

**MARYLAND STATE LOTTERY COMMISSION
AUGUST MINUTES**

DATE: August 27, 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

Buddy Roogow, Director
Robert Fontaine, Principal Counsel
Gina Smith, Assistant Director/CFO
John Gallagher, Chief Information Officer, Information Technology
Tracey Cohen, Deputy Director, Creative Services and
Communications
Paul Dorsey, Director, Policy and Development
Paula Kreuzburg, Director, Agent Recruitment
Michael Eaton, Internal Auditor
Marie Torosino, Executive Associate

OTHERS

PRESENT: Steve Smith, Scientific Games Online Entertainment Systems
Mark Davis, Scientific Games On-line Entertainment Systems
Selena Pigrom, Trahan, Burden and Charles
David Blum, Gray, Kirk/VanSant
Lori Denton, Pollard Banknote
Elliott Wiley, REJ & Associates
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 9:07 a.m. Commissioners present were Stanley Fine, Matthew Thomas, E. Randolph Marriner and George Wagner.

APPROVAL OF MINUTES

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

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Steve Smith stated six Player Activated Terminals (PATs) have been installed at agent locations. Sales have ranged from \$300 to \$900 and there have been no major issues. SGI will increase the number of PATs at the Lottery's discretion.

Mr. Roogow stated an analysis would be done over the next few weeks to see if the PATs are drawing new sales or taking sales away from the existing terminal. The Lottery would move slowly in installing PATs at other locations.

Chairman Fine asked Mr. Roogow to comment on the six PAT locations. Mr. Roogow stated the one at the Montgomery Park lobby has been in operation since June 2008 and is doing quite well. It is now operating in the evening and did \$400 in sales over the weekend. Ms. Smith stated the locations are listed in her report. They are located in Baltimore City and the outer portion of the city. Once the initial analysis is completed, the Lottery would develop criteria for placement of additional PATs. Chairman Fine asked that the Commission be furnished with the names of the locations as additional PATs are installed.

TRAHAN, BURDEN & CHARLES

Ms. Selena Pigrom stated media in Baltimore and DC for the Dream for the Gold scratch-off ticket is wrapping up. The number of people watching was overwhelming.

Ms. Pigrom stated the Lottery will be on site at the Ravens games with the Tailgate Patrol and selling tickets from the Lottery's tent. The sponsorship program includes in-stadium elements, television, radio, website and print exposure.

Ms. Pigrom stated the Lottery will be on site at four Redskins home games with the Tailgate patrol and selling tickets. The sponsorship program includes radio spots, exterior tower banner and dioramas. For one home game, the Lottery will be recognized on the field.

Ms. Pigrom stated the television spot for the Tailgate Tripler scratch-off will run in both the Baltimore and Washington markets during Ravens and Redskins games as well as other NFL related programming.

Chairman Fine stated he is interested in seeing the amount of tickets sales at the Ravens Game. The information would be supplied to the Commission.

GRAY, KIRK/VANSANT

Mr. David Blum showed to the Commission the Tailgate Patrol signage for the Ravens games. He stated the same signage would be used at the Redskins games. He showed a photograph of the prize package that would be awarded to the Tailgate Patrol winners. The items include a chair, BBQ grill and plates, all branded with the Lottery logo.

Ms. Cohen introduced Elliott Wiley of REJ and Associates. REJ and Associates is a marketing and communications firm that opened in 1991. They have worked with the Lottery on design and film production. Mr. Wiley thanked the Director for his leadership and guidance over the years. He also thanked Ms. Cohen, Ms. Baer and Ms. Everett for their day to day leadership and guidance. Mr. Wiley spoke about his company and the work he has done for the Lottery.

Mr. Blum showed to the Commission the Tailgate Patrol commercials with the theme of tailgate etiquette--Hyena Boy, Be Patient and out takes for Be Patient. The out takes would also be available on the Lottery's website.

POLLARD BANKNOTE

Ms. Lori Denton stated sales for the scratch-off instant games are doing quite well and revenue is ahead of last year. The Set for Life scratch-off has four color pulses and all four colors are being distributed at the same time. She distributed sample tickets to the Commission. She stated the ticket is doing well and sales are 6% ahead of the average \$5.00 games.

