

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, November 21, 2013
at 1:00 p.m.

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

Board Members Present: Frank Farricker, Chairman of the Board; Gale Mattison, Vice Chairman of the Board (via telephone); Robert Morgan; Steve Bafundo; Patrick Birney; Robert Dakers; Natasha Pierre; James Farrell; Margaret Morton; and Kia Murrell.

Staff Members Present: Anne M. Noble, President & CEO; Diane Patterson; Chelsea Turner; Lana Glovach; Jane Rooney; Michael Hunter; Paul Granato; and Helen Duffy.

Call to Order: Chairman Farricker called the meeting to order at 1:00 p.m.

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

Resolved, that the Board hereby approves the September 26, 2013 Board meeting minutes.

II. Executive Report:

President's Report:

Ms. Noble thanked Board members for attending today's meeting. She welcomed Ms. Kia Murrell, the newest appointee to the Board. Ms. Noble then reviewed the meeting agenda, and she updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- Overall sales for the first quarter were very strong. To-date, sales are up approximately 2% over budget, and approximately 4.5% over last year.
- General Fund transfers are presently about even to budget, about 7% over last year.
- The Lottery typically has a busy holiday season and will work hard to keep up sales momentum. Currently, we are seeing softening in the market.
- In June 2013, the Legislature passed a law which would allow the Lottery to sell Keno. However, the decision is contingent upon an agreement between the state and the two tribes. The Lottery is preparing to the maximum extent possible to roll out the game, in anticipation of an agreement with the tribes. The Lottery is completing game design and rules for the Board's review. The Lottery has prepared a number of budgets; the numbers fluctuate depending on the timing of the tribal agreement. The Lottery is working with Scientific

Games on software development. The uncertainty of the timing of the tribal agreement has created challenges in executing software development/plans for this fiscal year.

- The Lottery has refined its retailer recruitment efforts and is receiving very positive feedback from retailers.
- The Lottery is working with the Department of Consumer Protection on license application changes and has briefed the Department of Consumer Protection on the way Keno is typically played in other jurisdictions.
- The Lottery is heading into its busiest season with new holiday scratch tickets and a Whalers ticket.
- The Lottery has been working over the past eighteen months on its Supplier Diversity Program. A supplier diversity open house event was held at the Lottery on October 25th. Over fifty vendors attended, and Dr. Fred McKinney, President of the Greater New England Supplier Diversity Council attended as well as members of the Department of Administrative Services. The event was very favorably received and all Lottery employees have since been trained on the Lottery's supplier diversity efforts.
- The Lottery completed its advertising bid and chose FuseIdeas, LLC as its new advertising agency.
- The Lottery is also working with Bauza & Associates on another project.
- The CLC is in the midst of bids for legal services and televised drawings.
- Some changes were made to the Scientific Games executive team. Mr. Lorne Weil has departed. Mr. Ron Perelman is the new Chairman. David Kennedy is the new Chief Executive Officer.
- Rich Graziano has accepted another position and is no longer the publisher at the Hartford Courant.
- Given the upcoming holiday season, the Lottery has developed POS that reinforces the message that lottery tickets are not suitable gifts for children under 18. The Lottery has also reached out to the Connecticut Boards of Education and to Connecticut Superintendents to spread the same message. Bauza & Associates will collaborate with the Lottery on a retailer training program. Many CLC employees attended the Connecticut Council on Problem Gambling's Annual Conference. Lottery employees also attended internal training in October on responsible gambling.
- The Lottery is working toward reaching World Lottery Association Level III accreditation.
- A group of CLC employees have been working with the Problem Gambling Women's Group and they will shift their efforts to support multi-cultural groups.
- In answer to Mr. Birney's question concerning the underwriting of PSAs, Ms. Noble stated that the vast majority have been underwritten by the Lottery and produced in collaboration with DMHAS and the Connecticut Council on Problem Gambling. Mr. Birney also asked how much of our operating costs fund problem gambling efforts. Ms. Noble stated that the Lottery provides \$2.3 million annually to the Chronic Gamblers Treatment Fund. The Connecticut Lottery increased its funding by \$400,000 this year. In a recent study by NASPL, the Connecticut Lottery was at the top in providing such funds when compared to other states. The Lottery also supports responsible gambling with its advertising and operational budget. Scientific Games also contributes towards Connecticut's responsible gambling efforts.
- A proposal to sell lottery at Bradley Airport is pending. Merchandising proposals have also been sent to service plazas; some plazas are already lottery retailers.
- Mohegan Sun is currently a lottery retailer and sales have been increasing. Most recently Mohegan Sun became a High Tier Claim Center.

