

CONNECTICUT LOTTERY CORPORATION
Board of Directors

Minutes of Meeting

January 28, 2010
At 1:30 p.m.

held at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Board Members Present: John Paul, Chairman of the Board; Robert Morgan; Marty Stauffer; Margaret Morton Pat Racz; Kenneth Saccente, Patrick Birney and Carolyn Long. Wendy Kingsbury participated by telephone.

Absent: Steve Bafundo.

Staff Members: Anne M. Noble, President & CEO; John Ramadei; Barbara Porto; Paul Sternburg; and Helen Duffy.

Visitors: Kendra Eckhart, Cashman + Katz Integrated Communications, Joseph Tontini, Division of Special Revenue and Tom Muller, Scientific Games.

Call to Order: Chairman Paul called the meeting to order at 1:45 p.m. In his opening remarks, he congratulated Lottery staff for their hard work and dedication in introducing the new Mega Millions game to Connecticut. He also conveyed best wishes on behalf of the Board to Ms. Mehigen, the Lottery's Director of Human Resources, on her retirement, and thanked her for her many years of dedicated service to the Lottery.

I. Approval of Minutes:

On motion made by Ms. Racz, seconded by Mr. Morgan, and unanimously approved, it was:

“Resolved, That the minutes of the November 12, 2009 Board Meeting and the minutes of the January 7, 2010 Special Board Meeting be approved.”

II. President's Report:

Ms. Noble reported briefly on current initiatives underway at the Lottery. Although sales were ahead of last year, they are behind budget projections. As of December 31st, General Fund transfers were comparable to those of last year.

The Lottery is ready to launch the Connecticut Mega Millions game on January 31st. Ms. Noble thanked Lottery staff for their tremendous efforts in accomplishing this major initiative on time. She also thanked the Lottery's business partners for their support in launching the game.

The new Fox61 drawing studio has been enhanced and the station is doing much advertising to support the Mega Millions game. We continue to advertise at the XL Center and the Lottery's logo is now featured on Dunkin' Donuts gift cards as part of our sponsorship with the Hartford Wolf Pack.

The Lottery is preparing to roll out some significant Request for Proposals for various vendor goods and services including possibly advertising and instant ticket printing. The ITVM Request for Proposals is on track.

Ms. Noble reported on two specific legislative items; (1) the Public Safety and Security Committee will move forward with Senate Bill 938 and (2) a report is also due to the General Assembly concerning the Securitization Bill in early February.

Staff from the CLC and the Partnership will meet with the Connecticut School Superintendents in February to engage in conversation about parental awareness and underage gambling.

Ms. Noble concluded her report with a current hiring status. She said that some management positions were still open in the Sales and Human Resources areas at the Lottery. She congratulated Karen Mehigen's successor, Sandra Cady, in her new role as Director of Human Resources and joined the Board in extending her best wishes to Karen Mehigen on her retirement. She thanked Karen for her dedication and hard work over her many years with the Lottery.

Marketing Report:

Using several sales charts, Mr. Sternburg presented an overview of sales trends as compared to the same period last year. His summary follows:

Overall, instant ticket sales are down \$14.5 million, or -4.4%, as compared to last year. Play3 Day and Play4 Day sales continue to do well. Play3 Night is down slightly, but Play4 Night sales are up. Overall, this category is up 2.4% compared to actual. Classic Lotto sales are down, although they are ahead of budget by \$2.8 million. Cash5 sales are holding steady. Powerball sales are up \$600,000 over last year, but remain \$7.8 million behind budget. Lucky-4-Life sales saw a slight decrease with average weekly sales now at \$600,000. Overall, draw games, including Powerball, are .5% ahead of last year, but down -3.1% when compared to budget. As of January 27th, total sales were up \$6.5 million compared to last year, but down \$17.1 million to budget.

Mr. Sternburg reviewed the new Mega Millions TV commercial, the TV spot featuring footage of Lottery game winners, and the "Did You Play Today" radio commercial. As part of the new game launch, Ms. Noble will do several interviews, such as the Better Connecticut show with Scott Haney and Kara Sundlun and the Connecticut Style show with Sonja Baghdady and Desiree Fontaine. The Lottery will launch its new all-black ticket called "Connecticut Black" in time for the Valentine's Day holiday. The new \$10 Cashword ticket is also performing well.

