of last year. The current Mega Millions jackpot is at \$70 million. Pick 3 sales are down \$4.5 million as compared to last year. Pick 4 sales are slightly ahead of last year. Combined sales of Keno and Keno Bonus sales are \$4.3 million behind last year. This may be due to some cannibalization with Racetrax and MD Hold'em games.

Mr. Roogow stated revenues are running well ahead of the BRE estimate. The current weekly average sales are \$31.2 million, with current average revenue at \$9.7 million.

Mr. Roogow stated he and Mr. Paul Dorsey attended the Special Legislative Session in Annapolis. He then briefed the Commission on the Special Session and the slots issue.

REPORTS

Legal Division – James Butler, Assistant Attorney General

In Ms. Johnson's absence, Mr. Butler presented the Legal Division's report. He stated the Financial Accountability Responsibility Affidavit for change of ownerships has been finalized and is being implemented.

Mr. Butler stated a recent Order from the Court regarding Maryland Outdoor Services granted the Lottery's Motion to Quash the Writ of Garnishment and approved the Lottery's Complaint for Interpleader. He will keep the Commission updated on this issue. A copy of the Order was provided to the Commission.

Commissioner Thomas asked, what are 7-11 financial agreements, listed under "Other Matters" in his report. Mr. Butler responded when a 7-11 is approved, a corporate guaranty and financial responsibility agreement is signed by the Assistant Attorney General and the Lottery Director.

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

Ms. Gina Smith distributed to the Commission a copy of the Stout, Causey & Horning Management Letter dated September 4, 2007. The letter was discussed with the Commission and there were two findings: the bond database that is in the final stages of testing, and the development of a procedures manual for Accounts Receivable and the General Ledger Process. These procedures are currently being developed. Chairman Fine requested Ms. Smith to find out from Stout, Causey and Horning why there was a delay in receiving the Management Letter and requested it be received on a timelier basis.

Ms. Smith stated in her report the total number of Mega Millions and Multi-Match subscriptions were left out in error and will be included on next month's report. Chairman Fine asked if subscriptions are a profitable program. Ms. Smith responded the Lottery does approximately \$4 million a year in subscriptions and it is inexpensive to run the program. Three employees are dedicated to keying subscriptions.

Chairman Fine asked what is a State P-card. Ms. Smith gave a description of the State issued credit card that is used for purchases under \$2,500.

Chairman Fine asked for further information regarding License Agreement (#2008-15) with Carton Donofrio Partners and License Agreement (#2008-16) with Pollard Banknote. Mr. Howells responded the License Agreement with Carton Donofrio is a sole source contract in the amount of \$250,000 authorizing the Lottery to use the "MegaMillionese Campaign" concepts. The Contract will be submitted for the Commission's approval at the December Commission meeting. It is scheduled on the BPW Agenda in January 2008.

Mr. Howells stated the License Agreement with Pollard Banknote is a sole source contract in the amount of \$57,600 authorizing the Lottery to use the name and characters “Hugs and Kisses” for an instant ticket game. This is similar to the contract with Pollard done in December 2006 for the first “Hugs and Kisses” instant game. Because of the amount of the contract, it only required approval by DBM and does not have to be placed on the BPW agenda.

Commissioner Thomas asked after the Lottery attends an MBE Outreach event, does it receive any feedback as to the addition of new MBEs. Mr. Howells responded all applications for MBE certification are referred to MDOT. Once approved, they are placed in the MBE databank. All solicitations are done through E-Maryland Marketplace.

Chairman Fine stated the Commission was supplied with a copy of the SAS 70 Audit of SGI for review.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated Phase II roll-out of the Player Activated Terminals (PATs) has been cancelled because software development and testing were running behind schedule. Phases II and III will be combined and roll-out of PATs will offer full functionality.

Mr. Gallagher stated the Disaster Recover Failover testing was conducted by SGI and IT in October 2007. There were a few minor issues and the test was a success.

