

**MARYLAND STATE LOTTERY COMMISSION
DECEMBER MINUTES**

DATE: December 19, 2007
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

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

Buddy Roogow, Director
Gina Smith, Assistant Director/CFO
James Butler, Acting 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
Paul Dorsey, Director, Policy and Development
Robert Howells, Director of Procurement
Michael Eaton, Internal Auditor
Marie Torosino, Executive Associate

OTHERS
PRESENT:

John Hadley, Scientific Games Online Entertainment Systems
Jerry Woods, Scientific Games Online Entertainment Systems
Jody Zafir, Trahan, Burden and Charles
Roger Gray, Gray, Kirk/VanSant
Lori Denton, Pollard Banknote

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 November Minutes were sent to the Commission members for review and a copy is contained in their folders with the redline changes. Chairman Fine said he would entertain a motion to approve the Minutes. Commissioner Reeder made a motion that the Minutes as modified be approved and it was seconded by Commissioner Wagner. The November Commission Minutes were approved as modified by unanimous vote of the Commission.

TRAHAN, BURDEN & CHARLES

Ms Jody Zafrir stated advertising of the holiday scratch-off tickets is currently airing on television and the Big Bucks Party Pack pouch game advertising will begin statewide on December 26, 2007, with 30-second and 60-second television spots.

GRAY KIRK/VANSANT

Mr. Roger Gray stated Big Bucks Party Pack scratch-off point-of-sale includes three outdoor boards and television advertising. He presented to the Commission the samples of the outdoor boards. He also showed the Commission the television advertising.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. John Hadley stated Mr. Jerry Woods has accepted the position of SGI General Manager for Maryland Lottery operations. Mr. Woods has over 20 years experience in the lottery industry.

Mr. Woods stated it was a pleasure to be back and he is looking forward to working with Mr. Roogow and the Lottery staff. Chairman Fine requested Mr. Woods to give an overview of his past experience in the lottery industry.

Chairman Fine asked if a goal has been set to increase lottery locations. Mr. Hadley responded SGI is working to expand the lottery locations, making software improvements to enhance the overall system and to expand the monitor games.

Commissioner Wagner asked what is the status of the expansion of the MD Hold'em monitor game. Mr. Roogow responded the Lottery is expanding the MD Hold'em game in phases to ensure it is working properly.

Commissioner Wagner asked when the Player Activated Terminals (PATs) would be installed. Mr. Hadley responded SGI is behind on the software development and is in the process of reviewing the design document. Roll out of PATs is anticipated in Spring 2008.

Commissioner Wagner asked if PATs are located in other states. Mr. Hadley responded PATs are currently installed in Pennsylvania. He stated over the years improvements have been made to the PATs. Mr. Roogow stated Pennsylvania uses the MasterLink system, which is the system Maryland used prior to the recent conversion. The original PAT was built around the old software using MasterLink. Maryland, however, would be using a higher upgrade of software. Mr. Hadley acknowledged the fact that SGI is behind but they are making efforts to try to get PATs out as quickly as they can. Chairman Fine asked if any criteria have been developed for the placement of the PATs. Mr. Roogow responded the Lottery is working on the criteria for placement of PATs. He stated the Lottery wants to place PATs in locations such as Wal-Mart, Target, department stores and agent locations that are overly busy. In some cases, the PATs will replace the older Instant Ticket Vending Machines (ITVMs).

Commissioner Thomas requested a sales breakdown of lottery agents by county. Ms. Smith stated she will send a copy to the Commissioners.

POLLARD BANKNOTE

Ms. Lori Denton stated instant ticket sales are doing very well. She stated since the Instant Pick 3 game did very well, and Pollard's next project is to develop Instant Pick 4 and Multi-Match scratch-off games. These games would tie in with the on-line Pick 4 and Multi-Match games. The instant ticket could offer a chance for free on-line play of Pick 4 and Multi-Match similar to the prior Instant Pick 3 game. Research has shown this was a popular game among players.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated he is happy to have Jerry Woods working with the Lottery again.