Ms. Porto gave an overview of the Mega Millions game launch. She reported that, over a period of 87 days, the Lottery worked diligently to successfully complete this major undertaking on time and on target. Deliverables included: game rules; system and terminal software; also internal controls and claims software. Retailers have been provided with new play slips and POS materials. Lottery and DOSR staff have been thoroughly briefed on all aspects of the game, and field staff presented a PowerPoint presentation to our retailers to help them fully understand the game.

Ms. Porto distributed the most recent version of the Official Game Rules at today's meeting and reported that the rules may need additional changes and approval in the March timeframe.

This concluded the President's Report.

III. Committee Reports:

Audit:

Mr. Stauffer reported that the Audit Committee had met on January 27, 2010 to discuss and make a recommendation concerning the Lottery's new audit firm. A total of eight bids were received and four of these firms were invited back to make oral presentations. Scores were compiled and the decision was made

to retain Ernst & Young, LLC as the winning bidder. Ernst & Young has significant gaming experience and is priced comparably to our previous auditor, UHY.

On motion made by Mr. Morgan, seconded by Mr. Birney, and unanimously approved, it was:

“Resolved: That Ernst & Young, LLP be appointed as the auditing firm for the Connecticut Lottery Corporation for the next three years.”

Mr. Stauffer reported that L3 had conducted a security analysis for the Lottery and presented their findings to the Audit Committee. No major weaknesses or glaring issues were found, although some low to moderate risks were identified, which the Lottery is aware of and will address. Management will continue to update the Audit Committee as to their progress.

Finance:

Mr. Morgan reported that the Finance Committee had met on January 27, 2010 to review financial statements for the 6 months ended December 31, 2009 and the financial impact of the Mega Millions game. He then asked Mr. Ramadei to review the 2nd quarter financial statement. Mr. Ramadei’s summary follows:

Net Sales for the quarter were down \$14.9 million or -2.9% compared to budget, with the most significant shortfall from the scratch games, which were down \$10.2 million, or -3.4%, and Powerball game, which was down \$6.0 million, or -11.4%. Prize expense was down \$9.6 million, or -3.1%, again, largely due to the scratch games and Powerball game. Retailer commissions were down \$1.2 million because of the lower sales, or -4.3%, and online system expense was down \$400,000, or -8.4%. Marketing and advertising expense was up \$400,000, or 8.1%, some of which is timing of expenditures. Mr. Ramadei also reported on the fiscal issues associated with the launch of Mega Million, including a potential advertising variance. Production expense was up \$100,000, or -2.7%. Total cost of sales was down \$10.7 million, or -3.1%. Salaries and fringe benefits expense was down \$300,000, or -4.5%. Transfers to the General Fund were down \$7.5 million, or -5.2%.

Games & Marketing:

Mr. Birney reported that the Games and Marketing Committee met on January 28, 2010 to review sales results, as well as the amended game rules for Mega Millions and Powerball. The Games & Marketing committee is recommending that the Board adopt the new rules.

On motion made by Mr. Morgan, seconded by Ms. Morton, and unanimously approved, it was:

“Resolved: That after due consideration, the Connecticut Lottery Corporation Board of Directors hereby approves amended Official Game Rules for Powerball, to include some technical changes as submitted by the Division of Special Revenue.”

On motion made by Mr. Morgan, seconded by Ms. Racz, and unanimously approved, it was:

“Resolved: That after due consideration, the Connecticut Lottery Corporation Board of Directors hereby approves amended Official Game Rules for “Connecticut Mega Millions”, to include some technical changes as submitted by the Division of Special Revenue.”

IV. Executive Session:

None.

V. Old Business:

None.

VI. New Business:

Chairman Paul reported that the Connecticut Lottery Corporation would observe Problem Gambling Awareness Week in Connecticut, from March 7 through 13, 2010.

On motion made by Ms. Long, seconded by Ms. Racz, and unanimously approved, it was:

“Resolved: That the Board of Directors of the Connecticut Lottery Corporation endorses the Lottery’s observance of and participation in Problem Gambling Awareness Week from March 7 through March 13, 2010.

VII. Next Scheduled Board Meeting Date:

The next Board of Directors meeting will be held on March 25, 2010.

VIII. Adjournment:

On motion made by Mr. Birney, seconded by Mr. Saccente, and unanimously approved, the meeting was adjourned at 2:40 p.m.

Respectfully submitted,

Barbara Porto
Corporation Secretary

By: Helen Duffy
Secretary to Anne M. Noble
President & CEO/Connecticut Lottery Corporation