Mr. Gallagher stated the audit of the Lottery’s IT Division was completed by Stout, Causey and Horning. A copy of the result was attached with his report. He stated IT is in the process of implementing the audit recommendations.

Communications – Carole Everett, Director

Ms. Carole Everett stated Communication’s current main focus is its presence at Ravens games on Ravens Walk and doing the Tailgate Patrol. Communications was also in Bethesda with WTEM Sports Talk Radio at Union Jack’s with Redskins fans. She stated Communications has also begun the Holiday Mall tours promoting holiday scratch-off tickets.

Ms. Everett stated there was a \$27 million Mega Millions jackpot winner and two second tier Mega Millions winners of \$250,000. Several Keno parties held in the Western Maryland area. Keno’s 15th anniversary will occur in January 2008.

Ms. Everett stated 79 articles appeared in various publications and the publicity value was \$188,755.02.

Ms. Everett stated the Pick 3 Bonus Match-Up grand prize drawing was conducted on November 19, 2007. The three winning tickets are unclaimed at this point in time.

Ms. Everett stated VIP Club membership continues to grow each month.

Ms. Everett stated two Multi-Match top tier prizes for July 4, 2007 and October 6, 2007 are still unclaimed. Also, two Mega Millions second tier prizes of \$250,000 for November 20, 2007 and August 28, 2007 still remain unclaimed.

Product Development and Advertising – Tracey Cohen, Director

Ms. Cohen stated the structure of the financials for new instant games now includes the proposed launch date. The closed games report contains the launch date, last activation date by retailer and the final claiming date.

Ms. Cohen presented eight new instant tickets to the Commission for approval. With each new game presented, a sample ticket was shown to the Commission. The new instant games were Game #654 *3D Jackpot*, Game #679 *Triple Play*, Game #687 *Congratulations*, Game #688 *Aces & 8's*, Game #694 *Double Down*, Game #695 *Trump Card*, Game #696 *4 Way Bingo*, and Game #697 *Instant Multi Match*. (See attached Exhibit #1.)

Chairman Fine asked if there were any further questions. Hearing none, he requested a motion to approve Game #654 *3D Jackpot*, Game #679 *Triple Play*, Game #687 *Congratulations*, Game #688 *Aces & 8's*, Game #694 *Double Down*, Game #695 *Trump Card*, Game #696 *4 Way Bingo*, and Game #697 *Instant Multi Match* as presented. Commissioner Reeder made a motion to approve the instant games. Commissioner Thomas seconded the motion. The instant games listed above were approved by unanimous vote of the Commission. Vice Chairman Marriner was not present for the vote.

Ms. Cohen presented the final analysis of five instant games that were closed. (See attached Exhibit #2.) For the record, the five closed games were Game #561 *Fabulous 5's*, Game #571 *Holiday Package*, Game #589 *Little Green Men/Women*, Game #594 *Tiki Tripler*, and Game #626 *Holiday Magic*.

An explanation of last activation date for closed games was requested. Ms. Cohen stated a notice is posted on the Lottery's website and at agent locations that the top prizes of a particular instant game have been claimed. The last activation date is the last day that a retailer can activate that particular book of instant tickets to sell. Final claiming date is 182 days from the announced end of game date.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated work has begun on the Communications Process Review. Attached to his report is an internal audit follow-up report showing types of audit, summary of observations, current status and date to be resolved.

Chairman Fine requested Mr. Eaton to schedule a meeting with the Commission Audit Committee to discuss the Risk Assessment.

COMMISSION BUSINESS

Commissioner Thomas stated he spoke with a gentleman from Universal Studios in Orlando recently. Universal Studios has worked with the Florida Lottery on second chance drawings for prizes of trips to Universal Studios. Commissioner Thomas stated he would forward the information to Mr. Roogow.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, December 19, 2007 at 9:00 a.m.

ADJOURNMENT

There being no further business to discuss, Commissioner Reeder motioned that the Commission adjourn the meeting. The Commission voted in favor to adjourn and the meeting adjourned at 11:25 a.m.

Respectfully submitted,

Buddy Roogow