Chairman Fine asked what the implementation date is for the installation of Player Activated Terminals (PATs). Mr. Roogow responded originally PATs were to be utilized at the beginning of the on-line contract. However, at that time the Lottery felt it was not ready to proceed. The Lottery has given SGI numerous projects in the past, such as the Race Trax and MD Hold'em games. SGI was informed approximately six months ago that the Lottery would like to begin preparations for installation of PATs.

Commissioner Wagner asked if any penalties were being considered. Mr. Roogow responded that if PATs are not available by the end of the first half of calendar year 2008, the Lottery will look at that issue. Chairman Fine suggested that the Lottery set a date when it wants PATs to hit the street so that SGI has a realistic goal.

Chairman Fine asked if the Lottery would be ready when the PATs are ready for installation. Mr. Roogow responded recruiting is a critical component before the installation of PATs. The Lottery is recruiting new types of agents, such as hotels, convention centers, department stores and gathering places where the Lottery is currently present. The goal is to add 500 additional retailers.

Mr. Roogow stated the Mega Millions jackpot was hit last night at \$163 million and the winning tickets were purchased in New Jersey and Illinois.

Mr. Roogow stated total sales are \$72 million ahead of last year. Revenue is \$22 million ahead of last year. The Bureau of Revenue Estimates has increased the Lottery's goal from \$504 million to \$514 million. The goal was decreased in September from \$521 million to \$504 million.

Mr. Roogow stated the Lottery ran an instant Pick 3 game that tied into the on-line Pick 3 game. The Lottery is now looking at running an instant Pick 4 game and an instant Multi-Match game. There is a Pick 3 promotion scheduled during the second half of the fiscal year. A Keno promotion is beginning now. The MD Hold'em monitor game is currently installed at 143 locations. The Lottery is holding up the installation of additional MD Hold'em games at agent locations until later in 2008, when new software changes will be available. The Lottery is also studying the impact on the existing monitor games.

Chairman Fine asked that Ms. Smith regularly e-mail to the Commission the weekly Sales and Revenue sheet.

Mr. Roogow stated proposed legislative bills that will not be introduced during this legislative session are Mandatory Publicity for Jackpot Winners of Mega Millions and Multi-Match games; Unsolicited Proposals; Agent Equipment Fees for Lost or Damaged Equipment; and Small Business Reserve. Mr. Roogow stated the Performance Incentives bill has been approved by the Department of Budget and Management and is awaiting the Governor's approval. Mr. Roogow stated two bills that are still being reviewed by the Legislative Office are the Theft of Lottery Tickets, Equipment or Products; and Criminal Offense to Purchase, Sell or Cash Lottery Tickets, i.e., purchase ticket from another to circumvent certain provisions of the law. He will have more information available next month.

Mr. Roogow stated on January 24, 2008, he will appear before the House Ways and Means Committee to update them on lottery activities. This briefing was previously scheduled for December 10, 2007 at the Donaldson Brown Conference Center, but was rescheduled to Annapolis. He stated by next month's meeting, the Lottery will have dates for the budget hearings with the Senate and House Subcommittees.

REPORTS

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

Ms. Gina Smith stated the Department of Budget and Management has requested that the Lottery reallocate funds from lottery advertising to vendor fees. They have also requested that the Lottery eliminate one position and as a result of this request, the vacant Administrative Assistant position in Communications was eliminated.

Ms. Smith stated work continues on the Comprehensive Accounting and Financial Report (CAFR) that is due by December 31, 2007. The Commission will receive a copy by the January 2008 meeting.

Ms. Smith stated AFO is working on the printing of the 1099's and W2G's.

Ms. Smith stated Mr. Ed Robinson, a motivational speaker, met with the Sales reps and the Sales management team in early December 2007, to talk about how the Sales reps can enhance what they are doing at agent locations.

Ms. Smith stated work continues on the roll-out of the Cole Systems OrderPads to the Sales reps. The pilot program is scheduled to begin in January 2008.

