

CONNECTICUT LOTTERY CORPORATION
Board of Directors
Minutes of Meeting

May 6, 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; Gale Mattison, Vice-Chairman of the Board; Robert Morgan; Marty Stauffer; Steve Bafundo; Wendy Kingsbury; Pat Racz; Kenneth Saccente and Patrick Birney. Carolyn Long and Margaret Morton attended by phone.

Absent: None.

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

Visitors: Kendra Eckhart, Cashman + Katz Integrated Communications; Joseph Tontini, Division of Special Revenue; Tom Muller, Scientific Games; and Darcy Dacosta, GTECH Corporation.

Call to Order: Chairman Paul called the meeting to order at 1:40 p.m. In his opening remarks, he congratulated Ms. Noble on being recognized as one of only eight women to receive the Hartford Business Journal's (HBJ), Remarkable Women in Business award at the HBJ's May 5th Awards Luncheon.

I. Approval of Minutes:
On motion made by Ms. Racz, seconded by Mr. Morgan, and unanimously approved, it was:

“Resolved, That the minutes of the March 29, 2010 Special Board Meeting are approved.”

II. President's Report:
Ms. Noble began her report with an update on the Lottery's financial picture, which is not that much different than what was reported at the March 29th Special Board Meeting. She stated that sales were ahead of last year, but slightly behind budget, as are transfers to the General Fund.

Ms. Noble updated the Board on the status of the following legislative bills:

- Senate Bill 5159, An Act Concerning An Assessment For Regulatory Oversight Of The Connecticut Lottery Corporation, passed in the final minutes of the session. Ms. Noble thanked Mr. McCormack for his diligence in monitoring this bill and keeping Lottery management informed of its progress.
- Senate Bill 196, An Act Concerning The Collection Of Delinquent Taxes And Lottery Winnings, was not enacted.
- Senate Bill 231, An Act Creating An Amnesty Program For Delinquent Lottery Sales Agents, was passed into law. This bill is of limited duration. Essentially, the proceeds from any monies collected by the Division of Special Revenue will transfer directly to the General Fund. The Lottery would have preferred to have these collections pass through the CLC for accounting purposes.
- Senate Bill 484, An Act Concerning Securitization, is no longer in play.

Ms. Noble discussed several current initiatives. The Mega Millions and Powerball cross-sell games are still being closely analyzed, but it is still very early to assess whether the cross-sell has had a positive or negative impact.

The Lottery recently awarded the ITVM contract to GTECH Corporation. There are some regulatory issues related to this implementation that will be discussed further in Executive Session.

The Lottery has issued a Request for Proposals for an Advertising firm and expects to award a contract by July 1st.

The Lottery is actively engaged in the re-design of our consumer website. Mr. Stauffer asked about the current number of visitors to the website and how introduction of the new smart phones might impact those numbers. Ms. Patterson stated that we have 20,000 regular users of the website. Ms. Noble stated that her staff was actively engaged in how to best use the website.

The Lottery continues to work closely with the Division of Special Revenue to streamline the Lottery's retailer licensing process.

Following completion of the Network Security Assessment conducted earlier this year by L3, the Lottery is in the remediation phase of implementing L-3's recommendations.

The Lottery's Information Technology and Operations Departments continue to work to improve the Lottery's current email system.

Lottery management is heavily involved in completing this year's budget and strategic planning process. Managers are developing individual goals, and the strategic marketing plan will be refreshed to include new initiatives in keeping with the direction of the corporation.

Ernst & Young has begun working on the Lottery's financial and compliance audit. It is anticipated that the process will be finalized by August or September of this year.

Each year, the Lottery sponsors an educational seminar for the management team as part of its ongoing commitment to responsible gambling and professional development. Dr. Jeffrey Derevensky, Professor of Child Psychology and Director of the International Center for Youth Gambling and High Risk Behaviors at McGill University in Montreal, was invited to the Lottery on April 30th to present on the topic of gambling and youth. Specifically, Dr. Derevensky's presentation included an analysis of the Lottery's advertising practices as they pertained to responsible gambling and mitigation of risk for youth. Ms. Noble thanked Ms. Porto for coordinating this seminar, which was well attended and well received by Lottery managers.

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 down by \$16.7 million as compared to last year and down by \$13.1 million as compared to budget. Play3 Day sales continue to do well. Play3 Night is down slightly. Play4 Day sales are also doing well. Although Play4 Night sales have dipped slightly, we are starting to see an improvement. Classic Lotto sales are still down, although ahead of budget. Cash5 sales continue to decline, possibly due to cannibalization by the cross-sell games. Lucky-4-Life sales dipped, also possibly due to cannibalization by the cross-sell games. The Mega Millions game has sold \$7.4 million thus far this year. Billboard advertising for the Mega Millions game will be introduced next week. Powerball sales saw a decline of \$4.2 million in

sales compared to last year and were down by \$15.5 million compared to budget. Overall Lottery sales totaled \$826.1 million, up \$4.5 million compared to last year.

