

# CONNECTICUT LOTTERY CORPORATION

## Minutes of the Special Board Meeting

held on  
Wednesday, December 5, 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; Patrick Birney; James Farrell and Michael Thompson (both of whom joined the meeting by telephone).

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

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

### I. Approval of Minutes:

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

“Resolved: That the Board hereby approves the September 20, 2012 Board meeting minutes.”

### II. Executive Report:

#### President’s Report:

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

- YTD sales are up \$32 million over last year and close to \$10 million ahead of budget.
- General Fund transfers are approximately \$8 million ahead of last year and are ahead of budget.
- The Lottery’s holiday campaign is underway. As is customary, a responsible gaming component is incorporated. This includes reaching out to educators and parents about the fact that lottery tickets are not suitable gifts for children. Recently, the Lottery received an award for its 2012 holiday campaign.
- A Special Session will likely occur sometime between December 17<sup>th</sup> and 20<sup>th</sup> to address the state’s budget shortfall.
- At the federal level, Senators Reid and Kyl have circulated a draft i-poker proposal. At Chairman Farricker’s request, Ms. Noble then provided a brief overview of the proposal and shared some of the lottery industry’s concerns.
- Legislative proposals are under consideration, and the Lottery’s Legislative & Public Affairs Committee will meet early in 2013.
- Progress has been made with the proposed DCP regulations. However, some important aspects of the regulations remain unresolved, including in the areas of partial ticket packs,

augmentation and licensing. Lottery management will keep the Audit Committee apprised of developments.

- The Lottery recently hired Mr. Andrew Walter as its new Counsel. Mr. Walter worked at the Judicial Branch and has experience in the lottery industry. The Lottery continues to recruit for other key positions.
- Management continues to work on a compensation study, utilizing KardasLarson as a consultant, who timely turned in their initial project work in draft form for review and study by the Personnel Committee. The Committee is assessing the data and findings. Management expects the project work to be finalized in the spring.
- Management has negotiated a term sheet and presented it to the Audit Committee for approval by this Board. As reported to the Audit Committee, the President stated that a contract executed, consistent with these terms, is in the Lottery's best interest. The terms preserve competitive pricing and continue the use of a reliable gaming system, which is now tailored to meet this organization's business needs. Further discussion would take place in Executive Session.

#### Sales Performance Report:

Ms. Patterson discussed the latest drive to recruit new Lottery retailers, which has resulted in eighty new retailers to the retailer network since July.

The holiday marketing campaign was presented. It will be supported by POS, radio, digital billboard, and various other media. Strong emphasis was placed on the CLC's responsible gaming message that lottery is not a suitable gift for youth; the message was incorporated into this year's holiday campaign, as well as in a separate marketing campaign dedicated to responsible gaming awareness.

Ms. Patterson presented a sample of new instant tickets.

Using sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends for the period ended November 30, 2012. Her report follows:

- All Games Sales reached \$100 million in November, the second largest sales month in recent years. Discussion took place concerning the revenue difference between October and November (attributable, in part, to the large Powerball jackpot).
- Connecticut Only Games were down slightly. However, numbers games were \$2.3 million ahead of budget.
- Sales were robust in the multi-state games category. Powerball sales were \$17.7 million ahead of budget due to the large jackpot. Mega Millions sales were \$4.5 million below budget; the game's jackpot has been won seven times during this fiscal year, resulting in lower jackpots and sales. However; when combined, multi-state games sales were \$13.5 million, or 22.8% ahead of budget.
- Instant ticket sales were \$8.2 million, or 3.2% ahead of budget.
- Combined sales of Play3 and Play4 showed some improvement and are \$2.3 million, or 2.5% ahead of budget.
- Classic Lotto sales are \$3.1 million, or 24.6% under budget. Low jackpots in the game and cannibalization by the Powerball jackpot have impacted sales.
- Cash5 was down \$400,000 compared to budget. The game was negatively impacted by the Powerball jackpot in November.

- The Super Draw 5 drawing will be held on January 1, 2013. The Lottery will continue to promote the game, which was also impacted by the Powerball jackpot.
- Sales in the Lucky for Life game are meeting projections. The Lottery is working with the other member states to look for new and innovative promotional opportunities to enhance sales of the game. Again, the game was slightly impacted by Powerball, but remains \$300,000, or 2.2% ahead of budget.
- Through November 30, 2012, transfers to the General Fund were \$131 million, up \$8.3 million, or 6.8% over budget.

Discussion took place concerning promotional and target sales for the Super Draw game, the benefit to Connecticut as a member of the Lucky for Life game, and sales of the \$2 versus \$1 Powerball ticket.

This concluded the Executive Report.

### III. Committee Reports:

#### Audit:

In Mr. Stauffer's absence, Mr. Mattison gave the Audit Committee report. He stated the Committee had met to review and discuss the online gaming system contract. Mr. Mattison noted that further discussion of the contract would be held during today's Executive Session.

#### Finance:

Mr. Morgan reported that the Finance Committee met to review financial statements for the quarter ended September 30, 2012. He then asked Mr. Granato to give the financial report, which follows:

- Fiscal year 2013 sales are on target to reach over \$1 billion for the third consecutive year.
- Sales are up \$12 million, or 4.8% compared to the same time the prior year.
- Prize expense was the driver for performance and has experienced variations.
- In FY 12, prize expense was 61.0%, which is slightly lower than normal. In FY 13, prize expense was somewhat higher, at 61.9%. On a portfolio of sales in excess of one quarter billion dollars, a .9% variance results in a \$2.3 million dollar impact.
- Retailer commissions, online system fees and production expenses are all proportionate to revenue.
- All other operating expenses are under budget, in part because of vacant positions throughout the organization.
- As of December 5<sup>th</sup>, General Fund transfers were \$131.1 million, compared to a \$122.8 million budget. The transfer will result in the Lottery being \$8.3 million ahead of budget, and \$10.9 million ahead of last year during the same period.

