

CONNECTICUT LOTTERY CORPORATION

Board of Directors
Minutes of Special Meeting

Held on
May 26, 2011
at 1:30 p.m.

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

Board Members Present: Frank Farricker, newly appointed by Governor Malloy as Chairperson of the Board, Gale Mattison, Vice Chairperson of the Board; Robert Morgan, designee of ex-officio member, Denise Nappier, State Treasurer; Steve Bafundo; Natasha Pierre; Robert Dakers, designee of ex-officio member, Benjamin Barnes, Secretary, Office of Policy and Management; Patrick Birney; Martin Stauffer; James Farrell and Joseph Kaliko, both newly appointed to the Board by Governor Malloy; and Margaret Morton (who joined the meeting by phone).

Absent: Kenneth Saccente; and Michael Thompson (newly appointed to the Board by Governor Malloy).

Staff Members: Anne M. Noble, President & CEO; Diane Patterson; John Ramadei; Chelsea Turner; Philip Kopel and Helen Duffy.

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

Call to Order: Chairperson Farricker called the meeting to order at 1:30 p.m.

I. Introduction of New Board Members:

In his opening statement, Chairperson Farricker introduced himself to the Board and Lottery staff, and to two other new Board members: Joseph Kaliko and Jim Farrell. Both were recently appointed by Governor Malloy, along with Michael Thompson.

II. Approval of Minutes:

On motion made by Mr. Bafundo, seconded by Vice Chairperson Mattison, and unanimously approved, it was:

“Resolved, That the minutes of the March 31, 2011 Special Board Meeting and the minutes of the April 14, 2011 Special Telephonic Board Meeting are approved.”

III. President’s Report:

Ms. Noble welcomed new Board members and thanked the full Board for attending today’s meeting.

Ms. Noble reported that Lottery revenues were strong and that the Lottery was approaching close to \$1 billion in sales, which would be a record. General Fund transfers are close to budget and last year's actual. Sales are on track as of the end of April; a sustained jackpot run would greatly help enhance sales in Powerball.

Ms. Noble reported on current Lottery initiatives, including expansion of the Lottery's distribution base. Supermarkets account for a good portion of our retail network. The Lottery announced that Stew Leonard's recently joined the Lottery's retailer base; their model is both creative and innovative, and the Lottery is pleased to have Stew Leonard's on board.

The Lottery will continue its strategy to enhance scratch ticket sales. This category makes up approximately 60% of the Lottery's portfolio. The Lottery plans to roll out its newest \$5 scratch ticket "Scratch the Back." The new "Lenny" Win-4-Life ("WFL") series also debuted on May 25th. It is hoped that Lenny will invigorate the original WFL "Armor Man" theme.

Ms. Noble reported that she has conversed with Dr. Fred McKinney, President of the Greater New England Minority Supplier Development Council ("GNEMSDC") to discuss the Lottery's supplier diversity program. Additionally, Ms. Noble was named Honorary Co-Chair for the GNEMSDC's gala on April 28th. Ms. Noble thanked members of her staff and Vice Chairperson Mattison for attending the gala. She also thanked Scientific Games and GTECH for attending the gala and for supporting the Lottery.

The Finance Committee reviewed financial statements for the nine month period ended March 31, 2011, and the preliminary budget for fiscal year 2012. The Lottery expects to have a finalized budget in place by the end of June.

Governor Malloy signed the Tax Delinquency Bill (HB 6270) into law. The bill would require the Lottery to pay any tax delinquencies to the Department of Revenue Services on winnings in excess of \$5,000. The Lottery will employ the same process it currently uses to pay child support delinquencies. Mr. Stauffer asked if the Lottery had considered possible security and privacy issues in collecting this information. Ms. Noble affirmed that the Lottery was addressing these issues. Mr. Hunter (the Lottery's IT Manager) noted that the Department of Revenue Services does not have access to the Lottery's systems. Rather, the Department of Revenue Services sends the Lottery a file containing information to cross-reference winner claims presented at Lottery headquarters. Mr. Birney asked if this would create an additional expense to the Lottery. Ms. Noble stated that the system already in place at the Lottery could handle the additional reporting, with no additional staff resources required to fulfill the terms of the program.

Senate Bill 1240 was also signed into law, which requires the Lottery to give \$1.9 million each year to the Chronic Gambler's Rehabilitation Fund. In the past, this contribution fluctuated between \$1.5 million and \$1.9 million each year, but has been established at \$1.9 million from this point forward. Mr. Kaliko inquired if the \$1.9 million was included as part of the Lottery's contribution to the General Fund. Ms. Noble stated that it was not included in General Fund transfers.

The Bill to merge the Division of Special Revenue with the Department of Consumer Protection (HB 6650) has passed the House. It awaits Senate action.

The Governor's administration has reached an agreement with state unions concerning concessions to help close the state's budget gap. The agreement would result in no state employee layoffs. The

agreement calls for wage freezes and is expected to affect pension and healthcare benefits for employees and retirees. The Lottery will assess the situation as more information becomes available.

The Lottery released two new public service announcements (“PSA”) aimed at preventing youth gambling. The spots featured Geno Auriemma and a representative from the New England Patriots. This year, the Lottery anticipates another release in connection with a project by Youth Rights Media.

