

**MARYLAND STATE LOTTERY COMMISSION
JUNE MINUTES**

DATE: June 25, 2008
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

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

Buddy Roogow, Director
Robert Fontaine, Principal Counsel
John Gallagher, Chief Information Officer, Information Technology
Tracey Cohen, Director, Product Development, Creative Services and
Communications
Paul Dorsey, Director, Policy and Development
Robert Howells, Director, Procurement
Michael Eaton, Internal Auditor
Brenda Arrington, Lead Computer Operator, Information Technology
Marie Torosino, Executive Associate

OTHERS
PRESENT: John Hadley, Scientific Games Online Entertainment Systems
Jody Zafir, Trahan, Burden and Charles
David Blum, Gray, Kirk/VanSant
Lori Denton, Pollard Banknote
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 9:05 a.m. Commissioners present were Stanley Fine, Matthew Thomas, E. Randolph Marriner, Bruce Reeder and George Wagner.

APPROVAL OF MINUTES

Chairman Fine stated the May Minutes were sent to the Commissioners for review and a copy is contained in their folders with a redline change. Commissioner Reeder motioned that the Minutes as modified be approved and it was seconded by Commissioner Wagner. The May Commission Minutes as modified were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. John Hadley, Regional Director for Operations, stated software issues noted at last month's meeting concerning the roll-out of the Player Activated Terminals (PATs) has been corrected and tested. A PAT will be set up on June 26, 2008 on the first floor at Montgomery Park Business Center. Mr. Gallagher stated the PAT will be tested for one week to ensure it is running smoothly. Up to 60 PATS are scheduled for the pilot program, with ten PATs rolling out each week. Chairman Fine asked at what locations will the PATs be located. Mr. Gallagher responded he will e-mail a list of the locations to the Commissioners.

Mr. Hadley stated interviews are taking place for a new SGI General Manager. He hopes to have a new GM in place by the end of July 2008.

TRAHAN, BURDEN & CHARLES GRAY, KIRK/VANSANT

Ms. Jody Zafrir stated on July 7, 2008, the Keno Expansion will begin whereby all Lottery retailers will have the ability to sell Keno. Also on July 7, 2008, the Keno Sprinkler promotion will begin. There is a radio campaign associated with the Keno Expansion and the Keno Sprinkler.

Ms. Zafrir stated the Let Yourself Play Summer Giveaway on-line promotion will begin on July 21, 2008. Advertising will run statewide on both radio and outdoor billboards.

Ms. Tracey Cohen stated the Let Yourself Play Summer Giveaway will be two promotions running simultaneously. Starting July 21, 2008, on all on-line games, one of three words may appear on the top of ticket -- "Let", "Yourself", or "Play". Players need to collect all three words and send them to the Lottery by August 19, 2008 to be eligible for a chance to

win up to \$250,000. The grand prize drawing will be held at the State Fair on August 30, 2008.

Ms. Cohen stated the second part of the promotion runs from July 21, 2008 through August 31, 2008. With every nth ticket of \$1.00 or more, players could receive a free play voucher in the amount of \$2.00, \$5.00 or \$10.00 which can be used to purchase Pick 3, Pick 4 or Keno tickets.

Mr. David Blum stated billboard advertising will call attention to this promotion. During the first week, the word "Let" will appear on the billboards. Then on the second week, the word "Yourself" will appear and finally on the third week the word "Play" will be revealed. He showed the sample billboards and additional point-of-sale to the Commissioners.

Ms. Cohen stated the word "Play" will be the more difficult word to obtain. The odds of receiving the words are 1:49 for "Let"; 1:103 for "Yourself"; and 1:300 for "Play". The odds for the \$10 free play are 1:513; for the \$5 free play are 1:257; and for the \$2 free play are 1:66. Overall odds to receive a free play are 1:48.

Mr. Gallagher stated the free play ticket is issued immediately after the purchased ticket. The terminal makes a special sound that lets players know that they have won a free prize. This prevents retailers from possibly palming the free play tickets. Mr. Gallagher also explained only the on-line games are part of the promotion.