Chairman Fine asked Ms. Smith to expand her report to include the number of lottery agent locations, the number of Agent Plus locations and the progress over the fiscal year.

Chairman Fine asked if Agent Plus locations are subject to posting a bond. Ms. Smith responded they are not and gave a brief explanation of the agent bonding process. Chairman Fine asked how many NSF's are permitted before an agent loses his license. Ms. Smith responded after three NSF's, the agents are required to post a bond. Once the bond is posted, the agent is able to continue selling and cashing lottery tickets. If another NSF then occurs, the terminal is turned off. Chairman Fine asked if the same rule applied to Agent Plus agents for NSF's. Ms. Smith responded an agent is removed from the Agent Plus program if an NSF occurs. However, the agent would still have the ability to sell lottery and cash winning tickets up to \$600. Chairman Fine asked how many agents are in the Agent Plus program. Ms. Smith responded there are over 180 agents in the program.

Vice Chairman Marriner asked if the new laptops the Sales reps are receiving as part of the Cole system are equipped with a GPS. Ms. Smith responded they are not. Currently, the Sales reps sign in and sign out at the agent location which indicates what agent they visited and the length of time spent at each agent location. Commissioner Wagner asked how do the reps sign in and out. Ms. Smith responded they are supplied with a bar code card that they swipe through the agent's terminal. Chairman Fine asked how often the Sales reps visited agent locations. Ms. Smith responded each agent location is visited at least once every three weeks. Chairman Fine stated with 42 Sales reps and 3,800 agents, that is approximately 100 agents per rep with six to seven agent visits per day and asked if that was adequate. Ms. Smith responded that she is looking at the frequency of visits. Some agents do require more

visits than others. Chairman Fine asked if the Sales reps deliver the point-of-sale materials. Ms. Smith responded they deliver point-of sale and at times scratch-offs. SGI delivers play slips, pencils and ticket stock. Ms. Smith stated one of the Sales Division's goals this fiscal year includes doing store makeovers.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated some of the Cole System OrderPads have been received and IT is reviewing the data and testing the application. A demonstration would be done at the February Commission meeting.

Mr. Gallagher stated the Lottery reviewed and accepted the SAS 70 report from SGI.

Chairman Fine asked for an explanation of the Keno 15th Anniversary promotion. Mr. Gallagher responded the Keno 15th anniversary promotion has an additional bonus number added to the bonus wheel.

Mr. Gallagher stated IT is also testing FedEx as a backup for shipping instant tickets. Currently, UPS is the shipper used for delivery of instant tickets.

Communications – Carole Everett, Director

Ms. Carole Everett stated Communications main focus through the holiday season is promoting the holiday scratch-off tickets as well as promoting Lotto and Multi-Match subscriptions.

Ms. Everett stated she will be appearing on television early tomorrow morning to promote the holiday scratch-off tickets, the new Big Bucks Party Pack scratch-off ticket, and the Keno 15th Anniversary promotion.

Ms. Everett stated four players of the Racetrax monitor game won over \$30,000 each. There were numerous top tier scratch-off winners, including a Set for Life top prize winner from Sykesville. Ms. Everett stated unclaimed top tier prizes still remain for the two Multi-Match drawings of July 4, 2007 and October 6, 2007. There is one Pick 3 Bonus Match-Up grand prize of \$50,000 still unclaimed and the deadline to claim is January 4, 2008.

Ms. Everett stated she will distribute the Lottery 2008 calendars to the Commissioners at the end of the meeting.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated the Keno 15th Anniversary promotion will run from January 4 to 31, 2008. The point-of-sale advertising for the promotion was shown to the Commission.

Lottery players that play the Keno Bonus have a chance to increase their winnings by 15 times. Work is also being done on a radio commercial.

Ms. Baer stated the Commission may have recently noticed a small sticker on the front of the Baltimore Sun newspaper advertising lottery scratch-off tickets. Chairman Fine asked what was the cost. Ms. Baer responded \$22,000 for printing and insertion. Chairman Fine asked if the Lottery ever had Lottery subscription inserts in newspapers. Ms. Baer responded Lotto subscriptions were inserted in newspapers a few years ago.