The National Council on Problem Gambling will hold its Annual Conference in Boston at the end of June. Ms. Porto has played a key role in helping to attract industry leaders/personnel to the Conference. Ms. Noble said she planned to attend the event as a speaker.

Sales and Marketing Report:

Using several sales charts, Ms. Patterson presented an overview of sales trends compared to the same period last year. For the benefit of new Board members, she gave a brief explanation of games in each category. Her summary follows:

Instant ticket sales were up 3.4% when compared to budget. Multi-state draw games – Powerball and Mega Millions – saw a slight improvement in sales when combined, but were still down by 17%. Powerball did not perform as expected. Mega Millions continues to show some progress. Both of these games are jackpot driven.

The first round of the Superdraw game sold out. Sales for the second Superdraw game are somewhat slower but gaining momentum; the second draw is scheduled for July 4th.

A marketing campaign will be rolled out for Father’s Day; the Mother’s Day campaign was a success.

Overall, the Lottery saw the best April on record in terms of sales. February and March were strong months, up \$13.1 million above budget. This was positive news, given the economic and bad weather conditions.

Ms. Patterson showcased the new Win-For-Life commercial featuring Lenny, which debuted during the final Oprah Winfrey show on May 25th.

Play3 Day, Play4 Day, Play3 Night and Play4 Night all performed well. When combined, this category was up approximately 8.4% compared to projections and to last year’s budget. Classic Lotto sales were 4.1% behind budget, and the Lottery continues to work to help boost game sales. Cash5 sales were up 3.5% when compared to budget. Lucky-4-Life game sales, though steady, were 20.9% behind budget.

Finally, the Lottery continues to close the gap on contributions to the General Fund, though transfers were down 0.7%, or \$1.7 million compared to budget.

This concluded the President’s Report.

IV. Committee Reports:

Finance:

Mr. Morgan reported that the Finance Committee had met on May 13, 2011 to review financial statements for the quarter ended March 31, 2011. The preliminary budget was also discussed, with

the understanding that adjustments might need to be made to the budget pending the outcome of state union contracts in June. Mr. Morgan asked Mr. Ramadei to give an overview of actual to budget results for the nine month period ended March 31, 2011. His report follows:

Net sales were up \$10.9 million, or 1.5%. Scratch ticket sales made up a good portion of this increase, with sales up \$15.5 million, or 3.5%. Powerball, Mega Millions, and Lucky-4-Life were down. Play3 and Midday3 sales saw gains; \$4.6 million, or 8.7% in Play3, and \$5.0 million, or 16.3%, in Midday3.

Overall prize expense was up \$11 million, or 2.4%, scratch tickets were up \$10.5 million, or 3.5%. Powerball and Lucky-4-Life prize expense was down. However, Play 3 was up \$4.7 million, or 18.3%. Midday 3 was up \$3.8 million, or 24.8%. Midday 4 was up \$4.2 million, or 32.4%.

Sales and cashing commissions were both up, but incentive commissions were down. Overall retailer commissions were up \$0.3 million, or 0.6%.

Online Systems expense was up \$0.1 million, or 1.0%. Marketing was also up \$0.2 million, or 3.0%. Production expenses were down \$1.2 million, or 22.6%. Included in this number was scratch ticket production expense, by \$0.9 million, or 22.4%. Instant Ticket Vending Machines ("ITVM") and Play Activated Terminals ("PAT") expense was down compared to budget. Total cost of sales was up \$10.4 million, or 2.0%.

Salaries and fringe benefits were down \$0.6 million, or 4.8%. Other operating expenses were up \$0.1 million, largely due to snow removal this past winter.

Finally, General Fund transfers were down \$3.3 million, or 1.6%. Net sales and cost of sales offset each other – net sales were up \$10.9 million, while cost of sale increased \$10.4 million.

Games & Marketing:

Vice Chairperson Mattison stated that new games initiatives would be reviewed further during today's Executive Session.

V. Executive Session:

At 2:10 p.m., Chairperson Farricker called for a motion to enter into Executive Session to discuss new game initiatives and performance and evaluations for senior management. He invited Ms. Noble, Ms. Turner and Ms. Patterson to remain for the new game initiatives portion of Executive Session. He invited only Ms. Noble to remain for the Executive Session addressing performance and evaluations for senior management.

On motion made by Mr. Birney, seconded by Mr. Stauffer, the Board moved into Executive Session.

The Board reconvened in regular session at 3:00 p.m. Chairmen Farricker stated that no votes nor actions had taken place during Executive Session.

VI. Old Business:

None

General Discussion:

Mr. Stauffer inquired about future structure of the various Board committees. Chairperson Farricker stated that any additions or changes would be presented to the Board following review of the list.

VII. New Business:

None.

VIII. Next Scheduled Board Meeting Date:

The next Board of Directors meeting will be held on June 23, 2011.

IX. Adjournment:

On motion made by Mr. Birney, seconded by Mr. Stauffer, and unanimously approved, the meeting was adjourned at 3:05 p.m.

Respectfully submitted,

Barbara Porto
Corporation Secretary

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