

**MARYLAND STATE LOTTERY COMMISSION
JULY MINUTES**

DATE: July 30, 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
Gina Smith, Assistant Director/CFO
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
Michael Hofferbert, Strategic Products Planner
Laura Huang, Intern
Marie Torosino, Executive Associate

OTHERS
PRESENT: John Hadley, Scientific Games Online Entertainment Systems
Steve Smith, Scientific Games Online Entertainment Systems
Jody Zafir, Trahan, Burden and Charles
Jeff Millman, Gray, Kirk/VanSant
Lori Denton, Pollard Banknote
Paul Shifrin, Stout, Causey & Horning

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. Commissioners present were Stanley Fine, Bruce Reeder and George Wagner. Commissioner E. Randolph Marriner participated by conference call. Vice Chairman Matthew Thomas was not yet present.

APPROVAL OF MINUTES

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

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. John Hadley, Regional Director for Operations, introduced Mr. Steve Smith, the new SGI General Manager for Maryland. Mr. Smith has 30 years of gaming experience and he will be starting on August 11, 2008. Mr. Smith was welcomed by the Commission members.

Mr. Hadley stated SGI and the Lottery are closely monitoring the first Player Activated Terminal (PAT) that was installed in the Montgomery Park lobby. A potential issue arose and SGI and the Lottery did not feel comfortable expanding the roll out of PATs at this time. Twice in a one month period an individual purchased a ticket, the system recorded it, and the money was accepted, but the ticket was not issued by the PAT. This issue was not encountered during the testing phase. SGI is close to resolving this issue. Sales for the past four weeks were \$1,700. The PAT is shut down when there is no one present to monitor it.

TRAHAN, BURDEN & CHARLES GRAY, KIRK/VANSANT

Ms. Jody Zafirir of Trahan, Burden & Charles stated the Lottery is partnering with the Orioles to celebrate the 50 millionth fan and 100 millionth fan at Oriole Park. Mr. Roogow stated it is predicted the 50 millionth fan will occur between August 23 and 26 and the 100 millionth fan will occur two weeks later. As part of the sponsorship, the Lottery will be included in print, television, radio, on-line, in-park and in-game broadcast elements for both events.

At this point of the meeting, Vice Chairman Thomas arrived.

Ms. Zafirir stated television advertising of the Dream for the Gold scratch-off ticket airs August 8, 2008 through August 24, 2008 on WBAL and WRC. Also, there is advertising support on WBAL and WRC's websites running through September 15, 2008.

Mr. Jeff Millman of Gray, Kirk/VanSant showed the Commissioners three animated 15-second commercials as well as a new 30-second commercial for the Dream for the Gold scratch-off ticket.

Ms. Zafirir and Mr. Millman presented the Getting Better TV brand image spot to the Commission. The 30-second and 60-second spots will air beginning on August 9, 2008. The making of the commercial will be available on Comcast Video on Demand (VOD) and the Lottery's website.

POLLARD BANKNOTE

Ms. Lori Denton distributed to the Commission a chart showing total instant game sales for FY2007 and FY2008 as well as a chart showing average weekly instant sales by price point. She then reviewed the charts with the Commission. The Lottery shows sales growth across all price points.

Commissioner Wagner asked what is the reason for a dip in sales. Ms. Denton responded this may occur after a new instant ticket sells through quickly and then there is a gap before the next new instant game is launched.

COMMISSION BUSINESS

Contract Approvals

Mr. Robert Howells stated at the June Commission meeting, Triple Play Bingo License Agreement (#2008-29) and Deal or No Deal II License Agreement (#2008-30) were presented to the Commission. At that time, the Commission requested that the contracts be tabled for further discussion and re-presented at the July meeting.

Chairman Fine stated the Commissioners received a memo from Mr. Roogow with information on issues raised related to due diligence concerning both the Triple Play Bingo and Deal or No Deal License Agreements. The memo discussed what other states were paying for their licensing agreements as well as items that Maryland was receiving that were not being received by other lottery states. Also, the Maryland Lottery's cost is for actual game sales, not for the number of tickets printed.

Mr. Howells presented the Triple Play Bingo License Agreement (#2008-29) to the Commission. After discussion, Vice Chairman Thomas made a motion to approve Triple Play Bingo License Agreement (#2008-29) with Pollard Banknote and it was seconded by

Commissioner Wagner. The License Agreement was approved by unanimous vote of the Commission.

