

CONNECTICUT LOTTERY CORPORATION
Board of Directors

Minutes of Meeting

June 24, 2010
At 1:30 p.m.

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

Board Members Present: John Paul, Chairman of the Board; Marty Stauffer; Steve Bafundo; Pat Racz; Margaret Morton; Kenneth Saccente; Patrick Birney and Jeffrey Beckham. Wendy Kingsbury joined the meeting by phone.

Absent: Gale Mattison; Robert Morgan and Carolyn Long.

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

Visitors: Tony Cashman and Amanda Muller, Cashman + Katz Integrated Communications; Joseph Tontini and Frank Virnelli, Division of Special Revenue; and Tom Muller, Scientific Games

Call to Order: Chairman Paul called the meeting to order at 1:40 p.m. In his opening remarks, he welcomed and congratulated Mr. Jeffrey Beckham, Office of Policy and Management, on his appointment to the CLC Board of Directors. He also acknowledged and welcomed Chelsea Turner to her new management position in the Lottery.

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

“Resolved, That the minutes of the May 6, 2010 Special Board Meeting are approved.”

II. President’s Report:
Before beginning her report, Ms. Noble welcomed Mr. Jeffrey Beckham, the newly appointed member of the Board and designee of the Director of the Office of Policy and Management, and Chelsea Turner, the Lottery’s new Director of Government Affairs. She also thanked Lottery staff for their hard work over this past fiscal year. She continued with her report with an update of various critical initiatives completed this year, as well as a snapshot of the Lottery’s revenue trends, which has been trending positive on the instant side over the last several weeks.

Ms. Noble highlighted key deliverables for FY 2010. These included the award of the ITVM contract, commencement of the new 2nd chance drawing feature, deployment of the Scratch2Cash barcode, implementation of scratch ticket balancing directly on the WAVE terminal, installation of the MEGA MILLIONS game and the Fortune Cookie linked games concept, just to name a few. In addition, the CLC website has been redesigned and will be introduced to the public in 2011. Key positions were filled as a result of retirements at the Lottery and the Lottery awarded contracts to our new legal and auditing partners. The Lottery continues to enhance its relationship with SG. The Lottery also completed a security assessment earlier this year and improved procurement and contracting

processes. Under the direction of Barbara Porto, the Lottery's VP of Administration and Operations, the Lottery successfully deployed twelve software releases during the year to ensure operational and sales integrity. Multiple refinements have been made, and even more are under consideration, to continue improvement of the communications network.

The Lottery is preparing for rollout of the ITVMs this coming September. Thus far, the Lottery has received approval for ITVM Procedures and Retailer Instructions from the Division of Special Revenue. ITVMs will be fitted with remote shutoff and age verification devices. Signage for ITVMs is currently being developed in further support of responsible gambling. The Lottery is finalizing plans to rollout a billboard campaign to highlight ongoing awareness of the prohibition on youth gambling.

Mr. Beckham asked about age verification functionality of ITVMs, and Ms. Noble explained that players would be required to scan a driver's license to verify age. If there is any question regarding the validity of the driver's license, retailers will disable the machines. Ms. Noble reported that Connecticut is one of few states to use age verification functionality on ITVMs.

Ms. Noble reported that the budget for Fiscal Year 2011 had been completed and would be presented for approval at today's meeting. She thanked the Finance Committee and Lottery staff for their hard work in putting the budget together for the upcoming fiscal year.

Marketing Report:

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

Overall, instant ticket sales are up by \$700K for the month of May; the Lottery is optimistic that this trend will continue. Play3 Day, Play 4 Day, Play 3 Night and Play 4 Night sales continue to perform very well, due in large part to the large prize payouts over the past several weeks. The Lottery plans to increase advertising for this game. Classic Lotto sales declined, possibly due to the cross-sell game, but have outperformed the Mega Millions game over the last several weeks. Cash5 sales are down, which might also be a result of sales in the cross-sell game, although it is very early to draw any definitive conclusions. Powerball sales are down \$7 million. The Mega Millions game has sold \$10.4 million thus far this year. Overall Lottery sales totaled \$968 million, up \$4.8 million compared to last year.

Mr. Sternburg showcased the new The Wheel of Fortune game, featuring a media segment from WTNH Channel 8's "Connecticut Style."

This concluded the President's Report.

