

CONNECTICUT LOTTERY CORPORATION
Board of Directors

Minutes of Meeting

Held on
September 14, 2010
at 11:00 a.m.

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

Board Members Present: John Paul, Chairman of the Board; Gale Mattison, Vice-Chairman of the Board; Marty Stauffer; Robert Morgan; Steve Bafundo; Wendy Kingsbury; Kenneth Saccente (who joined the meeting at 11:20 a.m.); Carolyn Long; and Jeffrey Beckham. Margaret Morton joined the meeting at 11:15 a.m. by phone.

Absent: Pat Racz and Patrick Birney.

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

Visitors: Joseph Tontini and Michael Janusko, Division of Special Revenue; Tom Muller, Scientific Games; and Louis M. Roberts, Senior Manager, Ernst & Young, LLP.

Call to Order: Chairman Paul called the meeting to order at 11:00 a.m.

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

“Resolved, That the minutes of the June 24, 2010 Board Meeting are approved.”

II. Committee Reports:

Audit:

Mr. Stauffer reported that the Lottery’s new independent auditing firm, Ernst & Young, LLP (E&Y), had completed their first year examination of the Lottery’s books and internal controls and subsequently met with the Audit Committee and Lottery management on September 8, 2010 to report their findings. As part of the Audit Committee meeting process, Lottery management was asked to leave the room to allow for discussion with the Auditors of any issues or concerns that should be covered without the presence of management. Mr. Stauffer reported that there were none. He commended E&Y for concluding their report in such a short period of time and thanked the Lottery’s accounting staff for their cooperation throughout the process. Mr. Stauffer then asked Mr. Louis M. Roberts, Senior Manager, E&Y, to present E&Y’s findings to the full Board. Mr. Roberts stated that the Lottery’s records were in excellent order and that no unrecorded audit adjustments were necessary, nor were any weaknesses found in the Lottery’s internal controls. As such, E&Y rendered a clean opinion of the Lottery’s financial statements for

the year ended June 30, 2010. Mr. Roberts thanked the Audit Committee, Ms. Noble and Mr. Ramadei, and the Lottery's internal staff for their assistance and cooperation during the audit.

III. President's Report:

Before beginning her report, Ms. Noble welcomed the Board to today's meeting and thanked them for their time and effort dedicated to the many meetings and initiatives that took place over the past months at the Lottery.

Ms. Noble provided updates on game sales; the most positive news was that instant tickets sales have to date outperformed last year's sales, due in part to ticket enhancements and increased advertising. Daily numbers have followed the same trend. However, online games sales, particularly the multi-jurisdictional games, continued to decline due, in part, to the lack of significant jackpots.

The Lottery is pleased to report that fourteen (14) Instant Ticket Vending Machines (ITVMs) are operational at retailer locations as of today. The Lottery anticipates that ITVM sales will have a positive impact on instant sales. Ms. Noble invited Board members to view one of the ITVM machines on display in Conference Room A. She extended her thanks to GTECH for their efforts during the ITVM production and rollout process. The Lottery is also in the midst of developing our holiday instant ticket campaign.

Ms. Noble attended MUSL meetings in late August to discuss the cross-sell of multi-jurisdictional games and the cross-sell's overall effect on sales. MUSL discussed the possible introduction of a new multi-jurisdictional game as well as other portfolio changes. The I-Gaming Bill sponsored by Senator Barney Frank was the subject of a hearing in late July in DC. The bill was favorably voted out of the Financial Services Committee. While the need for internet authorization is vital, the proposed Bill continues to raise some concerns for the Lottery industry. Lottery Directors will discuss the Bill further at the upcoming NASPL Annual Conference being held from September 20 – 24, 2010 in Michigan. CLC Management will also continue to monitor the Bill and report any developments to the Games & Marketing Committee and to the full Board at the November 18, 2010 meeting.

To date, more than thirty legislators have visited the Lottery. The Lottery is generally well received and there is a high level of interest in our General Fund contributions and programs.

The Connecticut Super Draw game is planned for rollout during the October to December timeframe. This new game will be discussed further in today's Executive Session.

The Marketing and IT departments have been working diligently to make enhancements to the Lottery's website.

Entry for 2nd Chance Drawings features online registration on our website, and the Lottery has seen a positive response to that program

Rollout of the new email system is planned to start in early October.

A meeting has been arranged for October 7, 2010 to discuss on-going remediation efforts for action items identified in the recent Network Security Assessment. Management will give a more in-depth report to the Audit Committee at the next scheduled meeting.

The Connecticut Council on Problem Gambling's Annual Conference is planned for October 21, 2010. Management will provide updates on the conference to the full Board at the November 18, 2010 meeting.

Marketing Report:

Before he began his presentation, Mr. Sternburg thanked Gloria Donnelly and Theresa Scott for their efforts in getting the ITVM program launched successfully.

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

Overall sales of instant tickets are up over last year's actual sales by \$5.2 million for the first two months of the year. Game enhancements and advertising may be positively affecting sales. Play3 Day, Play 4 Day, Play 3 Night and Play 4 Night sales have continued to perform well. Classic Lotto sales were down by \$300,000 for the month of August, most likely because of the impact of the cross-sell game. Although Cash5 sales were \$200,000 over budget, sales were still impacted by the addition of Mega Millions. Lucky-4-Life sales leveled off, but there is still room for growth in this category. Powerball sales were down \$9.1 million, due primarily to the lack of significant jackpots. Sales of Mega Millions saw a somewhat positive trend in the more recent runs. Total sales were \$1.2 million ahead of budget, but down \$5.7 million as compared to last year in large part due to lower Powerball sales.

