

**Special Meeting of the
Audit Committee**

Minutes

Held on
Friday, April 27, 2012 at 1:30 p.m.

at
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut

Board Members: Martin Stauffer, Chairman of the Audit Committee; Frank Farricker, Chairman of the Board; Gale Mattison, Vice Chairman of the Board; Patrick Birney; Robert Dakers; Steven Bafundo; and Michael Thompson.

CLC Staff Members: Anne M. Noble, President & CEO; Chelsea Turner; Lana Glovach; Diane Patterson; Michael Hunter; and Helen Duffy.

Call to Order: Mr. Stauffer called the meeting to order at 1:35 p.m.

I. Approval of Minutes:

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

“Resolved, That the minutes of the April 10, 2012 Audit Committee meeting are approved.”

II. Review of Online Gaming System:

Ms. Noble reported that the online gaming contract with Scientific Games (“SG”) is due to expire in May 2013; the contract is valued at approximately \$9–10 million each year. The present issue is whether to exercise contract extensions and to determine the terms. The Lottery has been discussing the online contract with SG since approximately 2009 and reinitiated negotiations with SG in November 2011. Several different options are available to the Lottery should it choose to extend the contract. Ms. Noble referred the Committee to the document entitled “Summary of Position since January 2012,” which was distributed at today’s meeting. Ms. Noble proceeded with an overview of the Summary, which outlined six outstanding items.

The first item was Keno, which was not priced in the original contract. SG has continued to modify its position concerning the pricing of Keno. During original negotiations, SG priced Keno at 1.57%, with a \$5.4 million capital investment. In its letter of January 2012, SG raised the price of Keno to 2.17% with a \$5.4 million capital investment (or a flat 4.47% of Keno sales). Most recently, SG increased its cost to 2.38%, with a \$5.4 million capital investment to be paid at \$90K monthly intervals. Keno pricing is related to the specific number of terminals or equipment rollouts. In its January 2012 communication, SG referenced 600 units and negotiations have historically centered around this figure. The Lottery’s position is that the market has moved favorably for SG since Keno negotiations began.

Mr. Birney asked if Ms. Noble could provide a quick primer on per capita and confirm that the per capita is sourced from SG. Ms. Noble replied that the per capita is how the Lottery measures sales and when

OPM asked for projections, SG provided data to the Lottery. The Lottery analyzed this data internally and a reasonable per capita was derived for information provided to OPM.

Mr. Stauffer asked why the number of retailers is important. Ms. Noble replied by way of background that given the fact that we have 2,700 retailers, 600 is a large number. This number is based on the potential for new pouring establishments. The success of Keno rises and falls, in part, based on how quickly we can get retailers licensed. Six hundred is a fair number.

Mr. Birney commented that 150 of the 600 retailers would be existing retailers that would just need to be more fully outfitted.

Mr. Stauffer asked whether the Lottery had looked at Connecticut market data from SG and stated that he was not sure how independent their analysis was concerning Keno retailers and market data.

Ms. Noble said SG provided the Lottery data and that the Lottery has looked at other states to benchmark per capita for Keno. The Lottery looked at comparable states and tried to control for variables unique to a jurisdiction. This is an art, not a science. Keno is played in all the surrounding jurisdictions and at the casinos. This forecast could change if there are additional restrictions added to any Keno rollout.

Subscription sales and player registration are priced in the existing contract. In January, SG provided a different price and then later returned to the existing contract price with a few caveats. Properties Plus is a rewards program that provides a mechanism for putting points on tickets.

Regarding the Play Central Terminals, the Lottery has indicated to SG that it would like to pilot test their machines. SG wants the Lottery to pay half the cost and would credit this back to the Lottery if the Lottery uses SG's machines.

Concerning LIMs ("Lottery in Motion"), the Lottery pays a substantial premium. The Lottery requested some concessions; SG disagrees that concessions are warranted.

Regarding Supplier Diversity, SG said they would commit to an 8% spend. SG's current spend is greater.