Mr. Howells presented the Deal or No Deal II License Agreement (#2008-30). He stated the game is linked with 21 other lottery states and includes television and radio commercials featuring Howie Mandel. The grand prize is a trip to the game show in Hollywood. With this Licensing Agreement, the Lottery has the opportunity use the Hershey Kiss trademark for no additional licensing fee. The Maryland Lottery's cost is for actual game sales, not for the number of tickets printed.

After discussion by the Commission, Commissioner Marriner made a motion to approve Deal or No Deal II License Agreement (#2008-30) with MDI Entertainment and it was seconded by Vice Chairman Thomas. The License Agreement was approved by unanimous vote of the Commission.

Settlement Agreement

Mr. Robert Fontaine stated a copy of the Settlement Agreement regarding the SGI multiplier patent issue was sent to the Commission. Under this agreement, SGI gives the Lottery the right to use the multiplier technology for free. SGI will also pay the Lottery \$20,000 a year for ten years. The Lottery will also receive 250 flat-screen televisions for agent locations.

Chairman Fine asked if this agreement has to be presented to the Board of Public Works. Mr. Fontaine responded it is on the August 6, 2008 Board of Public Works Agenda.

Commissioner Wagner made a motion to approve the Settlement Agreement with SGI regarding the multiplier patent and it was seconded by Commissioner Reeder. The motion was approved by unanimous vote of the Commission.

September Commission Meeting

Chairman Fine stated due to the upcoming NASPL Conference, the September Commission meeting has been changed to September 17, 2008. A notice will be sent to all those concerned.

New Game Approvals

Ms. Tracey Cohen stated that for FY2009 a revised format for the new instant game financial report has been developed. Ms. Smith then reviewed each line item of the new instant game financial report with the Commission.

Ms. Cohen presented 11 new instant tickets to the Commission for approval. Samples of the tickets were also shown to the Commission. The 11 new instant games were Game #742 *Deal or No Deal*, Game #720 *Single Double Triple Play Bingo*, Game #704 *Winner Wonderland*, Game #724 *Blackout Bingo*, Game #726 *Triple It*, Game #727 *Lucky Times 10*, Game #728 *Happy Holidays*, Game #737 *Lucky Coins*, Game #739 *Nutcracker Cash*

Doubler, Game #741 *Money Bags*, and Game #743 *Cashing Through the Snow*. (See attached Exhibit #1.)

Chairman Fine asked if there were any further questions regarding the 11 instant tickets presented. Hearing none, he requested a motion for approval. Commissioner Reeder motioned to approve the instant games and it was seconded by Commissioner Wagner. The instant games were approved by unanimous vote of the Commission.

Chairman Fine asked that the Commission be provided with a list of lottery game names which the Lottery owns the patent or copyright to. The list will be provided to the Commission.

At this point of the meeting, Commissioner Reeder departed and Commissioner Marriner disconnected from the conference call.

Chairman Fine stated the Commission was provided with information on the closed instant games. For the record the closed games were Game #609 *Red Hot Doubler*, Game #610 *Triple Tripler*, Game #640 *Lucky Times 20*, Game #605 *3D Tic Tac Toe*, and Game #639 *Let It Roll*. (See Exhibit #2)

STOUT, CAUSEY & HORNING

Chairman Fine stated he requested that a representative from Stout, Causey and Horning (SCH) attend a Commission meeting to review the monthly Special Purpose Financial Statements for a better understanding of the statements.

Mr. Paul Shifrin from SGH presented a page by page review of the Special Purpose Financial Statements. Chairman Fine stated the Commission would like to receive a copy of the GAAP statement when it is completed.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated this is the Lottery's 11th straight year of record sales. Lottery revenue for FY2008 was approximately \$529 million, which is an additional \$10.5 million over the Lottery's target revenue goal. By law, the \$10.5 million reverts one time only to the Department of Health and Mental Hygiene for various programs. The Lottery's revenue goal for FY2009 is \$527 million.

Mr. Roogow stated Pick 3 and Pick 4 sales are slightly behind last year. Keno sales are behind last year, but Keno Bonus sales are ahead. Growth of scratch-offs sales continues at \$3.4 million ahead of last year. Mega Millions sales are off to a good start this fiscal year with sales at \$2.2 million ahead of last year. Bonus Match 5 and Multi-Match sales are still growing and doing well. Racetrax is growing slowly and MD Hold'Em is still on hold.

