

CONNECTICUT LOTTERY CORPORATION
Board of Directors
Minutes of Special Meeting

Held on
December 2, 2010
at 12:00 p.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; Pat Racz; Steve Bafundo; Patrick Birney; Kenneth Saccente; Carolyn Long; Jeffrey Beckham; and Margaret Morton (who joined the meeting by phone).

Absent: Wendy Kingsbury

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

Visitors: Joseph Tontini and Frank Virnelli, Division of Special Revenue; Tom Muller, Scientific Games; Tony Cashman, Kendra Eckhart and Tim Cryan, Cashman & Katz Integrated Communications; Darcy DaCosta and Matt Cedor, GTECH Corporation; Adam Jameson and Alan Lippencot, CTN (who recorded the meeting); Brad Kane, Hartford Business Journal; and Adam Osmond (as a member of the public).

Call to Order: Chairman Paul called the meeting to order at 12:05 p.m.

I. Approval of Minutes:

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

“Resolved, That the minutes of the September 14, 2010 Board Meeting are approved.”

II. President’s Report:

Ms. Noble opened her report by stating that instant and daily game sales were outperforming budget and actual for last year. The multi-jurisdictional games, however, are under-performing. Jackpot levels for both games have been disappointing. As a result, while total revenues exceed last year and budget, General Fund transfers are not similarly outperforming budget estimates.

Ms. Noble reported that the Lottery is doing everything possible to make up for the disappointing sales of the multi-jurisdictional games, including participation at a national level to address this problem. The Lottery’s belief last winter that the cross-sell might not be good for Connecticut is, at least initially, proving true.

Ms. Noble then reviewed the agenda for her report, which included: the Lottery's communications network; Capitol news; new horizons; employee recognition; responsible gaming and augmentation.

Much work has already been done and continues to be done to improve the communications network. In collaboration with Scientific Games, the Lottery has been able to minimize outages, enhancing retailer service and player satisfaction. As examples of the changes, Ms. Noble cited increases in signal strength and expanded redundancies for the VSAT network. The system has undergone rigorous testing especially with regard to the effectiveness of certain heating solutions and in transitioning to new equipment with a better look-angle to the horizon. Weather conditions are still an issue, but the Lottery is making good progress.

Ms. Noble reported that Chelsea Turner, the Lottery's Director of Government Affairs, has been in contact with Governor Malloy's transition team and will do the same with other new Constitutional offices. She reported that Ms. Turner had already contacted 187 state legislators, 50 of whom have already visited the Lottery. The Lottery has received very positive feedback from legislators. The hallmark of these visits is the amount of time they spend here. During their visit, legislators are able to see that the Lottery's commitment to responsible gambling is very real.

The Lottery's membership application to the World Lottery Association (WLA) was approved at their executive meeting held early November in Australia. This is a unique opportunity to share information and to learn from counterparts spread out over five continents. As a member of the organization, the Lottery has signed the WLA Code of Conduct, which includes a commitment to respect player rights and responsibilities and jurisdictional boundaries.

Management reviewed its legislative agenda with the Legislative & Public Affairs committee in November. Much attention was being given to internet gaming at the Federal level, but it will likely diminish over the next year. The Lottery will carefully monitor the situation, including with some states that are moving forward using the internet for intrastate gambling. These states include: New York; New Hampshire; New Jersey and Illinois, among others.

Each year, the Lottery recognizes employees who have been in state service for more than ten years. This year, special recognition was also given to the following employees: Francine Magnano for her intervention at a retailer location concerning sale of tickets to minors; Flo Votino for her exemplary customer service skills at the Lottery's front desk; and Margret Czyrko for providing CPR training to many of the Lottery's employees. Ms. Noble thanked employees for their efforts in making the Lottery a more successful organization.

Ms. Noble announced the retirement of Joel Bloom, the Lottery's Director of Vendor Compliance and wished him well in his retirement.

The Connecticut Lottery recognized the Connecticut Council on Problem Gambling's (CCPG) thirty years of service to the State of Connecticut at the CCPG Annual Conference held in October. The Lottery also collaborated with McGill University and other lotteries to raise awareness about gifting lottery tickets to minors during the holiday season.