- Continuing emphasis is being placed on placement of tickets and introducing plan-o-grams at retail locations to help bolster sales for both the Lottery and retailers.

Sales Performance Report:

Using sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends as of October 31, 2013. Her report follows:

- “All Game” Lottery ticket sales reached \$373 million through October 31, which was \$9.1 million, or 2.5% ahead of budget.
- Sales of “CT Only” games were \$10 million over actual, or 3.4% compared to budget.
- Multi-jurisdictional game sales softened slightly, though Mega Millions sales showed an improvement from the previous figures reported to the CLC Board.
- General Fund transfers reached \$102 million, which is 3.3% ahead of budget.
- September and October instant ticket sales were strong. The “Win for Life” series launched in September is showing solid sales, as is the “X” game series.
- The Lottery’s sales team is working hard to maximize sales at retail locations.
- Ms. Patterson showcased three of the Lottery’s new television commercials that support holiday ticket sales as well as sales for the Super Draw game. FuseIdeas, LLC, the Lottery’s contracted advertising agency, produced the commercials.
- Play3 and Play4 combined sales for October were \$20.4 million. The last 4 months of FY ’13 achieved combined game sales of \$20 million or more per month, due in part to the number sequences 1-1-1-1 and 1-2-3-4 being drawn. In the first four months of fiscal ’14, the Lottery has continued to experience combined sales of \$20 million or more per month in the Daily games, due in part to the residual effect of FY ’13, and also as a result of number combinations being drawn that have included 4-4-4, 6-6-6, and 7-7-7.
- Lotto’s jackpot has been won once this FY. Sales were \$1.7 million in October and the jackpot continues to grow.
- Cash5 sales were \$2.8 million in October.
- The Super Draw 8 game launched on September 29th. The game features a top prize of \$1 million, and more than 1,300 prizes ranging from \$100 to \$20,000.
- Combined sales for Powerball and Mega Millions were \$8.8 million in October.
- In answer to Ms. Murrell’s question about prize funding for jackpots that go unclaimed, Ms. Noble explained that Connecticut’s unclaimed prizes go back to the General Fund.
- Powerball with PowerPlay sales reached \$19.5 million and Mega Millions reached \$3.5 million.
- Mega Millions with Megaplier had a game change in October. It is somewhat early to predict how the game will perform due to the changed matrix.
- New England Lucky for Life game sales were \$2.3 million in September and \$2.4 million in October. The game change that went into effect in September offers a 2nd prize of \$25,000 a month for life in the game, which winners can claim as a one-time cash option or as an annuity. Since the game change in September, the 2nd prize has been won nine times, three of which have been in Connecticut. All six member states are using the same advertising.

This concluded the Executive Report.

III. Committee Reports:

Finance:

Mr. Birney reported that the Finance Committee met on November 13, 2013 to review financial statements for the quarter ended September 30, 2013. He then asked Mr. Granato to provide the Board with the financial report:

- Sales for the first quarter were up \$16.9 million, or 6.4% from the same period a year ago. Sales increases across three products contributed to the overall strong performance. The instant portfolio, Powerball and the daily 3 and 4 games all showed improved sales.
- Lucky for Life saw lower sales this quarter compared to last year. Sales were down \$1.5 million and were \$7 million through the first quarter.
- Prize expense, retailer commissions and on-line systems were all in proportion to sales.
- Marketing and advertising costs were \$2.8 million for the first quarter, and production expense was \$2.7 million primarily due to creation of the instant tickets.
- Operating expenses were down \$81,000 from the same period a year ago, attributable to a change in support service for software maintenance contracts.
- Fringe benefits, primarily SERS and health benefits, increased \$152,000 from the prior year.
- As of September 30th, the Lottery had transferred in excess of \$79 million to the General Fund, which is up by \$12 million compared to last year.
- Sales exceeded budget by \$9.5 million, or 3.5%, with a corresponding 4.0% increase in the cost of sales.
- Operating expenses were \$216,000 under budget.
- Overall, the Lottery exceeded its General Fund transfers budget by \$5.6 million through September 30th.

