

**MARYLAND STATE LOTTERY COMMISSION
SEPTEMBER MINUTES**

DATE: September 17, 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
John Gallagher, Chief Information Officer, Information Technology
Tracey Cohen, Deputy Director, Creative Services and
Communications
Paul Dorsey, Director, Policy and Development
Robert Howells, Director, Procurement
Michael Eaton, Internal Auditor
Michael Hofferbert, Strategic Products Planner
Marie Torosino, Executive Associate

OTHERS

PRESENT: Steve Smith, Scientific Games Online Entertainment Systems
Jeff Hale, Scientific Games On-line Entertainment Systems
Tom Hollerbach, Trahan, Burden and Charles
David Blum, 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 9:05 a.m. Commissioners present were Stanley Fine, Matthew Thomas, E. Randolph Marriner and George Wagner. Commissioner Reeder was not present due to illness. The Commission wished him a speedy recovery.

APPROVAL OF MINUTES

Chairman Fine stated the August Minutes were sent to the Commissioners for review. Vice Chairman Thomas motioned that the Minutes be approved as presented and it was seconded by Commissioner Wagner. The August Commission Minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Steve Smith stated as of September 17, 2008, 17 Player Activated Terminals (PATs) were installed and they are doing well. Total sales last week were \$21,000, an average of \$1,300 per PAT.

Commissioner Wagner asked how the Lottery will determine where subsequent PATs would be installed. Mr. Roogow responded the Lottery is moving slowly in installing additional PATs. The PATs have not been in operation long enough to see what the impact would be. Next month he would have specific analysis information to present.

Mr. Roogow stated one PAT issue that has rarely occurred is that the machine does not issue the purchased ticket. Out of the 17 installed PATs, once a day there may be an issue with the ticket not being issued. Software testing in the lab cannot seem to replicate the issue. Vice Chairman Thomas asked other than the current ticket issue, are there any particular long term issues that could impede the installations. Mr. Smith responded not at this time.

Chairman Fine asked if any of the PATs were installed at any locations without lottery terminals, and are there plans to install PATs at non-terminal locations. Mr. Gallagher responded there are currently no immediate plans to install PATs at non-terminal locations. He stated non-terminal locations would not have the ability to cash winning tickets. In the future, there may be locations where a non-terminal location would be better suited to a PAT. Chairman Fine asked if any ITVMs are installed in locations without terminals. Mr. Roogow responded not at this time.

TRAHAN, BURDEN & CHARLES

Mr. Tom Hollerbach stated a 30-second radio advertising teaser of the Pick 3 Boxed Play Doubler promotion will run September 18 to 21, 2008 in the Baltimore and Washington DC

markets. From September 22, 2008 to October 19, 2008, 30-second radio and television advertising would air.

Mr. Hollerbach stated the Maryland Million race is October 4, 2008 at Laurel Park. Lottery players can use non-winning Racetrax tickets valued at \$5 or more to obtain free admission and be entered into a second chance drawing. Advertising support for this event includes a television spot on MASN and Comcast.

Mr. Hollerbach stated the Deal or No Deal scratch-off ticket launched September 8, 2008. There is a media campaign statewide for six weeks with a 30-second radio commercial, and for five weeks with a 30-second television commercial on four stations within the State where the Deal or No Deal television program airs.

GRAY, KIRK/VANSANT

Mr. David Blum showed to the Commission the 30-second television spot for Deal or No Deal. Ms. Cohen stated these spots were provided as part of the licensing agreement.

Mr. Blum showed the Commission the television spot produced by MASN for Maryland Millions race that included free admission with \$5 or more of non-winning Racetrax tickets and entry into second chance drawing to win up to \$10,000.

Mr. Blum showed two 30-second television spots for the Pick 3 Boxed Play Double promotion to the Commission.

POLLARD BANKNOTE

Ms. Lori Denton stated the Deal or No Deal and Set for Life scratch-off tickets are both doing well. The next scratch-offs to launch are the holiday games. She distributed samples of the \$1 and \$2 holiday games. Vice Chairman Thomas asked if there were any higher price point holiday scratch-offs being launched. Ms. Denton responded there is a new \$5.00 holiday scratch-off and the \$20 Merry Millions scratch-off would re-launch.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated Ms. Gina Smith is on vacation this week and he would present highlights of the AFO Report. He stated Ms. Deborah Sharpless, Controller, has resigned. The vacant position has been filled and the new person will start on October 8, 2008.