Mr. Roogow stated the Mega Millions group is considering a change to the game. He will be meeting with the Mega Millions Directors at the NASPL Conference in Philadelphia in September to finalize the decision.

Commissioner Wagner asked for more detail on the \$2.00 Mega Millions game. Mr. Roogow stated the ticket price would increase from \$1.00 to \$2.00, the matrix would remain the same, an additional prize level would be added and the prize amounts at each level would be increased.

Mr. Roogow stated the Commission will be sent the proposed 2009 Lottery legislation in advance for review. He also stated the Lottery is preparing multiple budgets for FY 2010. Two budgets will be prepared with and without the inclusion of slots. Another budget will be prepared to reflect a reduction of \$1.8 million. All State Agencies were requested to prepare a budget with this reduction.

Mr. Roogow stated the Board of Public Works recently approved the Maintenance and Related Services for Instant Ticket Vending Machines (ITVMs) Contract (#2008-21). Mr. Roogow thanked the Lottery's Sales team for their efforts in maintaining the ITVMs for three to four weeks when the prior maintenance contract ended on July 17, 2008.

REPORTS

Legal Division – **Robert Fontaine, Principal Counsel**

Mr. Robert Fontaine stated the Office of the Attorney General was investigating the matter of the unauthorized use of the Lottery logo trademark by a T-shirt vendor. A discussion was held this week with the T-shirt vendor and the Lottery will enter into a Cease and Desist Order with the vendor.

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

Ms. Gina Smith stated effective July 7, 2008, Keno was made available at all agent locations. Previously, Keno agent information was tracked on her report and will be discontinued since all agents are now selling Keno.

Ms. Smith stated the Cole System has been deployed in the field and Sales reps continue to be trained.

Ms. Smith distributed to the Commission a Bad Debt Analysis Report for FY2008. The total write-off of bad debt to Central Collection Unit (CCU) was \$233,569.57. Chairman Fine asked how long the Lottery holds an account before turning it over to CCU. Ms. Smith responded a demand letter is sent to the agent then it is referred to CCU. This usually takes

30 days. Chairman Fine asked when is an agent's lottery terminal shut down. Ms. Smith responded whenever an NSF occurs.

Chairman Fine stated the Commission would like to be given a periodic report by the Agent Recruitment Director. Ms. Paula Kreuzburg will be asked to attend the August meeting and present a report to the Commission.

Chairman Fine said it is noted in the Procurement Report that the Lottery purchased drawing machines from Garron Lottery Products and requested additional information. Mr. Howells responded these machines were purchased through a State competitive bid process. Garron Lottery Products is a Small Business Reserve vendor. Mr. Fine stated he and his law firm have previously represented Garron and there is no present representation of Garron.

Chairman Fine asked for further explanation of the PIA request from a company in Florida. Mr. Howells responded this was a request for information on the Lottery's Instant Ticket Games and Related Services contracts between the Lottery and Scientific Games. The information was provided.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated on July 31, 2008 a planning session is scheduled between his Division and SGI. All planned promotions and software changes scheduled through June 2009 will be reviewed.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated the Agent Plus Program Internal Audit and the Lottery Contract Management Internal Process Audit have been completed. Copies of the final reports were included in his report to the Commission.

Chairman Fine noted that the Agent Plus Program and Contract Management Process received a "not adequate" rating. He requested that Mr. Eaton follow through on the recommendations.

Policy and Development – Paul Dorsey, Director

Mr. Paul Dorsey stated he is currently working on the State Gaming Study. He is following up with St. Mary's and Talbot Counties to obtain the information requested. Responses were received from all the other Maryland County jurisdictions.

PRESENTATION BY LAURA HUANG

Mr. Roogow introduced Ms. Laura Huang. She is a summer intern working at the Lottery and attends Williams College in Massachusetts. She has been working with Mr. Dorsey on the State Gaming Study and working in Ms. Cohen's area with Mr. Hofferbert on games tracking as well as other marketing and advertising projects.

Ms Huang presented to the Commission a Power Point report on Keno sales tracking.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, August 27, 2008 at 9:00 a.m.

ADJOURNMENT

There being no further business to discuss, Chairman Fine requested a motion to adjourn. Commissioner Wagner motioned that the meeting be adjourned and it was seconded by Vice Chairman Thomas. After unanimous vote by the Commission, the meeting was adjourned at 11:36 a.m.

Respectfully submitted,

Buddy Roogow