Audit:

Mr. Morgan reported that the Audit Committee met today to discuss claims and litigation concerning Cady and the advertising contract. Both will be discussed further in today's Executive Session.

Legislative & Games:

Ms. Morton reported that the Legislative & Games Committee met on November 13, 2013 to discuss Lucky for Life Game Rules. The rules will be discussed further during today's Executive Session.

Personnel:

Ms. Pierre reported that the Personnel Committee met earlier today to discuss pending claims concerning Cady, which will be discussed further during today's Executive Session.

IV. Executive Session:

At 1:37 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Ms. Morton, seconded by Mr. Birney, and unanimously approved, the Board moved into Executive Session to discuss:

- Property at 777 Brook Street, Rocky Hill
- Attorney/Client Communications Re:
 - Lease at 777 Brook Street, Rocky Hill
 - Pending Claims and Litigation Re: Cady

- Pending Claims and Litigation Re: Advertising Contract
- Review of Draft Amended Lucky for Life Game Rules
- New Game Initiatives

Ms. Noble, Ms. Glovach, Ms. Patterson, Ms. Turner, Mr. Granato and Mr. Hunter were invited to join Executive Session concerning the 777 Brook Street lease, Lucky for Life Game Rules and New Game Initiatives.

Ms. Noble, Ms. Rooney, and Ms. Glovach were invited to join Executive Session concerning pending claims and litigation related to Cady.

Ms. Noble, Ms. Patterson, Ms. Glovach and Ms. Rooney were invited to join Executive Session concerning pending claims and litigation related to the advertising contract.

The Board reconvened in regular session at 2:25 p.m. Chairman Farricker stated that no votes nor actions took place during Executive Session.

V Election of Vice-Chairperson of the Board:

On motion made by Chairman Farricker, seconded by Ms. Morton, and unanimously approved, it was:

Resolved, that the Board elects Mr. Mattison as Vice-Chairperson of the Connecticut Lottery Corporation's Board of Directors for an additional year.

VI Schedule of Board Meeting Dates for 2014:

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

Resolved, that the Board adopts the list of Board meeting dates for 2014, with the exception of meeting times, which will be moved from 1:00 p.m. to 12:00 p.m. for all future Board meetings.

VII Old Business – Keno Status Update:

Ms. Noble provided an update on the status of Keno during her President's Report earlier in the meeting.

VIII New Business:

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

Resolved, that, after due consideration, the Corporation is not prepared to respond at this time to the Brook Street landlord's offer to sell that property to the Corporation for \$13 million. The asking price is substantial and, even with the additional couple of weeks the landlord provided the Corporation to respond, the Corporation is not presently in a position to make a decision with this financial and operational impact.

Therefore, the Board directs management to provide this feedback to the landlord.

On motion made by Ms. Pierre, seconded by Ms. Morton, it was:

Resolved, that after due consideration and solely to save monies reasonably anticipated to be spent for litigation, the Board authorizes the President and the Corporation, through the Chairperson of the Personnel Committee or his designee, to enter into a settlement of Sandra Cady's claims pending before the Connecticut Commission on Human Rights and Opportunities, the United States Equal Employment Opportunity Commission, and the Connecticut Freedom of Information Commission on terms acceptable to the President and the Corporation and for the payment of \$14,000.00.

The Board also authorizes the President and the Corporation, through the Chairperson of the Personnel Committee or his designee, to execute all related documents, and further requires the Personnel Committee to approve the terms and conditions of the final settlement agreement.

All Board members present voted in support, except Mr. Bafundo, who abstained.

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

Resolved, that after due consideration, and based upon the recommendation of the Legislative and Games Committee, the Board of Directors approves the Second Amendment of the Official "Lucky for Life" Game Rules to be effective immediately, subject to the Department of Consumer Protection's approval and the required newspaper publication of a Notice of Rules Adoption.

IX Next Board of Directors' Meeting:

The next scheduled meeting of the Board will be held on Thursday, February 27, 2014 at 12:00 p.m. at the Connecticut Lottery Corporation.

X Adjournment:

On motion made by Mr. Farrell, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 2:35 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.

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