Chairman Fine asked if Lottery subscriptions can be purchased on the internet. Mr. Roogow responded they cannot be purchased on the internet. However, players can download the form and mail it to the Lottery. The law prohibits using credit cards to purchase subscriptions. Also, no form of credit can be used to purchase any lottery tickets at agent locations.

Product Development and Advertising – Tracey Cohen, Director

Ms. Cohen stated she would have more information on the Deal or No Deal scratch-off game at next month's meeting. The Lottery is also working with WBAL-TV on a promotion associated with this scratch-off game.

Ms. Cohen stated the Pick 3 "Let It Snow" promotion runs for four weeks from January 28 through February 24, 2008. When players purchase Pick 3 tickets of \$1.00 or more, they have a chance to receive a voucher to instantly win \$5, \$25, \$50, or \$100.

Chairman Fine stated Ms. Cohen's report shows the Set for Life scratch-off ticket is 64% sold and to comment on this. Ms. Cohen responded it is one of the Lottery's top sell scratch-off tickets. The Lottery is researching the possibility of doing another Set for Life scratch-off ticket in the future.

Chairman Fine asked for the sales status of holiday scratch-off tickets. Ms. Cohen responded the \$1 ticket is sold out, the \$5 ticket is close to selling out, and the \$20 ticket is doing very well. Holiday scratch-offs are being advertised on television, radio, in cinemas and in print ads through the end of December 2007.

Chairman Fine asked whose signature is on the front of the "Hugs and Kisses" scratch-off ticket. Ms. Cohen responded the artwork on the ticket is the property of Keith Kimberlin and it is his signature on the ticket.

Ms. Cohen presented three 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 #690 *Dubble Bubble*, Game #691 *Pirate's Treasure*, and Game #693 *Big Money Doubler*. (See attached Exhibit #1.)

Chairman Fine asked if there was any further discussion. Hearing none, he requested a motion to approve Game #690 *Dubble Bubble*, Game #691 *Pirate's Treasure*, and Game #693 *Big Money Doubler* as presented. Commissioner Thomas made a motion to approve the instant games and the motion was seconded by Commissioner Wagner. Game #690 *Dubble Bubble*, Game #691 *Pirate's Treasure*, and Game #693 *Big Money Doubler* were approved by unanimous vote of the Commission.

Ms. Cohen presented the final analysis of seven instant games that were closed. (See attached Exhibit #2.) For the record, the seven closed games were Game #585 *Liquid Treasures*, Game #590 *Maryland Million*, Game #599 *Blackjack Tripler*, Game #606 *Casino Nights*, Game #620 *Jingle Bell Bucks*, Game #622 *Holiday Cheer*, and Game #629 *Hugs & Kisses*.

Procurement – Robert Howells, Director

Mr. Robert Howells stated he had forwarded to the Commission the License Agreement (#2008-17) for *Dubble Bubble*. He stated the signed contract from Pollard Banknote has been received and the contract was approved by the Department of Budget and Management. He is requesting the Commission's approval of the Contract. Chairman Fine asked if the licensing fee is based on the number of tickets printed or the number of tickets sold. Mr. Howells responded the fee is based on the number of tickets printed.

Chairman Fine asked if there was any further discussion. Hearing none, he entertained a motion to approve the License Agreement (#2008-17) with Pollard Banknote Limited Partnership authorizing the Lottery to use the *Dubble Bubble* and *Pud* name and characters for an instant ticket game. Vice Chairman Marriner made a motion to approve the License Agreement and it was seconded by Commissioner Wagner. The License Agreement (#2008-17) was approved by unanimous vote of the Commission.

Mr. Howells stated the License Agreement (#2007-04) with MDI Entertainment for the use of Deal or No Deal was approved by the Commissioners at the November Commission meeting. On December 12, 2007, the Licensing Agreement was approved by the Board of Public Works.

Mr. Howells stated next month he will present to the Commission the Modification to the Auditing and Accounting Contract with Stout, Causey and Horning.

