

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, November 13, 2014
At 12:00 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; Robert Dakers; Steve Bafundo; Meghan Culmo; Margaret Morton; Patrick Birney; Natasha Pierre; and Kia Murrell (via teleconference).
- Board Members Not Present: Board Members not in attendance provided the Connecticut Lottery Corporation with advanced notice of scheduling conflicts.
- Staff Members Present: Anne M. Noble, President & CEO; Diane Patterson; Chelsea Turner; Lana Glovach; Paul Granato; Cynthia Hadden; and Jessica Hayton.
- Call to Order: Chairman Farricker called the meeting to order at 12:04 p.m.

I. Mr. Farricker welcomed the Board members to today's meeting and made a brief announcement regarding the retirement of Mr. Gale Mattison, Vice Chairman of the Board of Directors, and thanked him for his service.

II. 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 18, 2014 Board meeting minutes.”

III. Executive Report:

President's Report:

Ms. Noble welcomed and thanked the Board members for attending today's meeting. She especially thanked Mr. Mattison for his many years of service to the CLC Board of Directors, and for contributions to the state and to our country. He is a decorated veteran. Ms. Noble

reminded the Board about the celebration in Mr. Mattison's honor in the atrium immediately following the meeting.

Ms. Noble reviewed her meeting agenda and updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- Sales and General Fund Transfers Year-To-Date:
 - September saw a softening in Instant Game sales due to several factors but more recently there has been a resurgence in sales with the release of the Diamond Series.
 - To date, sales are approximately 2.6% ahead of budget and slightly behind last year. General Fund transfers are approximately 6% ahead of budget and 2.8% ahead of last year.

- NASPL Update:
 - Members of the CLC Management team attended the NASPL Conference in New Jersey in September. Ms. Noble participated in MUSL meetings affecting game development, which will be discussed in Executive Session.
 - At NASPL, the CLC received awards in the following two categories: Best Electronic Communications: Responsible Gambling Retailer/Employee Survey and, Radio Advertising: Mother's Day & Father's Day Coordinated Campaign. The CLC was also runner up for the best new (terminal based) on-line game, 5 Card Cash.

- Strategic Initiatives:
 - Game Development which will be discussed in Executive Session.
 - Ms. Noble discussed system conversion projects. The CLC's intent is to convert to a new financial reporting software system. The CLC's Finance Department is in the process of completing its due diligence and will continue to report its findings to the Finance Committee. The online gaming system contract expires in 2018. The CLC will more formally begin discussing the bid process at the start of the new year.
 - The CLC's review and refresh of its disaster recovery procedures is ongoing.
 - The CLC continues to review compliance initiatives including GASB 68, Workplace Violence, and Procurement.

- Responsible Gambling Update:
 - The CLC's biannual Responsible Gambling Training for employees was held on October 31, 2014. Guest Speaker Betty White shared her personal experience. Additional panelists from the Department of Mental Health and Addiction Services (DMHAS) and the CT Coalition Against Domestic Violence (CCADV) spoke about Problem Gambling and Domestic Violence.
 - This year, the CLC has partnered with the Connecticut Children's Medical Center (CCMC) for the annual National Council on Problem Gambling's Holiday Campaign. The theme is "Do a 'Lotto' Good, Give a Toy, not a ticket!" We will be encouraging people to purchase a new unwrapped toy for a child receiving care at CCMC.
 - Some CLC employees recently attended the CCPG's 11th Annual Problem Gambling Conference in Mystic, CT.

Sales & Marketing Performance Report:

Ms. Diane Patterson began her report by thanking Mr. Mattison. Next she updated the Board on Sales & Marketing Performance with a PowerPoint presentation. Her report follows:

- Regarding all games, the CLC has experienced the highest level of October sales in recent years, at \$95.6 million. This is attributed to higher jackpots and positive growth in the instant games portfolio.
- Sales for all CT games are steady and the CLC is currently ahead by \$1.2 million actual to budget.
- Multi-State games, Powerball & Mega Millions are not performing optimally. Mega Millions and Powerball each had growing jackpots which were hit relatively early.
- Instant games sales were strong in October. The release of the "Diamonds" series was a contributing factor to October's instant sales.
- Play3 and Play4 Day and Night games are experiencing low payouts. This is making the games profitable but is having an impact on sales.
- 5 Card Cash was at \$4.2 million for October 2014. Since the start of the fiscal year, the game has achieved \$20.8 million in sales.
- Lotto sales were up in October. Sales are currently rebuilding from a jackpot hit.
- Cash5 sales are at \$2.7 million for October. Ms. Patterson noted it is a stable game in the portfolio.
- CT Super Draw ends December 31, 2014 and will be drawn on January 1, 2015. A current promotion provides customers with a free Lucky for Life ticket with purchase. CT Super Draw game will be followed by a Super Draw 50/50 game in January.
- Powerball & Mega Millions jackpots in October led to \$9.5 million in sales. This was a slight increase over September sales.
- Lucky for Life sales are consistent. In CT, there are 14 second prize winners to date.