Vice Chairman Thomas asked if additional types of prizes, such as trips, have been considered as game prizes. He had spoken to the Director concerning the representative from Universal Studios that had previously contacted the Vice Chairman. Mr. Roogow responded over the years, the Lottery did offer non-cash prizes, e.g., tickets to London on British Airways. The Lottery ended up with a procurement issue as winners wanted the cash equivalence instead of the tickets. Mr. Roogow stated some states do better with non-cash prizes than others and some states have much easier procurement rules. It is usually difficult for the Maryland Lottery to procure such items.

Mr. Blum stated Lottery advertising is airing to highlight winners across the State. Currently being highlighted on television is a group of players from Kaiser Permanente who won the \$250,000 second tier Mega Millions prize. The Lottery's Communications Division contacts GKV if any interesting winners come in. GKV then puts a film crew together to record the spot. There are a series of winners' spots available for viewing on Comcast's Video on Demand. Mr. Blum showed the Kaiser Permanente spot to the Commissioners.

POLLARD BANKNOTE

Ms. Lori Denton stated it has been a strong scratch-off sales start to the summer which is typically a slow sales time. She feels this is due in part to the Dubble Bubble scratch-off game. Dubble Bubble is one of the top selling \$2.00 scratch-off games. She stated Pollard is currently working on initiatives for the late summer and fall.

CRESTWOOD ASSOCIATES

Mr. Ed Kully stated Crestwood is undertaking an analysis to help develop advertising for the Lottery. He stated Crestwood is working with other Lotteries to understand what their Best Practices are.

Mr. Kully stated in the next two months the Commission will see a culmination of several different projects that they have been working. The results will be presented to the Lottery staff by the end of July and presented to the Commission in August or September 2008.

Vice Chairman Thomas stated Delegate Barnes had spoken to him regarding the Lottery's advertising budget. Mr. Roogow stated the advertising budget issue comes up each year in the Legislature. The Lottery has been successful in insuring that cuts do not occur. Commissioner Marriner stated the research by Crestwood will allow the Lottery to show what it does with its advertising dollars. He disclosed that he recently met with Ms. Cohen to discuss this research.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated an employee from Information Technology is being highlighted at the Commission meeting this month. Mr. Gallagher introduced Ms. Brenda Arrington. She gave a summary of her duties and responsibilities as Lead Computer Operator. The Commissioners thanked her for doing a great job for the Lottery.

Mr. Roogow stated sales are \$94 million ahead of last year and revenue is \$36 million ahead. The Lottery's revenue goal for this fiscal year was \$518 million and as of June 22, 2008, revenues were \$519,332,724. Revenue over \$518 million is considered surplus. As mandated by the Legislature this year, surplus revenue up to \$13 million will go towards programs at the Department of Health and Mental Hygiene.

Mr. Roogow distributed and reviewed with the Commission the FY08 Final Projections vs. FY07 Actuals report.

Mr. Roogow stated an unusual occurrence happened this week where one player purchased five Bonus Match 5 game tickets, with all the same numbers that they selected. All the numbers matched the June 23, 2008 drawing and they won five times \$50,000.

Mr. Roogow stated in July 2008, the Lottery will issue a press release regarding FY2008 sales and revenues, including what the economic impact may have on lottery sales.

Mr. Roogow stated Keno will be available for sale at all lottery retail locations, the Keno Doubler Tripler Sprinkler promotion will be starting and later in the year, Keno-To-Go will begin.

Chairman Fine commended the Director and the Lottery staff for 11 record years. Very few lottery states have had the kind of increase the Maryland Lottery has had. He stated on behalf of the Commission, thank you for a job well done.

Mr. Roogow stated the NASPL Warehouse, Legal, Sales/Marketing, and PR/Communications Subcommittees meeting is currently being held in Baltimore at the Radisson Lord Baltimore Hotel. As hosting state, Ms. Gina Smith and her group worked on the agenda. Over 200 people from all over country will be in attendance.

Mr. Roogow stated last week he attended the NASPL Directors' Meeting that was held in Napa, California. The Mega Millions group discussed possible changes to the game, including changing the cost to \$2.00, increasing the prize amounts and adding another prize tier. It would take six to nine months to implement the changes. He will keep the Commission updated.

Mr. Roogow stated the Ohio Lottery's RFP for on-line games was awarded to Intralot.

