

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting

held on
Thursday, February 28, 2013
at 1:00 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; Martin Stauffer; Robert Dakers; Steven Bafundo; Margaret Morton; Natasha Pierre; Patrick Birney; and Jim Farrell (who joined the meeting by telephone).

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

Call to Order: Chairman Farricker called the meeting to order at 1:00 p.m.

In his opening remarks, Mr. Farricker reminded all Board members that May 1, 2013 is the deadline to file their Statement of Financial Interests with the Office of State Ethics.

I. Approval of Minutes:

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

“Resolved: That the Board hereby approves the December 5, 2012 Special Board meeting minutes.”

II. Executive Report:

President’s Report:

Ms. Noble welcomed Board members to today’s meeting. She reviewed the meeting agenda and updated the Board on various topics through a Power Point presentation. Her report follows:

- Overall sales were strong over the past six months. Third quarter sales are doing well, but have been impacted by factors such as weather, economic news and gas prices. Year to date sales are up \$25 million over last year and General Fund transfers are about on par.
- Holiday sales were strong, but tempered by various external factors, including the economic climate and the Newtown tragedy.
- Powerball performed very well during the first half of the year, but this did correspond with some cannibalization of other Lottery games. Languishing Classic Lotto and Mega Millions jackpots continue, along with higher prize expense. Daily game sales were strong; scratch ticket sales met expectations, and the first ever 50/50 Super Draw game is performing better than expected.
- The Classic Lotto game was augmented twice in February: February 15th augmentation was \$668K and February 26th was \$596K.

- Budget and strategic planning efforts are underway. The Lottery will provide the Finance Committee with a draft budget by the end of March.
- Problem Gambling Awareness Week (PGAW) begins on March 3rd and runs through March 9th, 2013. Information about Lottery PGAW initiatives will be communicated to the press, retailers and to Lottery employees.
- A Request for Proposals was issued for the Lottery's advertising contract. Management will provide a progress report to the Board sometime during the 4th quarter.
- The Lottery recently appointed Mr. Joel Kalinowski as its Social Media Director to implement a new social media program.
- The Lottery extended its contract with its Online Gaming System vendor, Scientific Games, for an additional five years.
- There is some new technology in the Lottery industry we would like to see. Mobile apps, pay at the pump options, geo location and other tools are illustrative of new technologies.
- At the federal level, there is no new pending legislation. Discussion is taking place concerning compacting among states as a way to make intra-state casino and poker more lucrative. States to watch include Nevada, New Jersey and Delaware.
- A bill is currently pending in Massachusetts that would authorize internet lottery programs.

Sales Performance Report:

Using sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends as of January 31, 2013. Her report follows:

- All Games Sales reached \$639 million through January, or \$7.6 million compared to budget. As of February 27, sales reached \$717 million, which is an average of \$20.7 million in weekly sales compared to last year's weekly average of \$20.0 million.
- The Lottery is nearing its recruitment goal of 2,800 retailers.
- "Connecticut Only" games experienced some improvement since November.
- Sales in the "Multi-State Games" category were ahead of budget by 8.9%. Discussion took place concerning the difference in jackpots and cost of tickets in the Powerball vs. Mega Millions games and how they might impact revenue in Connecticut.
- Instant ticket sales are on budget. On January 28, the Lottery released its new "Pink," "Pearls," and "Platinum" tickets, which retailers have been requested to merchandise together (i.e., buy all 3 tickets for \$10). "Pink" is the second highest selling \$5 ticket. Ms. Patterson then showcased the TV commercial for the tickets and showed other new instant ticket games, including: "10 X Cash," "3 X Cash," and "\$10,000 Celebration."
- Play3 Day is ahead of budget by 3.9%. Play4 Day is 5.9% ahead of budget. On December 29th, the Play 3 Night number combination 0-0-0 was drawn. Play 4 Night sales were strong.
- Classic Lotto's jackpot was won twice in February. First, on February 15th, a \$3.8 million prize was won, and on February 26th, a \$1 million prize was won. On March 10th, a new marketing campaign for "Lotto" will begin. Even with a lack of significant jackpots, the game remains profitable and a staple of our portfolio.
- Cash5 sales were slightly under budget. The game was likely negatively impacted by the Powerball jackpot in November.
- Powerball with Power Play remains ahead of budget. The jackpot for Mega Millions with Megaplier has been won eleven times so far this fiscal year, which impacts sales of the game. A discussion took place concerning the Mega Millions consortium and research they have requested GTECH do to take a more in-depth look at the game.

