

# CONNECTICUT LOTTERY CORPORATION

## Minutes of Board Meeting

Held on  
Thursday, September 20, 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; Margaret Morton; Natasha Pierre; Martin Stauffer; Steve Bafundo; James Farrell; Michael Thompson; and Patrick Birney (who joined the meeting by teleconference).

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

Invited Guest: Louis Roberts, Ernst & Young, LLP.

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

I. Approval of Minutes:

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

“Resolved: That the Board hereby approves the June 28, 2012 Board meeting minutes.”

II. Audit Committee Report:

Mr. Stauffer reported that the Audit Committee met with the Lottery’s independent audit firm, Ernst & Young, LLP (“E&Y”) on September 19, 2012 to review their report on the Lottery’s financial statements and Lottery internal controls. As is customary, Lottery management was asked to leave the meeting to allow the auditors to discuss any issues that may have been found during the audit. When staff returned, it was reported that there were none. Mr. Stauffer then asked Mr. Louis Roberts, Senior Manager with E&Y, to provide the audit report, as follows:

Mr. Roberts reported that Lottery financials were reviewed and found to be in order; no adjustments were necessary. Additionally, no internal controls or material deficiencies were found. As such, the Lottery received an unqualified, clean opinion from E&Y. Mr. Roberts thanked Lottery staff for their cooperation throughout the audit process. He then exited the meeting.

At the June 7, 2012 Audit Committee meeting, a member of the Committee requested that the following statement be read at today’s Board meeting as part of the public record:

“Given the importance to the Corporation of a vigorous and consistent defense to the Freedom of Information complaints brought by Adam Osmond against the Corporation and its employees, the Audit Committee supports the President’s determination that the retention and continued use, without open or competitive

bidding, of the law firm of Horton, Shields & Knox in the defense of those complaints, and any additional Freedom of Information complaints Mr. Osmond may file, is in the Corporation's best interests. Such action is consistent with the Corporation's purchasing policy and enabling legislation, and enables expertise and efficiency in the defense and management of these claims."

Mr. Stauffer stated that remaining audit items would be discussed in today's Executive Session.

III. Executive Report:

President's Report:

Ms. Noble welcomed Board members to the meeting and thanked E&Y for a thorough audit of the Lottery. She also thanked the Audit Committee for their assistance during the E&Y audit. Ms. Noble continued with her report through a Power Point presentation that covered year to date (YTD) performance, 1<sup>st</sup> quarter highlights and Corporate Social Responsibility.

With regard to YTD performance, the following areas were highlighted:

- As of September 18<sup>th</sup>, YTD sales were up close to \$10 million, or 5% over last year.
- The recent Powerball run provided a nice boost.
- There are approximately 48 more retailers than last year at this time.

With regard to 1<sup>st</sup> quarter highlights, the following areas were highlighted:

- Sales of the newly released \$30 scratch ticket have been good.
- The Lottery's Supplier Diversity consultants, Winston Strategic Partners, LLC, recently visited the Lottery to provide an overview of developing a best in class supplier diversity program at the CLC. The project is expected to be completed within the next 18 months.
- The management compensation study is underway and is expected to be completed by November 2012.
- Retailer licensing has been moved under the purview of Retailer Services to streamline and create a more efficient process. Retailer training has been moved to the Sales department.
- The Lottery is currently interviewing candidates for a new Social Media Director position.
- The goal setting process for 2013 is complete.
- New communication devices were provided to management and sales staff; sales staff are using these new tools in the field to improve efficiency, performance, and service.

With regard to Corporate Social Responsibility, the following areas were highlighted:

- The Lottery Corporation received Level II accreditation by the World Lottery Association ("WLA") and participated in the annual summit at the recent WLA conference in Montreal. The CT Lottery Corporation is one of only six U.S. lotteries to have earned this distinction.
- The National Council on Problem Gambling ("NCPG") and McGill University honored the Lottery with an Award at the Summit for its responsible gaming efforts in advertising during the 2011 holiday season.
- An article recently appeared in *Health News Digest* which featured a Yale study on youth gambling, and the Lottery was mentioned for its efforts to raise awareness in this area.

- Lottery staff will attend the CT Council on Problem Gambling's conference to be held in October; Ms. Noble will be a speaker.

Sales Performance Report:

Ms. Patterson explained that the theme for the year is based on the Lottery's road to success, and going the extra MILE, which stands for "Maximizing the Impact of the Lottery Experience." The strategy includes merchandising, increasing distribution channels and utilizing better technology.

Using several sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends as of August 31, 2012. Ms. Patterson's report follows:

Overall games sales performed well during July and August.

CT Only Games were down slightly to budget. However, sales in this category are beginning to show improvement.

Multi-state game sales are currently 12.3% ahead of budget.

Cash5 sales remained steady. The Lucky for Life draw game continues to do well and a promotion is underway. The next CT Super Draw game is scheduled to launch on October 1<sup>st</sup>.

Instant Game sales are strong. Sales of the newly released instant tickets, \$3,000,000 Riches (sold in packs of 20), Casino Nights, and 5X The Money, are performing well.

Powerball with Powerplay sales are above expectation. The Lottery will continue to promote the Mega Millions game, and a new commercial has recently launched.