Mr. Sternburg gave a brief overview on the impact of jackpots on Powerball sales this year compared to last year.

Sales of the Lottery's newest game, Black Pearl, have done well. This game was introduced at the end of April.

This concluded the President's Report.

III. Committee Reports:

Finance:

Mr. Morgan reported that the Finance Committee had met on April 29, 2010 to review the upcoming budget. The budget had been discussed in light of two legislative initiatives that ultimately did not happen. The first was the request for \$150 million in givebacks from the Unions and the second was the securitization and Keno plans. The budget will be presented at the June Board meeting. The financial statements for the nine month period ended March 31st were also reviewed at the Committee meeting. Mr. Morgan then asked Mr. Ramadei to provide highlights of the Lottery's actual versus budget financial results. Mr. Ramadei's summary follows:

Net sales for the period were down -\$23.3 million, or -3.1%. Scratch ticket sales were down -\$11.9 million, or 2.6%. Powerball/Mega Millions sales were down -\$9.9 million, or -12.6%. Lucky-4-Life sales were down -\$2.9 million, or -10.8%. Sales in all other categories were up \$1.4 million, or 0.7%. Overall prize expense was down -\$18.7 million, or -4.0%. Of this, scratch tickets expense was down -\$8.5 million, or -2.8%, Powerball/Mega Millions was down -\$4.2 million, or -11.4% and Lucky-4-Life was down -\$3.7 million, or -22.6%. Retailer commissions were also down -\$1.7 million, or -4.0%. Included in this category are sales commissions, which were down -\$1.1 million, or -3.1%, and incentive commissions were down -\$0.4 million, or -36.6%. On-line system expense was down -\$0.7 million, or -9.0% attributable to liquidated damages recovered from Scientific Games. Marketing expense was up \$0.1 million, or 2.1%. Production expense was down -\$1.2 million, or -24.9%, due mostly to scratch tickets in this class, which was down -\$1.0 million, or -24.0%. Total cost of sales was down -\$22.2 million, or 4.2%. Salaries and fringe benefits were down -\$0.5 million, or -4.2%, attributable to the number of unfilled positions at the Lottery. Other operating expense was relatively flat. Transfers to the General Fund were down by \$5.6 million—or 2.6%.

Audit:

Mr. Stauffer reported that the Audit Committee met on April 29, 2010. The Network Security Assessment conducted by L-3 earlier this year was discussed. He said that Lottery management is making progress in addressing the recommendations and findings that were included in the report. The Lottery will follow up with L-3 to ensure that all recommendations have been addressed. Any specific questions concerning the report will be discussed later in today's Executive Session. The Auditors' of Public Accounts have finished their field work for the annual audit of fiscal year 2009. Mr. Stauffer noted that last year the Lottery had received a "No comments" report concerning the annual audit of fiscal year 2008. No updates have been received yet concerning this year's audit. He pointed out that the Lottery has never had a significant finding in any audit report. Ms. Noble stated that it would be unusual for another "Perfect" report to be issued and some comments might be expected from the audit process.

The Lottery's new audit firm, Ernst & Young, LLP, have begun the planning process for this year's (FY 2010) financial audit of the CLC.

Compensation:

Ms. Racz reported that the Compensation Committee had met today on several issues. Human Resources policies were reviewed and found to be prudent and solid practices for the Corporation. The Committee recommended no changes to these policies.

Games & Marketing:

Mr. Mattison reported that the Games & Marketing Committee had met on April 28, 2010. The Committee reviewed sales performance figures, which have since been updated and were presented by Mr. Sternburg in his Marketing report. Any further questions will be discussed later in today's Executive Session.

IV. Executive Session:

At 2:20 p.m., Chairman Paul called for a motion to enter into Executive Session to discuss new games initiatives and to review drafts related to proposed regulations. He invited Ms. Noble, Ms. Porto, Ms. Patterson, Mr. Sternburg and Mr. McCormack to remain for Executive Session.

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

The Board reconvened in regular session at 3:15 p.m. Chairman Paul stated that no votes or actions were taken during Executive Session.

V. Old Business:

None.

VI. New Business:

None.

VII. Next Scheduled Board Meeting Date:

The next Board of Directors meeting will be held on June 24, 2010.

VIII. Adjournment:

On motion made by Mr. Stauffer, seconded by Ms. Racz, and unanimously approved, the meeting was adjourned at 3:20 p.m.

Respectfully submitted,

Barbara Porto
Corporation Secretary

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