This concluded the President's Report.

IV. Committee Reports – Continued:

Audit:

Mr. Stauffer reported that the Audit Committee had met on September 8, 2010 to review the revised Purchasing Policy. The revisions were primarily made to eliminate redundancy and clarify ambiguities in the current policy. He highlighted the changes, as set forth in the new policy included in the Board book.

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

“Resolved, That after due consideration, and based upon the recommendation of the Audit Committee, the Connecticut Lottery Corporation Board of Directors hereby approves the amendments to the Connecticut Lottery Corporation Purchasing Policy.

Personnel/Compensation:

Mr. Mattison reported that the Personnel & Compensation Committees had met on three occasions this summer to discuss the Lottery's Compensation Plan, Incentive Compensation Plans and the Performance Management Process. The Compensatory Time Policy was also reviewed by the Committees. He noted record returns to the General Fund and the second highest sales in the organization's history.

Concerning merit and COLA raises, Mr. Mattison noted recent state bargaining unit increases at the Lottery, in some cases, up to 5.5%. He also reported that union raises and other changes

mandated by SEBAC has created some salary compression and related pay equity issues. In addition, Mr. Mattison reported that some quasi-public agencies and state University system employees have received raises, but managers in the Executive Branch of state government have not received raises, only longevity payments. Mr. Mattison reported that Personnel and Compensation Committees recommended no action at this time regarding the Lottery's compensation plan for management for FY 11. He also reported that modest incentive for management was earned under the FY 10 Incentive Compensation Plan, a lump sum payment between .5% (half of one percent) and 1% (one), paid to employees meeting performance and eligibility requirements. No longevity is available to management at the Lottery. He stated that Incentive Plans for FY 11, which are similar to last year, would be presented to the Board for approval today for both management and bargaining unit employees.

Finally, it was reported that the Chairman of the Board is charged with carrying out review and evaluation of the President and CEO.

He stated that the draft Incentive Compensation programs would be discussed further in today's Executive Session.

Games & Marketing:

Mr. Mattison reported that the Games and Marketing Committee had met twice over the summer months to review sales performance and to discuss federal legislation concerning internet gaming. The Committee recommended that management continue to monitor developments on the Bill and to continue communicating with federal and state legislators. Findings will be reported to the Games and Marketing Committee and to the full Board.

Various new measures to help increase online sales were also reviewed and will be discussed in today's Executive Session. The Committee also reviewed the amended CT Powerball game rules and CT Super Draw game rules, and these proposed rules will also be discussed in Executive Session. Following Executive Session, a request will be made to the full Board to approve both sets of game rules.

V. Executive Session:

At 11:45 a.m., Chairman Paul called for a motion to enter into Executive Session to discuss: new games initiatives; proposed game rules; performance and compensation for senior management and draft Incentive Compensation Plans for FY 2010-11. He invited Ms. Noble, Ms. Porto and Mr. Sternburg to remain for the new game initiatives and proposed game rules portion of Executive Session. He invited only Ms. Noble to remain for the Executive Session addressing performance and compensation for senior management and draft Incentive Compensation Plans for FY 2010-2011.

On motion made by Mr. Mattison, seconded by Mr. Morgan, the Board moved into Executive Session. Mr. Ramadei joined the Executive Session for a short period of time during the section to review Draft Incentive Compensation Plans.

The Board reconvened in regular session at 12:50 p.m. Chairman Paul stated that no votes or actions had taken place during Executive Session.

On conclusion of Executive Session, the following motions were proposed:

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

“Resolved, That after due consideration, and based upon the recommendations of the Games and Marketing Committee, the Connecticut Lottery Corporation Board of Directors hereby approves the game rules for Connecticut Super Draw.”

On motion made by Mr. Morgan, seconded by Ms. Morton, 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 the amendments to the Connecticut Powerball Game Rules.”

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

“Resolved, That after due consideration, and based upon the recommendations of the Compensation and Personnel Committees, the Connecticut Lottery Corporation Board of Directors hereby approves and adopts the Sales Incentive Compensation Program for Fiscal Year 2010-2011.

“Further Resolved, That changes provided for under the Sales Incentive Compensation Program shall be effective as of July 1, 2010.

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

“Resolved, That after due consideration, and based upon the recommendations of the Compensation and Personnel Committees, the Connecticut Lottery Corporation Board of Directors hereby approves and adopts the Management Incentive Compensation Program for Fiscal Year 2010-2011.

“Further Resolved, That changes provided for under the Management Incentive Compensation Program shall be effective as of July 1, 2010.

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

“Resolved, That after due consideration, and based upon recommendations of the Games and Marketing Committee, the Connecticut Lottery Corporation Board of Directors hereby approves an increase of \$1 million to the advertising budget for the current year for Powerball and Mega Millions advertising.”

VI. Old Business:
None.

VII. New Business:
None.

VIII. Next Scheduled Board Meeting Date:

The next Board of Directors meeting will be held on November 18, 2010.

IX. Adjournment:

On motion made by Mr. Beckham, seconded by Ms. Morton, and unanimously approved, the meeting was adjourned at 12:55 p.m.

Respectfully submitted,

Barbara Porto
Corporation Secretary

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