Ms. Denton stated the Dream for the Gold scratch-off was promoted during the Olympics. The game is 40% sold and sales are 17% ahead of the average \$2.00 game. Ms. Denton stated the holiday scratch-off games will launch in October 2008.

CRESTWOOD ASSOCIATES

Mr. Ed Kully presented a Maryland State Lottery 2008 Segmentation Study “Sneak Preview”. He showed the power point presentation and distributed a copy of the study to the Commission. He stated the next step is an in-depth review and updated tracker information with the Lottery staff, a workshop with the agency and vendors, and action planning. Chairman Fine thanked Mr. Kully for the presentation and asked that the Commission be kept informed on the action planning.

DIRECTOR’S REPORT

Mr. Buddy Roogow stated total sales are running ahead of last year by approximately \$1.8 million with revenue running behind by approximately \$4 million. Pick 3 sales are running behind at approximately \$1 million. This amount does not include the promotion that recently ran since the promotion resulted in free play. If that free play amount were included, Pick 3 sales would be ahead by \$3.6 million. The promotion had a positive impact on sales. Pick 3 revenue is down due to higher payouts. Pick 4 sales are slightly ahead of last year with revenue down \$5 million due to higher payouts. Keno and Keno Bonus sales are ahead as compared to last year. Instants game sales are ahead by \$5 million.

Mr. Roogow stated Mega Millions sales are down compared to last year. This same week last year the Mega Millions jackpot was \$330 million for the Labor Day weekend. Since January 2008, there have been 22 \$250,000 Mega Millions winners and 143 \$10,000 Mega Millions winners. Compared to other states, the Maryland Lottery’s sales are doing quite well. Bonus Match 5 sales as well as Multi-Match sales are up. Racetrax sales are growing slowly but steadily. In regards to the MD Hold’em game, a meeting was held with SGI to discuss software needed to enhance the game to allow the player the ability to win up to \$100,000. It may be the end of the calendar year before the software is in place.

Chairman Fine asked how the free play associated with the recent promotion works. Ms. Smith responded on an nth basis the system kicks out a voucher for one free play. For all games with play vouchers, the Lottery has to recognize the discount even though no money is received.

Mr. Roogow congratulated Ms. Everett and her staff for their part in representing the Lottery at MACO. The Governor as well as other legislators stopped by the Lottery booth. Vice Chairman Thomas stated the new display was impressive. Chairman Fine stated the employees who handled the booth were very enthusiastic and did a great job.

Mr. Roogow stated the NASPL Conference is the end of September in Philadelphia. Chairman Fine stated he will be participating on one of the panels.

Mr. Roogow stated the Lottery continues to work on a slots program with internal meetings to ensure the Lottery is prepared if the referendum passes.

Mr. Roogow stated there are currently eight vacancies and they will be filled when they are approved by the Department of Budget and Management

REPORTS

Legal Division – Robert Fontaine, Principal Counsel

Mr. Robert Fontaine stated he has been working with Mr. Howells on the RFP for Instant Ticket Vending Machines. He stated he is also working with Mr. Dorsey on this year's legislation submission.

Mr. Fontaine stated regarding the trademark infringement issue in the matter of the unauthorized use of the Lottery logo trademark by a T-shirt vendor, the vendor has agreed to enter into a Cease and Desist Agreement.

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

Ms. Gina Smith stated the FY2010 budget is due on September 2, 2008. Two budgets will be submitted—a baseline target and a 3% reduction. Should the slots referendum be approved, a slots oriented budget would then be submitted. The Chairman and Vice Chairman will be sent a copy of the FY2009 budget. The other Commissioners will be sent a summary of the FY2009 budget.

Ms. Smith stated deployment of the Cole System to the Sales staff has been completed. The Sales reps have been working with their agents showing them their sales data. This was a very successful project. Final training will be held next month for the agent application process.