In compliance with a directive of the Board of Directors, Ms. Noble reported that the Lottery augmented the prize amount for the November 9th Classic Lotto drawing in the amount of

approximately \$466,000 and also for the November 19th drawing in the amount of approximately \$514,000.

This concluded the President's Report.

Marketing Report:

Using updated sales charts that were distributed at the Board meeting, Mr. Sternburg presented an overview of sales trends as compared to the same period last year. His summary follows:

Overall instant sales were up over last year's actual sales by \$10.7 million compared to last year and \$11.9 million over budget. Second Chance draw games and licensed games performed very well. Play3 Day, Play4 Day, Play3 Night and Play4 Night sales continued to perform well. Classic Lotto sales were down \$1.4 million compared to actual and down \$300,000 compared to budget, largely due to the impact of the cross-sell initiative and because of a larger jackpot at the same time last year.

Although Cash5 sales were down slightly, coming in at \$2.8 million, the game performed as expected. Lucky-4-Life sales were \$1.9 million. Powerball sales underperformed because of the cross-sell initiative and the lack of significant jackpots. The CT Super Draw game performed well with sales close to \$1.4 million. Sales of Mega Millions saw a dip, coming in at \$1.7 million. The cross-sell initiative will be discussed further in today's Executive Session.

Total sales were \$3.1 million ahead of actual and \$3.2 million ahead of budget. Mr. Sternburg noted that overall sales figures would have reflected more positively if the cross-sell initiative was not a factor in final numbers.

The Lottery's new advertising campaign will include point of sale items and is supported by two new holiday commercials. Mr. Sternburg showcased both commercials for the Board.

Mr. Sternburg extended his thanks to Ms. Patterson and Mr. Kopel for their work and input on the updated sales charts. Chairman Paul noted that the updated charts provided a more complete picture of Lottery sales by showing in-state game sales, multi-state game sales and combined sales for both.

III. Executive Session:

At 12:30 p.m., Chairman Paul called for a motion to enter into Executive Session to discuss the following items: CT Mega Millions game rules; draft amendments and negotiations concerning the online contract; new games initiatives, including Keno and multi-jurisdictional games; and pending litigation. Chairman Paul invited Ms. Noble, Ms. Porto, Mr. Ramadei and Mr. Sternburg to remain for the first three items of Executive Session. He invited Ms. Noble, Mr. McCormack and Mr. Ramadei to remain for the pending litigation portion of Executive Session.

On motion made by Mr. Mattison, seconded by Mr. Bafundo, the Board moved into Executive Session.

The Board reconvened in regular session at 1:50 p.m. Chairman Paul stated that no votes nor actions had taken place during Executive Session.

Ms. Racz left the meeting at 1:40 p.m.

IV. Committee Reports:

Finance:

At Mr. Morgan's request, Mr. Ramadei provided an update on the Lottery's financial results for the three month period ended September 30, 2010 compared to budget. His report follows:

Net sales for the quarter were up by \$200,000, or 0.1%, driven largely by scratch games sales. Multi-jurisdictional games underperformed. Prize expense was up by \$1.2 million, or 0.8%. Retailer commissions were down by \$100,000, or -0.8%. On-line Systems expense was on-budget. Marketing and Advertising expense was up by \$100,000, or 5.8%. Production expenses were down by \$200,000, or -11.6%. Total cost of sales were up by \$1 million, or 0.6%. Salaries and fringe benefits were down by \$200,000, or -4.9% and General Fund Transfers were down by \$1.1 million, or -1.6%, due in large part to the increase in the prize expense, which is included in cost of sales.

Audit:

Mr. Stauffer reported that the Audit Committee had met on November 8, 2010 to discuss pending litigation and the report of the Auditors of Public Accounts. Mr. Stauffer reported that the Public Auditors called out the following two comments in their report:

1. The Lottery entered into a contract with Windham Brannon, an Auditing firm located in Georgia, in order to comply with MUSL rules and to respond to DOSR requirements. Windham Brannon commenced operations before the Lottery received a fully-executed contract. Mr. Stauffer noted that the Lottery would not have been able to participate in the Powerball drawing unless it permitted the Auditors to proceed before the contract was finalized in writing.
2. The other area of concern was the renewal of a contract with the Lottery's billboard vendor. Mr. Stauffer noted that the vendor was engaged in a merger during the renewal timeframe and that the Lottery had not received executed gift affidavits before the vendor commenced operations. Mr. Stauffer stated that the Lottery had reviewed and addressed both of these issues.