III. Committee Reports:

Finance:

Mr. Stauffer reported that the Finance Committee had met on June 16, 2010 to review the budget for Fiscal Year 2011 and asked Mr. Ramadei to summarize the. Mr. Ramadei's summary follows:

Overall sales are expected to increase \$10 million, or 1% in Fiscal Year 2011. Multi-state games are expected to increase by \$15 million and scratch games by \$5 million. Both of these games will drive the overall sales increase next year. To support this increase, the Lottery will roll out ITVMs, add a players rewards program and work to expand the retailer network. Other draw games are projected to decrease by \$10 million, or 3.3%, resulting in the total sales projection of \$1.005 billion. The Prize Expense category is expected to increase by \$6.8 million, or 1.1%. A breakdown of this category

shows that the prize expense for the multi-state games is anticipated at \$8.1 million, or 17.3%, while scratch games increase \$2.8 million, or 0.07%. Overall prize expense percentage will increase to 60.9% as compared to 60.8% in 2010. Retailer commissions are expected to increase \$1.1 million, or 1.9%, due to increased sales and retailer incentive programs. Online system expense will increase by \$0.6, or 7.1%, to \$9.4 million based on higher projected sales. Marketing, advertising and promotions will remain the same as Fiscal Year 2009. Production expenses will increase by \$1.4 million, or 27%. This increase is based upon the launch of ITVMs, at a cost of \$985K and PATs at \$250K. Total cost of sales will increase by \$10.8 million, or 1.6% due to prize expense of \$6.8 million, and retailer commission expense of \$1.1 million. Salaries and fringe benefits will increase by \$1.9 million, or 14%, attributable to compensation increases of \$1.0 million and fringe benefits of \$900K. Other operating costs will increase to \$0.2 million, or 6.5%, primarily consisting of higher building expenses of \$93K and legal costs of \$40K. Regulatory oversight expenses will increase by \$188K, or 6.7%, to \$3.0 million. Capital expenditures will increase to \$647K to take care of various initiatives deferred from last year. General Fund transfers are projected at \$285.2 million.

Mr. Stauffer noted that one item in the Capital Expenditures category raised a question about whether it should be classified as an operating expense or capital item. This discussion will not, however, affect transfers to the General Fund. As a result, the Lottery will consider revising the capitalization policy in 2011. Mr. Beckham asked questions on compensation plans. Mr. Ramadei explained that an incentive plan was in place for Lottery Sales Reps and management. Mr. Beckham also asked about training and building expense, and Mr. Ramadei gave a brief explanation of both items.

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

“Resolved, That after due consideration, and based upon the recommendation of the Finance Committee, the budget for Fiscal Year 2011 is hereby approved.”

Personnel/Compensation:

Ms. Racz reported that the Committee had met today to discuss the Lottery’s Ethical Conduct Policy and the Affirmative Action Plan for the July 1, 2008 through June 30, 2009 period. It was recommended that a change be made to the ethics policy, thereby prohibiting Lottery employees, Board members and their families from playing the Mega Millions game, either in- state or out-of-state. The Lottery’s Affirmative Action Plan was reviewed, and Ms. Racz noted that it reflects solid policies and good practices at the Lottery.

On motion made by Mr. Saccente, seconded by Mr. Stauffer, 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 the amendment to the Connecticut Lottery Corporation’s Ethical Conduct Policy, regarding the prohibition against Connecticut Lottery Corporation Directors and their families; Officers and their families; and employees and their families from playing the Mega Millions draw game.”

IV. Executive Session:

At 2:35 p.m., Chairman Paul called for a motion to enter into Executive Session to discuss new games initiatives and to review preliminary drafts. He invited Ms. Noble, Ms. Porto, Ms. Patterson, Ms. Turner and Mr. Sternburg to remain for Executive Session concerning new game initiatives and Ms. Noble, Mr. Sternburg and Ms. Dupuis to remain for Executive Session concerning preliminary drafts.

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

The Board reconvened in regular session at 3:40p.m. Chairman Paul stated that no votes or actions were taken during Executive Session.

V. Old Business:
None.

VI. New Business:

On motion made by Mr. Saccente, 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 Connecticut Lottery Corporation Board of Directors hereby approves the amendments to the Connecticut Powerball Game Rules.

On motion made by Ms. Racz, seconded by Mr. Saccente, 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 Mega Millions Game Rules.

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

“Whereas, In accordance with Section 1 (d) of the Connecticut Lottery Corporation’s Rules of Operation and Conn. Agency Reg. 12-568 a - 20(e), the Cash 5 drawing was suspended on June 4, 2010 due to an equipment malfunction. Pursuant to Connecticut Lottery Corporation’s policy and with approval of the Division of Special Revenue, the drawing was later recommenced and, in addition, a second drawing was held, with prizes honored for both drawings.”

“Resolved, That in accordance with Section 1(d) of the Connecticut Lottery Corporation’s Rules of Operation, the Connecticut Lottery Corporation Board of Directors ratifies the action taken to suspend the June 4, 2010 drawing for the Cash 5 game due to equipment malfunction, as approved by the Division of Special Revenue.”

VII. Next Scheduled Board Meeting Date:

The next Board of Directors meeting will be held on September 15, 2010.

VIII. Adjournment:

On motion made by Mr. Bafundo, seconded by Ms. Stauffer, and unanimously approved, the meeting was adjourned at 3:45 p.m.

Respectfully submitted,

Barbara Porto
Corporation Secretary

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