Chairman Fine requested that the “as of” date for the Mega Millions and Multi-Match subscriptions information be changed from 7/31/08 to 7/1/08.

Vice Chairman Thomas asked what are the MBE events. Mr. Roogow responded the Lottery has a booth at various MBE Outreach events. Lottery personnel are present to dispense information to those interested.

AGENT RECRUITMENT

Ms. Paula Kreuzburg presented the Strategic Recruitment Plan for FY2009. As detailed in the AFO Report, she discussed the current corporate locations and anticipated corporate location growth for FY2009 as well as target goals for FY2009. She also reviewed the challenges, the industry target trade shows and conferences, and discussed target updates of various locations they have been working on.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated rollout of six PATs was completed with additional units to roll out in the near future. He stated final comments on MD Hold'em and Keno to Go were submitted to SGI. The program should be available in 2009.

Mr. Gallagher stated the Lottery and SGI met to discuss software releases and upcoming promotions scheduled through June 2009. The goal is to have software development and software release schedules projected out 18 to 24 months in the future.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated he has completed the Internal Controls over Financial Reporting Audit as well as the Scratch-off Inventory Internal Audit. Copies of the reports were distributed to the Commission. He is currently working on the Advertising and Television Contract Management Audit and the IT Contract Management Audit.

Chairman Fine asked if the audit on the scratch-off tickets showed the inventory is adequately controlled. Mr. Eaton responded there were no inventory problems noted during the audit. Chairman Fine asked if follow up on the not adequate ratings for the Contract Management Process and Agent Plus Program Audits is being done. Mr. Eaton responded he will be following up on the recommendations

Chairman Fine asked for the status of the Legislative Audit Report. Mr. Roogow responded the Legislative Auditors met with the Lottery to discuss the findings. He is pleased that the audit went well.

Creative Services and Communications – Tracey Cohen, Deputy Director

Ms. Cohen stated the Pick 3 Boxed Play Doubler promotion will run from September 22, 2008 through October 26, 2008. This promotion allows players a chance to double their winnings on a boxed ticket.

Ms. Cohen stated the Maryland Lottery is a finalist for the Best Instant Ticket Award at NASPL this year. The Double Bubble scratch-off ticket is up for nomination. The Lottery won this award six years ago with the Oriole's scratch-off ticket.

Ms. Cohen stated last month the Commission requested a list of registered trademarks and the information is contained in her report.

Ms. Cohen presented four new instant tickets to the Commission for approval. Samples of the tickets were also shown to the Commission. The four new instant games were Game #721 *Raise the Stakes*, Game #731 *Cashword*, Game #732 *Cash Winfall*, and Game #746 *Casino Royale*. (See attached Exhibit #1.)

Chairman Fine asked if there were any further questions regarding the four instant games presented. Hearing none, he requested a motion for approval. Vice Chairman Thomas 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 stated the Commission was provided with information on the closed instant games. For the record the closed games were Game #608 *Flamingo Bingo Doubler*, Game #643 *Cash Garden Tripler*, and Game #675 *Instant Pick 3*. (See Exhibit #2)

Chairman Fine asked for further information on the monthly clipping service advertising rate as listed in the report. Ms. Cohen responded that this would be the cost if the Lottery were to purchase that advertising space. For example, this month there were 39 articles appearing in various publications and if the Lottery had purchased that space, the advertising rate would have been \$2,614.39.

Policy and Development – **Paul Dorsey, Director**

Mr. Paul Dorsey stated four pieces of legislation are being submitted to the Governor's Office for the 2009 Legislative session. The are State Lottery–Performance Incentive, State Lottery–Personnel, Procurement–State Lottery–Amendment, and State Lottery–Responsibility and Liability to Prize Winners, Agents, and Third-Parties. Mr. Dorsey gave a summary of each bill.

After discussion by the Commission, Chairman Fine asked if there were any further questions or comments. Hearing none, the Commission unanimously approved submission of the four bills.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, September 17, 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 Commissioner Marriner. After unanimous vote by the Commission, the meeting was adjourned at 10:55 a.m.

Respectfully submitted,

Buddy Roogow