Mr. Mattison went on the record to express his disappointment with these issues. In his opinion, the response to the Auditors' concerns was inappropriate. He further said that he has informed the President and the Chairman about his concerns. Chairman Paul noted that the Auditors' findings had been discussed at length by the Board.

Games & Marketing:

Mr. Mattison reported that the Games & Marketing Committee had met to discuss on-going Lottery initiatives, including amendments to the Mega Millions game rules and the possibility of implementing Keno in Connecticut. He asked Ms. Porto to briefly explain the proposed changes to the Connecticut Mega Millions game rules. Ms. Porto stated that the amendment would remove reference to the multiplier number as it pertained to the Match 5+0 second prize and would permit an increase in the jackpot prize reserve of up to 5%.

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

“Resolved, That after due consideration, and based upon the recommendation of the Games & Marketing Committee, the Connecticut Lottery Corporation Board of Directors hereby approves the amendments to the Connecticut Mega Millions game rules.”

The Committee discussed the potential implementation of Keno in Connecticut. Over the past several years, the State has explored the economic benefits of Keno. Given the difficult economic climate we face, Keno may be entertained again. Since Keno has been a topic of much discussion at the legislative level, Mr. Mattison acknowledged that further research and discussion was warranted. Ms. Noble then outlined several steps the Lottery would take to ensure the game was implemented in a responsible manner, including: collaboration with problem gambling experts; restrictions on the types of age-controlled establishments where the game would be played; time and dollar limits set for players; prohibition on employees at retail locations from playing the game; use of clocks at retail establishments selling Keno; information on local gambling resources to be made available and posted at retail locations; rules governing taverns and bars barring the sale of Keno to intoxicated patrons; adequate seating for players; point of sale campaigns to educate players and to market the game in the same manner that the Lottery does for its other games. Ms. Noble noted that the Lottery would be sensitive to the issue of problem gambling and commented that the rate of pathological gambling in Connecticut was low.

In view of the fact that Connecticut is surrounded by neighboring states which sell Keno, Mr. Birney asked about the specific process necessary to advance Keno in Connecticut. Ms. Noble advised that the Lottery would reach out to the Governor’s office, the General Assembly, the Attorney General’s office and other stakeholders to begin important discussion with them concerning the revenue projections for the game. The Lottery would identify retail locations, recruit and train retailers, continue negotiations with the Lottery’s on-line vendor, collaborate with the Division of Special Revenue concerning licensing, construct game rules, develop and implement software and outline budget considerations particularly as it relates to staffing, marketing, advertising and equipment.

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

“Resolved, That the Board of Directors hereby endorses the Connecticut Lottery Corporation’s effort to pursue appropriate state approval to implement Keno.”

Legislative:

Mr. Bafundo provided the Legislative report. He first recognized Ms. Turner for her diligent efforts in working with Legislators, many of whom have already visited the Lottery. Some of the major initiatives on the Lottery’s Legislative agenda included Keno, and eliminating language in the Lottery’s enabling legislation regarding interactive games. He noted that, although other states were interested in intra-state gambling on the internet, it was still an issue at the federal level.

Personnel/Compensation:

Mr. Mattison provided the report on behalf of Ms. Racz. He noted that the Lottery’s Affirmative Action Plan had been discussed and reviewed; he thanked Ms. Cady for an excellent job on the report. Survivor benefits were also discussed as related to the children of staff members who were killed in the March 6, 1998 incident.

V. Old Business:

None.

VI. New Business:

Chairman Paul referred Board members to the roster of Board meetings for the calendar year 2011. There were no objections to the proposed dates and times.

Prior to the adjournment, Chairman Paul thanked Ms. Duffy for her patience and hard work in arranging the many meetings of the Board and its Committees throughout the year.

VII. Adjournment:

On motion made by Mr. Stauffer, seconded by Mr. Mattison, and unanimously approved, the meeting was adjourned at 2:15 p.m.

Respectfully submitted,

Barbara Porto
Corporation Secretary

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