Mr. Roogow stated the Lottery's budget hearing with the Department of Budget and Management (DBM) will take place at the end of October 2008. For the FY2010 budget, the Lottery will be submitting a baseline budget and a budget reduced by 3%. DBM requested that the Lottery submit two different proposals showing the reduction--one with a reduction in on-line and instant vendor fees and the other with a reduction in advertising.

The Commissioners were sent a copy of the FY2009 budget. The FY2010 budget will be similar to FY2009.

Mr. Roogow stated the Lottery's sales and revenue picture is improving somewhat. There is a slight decline in Pick 3 sales. However, Pick 4 sales are ahead. Lottery games are starting to respond to the various promotions. Keno and Keno Bonus sales are ahead. Scratch-offs are performing well and are approximately \$7 million ahead. Mega Millions sales are doing well. The Maryland Lottery is second in per capita sales among the 12 Mega Million states. Texas has four times the Maryland population and their sales are only 25% more than Maryland's. The recent \$24 million Mega Millions jackpot was won in Maryland. Mr. Roogow congratulated Ms. Everett and the Communications Division for the great media coverage. The winner wished to remain anonymous. The Mega Millions jackpot was hit again last night at \$15 million and the winning ticket was purchased in Ohio. Bonus Match 5 and Multi-Match sales are slightly ahead. Racetrax sales are doing well and are growing each week. MD Hold'em sales are showing some improvement.

Mr. Roogow stated Pick 3 revenue is behind last year by approximately \$5 million and Pick 4 revenue is behind approximately \$10 million due to higher than normal payouts. Mega Millions revenue is behind last year by approximately \$4 million. This time last year there were much larger Mega Millions jackpots. Total game revenue is \$15 million behind last year.

Mr. Roogow stated he has set up a team consisting of Lottery and SGI staff to closely monitor sales each day and to look at the possibility of doing small game promotions utilizing the Unclaimed Prize Fund. Chairman Fine asked for an explanation of the Unclaimed Prize Fund usage. Mr. Roogow responded with an explanation of how the Lottery utilizes the Unclaimed Prize Fund for various game promotions. The law states that the Unclaimed Prize Fund must revert back to players in the form of prizes.

Mr. Roogow stated the NASPL '08 Conference is next week in Philadelphia. He stated he, Chairman Fine, Vice Chairman Thomas and several Lottery staff members will be attending.

Mr. Roogow stated the 50 millionth and 100 millionth fan events at Orioles Park at Camden Yards were a big success. The Lottery in conjunction with the Orioles sponsored the event. A commercial was just completed featuring the 50 millionth fan.

Mr. Roogow stated legislation for the 2009 session has been submitted and no additional information is available as yet.

REPORTS

Legal Division – Robert Fontaine, Principal Counsel

Mr. Robert Fontaine stated he has no additional information to report other than what was contained in his report.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated the Player Activated Terminal (PAT) rollout continues and performance is being monitored. The Keno to Go and MD Hold'em development work began and is expected to be implemented in January 2009.

Mr. Gallagher stated the Lottery and SGI have reviewed and prioritized outstanding software requests. The schedules are projected out 18 to 24 months in the future.

Chairman Fine requested an update on the Cole System OrderPad. Mr. Gallagher responded feedback from the Sales reps have been positive. Training for point-of-sale ordering and the agent administration module has been delayed until next month. Chairman Fine asked what type of information the Sales rep has on the OrderPad. Mr. Gallagher responded the system has a two year sales history, scratch-off information, player demographics, and scratch-off demographics. Chairman Fine asked if any additional data what would be added in the future. Mr. Gallagher responded new agent information such as the point of sale order form, sales reports and scratch-off orders pulled by the warehouse could be added. He and Ms. Smith would be attending a Cole systems presentation at NASPL in Philadelphia. Chairman Fine asked if Tel-sell was still active. Mr. Gallagher responded Tel-sell is still in operation. Vice Chairman Thomas asked if the information on the OrderPad shows comparison to other territories. Mr. Gallagher responded the OrderPad only shows sales comparison of agent to agent for each particular rep's territory and a comparison to the statewide average.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated the Advertising Contract Management Audit has been completed. A copy of the report will be distributed at the next meeting. He is currently working on the IT Contract Management Audit. He stated his report contained a copy of the Internal Audit follow up report.