Play3 and Play4 games sales showed an overall improvement. During August and September, some similar number combinations were drawn in the Play4 Day/Play4 Night games. Because a particular set of the same numbers were drawn on two consecutive nights, Mr. Stauffer inquired about odds in the game and asked about the probability of repeat numbers being drawn. Ms. Noble stated she would have Mr. DuPuis and Mr. Granato examine the odds and information about the game and provide details to Mr. Stauffer.

Ms. Patterson also reported on General Fund transfers.

This concluded the Executive Report.

IV. Committee Reports-continued:

Personnel:

Mr. Mattison reported that the Personnel Committee met to review Lottery policies concerning life and disability insurance, retirement plan contributions and managerial tuition reimbursement. The managerial compensatory report was also reviewed and found to be satisfactory. The Kardas Larson compensation study is in progress; a Personnel Committee meeting will be arranged sometime in October to review the status of the study. Remaining Personnel items would be discussed in today's Executive Session.

Games & Marketing:

Mr. Morgan reported that the Games & Marketing Committee met prior to today's Board meeting to review revenue for the first two months of the fiscal year. He noted that changes to the Connecticut Powerball game rules would be discussed in today's Executive Session, and following Executive Session, a motion would be put forth to address the rules.

V. Executive Session:

At 2:10 p.m., Chairman Farricker called for a motion to enter into Executive Session for the purpose of discussing:

- Draft CT Powerball Game Rules
- Attorney/Client Communications Re:
  - Department of Consumer Protection audits
  - Online game system
  - Pending claims and litigation
- Evaluations, performance and compensation of senior management

Discussion of new game initiatives was tabled.

On motion made by Mr. Mattison, seconded by Mr. Stauffer, the Board entered into Executive Session.

Ms. Noble, Ms. Turner, Ms. Patterson, Ms. Glovach, Ms. Rooney, Mr. Hunter, and Mr. Granato were invited to attend the Executive Session.

At 2:30 p.m., Patrick Birney left the Executive Session for the portion regarding the online games system contract. He returned at 2:35 p.m. At 2:45 p.m., Ms. Patterson, Mr. Hunter and Mr. Granato left the Executive Session portion dealing with Attorney/Client Communications. At 2:50 p.m., Patrick Birney exited the meeting. Ms. Glovach left the Executive Session at 2:55 p.m.

The Board reconvened in regular session at 3:05 p.m. Mr. Farricker reported that no votes nor actions were taken during Executive Session.

VI. Old Business:

None.

VII. New Business:

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

Resolved, that after due consideration, and based upon the recommendation of the Personnel Committee, the Board of Directors hereby approves paying incentive compensation as earned under the Management Incentive Compensation Program 2011-12 (the "Program"), without the cap. The Board finds that paying incentive compensation at the stated amount, without the cap, is in the Connecticut Lottery Corporation's (the "CLC") best interests. In support of this resolution and as required by the Program, the Board finds as follows:

- Incentive compensation is authorized in the CLC's enabling legislation;
- Incentive compensation is pay for performance, rather than tenure, and is an estimated element of total compensation;

- CLC management employees are not eligible for longevity;
- Employees who underperform are not eligible for incentive compensation;
- The Board of Directors adopted and approved the Management Incentive Compensation Program, in accordance with the above principles, on September 15, 2011;
- Incentive compensation was earned under the terms of the Program based on the CLC's record performance and efforts in FY 12;
- The CLC returned \$310 million to the state's General Fund, \$22.3 million over budget;
- CLC FY 12 revenues were approximately \$1.082 billion, \$56 million over budget; and
- The Program's intent is to compensate employees for outstanding results and to retain talent, rather than pay employees for years of service. The results warrant compensation under the FY 2012 Program as earned."

At 3:07, Natasha Pierre exited the meeting.

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

"Resolved, that after due consideration, and based upon the recommendation of the Games and Marketing Committee, the Board of Directors approves the two changes to Paragraph 26.i, Subparagraph 2.a (Pari-Mutuel Prizes – All Prize Amounts) set forth in the published notice of proposed amendments."

Mr. Stauffer then concluded the Audit Committee Report by stating:

"Given the importance to the Corporation of a vigorous and consistent defense to the Freedom of Information Commission and Commission on Human Rights and Opportunities complaints brought by Sandra Cady against the Corporation and its President, the Audit Committee supports the President's determination that the retention and continued use, without open or competitive bidding, of the law firm of Jackson Lewis (counsel selected by Chubb, the Corporation's carrier) in the defense of those complaints and any additional complaints Ms. Cady may file is in the Corporation's best interests. Such action is consistent with the Corporation's purchasing policy and enabling legislation and enables expertise and efficiency in the defense and management of these claims."

Mr. Farricker spoke of the recent visit to the Lottery by Governor Malloy. The Governor met with Executive staff and Mr. Mattison and Chairman Farricker. Mr. Farricker noted the positive relationship between the Lottery and the Administration. Governor Malloy toured the facility and joined Lottery employees in the atrium.

- VIII. Next Scheduled Board Meeting Date: November 15, 2012 at 1:00 p.m. Ms. Noble noted that the November Board meeting will include training on the Freedom of Information Act ("FOIA") by Thomas Hennick, a staff member from FOIA. Mr. Farricker requested that the training occur prior to the commencement of the Board's more formal agenda and asked staff to make such arrangements.

IX. Adjournment:

On motion made by Mr. Mattison, seconded by Mr. Stauffer, and unanimously approved, the meeting was adjourned at 3:15 p.m.

Respectfully submitted,

Chelsea Turner  
Corporation Secretary/Connecticut Lottery Corporation

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