Policy and Development – Paul Dorsey, Director

At Chairman Fine's request, Mr. Dorsey gave the Commission an update on the slots issue. Mr. Dorsey stated at next month's meeting he would have a comprehensive overview of duties and responsibilities if slots are approved.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated attached to his report was the Strategic Analysis and Risk Assessment overview as well as the Internal Audit follow-up report. He is working on the Audit Plan for 2008.

Chairman Fine stated he and Vice Chairman Marriner will be meeting with Mr. Eaton after the first of year to review the Audit Work Plan for 2008.

Legal Division – James Butler, Acting Principal Counsel

Mr. James Butler distributed and read to the Commission a memorandum from Ms. Andrea Johnson stating she was resigning as Principal Counsel due to health reasons. Chairman Fine asked that Mr. Butler keep the Commission apprised of Ms. Johnson's condition. Chairman Fine asked that a plaque or proclamation be sent to Ms. Johnson from the Lottery.

Mr. Butler updated the Commission on the licensing matter regarding Super Mart, a former lottery agent. The owner has agreed to pay restitution in the amount of \$22,968 to the Comptroller's Office. The Lottery will send corrected W2G's to the victims of the fraudulent activity.

Mr. Butler stated the Lottery continues negotiations with SGI on the multiplier issue. He will keep the Commission updated on this matter.

Mr. Butler stated in the matter regarding Carrollton Bank vs. the Maryland State Lottery Agency, the Court granted the Lottery's Motion to Quash the Writ of Garnishment and also approved the Lottery Complaint for Interpleader. He will keep the Commission updated on this matter.

Mr. Butler stated in the litigation matter of H. Hubbard vs. the State of Maryland, a Pre-Trial Conference was held on December 3, 2007, and the matter was settled. The medical expenses claimed were \$11,575.31. The settlement amount was \$13,050. Commissioner Thomas asked why is the State paying for damages when there was nothing to indicate there were any damages. Mr. Butler responded this payment was part of the settlement negotiations.

COMMISSION BUSINESS

Chairman Fine asked Ms. Smith to update the Commission on the internal audit topic that they have been discussing. Ms. Smith distributed to the Commission a copy of a letter that was received from Joseph Freiburger, consultant at Stout, Causey & Horning (SCH). She discussed the contents of the letter. It is anticipated an audit would be done in January 2008 and in again 2009 before the SCH contract ends. She has worked with Mr. Howells to prepare the Modification to the SCH contract, and the Modification was forwarded to Mr.

Butler for review. After his review, the Modification will be sent to the Department of Budget and Management for approval. Chairman Fine asked the Commission for their comments regarding the additional work at an additional expense. After discussion, it was the consensus of the Commission to continue with this course of action.

Election of Chairman and Vice Chairman

Chairman Fine stated the Commission Chairman serves an annual term from January through December. He asked if there were any nominations for Chairman for Calendar Year 2008. Vice Chairman Marriner made a motion to nominate Stanley Fine to serve as Chairman for Calendar Year 2008 and it was seconded by Commissioner Wagner. Chairman Fine opened the floor for discussion, after which a vote was taken. The motion was passed by unanimous vote of the Commission, with Chairman Fine recusing himself from the vote.

Chairman Fine stated the Commission Vice Chairman serves an annual term from January through December. He asked if there were any nominations for Vice Chairman. Chairman Fine made a motion to nominate Matthew Thomas to serve as Vice Chairman for Calendar Year 2008 and it was seconded by Commissioner Reeder. Chairman Fine opened the floor for discussion, after which a vote was taken. The motion was passed by unanimous vote of the Commission, with Commissioner Thomas recusing himself from the vote.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, January 23, 2008 at 9:00 a.m.

ADJOURNMENT

There being no further business to discuss, Commissioner Thomas motioned that the meeting be adjourned and it was seconded by Commissioner Wagner. The Commission voted in favor to adjourn and the meeting adjourned at 11:15 a.m.

Respectfully submitted,

Buddy Roogow