

CONNECTICUT LOTTERY CORPORATION

Minutes of Special Board Meeting

Held on
Thursday, February 23, 2012
at 1:30 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; Robert Morgan, designee of ex-officio member, Denise Nappier, State Treasurer; Robert Dakers, designee of ex-officio member, Benjamin Barnes, Office of Policy and Management; Patrick Birney; Natasha Pierre; Martin Stauffer; Joseph Kaliko; and James Farrell.

Absent: Margaret Morton; Steve Bafundo; Kenneth Saccente; and Michael Thompson.

Staff Members: Anne M. Noble, President & CEO; Diane Patterson; Chelsea Turner; Lana Glovach; Michael Hunter; Barry Sheftel; and Helen Duffy.

Visitors: William Ryan, Connecticut Department of Consumer Protection; Amy Jurz, Scientific Games; Kendra Eckhart, Cashman and Katz Integrated Communications; and various CLC employees.

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

In his opening remarks, Chairman Farricker thanked Board members for attending today's Board meeting, particularly given that the meeting had been rescheduled from its original February 2, 2012 meeting date.

I. Approval of Minutes:

On motion made by Mr. Mattison, seconded by Mr. Stauffer, and unanimously approved, it was:

“Resolved: That the Board approves the November 17, 2011 Board meeting minutes.

II. President's Report:

Ms. Noble welcomed Board members. She reported that sales and General Fund transfers had been very strong; sales were ahead of last year's actuals by \$30 million and General Fund transfers were ahead by \$16 million. Ms. Noble noted that field sales staff are diligent in ensuring retail ticket dispensers are kept filled with a fresh mix of scratch tickets, thus offering our players a much more appealing product assortment.

Ms. Noble then welcomed Mr. Paul Granato, the Lottery's new Chief Financial Officer. She noted that Mr. Granato had worked in the past for the Connecticut Department of Banking and for Connecticut Bank and Trust.

Ms. Noble reported that the new Lucky for Life regional game was ready to launch on March 11, 2012. The game will be discussed further in today's Executive Session. The Super Draw 3 game sold out in record time and the new Super Draw 4 game launch is planned for April 1, 2012.

On January 15, 2012, the price of the Powerball game ticket increased from \$1 to \$2. Ms. Noble provided further statistics on the game, but noted it was too early to know what impact the price increase would have on sales and on player participation.

Ms. Noble reported that the Lottery augmented the Classic Lotto game for the November 18, 2012 game in the amount of \$529,000.

The Connecticut Lottery continues in its ongoing commitment to supplier diversity. The Lottery's partnership with the Greater New England Supplier Development Council ("GNEMSDC") is a success story. The Lottery is proud to announce that it has been nominated by one of its vendors for Corporation of the Year and CLC employee Janice Beckner has been nominated for Buyer of the Year.

Responsible gaming is a core value of the Lottery, and the CLC will engage in activities to support National Problem Gambling Awareness Week in Connecticut, from March 4 through 10, 2012. Additionally, the Lottery has received Level I accreditation from the World Lottery Association and is working toward Level II accreditation.

The Lottery has proposed two bills for this legislative session. One of the bills concerns a technical change regarding financial security of Lottery Sales Agents. The second bill concerns the Freedom of Information Act, particularly requests for information about any Lottery Draw Performer. Ms. Turner continues to track other bills at the state and federal level, particularly the bills concerning intrastate and interstate gaming.

Ms. Noble reported that had she testified at an i-gaming forum before the Public Safety Committee on February 2, 2012. Copies of her testimony have been provided.

The Lottery is poised to begin the budget process for the next fiscal year. As required, a draft budget will be presented to the Finance Committee by the end of March 2012, and a final budget will be presented to the Board for approval at the June 2012 Board meeting. The Lottery's Strategic Plan is in place and the Executive team will be holding a session in the near future to evaluate goals and deadlines for the next fiscal year.

Sales & Marketing Report:

Before beginning her report, Ms. Patterson noted that the Lottery had reached its 40th year selling lottery. Using several sales charts, Ms. Patterson provided an overview of sales trends as compared. A brief summary follows:

Connecticut instant ticket games sales proved strong and ahead of last year by \$18 million. Classic Lotto sales performed well and were \$3 million ahead of last year. The jackpot continues to grow and plans are in place to advertise the game later this year. Cash 5 sales remained flat. As of the end of January, "Connecticut only" game sales were ahead by \$31 million. Multi-jurisdictional games saw a net gain in sales of \$1.3 million compared to actual. Per capita spending in the Mega Millions game dipped slightly, but is beginning to pick up.

General Fund transfers were \$189 million, up \$7.3 million when compared to budget.

Ms. Patterson highlighted three instant games: “Ink,” Year of the Dragon,” and “Pinball Wizard.” Ms. Patterson thanked Mr. Rodriguez and Mr. Trella for their input on the structure of the game, prize payouts, etc.

Ms. Patterson then showcased the “Gold” TV spot. This \$5 game is selling well and it is expected that sales of the game will result in an additional \$6.7 million transfer to the General Fund. In response to Mr. Morgan’s question as to the ticket print vendor, Mr. Rodriguez confirmed it was GTECH.

Overall daily numbers games sales remained consistent. Sales of the Play3 Day game have experienced an increase due to a recent promotion of the game. Play4 Day sales were consistent with FY ’09 and ’10 levels. Overall sales of daily games numbers in the Lottery industry remain flat.

The new “Lucky for Life” game will launch on March 11, 2012. Ms. Patterson thanked the Marketing team, including Ms. Tarnowski and Mr. Trella, as well as Ms. Glovach, and Messrs. DuPuis, Hunter and Sheftel for their many contributions in ensuring that the upcoming game will launch successfully.