- Sales in the Lucky for Life game are meeting projections. The Lottery will participate in a promotion with the other member states in March. When players spend \$8 on a single Lucky for Life ticket, they receive one free Lotto ticket.
- The Super Draw 5 game sold out, and the winning numbers were drawn on January 1, 2013.
- For super Draw 6, the goal is to reach \$500K in ticket sales. As of February 28th, sales reached \$378K and the game is performing better than expected.

This concluded the Executive Report.

III. Committee Reports:

Finance (Mr. Morgan):

Mr. Morgan reported that the Finance Committee met with management on February 20, 2013 to review the financial statements for the six months ended December 31, 2012. He then asked Mr. Granato to provide the Board with the financial report, as follows:

- Sales for the first six months were \$550.5 million, \$8.5 million ahead of budget, attributable to strong Powerball sales. Instant ticket sales also performed well.
- Sales were 1.6% ahead of budget. Prize expense was ahead of budget by 1.1%, which is a typical correlation between higher sales and prize expense.
- Retailer commissions were in proportion to revenue. Online system expense was flat to budget.
- Marketing and advertising expenses were \$800K below budget.
- Production expenses were ahead of budget by \$1.3 million. Production costs were \$800K over budget attributable to design upgrades which had not been projected, and the number of games produced was higher than budgeted.
- MUSL operating costs were up \$427K as a result of the Lottery's portion of the intellectual property settlement.
- All other operating expenses were \$10.1 million and under budget by \$535K. This is primarily due to vacant, unfilled positions in the organization.
- As of December 31st, General Fund transfers were \$156.8 million, \$4.4 million ahead of budget.

The Board discussed the significant impact that Powerball sales had on profits and discussed augmentation for Classic Lotto and draw game prize expense.

Audit (Mr. Stauffer):

Mr. Stauffer reported that the Audit Committee met on January 31, 2013 to discuss retention of Ernst & Young (E&Y) as the Lottery's independent auditor. Extensive negotiations took place. The Audit Committee recommends that the Lottery retain E&Y for an additional three years.

On motion made by Mr. Stauffer, seconded by Mr. Morgan, the following motion was made:

“Resolved: That after due consideration, and based upon the recommendation of the Audit Committee, the Board of Directors approves a three year extension of the contract with Ernst & Young, LLP and authorizes the President, on the Corporation's behalf, to execute a contract extension as described.”

The resolution passed.

Mr. Stauffer reported that he recently received the State Auditors' Report concerning the CT Lottery. There was one minor finding, but there were no significant findings nor weaknesses.

Legislative & Games (Mr. Mattison):

Mr. Mattison noted that the majority of his report had already been covered by Ms. Noble and Ms. Patterson. As such, he had nothing further to report.

Personnel (Mr. Mattison):

Mr. Mattison reported that the Personnel Committee met on January 31, 2013 and February 28, 2013. Three topics were discussed at length: The Ethical Conduct Policy, the draft Management Compensation Report, and Incentive Compensation. These will be discussed further during today's Executive Session.

IV. Executive Session:

At 1:55 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Farricker, seconded by Mr. Stauffer, and unanimously approved, the Board moved into Executive Session to discuss:

- Attorney/Client Communications Re:
 - Rights and Obligations Concerning CLC Independent Auditors
 - Review of Draft Ethical Conduct Policy
- Review of Draft Management Compensation Report

Ms. Noble, Ms. Patterson, Ms. Turner, Ms. Glovach and Mr. Granato were invited to join Executive Session regarding Rights and Obligations Concerning the Lottery's Independent Auditors.

Ms. Noble, Ms. Turner, Ms. Glovach and Ms. Rooney were invited to join Executive Session concerning Review of the Draft Ethical Conduct Policy.

Ms. Noble and Ms. Rooney were invited to join Executive Session concerning review of the Draft Management Compensation Report.

The Board reconvened in regular session at 2:50 p.m. Mr. Farricker reported that no votes nor actions were taken during Executive Session.

V. Old Business:

None.

VI. New Business:

On motion made by Mr. Farricker, seconded by Mr. Morgan, the following resolution was made:

“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 3, through March 9, 2013 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.”

The resolution passed unanimously.

On motion made by Mr. Bafundo, seconded by Mr. Stauffer, the following motion was made:

“Resolved, that after due consideration, based upon the recommendation of the Personnel Committee, and with the amendment of the definition of “Confidential Information” to exclude the words “generally known to or” in the first line, the Board of Directors approves the “Ethical Conduct Policy for the Board of Directors,” to become effective immediately.

The resolution passed unanimously.

No resolution was made concerning the draft Management Compensation Report.

VII. Next Scheduled Board Meeting Date:

The next Board meeting will be held on Thursday, April 18, 2013 at 1:00 p.m.

VIII. Adjournment:

On motion made by Mr. Farricker, seconded by Mr. Birney, and unanimously approved, the meeting was adjourned at 2:55 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.

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