Regarding service levels, SG provided 6-7 pages of service level terms. The Lottery's position is that liquidated damages cannot be tied to changes in sales or General Fund transfers. The Lottery invited SG to make some proposals, and they did so. In discussions with SG, the Lottery tried to identify areas where it could be more business friendly. SG did not fully respond to certain cost saving measures proposed by the Lottery.

There were some discussions about the WAVE and Flare terminals and possible cost savings.

Mr. Stauffer asked about SG's comment that they do not want to be penalized for outages. Ms. Noble said that she believes SG considers this a "force majeure," or beyond their control.

Mr. Birney inquired about SG's position that the terms of liquidated damages are harsh.

Mr. Hunter stated that the Lottery does have some areas in its contract with stringent requirements, such as the ninety-minute response time to get to a damaged terminal.

Ms. Noble noted that the dispatch could also occur in Alpharetta versus Connecticut.

Mr. Hunter added that we use paper printed with color and that we are more heavily regulated than other lotteries.

Ms. Stauffer commented that he recalled information in the RFP regarding communications, the use of satellites and what would happen in the event of weather issues. His recollection was that SG would be responsible and that Sprint runs cellular if they do not have satellite.

Ms. Noble stated that part of the difficulty is that if Sprint has a problem, SG cannot necessarily control it.

Mr. Stauffer asked how many retailers were on cellular. Mr. Hunter stated there were approximately 790. The Lottery cannot get satellite to every retailer and CDMA is very reliable.

Mr. Stauffer asked about the November storm and whether any penalties had been assessed to SG. Mr. Hunter responded that he believed that the Lottery did not assess any penalties related to communications.

Ms. Noble commented that the Lottery tries to be as fair and reasonable as possible and that, generally, the Lottery is pleased with the communications system.

The record should reflect that Ms. Duffy left the meeting at 1:45 p.m.. Ms. Turner took the minutes during Ms. Duffy's absence. Ms. Duffy returned to the meeting at approximately 1:57 p.m.

III. Executive Session:

At 2:05 p.m., Mr. Stauffer proposed a motion to enter into Executive Session to discuss the following items:

- (i) Attorney/Client Communications Re:
 - Pending Claims and Litigation;
 - Partial Ticket Packs Audit;
 - Purchasing Policy;
- (ii) Review Preliminary/Draft Contract Proposal Alternatives Re: Online Gaming System; and
- (iii) Information Technology Security Measures.

On motion made by Mr. Thompson, seconded by Mr. Mattison, and unanimously approved, the Audit Committee entered into Executive Session. Ms. Noble, Ms. Turner, Ms. Patterson, Ms. Glovach, and Mr. Hunter were invited to attend all portions of the Executive Session.

Mr. Farricker stepped outside Executive Session briefly at approximately 2:23 p.m. and 2:55 p.m., and left at 3:40 p.m.

Mr. Thompson left Executive Session at 3:35 p.m..

At 4:10 p.m., the Audit Committee reconvened in regular session. Mr. Stauffer stated that no actions nor votes were taken during the Executive Session.

IV. Old Business:

Mr. Stauffer stated that the Audit Committee had discussed the Purchasing Policy and proposed update. He noted that any changes to the Purchasing Policy would continue to require Board approval for any online contracts, outside auditors or real estate contracts. He noted that this requirement is already included in the existing Purchasing Policy as well.

Mr. Mattison noted that discussions had taken place concerning negotiations to amend the SG contract. He stated that the materials presented at today's meeting were not viable in order for the Board to act

positively. He noted that the contract needed further consideration. There will be a communication to the vendor concerning this.

V. New Business:

Mr. Birney stated he would circulate an email to Audit Committee members to arrange an Audit Committee meeting to review the Lottery's enabling statutes and its by-laws.

VI. Adjournment:

On motion made by Mr. Birney, seconded by Mr. Mattison, and unanimously approved, the meeting was adjourned at 4:15 p.m.

Respectfully submitted,

By: Anne M. Noble
President & CEO
Connecticut Lottery Corporation