#### Personnel:

Mr. Mattison reported that the Personnel Committee had met to review the Lottery's Affirmative Action Plan for FY 12. He stated that the Plan was satisfactory and the remaining items for discussion would be covered in today's Executive Session.

Legislative:

Because the Legislative & Public Affairs Committee meeting had been postponed, there was no Legislative report.

Games & Marketing:

In Mr. Kaliko's absence, Mr. Mattison gave the Games & Marketing report. He stated that new game and marketing initiatives would be discussed in today's Executive Session.

IV. Executive Session:

At 2:05 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Birney, seconded by Mr. Morgan, and unanimously approved, the Board moved into Executive Session to discuss:

- New game and marketing initiatives
- Draft Classic Lotto Rules
- Attorney/Client Communications Re:
  - Walker Digital, LLC et al v. MUSL
  - Online gaming system contract
  - Draft Engagement: Financial Auditors
- Review of Draft Compensation Plans

Ms. Noble, Ms. Patterson, Ms. Glovach, Ms. Turner, Mr. Hunter and Mr. Granato were invited to join Executive Session concerning the first three portions of the Session.

Only Ms. Noble was invited to join Executive Session to discuss the draft compensation plans.

Mr. Birney left Executive Session at 2:15 for the portion regarding the online gaming system contract. He returned to Executive Session at 2:20 p.m.

The Board reconvened in regular session at 2:45 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. Morgan, seconded by Mr. Farricker, the following resolution was made:

WHEREAS, Ken Saccente was selected and appointed by three concurrent Majority Leaders of the Connecticut House of Representatives to serve as a Board Member of the Connecticut Lottery Corporation; and,

WHEREAS, Ken Saccente voluntarily served as a Board Member of the Connecticut Lottery Corporation for nine years and was a member of the Legislative and Personnel Committees; and,

WHEREAS, Ken Saccente's insight and expertise of the legislative process helped to positively shape Connecticut Lottery Corporation policies and procedures; and,

WHEREAS, Ken Saccente's judgment and discernment helped to guide and challenge the management team to continually strive for their best; and,

WHEREAS, Ken Saccente's knowledge and understanding of the lottery industry were instrumental in helping the Connecticut Lottery Corporation achieve three recent years of record returns; therefore let it be

RESOLVED, that the Connecticut Lottery Corporation's Board of Directors, President and Chief Executive Officer and staff recognize the years of service and countless contributions of Ken Saccente; and let it further be

RESOLVED, that the Connecticut Lottery Corporation's Board of Directors, President and Chief Executive Officer and staff wish Ken Saccente success and happiness in the future.

This resolution passed unanimously.

Ms. Noble thanked Mr. Saccente for his dedication, guidance and willingness to serve on the Connecticut Lottery's Board of Directors.

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

"Resolved, that after due consideration -- including review of a term sheet containing proposed amendments to the CLC's existing on-line contract with Scientific Games, including extension of the contract period beyond the time stated in that contract -- and based upon the recommendation of the Audit Committee, the Board of Directors hereby determines that the presented terms are valuable to the Corporation and, further, that the proposed contract amendment, including the extension of the term, without open or competitive bidding, is in the Corporation's best interests and consistent with the Corporation's statutory authority and Purchasing Policy.

Therefore, the Board of Directors: (a) approves such contract amendment and extension as described in that term sheet; and (b) authorizes the President, on the Corporation's behalf, to complete the negotiations and execute a contract amendment consistent with the term sheet."

This resolution passed. Mr. Birney abstained from the vote.

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

"Resolved, that after due consideration, and based upon the recommendation of the Games and Marketing Committee, the Board of Directors approves the "Lotto" Official Game Rules, to be effective upon the Department of Consumer Protection's approval and the required newspaper publication of a notice of rules adoption."

This resolution passed unanimously.

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

"Resolved, that after due consideration and based upon the recommendation of the Personnel Committee, the Board of Directors: (a) approves a Management Incentive Compensation program for FY 2013 comparable to the FY 2012 program but without the cap; (b) adopts for FY 2013 the essential terms of the FY 2012 Management Compensation program; and (c) authorizes the President & CEO to address any salary

compression within the available budget and, prior to taking any action, to report to the Personnel Committee in January on steps to remedy this issue.”

This resolution passed unanimously.

VII. Election of Vice-Chairperson of the Board:

On motion made by Mr. Birney, seconded by Ms. Morton, the following resolution was made:

“Resolved, that the Board nominates Mr. Mattison as Vice-Chairman of the Connecticut Lottery Corporation’s Board of Directors for one additional year.”

This resolution passed unanimously.

VIII. Next Scheduled Board Meeting Date:

Mr. Farricker referred the Board to the roster of 2013 Board meeting dates. He asked that the March 21, 2013 meeting be moved out to April 18, 2013. Additionally, Ms. Pierre requested that Board meetings begin at 1:00 p.m. versus 1:30 p.m. All Board members present were in agreement with the dates and the time of meetings.

IX. Review of Committees for 2013:

In light of Mr. Saccente’s resignation from the Board, Mr. Farricker stated that he planned to reorganize the various Committees of the Board. He asked that Committee members notify him if they wished to serve on other Committees. Membership of the various Board Committees will be published and distributed in the near future.

X. Adjournment:

On motion made by Mr. Mattison, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 2:57 p.m.

Respectfully submitted,

Chelsea Turner  
Corporation Secretary/Connecticut Lottery Corp.

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