Chairman Fine noted that both the Mega Millions and Multi-Match subscription programs showed a modest increase this year. He requested that the Director review the subscription programs to see what can be done to increase the marketing efforts. Mr. Roogow responded that discussion with Lottery staff has been ongoing regarding the acceptance of a debit card over the website for subscriptions only. The Lottery cannot accept credit cards. Mr. Roogow stated he would have additional information available next month.

Chairman Fine asked what the reason was for the decrease from 112 to 101 MD Hold'em locations. Mr. Gallagher responded several agents have asked to have MD Hold'em removed or the businesses have closed. The Lottery is not expanding MD Hold'em until next year.

Chairman Fine asked for additional information on the \$25,000 sole source Maryland Million License Agreement. Mr. Roogow responded the Lottery pays the Maryland Jockey Club for the use of the trademarked name. This is similar to what was paid in the 2006 and 2007 contracts.

Chairman Fine requested an explanation of the Mega Millions Agreed-Upon Procedures at next month's meeting.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the Instant Ticket Vending Machines & Related Services RFP (#2008-26) process is progressing. At the October meeting, he will have a report on the recommendation. One of the Bidders is coming in today for a discussion session and demonstration of their machine.

Creative Services and Communications – Tracey Cohen, Deputy Director

Ms. Tracey Cohen asked Mr. Michael Hofferbert to discuss the upcoming on-line promotions. Mr. Hofferbert stated in conjunction with Maryland Millions at Laurel Park on October 4, 2008, the Lottery is running a promotion where any non-winning Racetrax tickets valued at \$5.00 or more receive free admission plus entry into a second chance drawing. If any Commissioners are interested in attending the Maryland Million at Laurel Park, the Lottery has tickets available. Commissioners Thomas, Marriner and Wagner expressed an interest in receiving tickets.

Mr. Hofferbert stated the Pick 3 Boxed Play Doubler promotion will begin on September 22, 2008 and runs through October 26, 2008. Players that purchase a Pick 3 boxed ticket could receive a message on the top of the ticket giving them a chance to double their winnings on the boxed bet.

Mr. Hofferbert stated the Lottery is also running a Racetrax 6 for \$5.00 promotion. On any Trifecta box/wheel Racetrax ticket purchase valued at \$6.00, players will receive a \$1.00 discount. Players are placing Trifecta bets 60 to 65% of the time.

Chairman Fine asked if there has been an impact on sales since the expansion of Keno to all agents. Mr. Hofferbert responded the participation rate is approximately 85% of the agents that had Keno added but do not have monitors. There was an additional \$167,000 in Keno sales last week. Mr. Hofferbert stated the next promotion will occur in January 2009 with the Keno to Go package.

Ms. Cohen stated an additional instant game was added to the group of instant tickets for the Commission's approval. Game #752 *Filler Er Up* is a \$2.00 ticket with a top prize of \$10,000. The Lottery is working with 98 Rock, a partnership radio station, to promote the ticket. She gave a further explanation of radio partnership stations and how the support works for the Lottery.

Ms. Cohen presented six new instant tickets to the Commission for approval. Samples of the tickets were also shown to the Commission. The six new instant games were Game #733 *Year of the Ox*, Game #735 *Red Hot 5's*, Game #736 *Platinum Rewards*, Game #738

Bankroll, Game #751 Triple Tripler, and Game #752 Filler Er Up. (See attached Exhibit #1.)

There was discussion of the method used to calculate payments to Pollard Banknote. At next month's meeting, the instant ticket financials will show more details on Pollard Banknote payments.

Commissioner Marriner made a motion to approve the instant games and it was seconded by Vice Chairman Thomas. The instant games were approved by unanimous vote of the Commission.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, October 22, 2008 at 9:00 a.m.

ADJOURNMENT

There being no further business to discuss, Chairman Fine requested a motion to adjourn. Vice Chairman Thomas motioned that the meeting be adjourned and it was seconded by Commissioner Wagner. The meeting adjourned at 10:30 a.m.

Respectfully submitted,

Buddy Roogow