Ms. Patterson then showcased the new Powerball TV spot.

Discussions took place concerning various games, including odds, recent enhancements and advertising efforts related to some of the games, etc. Additionally, Mr. Stauffer gave the Board an overview as to how the Classic Lotto augmentation process worked.

In total, all game sales were \$16.1 million or 4.3 % ahead of budget.

Finally, the Lottery had a banner hung outside the Department of Administrative Services building in January highlighting the Lottery’s contributions to the state of Connecticut. A similar display will go up in the concourse between the Legislative Office Building and the Capitol building in March.

This concluded the Executive Report.

III. Committee Reports:

Finance:

Before asking Mr. Sheftel, Interim Chief Financial Officer at the Lottery, to give an overview of the Lottery’s financial statements, Mr. Morgan publicly thanked Mr. Sheftel for his assistance and willingness and to act as interim CFO until a permanent candidate was found for the position. Mr. Sheftel went on to provide an overview of financial statements for the quarter ended December 31, 2011. His report follows:

Net sales were over budget by \$12.3 million because of higher than expected scratch ticket game sales. Overall Prize expense was over budget by \$3.1 million, primarily due to an increase in the prize expense related to scratch ticket games. Retailer sales commissions were over budget by \$600,000. On-line systems expense was also over budget by \$100,000. Marketing and advertising expense was down \$2.1 million, and production expense was over budget by \$700,000. Total cost of sales was over budget \$2.3 million. Salaries and fringe benefits were down by \$300,000 because of vacant positions. Bad debt expense was a negative \$57,000, which was \$100,000 below budget. This

is unusual given that bad debt expense is generally not a negative number and is attributable to the collection of receivables that had previously been written off. It was also necessary to make an adjustment to the allowance for doubtful accounts.

Audit:

Mr. Stauffer stated that the Audit Committee report would be reviewed in today's Executive Session.

Games & Marketing:

Mr. Kaliko reported that the Games & Marketing Committee had met twice since November 2011. The Committee reviewed Powerball and Mega Millions game rules, along with the Lucky for Life game. Some recommendations were made.

Personnel:

Vice-Chairman Mattison reported that the Personnel Committee also met twice since November 2011. The Lottery's Affirmative Action Plan was reviewed and the Committee was also involved in the selection of a new Chief Financial Officer. Lottery positions were reviewed, including the Chief Information Officer position.

Vice-Chairman Mattison also noted that the Compensation Consultant RFP contract was awarded to Fox Lawson Associates.

Legislative & Public Affairs:

Chairman Farricker reported that the Legislative & Public Affairs Committee met on February 6, 2012, primarily to discuss two bills; one regarding the Freedom of Information Act ("FOIA") and another regarding the financial security provided by Lottery retailers. The December 23, 2011 Department of Justice opinion was also discussed.

Chairman Farricker proposed a motion concerning Problem Gambling Awareness Week in Connecticut. On motion made by Vice-Chairman Mattison, seconded by Mr. Stauffer, 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 4, through March 10, 2012 as an opportunity to promote healthy gambling as integral to the State's economy, to raise public awareness about the potential risks of gambling, and to strengthen the Lottery's role as a good corporate citizen, dedicated to the well-being of all Connecticut citizens."

IV. Executive Session:

At 2:30 p.m., Chairman Farricker called for a motion to enter into Executive Session for the purpose of discussing new games initiatives, draft Lucky for Life game rules, Powerball/Mega Millions game rules, and attorney/client communications: pending claims and litigation; review of legal correspondence. Ms. Noble, Ms. Turner, Ms. Patterson, Ms. Glovach and Mr. Hunter were invited to attend all portions of Executive Session.

On motion made by Vice-Chairman Mattison, seconded by Mr. Kaliko, the Board moved into Executive Session.

The Board reconvened in regular session at 3:10 p.m. No votes nor actions were taken.

V. Old Business:

None.

VI. New Business:

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

“Resolved: That after due consideration and based upon the recommendation of the Games and Marketing Committee, the Connecticut Lottery Corporation Board of Directors hereby: (a) approves and adopts the Official Game Rules for “Lucky for Life,” a new draw game to be offered by Connecticut and other New England states commencing on or about March 11, 2012; and (b) approves and adopts the “Adoption and Amendment of Official ‘Lucky for Life’ Game Rules” for all purchases, claims and payments made in Connecticut; and

Be It Further Resolved: That, the President of the Connecticut Lottery Corporation is hereby authorized to execute the “Lucky for Life Regional Game Agreement” on behalf of the Connecticut Lottery Corporation; and

Be It Further Resolved: That the Connecticut Lottery Corporation shall discontinue sale of its existing “Lucky-4-Life” draw game on or about March 8, 2012, and the President of the Connecticut Lottery Corporation is hereby authorized to take any and all actions necessary to discontinue the existing draw game, “Lucky-4-Life.”

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

“Resolved: That after due consideration and based upon the recommendation of the Games and Marketing Committee, the Connecticut Lottery Corporation Board of Directors hereby approves and adopts the amendments to the Connecticut Powerball Game Rules (Part VIII, Paragraphs 16(b), 16(f), and 26(i)(2)(a) and Connecticut Mega Millions Game Rules (Part VII, Paragraphs 24(b)(1) and 28(c)(9)), each as provided for the Board of Directors meeting dated February 23, 2012.”

VII. Next Scheduled Board Meeting Date: Chairman Farricker stated that the regularly scheduled March 22, 2012 Board meeting would be postponed until April because it had been necessary to reschedule the regular February 2, 2012 Board meeting to February 23, 2012.

VIII. Adjournment:

On motion made by Mr. Kaliko, seconded by Mr. Stauffer, and unanimously approved, the meeting was adjourned at 3:10 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corporation

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