Ms. Patterson shared the on-going radio and digital promotions the CLC is utilizing. She noted that the recent Lucky for Life Facebook promotion received over 100,000 entries, 20% of which were unique. Ms. Patterson spoke about the Holiday Campaign which will begin next week and finished her report with the Holiday TV spot.

This concluded the Executive Report.

IV. Committee Reports:

Legislative and Games:

Ms. Morton reported that the Legislative and Games Committee met on November 6, 2014. The Committee reviewed sales and game performance. New Game Initiatives were also discussed which will be covered during the Board's Executive Session.

Audit and Finance:

Mr. Morgan reported that the Audit and Finance Committee met jointly on November 6, 2014. He noted that there were two issues that overlapped both Committees. Mr. Birney concurred. A discussion followed regarding the CLC obtaining an unsecured line of credit. Mr. Birney noted

Audit has directed management to move forward and report back to Finance. The second issue was a discussion about system conversion which Ms. Noble discussed in her report. Mr. Birney noted the Committee and Board will be provided regular updates on this matter. Mr. Morgan noted that management also reported to Finance on some counterfeit tickets. There was no liability or loss to the Lottery.

Next, Mr. Birney noted that the State of Connecticut Auditor's Report for the Fiscal Years June 30, 2013 and June 30, 2012 distributed at today's meeting included two minor findings that were promptly addressed by the CLC.

Mr. Morgan asked Mr. Granato to review the financials with the Board. Mr. Granato noted that the CLC experienced a strong first quarter. Although sales for the quarter are \$271.8 million, down \$8.7 million or 3.1% from last year, Mr. Granato pointed out that sales are higher than the previous two years and sales overall are showing improvement. For the 1st quarter, Mr. Granato reported as follows:

- Instant ticket sales totaled \$160.7 million. Compared to last year, instant ticket sales were down \$1.1 million or 0.7%. Instants are 60% of our sales.
- Powerball sales were down \$14.7 million compared to prior year. The jackpot games did not have any significant runs in the first quarter to boost sales.
- 5 Card Cash sales totaled \$15.3 million.
- The Daily 3/4 games sales totaled \$55.5 million. Compared to last year, the Daily 3/4 games were down \$5.5 million or 8.9%. The months of July, August and September saw low prize payouts.
- Lower prize expense for Lucky for Life also affected sales revenue. Lucky for Life sales totaled \$5.3 million and prize expense totaled \$2.4 million. Compared to last year, sales were down \$1.7 million and prize expense was down \$2.3 million.
- Overall prize expense was down \$8.8 million or 5.1% compared to last year. Every game, except MegaMillions, experienced a lower prize payout compared to the same period a year earlier. The decline in prize expense helped offset the decline in sales.
- Retailer commissions were proportionate to sales revenue.
- Marketing & advertising expenses were on par with last year.
- Production expenses totaled \$2.9 million, up \$200,000 or 7.5% compared to the prior year. The increase was partly due to the number of instant games released. This year, 17 new instant games were released compared with 15 from the previous year.
- Overall costs of sales totaled \$188.7 million, down \$9.3 million or 4.7% compared to last year.
- Total operating expenses for the quarter were \$5.3 million, up \$124.6 thousand from last year. Salaries and benefits increased year over year. Other operating expenses saw a decrease of \$53.6 thousand due, in part, to the lower cost of leasing state vehicles. In addition, the Lottery recently recovered \$26,000 in bad debt from a 1998 matter.

Mr. Birney then commended the management team for the job they are doing, noting success notwithstanding the decline in multi-state games.

V. Executive Session:

At 12:35 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Mattison, seconded by Ms. Morton, and unanimously approved, the Board moved into Executive Session to discuss:

- New Game Initiatives
- Attorney/Client Communications Re:
 - Pending Claims and Litigations

Ms. Noble, Ms. Patterson, Ms. Turner, Ms. Glovach, and Mr. Granato were invited to stay for the Executive Session. The Board reconvened in regular session at 1:03 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

VI. New Business:

- Election of Vice-Chairperson of the Board

Mr. Farricker commented favorably on Mr. Birney's service to the CLC.

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

“Resolved, that the Board elects Patrick Birney as Vice-Chairperson of the Connecticut Lottery Corporation's Board of Directors for a period of one year.

This resolution passed unanimously.

VII. Adjournment:

Chairman Farricker called for a motion to adjourn today's meeting.

On motion made by Mr. Birney, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 1:06 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.