Mr. Roogow stated a Budget Amendment was submitted to the Budget Committee for \$1.6 million. This will cover the increased vendor fees as a result of better than expected instant game sales. Vendor fees are based on a percentage of sales.

REPORTS

Legal Division – Robert Fontaine, Principal Counsel

Mr. Robert Fontaine stated Mr. Butler has been working on the Eisner and Carrollton Bank litigation matter. A settlement was reached on the Interpleader action.

Mr. Fontaine stated two personnel matters regarding Workers' Compensation claims have been resolved and the cases are now closed.

Mr. Fontaine stated the Lottery and SGI are close to an agreement regarding the multiplier patents settlement. Note: Later in the meeting Mr. Fontaine stated that he had been informed that an agreement has been finalized with SGI regarding the multiplier patent issue. The agreement will be presented at next month's meeting.

Chairman Fine noted in Mr. Fontaine's report it states that Legal assisted in recovering over \$61,000 in debt owed to the Lottery by a former agent and requested additional details. Mr. Fontaine gave a brief explanation of this issue. Chairman Fine asked that recovery of the \$61,000 by the Central Collections Unit (CCU) be confirmed, and that he would like to receive a list of all account receivables.

Mr. Fontaine stated as indicated in his report, the Lottery Director is recommending to the Commission that the lottery license of Claridge, Inc., T/A Blondies Bar & Grill be revoked. After discussion by the Commission, Chairman Fine requested a motion to approve the

Director's recommendation to revoke the lottery license of Claridge, Inc., T/A Blondies Bar & Grill. Vice Chairman Thomas motioned to approve the revocation and it was seconded by Commissioner Marriner. The lottery license of Claridge, Inc., T/A Blondies Bar & Grill was revoked by unanimous vote of the Commission.

Information Technology – **John Gallagher, Chief Information Officer**

Mr. John Gallagher stated the training of 12 Sales reps on the Cole Systems OrderPad was conducted and they are currently using them in the field. After this pilot group uses the OrderPads for a few weeks, Mr. Hemberger, Sales Manager, will provide a list of any new enhancements that may be needed. Additional training will be conducted in mid-July to the first week of August.

Mr. Gallagher stated the new version of the terminal software was completed and rolled out to the agent network. Roll out of the first PAT is scheduled for June 26, 2008, and it will be tested several days before beginning the roll out of the PATs for the Pilot Program.

Internal Audit – **Michael Eaton, Internal Auditor**

Mr. Michael Eaton stated he has completed the Scratch-off Inventory Audit and Internal Controls over Financial Reporting Audit and the results will be available by August 2008. By September 2008, the Agent Plus Program Audit and Contract Management Audit will be completed.

Procurement – **Robert Howells, Director**

Mr. Robert Howells stated the Triple Play Bingo Licensing Agreement has been deferred to next month's meeting for further review by the Commission.

Mr. Howells stated he is requesting the Commission's approval of the Replacement Parts, Maintenance and Related Services for Instant Ticket Vending Machines (ITVMs) Contract (#2008-21) with GTECH. It is for a 3½ month term with six one-month renewal options. The Contract is scheduled to go before the Board of Public Works on July 16, 2008. A copy of the Contract was provided to the Commission.

After discussion, Commissioner Marriner motioned to approve the Contract for Replacement Parts, Maintenance & Related Services for Instant Ticket Vending Machines (ITVMs) (#2008-21). It was seconded by Commissioner Wagner. The Contract was approved by unanimous vote of the Commission.

Mr. Howells stated the Instant Ticket Vending Machines (ITVMs) and Related Services RFP (#2008-26) has been submitted and approved by the Department of Budget and Management is currently being reviewed by the Lottery's AAG. The Commission was

provided with a copy of the RFP. Chairman Fine asked who would provide removal and disposal of the old ITVMs. Mr. Howells responded removal and disposal of the old ITVMs will be provided for in the RFP. There being no further discussion by the Commission, Mr. Howells stated he will move forward with issuance of the RFP.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated work has begun on the State Gaming Study. The Governor signed into law the bill (SB959) that requires the Lottery to perform this study. The Commission was provided with a copy of the questionnaire that was sent to the Maryland county jurisdictions. Follow-up telephone calls are being made to the jurisdictions. He will have more information available next month.

Chairman Fine noted in Ms. Smith's AFO report under Procurement, it states that on May 23, 2008, the Notice of Final Action was published in the Maryland Register and regulation changes are now effective. He requested the Commission be supplied with a copy of the regulations. Mr. Fontaine stated the updates to COMAR will be published within six weeks and he will send a copy to the Commission.

Chairman Fine noted in Ms. Smith's AFO report under Procurement, it states that a modification to the on-line game systems contract for 32 and 37 inch flat screens would be discussed at the July meeting. Mr. Howells responded as a result of the multiplier patent issue mutual agreement with SGI, they will provide 250 flat screens. Additional flat screens over and above that number would require a contract modification to the on-line contract.

Commissioner Wagner asked who the retailers would contact to request a flat screen. Mr. Roogow responded they would need to contact their Sales Rep who would then make a recommendation. Commissioner Wagner asked if there is any criteria. Mr. Roogow responded it would depend upon the sales generated by the location.

Product Development, Creative Services and Communications – Tracey Cohen, Director

Ms. Tracey Cohen stated the Keno Expansion program begins on July 7, 2008 at all agent locations. This sets the stage for Keno-To-Go package in January 2009. Players will be able to purchase a Keno-to-Go package and then check their numbers on the Internet.

Ms. Cohen stated the Single, Double, Triple Play Bingo scratch-off consists of a patented technology that requires a licensing agreement to authorize the Lottery to use it. Bingo scratch-offs are a staple in the Lottery's product mix. The Commission requested this item be deferred for further review until the July meeting.

Ms. Cohen discussed with the Commission the next Deal or No Deal scratch-off ticket. She stated 21 other lottery states will be joining in this linked version. She gave a summary of

the game concept. Chairman Fine recommended that this item be deferred until the July meeting.

Ms. Cohen stated she is working on the licensed product called Cadillac Wishes. This is a \$10 scratch-off with a chance to win one of five Cadillac's or the cash equivalence. The ticket would launch in October. Ticket approval was deferred until the July meeting.

Ms. Cohen presented two new instant tickets to the Commission for approval. Samples of the tickets were also shown to the Commission. The two new instant games were Game #722 *Spin to Win Doubler* and Game #723 *Magnificent 7's*. (See attached Exhibit #1.)

Chairman Fine asked if there were any further questions regarding the two instant tickets presented. Hearing none, he requested a motion to approve Game #722 *Spin to Win Doubler* and Game #723 *Magnificent 7's*. Vice Chairman Thomas motioned to approve the two instant games and it was seconded by Commissioner Reeder. Game #722 *Spin to Win Doubler* and Game #723 *Magnificent 7's* were approved by unanimous vote of the Commission.

Chairman Fine stated the Commission was provided with information on the closed instant games. For the record the closed games were Game #581 *Sea Treasures*, Game #597 *Triple Tripler Bingo*, Game #595 *Gumball Doubler*, Game #636 *Lucky 4's*, Game #600 *Mr. Boh Slots*, #637 *7th Inning Stretch*, Game #631 *Fabulous Fortune*, and Game #627 *Instant Pick 3*. (See Exhibit #2)

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, July 30, 2008 at 9:00 a.m.

COMMISSION BUSINESS

Chairman Fine stated that matters that needed discussion by the Commission with Legal Counsel concerning the sole source issue, Scientific Games contract and litigation and other legal matters warranted a closed session of the Commission. Commissioner Marriner motioned to go to a closed session for the purposes provided and it was seconded by Commissioner Wagner. The motion carried by unanimous vote of Commission. See attached Statement for Closed Meeting, pursuant to State Government Article §10-508(a).

After discussion of the above subjects, Commissioner Wagner motioned that the meeting be reopened and it was seconded by Commissioner Reeder. After unanimous vote of the Commission, Chairman Fine brought the meeting back to an open session.

ADJOURNMENT

There being no further business to discuss, Chairman Fine requested a motion to adjourn. Commissioner Reeder motioned that the meeting be adjourned and it was seconded by Commission Wagner. After unanimous vote by the Commission, the meeting was adjourned at 11:45 a.m.

Respectfully submitted,

Buddy Roogow