

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, November 19, 2015
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; Patrick Birney, Vice Chairman of the Board; Steve Bafundo; Meghan Culmo (via teleconference); Robert Dakers; Jim Farrell; Kia Floyd (via teleconference); Jennifer Hamilton; Robert Morgan; Margaret Morton (via teleconference); Natasha Pierre (via teleconference); Michael Thompson (via teleconference); and Diane Winston

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

Call to Order: Chairman Farricker called the meeting to order at 12:02 p.m.

I. Mr. Farricker welcomed the Board members to the meeting.

II. Approval of Minutes:

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

“Resolved, that the Board hereby approves the October 22, 2015 Special Telephonic Board meeting minutes.”

III. Executive Report:

President’s Report:

Ms. Noble welcomed and thanked the Board members for attending today’s meeting. Ms. Noble reviewed her meeting agenda and updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- Sales Performance:
 - The Lottery sales are strong in both the Daily and Instant games. Sales are approximately \$25 million ahead of last year at this time and 4% ahead of budget.
 - General Fund Transfers are on budget. The CLC is approximately \$6 million behind last year at this time due to large payouts in the daily games in September, 2015. It is anticipated that the gap will close by the calendar year-end.

- Game Update – Keno:
 - A Memorandum of Agreement between the State and the tribes was executed on October 6, 2015. Since that time, the CLC has been working expeditiously on getting ready for Keno, which is estimated to launch on or about the beginning of April in 2016. The game rules will be considered in Executive Session.
 - The recruitment of retailers is progressing well
 - Mason, Inc. has been hired to assist with the marketing and advertising for Keno.
 - The hiring of staff to support Keno is in process.

- Game Update – 5 Card Cash:
 - On Thursday, November 12, 2015, 5 Card Cash sales were suspended.
 - The basis for suspension was alleged fraud at select retailers. The allegation was that the terminal was manipulated in such a way as to preview bets and print a disproportionate amount of instant winning tickets.
 - There have been three suspensions and one compliance hearing. The Department of Consumer Protection (DCP) continues to investigate other retailers.
 - On November 18, 2015 the CT Lottery Corporation (CLC) reinstated the cashing of tickets. However, sales have not resumed.
 - The CLC is assisting DCP with the retailer investigation and is examining restitution options. New and related game initiatives as well as restitution will be discussed in Executive Session.

- Game Update – Lucky Links:
 - Lucky Links with 2XPOWER recently received the “Best New Game of the Year” Award at The North American Association of State and Provincial Lotteries (NASPL). Lucky Links with 2XPOWER is providing a steady source of revenue for the draw game portfolio.

- Game Update – MUSL:
 - The administration of the Powerball game reserves and changes to the game will be discussed in Executive Session.

- Corporate Social Responsibility Programs:
 - The Department of Energy and Environmental Protection recently selected the CLC as a recipient of the Green Circle Award for its effort to be green. The Award will be presented by the Commissioner on December 2, 2015.
 - A new responsible gambling campaign will roll-out with Keno – GameSense.
 - The CLC’s Responsible Gambling holiday campaign “Do a “Lotto” Good, Give a Toy! which supports the CT Children’s Medical Center (CCMC) will take place again this

year. This campaign also raises awareness that lottery tickets are not a choice gift for youth.

Sales Performance and Game Update:

Presented by Ms. Diane Patterson, Vice President of Sales and Marketing. Using sales charts, Ms. Patterson provided an update for the period ended October 31, which included the highlights below. All sales numbers are approximated based on information currently available to the CLC.

- Sales for All Games were \$100 million for October. For FY 16, total sales were \$442 million.
- Actual sales for CT Games are \$24.6 million ahead of last year, and \$22.7 million ahead of budget.
- Instant Games saw their fourth consecutive month of high sales for FY16 resulting in twelve consecutive months of record sales.
- New Instant Scratch Games are in the market, including holiday games.
- Play3 and Play4 Day and Night games have experienced four months of high sales this fiscal year.
- Lucky Links with 2XPower which won “Best New Game of the Year” is performing very well. 59% of players are purchasing the 2XPOWER add-on.
- Lucky for Life is improving with average daily sales of \$60,000. There have been numerous second prize winners, 7 of whom are from Connecticut. However, there has been no top prize to date. Ohio became the seventeenth state to join the Lucky for Life game on Sunday, campaign for this game.

This concluded the Executive Report.

IV. Committee Reports:

Audit Committee:

Mr. Thompson reported that the Audit Committee met on November 4, 2015. The Committee discussed the status of the interviews for the selection of Auditors. MUSL Governance was also discussed which will be covered in the Board’s Executive Session.

Finance Committee:

Mr. Birney reported that the Finance Committee met on November 4, 2015. Mr. Birney asked Mr. Granato to review the financials with the Board. Mr. Granato reported that the Lottery experienced an excellent first quarter with \$291.3 million in sales. He continued with a brief overview of the first quarter financials.

Mr. Granato presented the following highlights:

- Sales for the quarter are \$291.3 million, a significant increase of \$19.4 million or 7.1% over this time last year.
- Instant ticket sales totaled \$177.5 million compared to last year at \$160 million. Daily and instant ticket sales are up \$16.8 million or 10.4%.

- Sales are up across all four of the daily games. In total, the category is up \$5.8 million or 10.5%.
- Powerball sales increased modestly by \$2 million. Increase may be attributable to the two Powerball jackpots of \$110 million and \$310 million.
- MegaMillions sales are down \$500,000 or 6.8% from this time last year. MegaMillions did have three jackpots in the amounts of \$153 million, \$25 million, and \$105 million.
- Lucky for Life sales increased \$200,000 or 3.9%.
- Cash 5 continues to perform steadily with \$7.7 million in sales.
- Five Card Cash sales are down \$6.7 million or 44% compared to this time last year. Prize expense for the quarter totaled \$189.3 million, up \$24 million or 14.5% from this time last year. Prize expense for this quarter increased greater than sales due to large prize payouts in the month of September. For example, the Daily 3/4 games are designed to have a 50% payout; the payout for this quarter was 60%.
- Retailer Commissions and On-line Systems are proportionate to sales revenue.
- Marketing & Advertising expenses totaled \$2.6 million, down \$200,000 or 8% from last year.
- Production expenses totaled \$2.7 million, down \$200,000 or 8.5% compared to the prior year. The decrease is due to fewer instant tickets produced.
- Overall Costs of Sales totaled \$213.7 million, up \$25 million or 13.3% compared to last year, largely due to the increase was led by the \$24 million increase in prize expense.
- Total Operating expenses for the quarter totaled \$5.5 million, up \$212,000 or 4% from last year. Salaries and benefits increased year over year due to wage increases and healthcare costs. Other operating expenses saw a decrease of \$61,000 due, in part, to the lower cost of utilities, data processing materials and leased vehicles.
- General Fund transfers totaled \$71.4 million for the quarter which is \$5.2 million less than the prior year due to higher prize expense particularly in September 2015. Mr. Granato noted the gap is closing gradually and we hope to be even to last year by calendar year-end.

Legislative and Games:

Ms. Morton reported that the Legislative and Games Committee met on November 17, 2015. The Committee reviewed sales and game performance. The Committee also discussed the Keno and Powerball Rules which will be discussed further in Executive Session.

Personnel Committee:

Ms. Floyd reported that the Personnel Committee met on November 4, 2015 to review the Affirmative Action Plan. The Committee also reviewed the draft job descriptions for two key positions that were previously approved by the Board; Cyber Security and an in-house Counsel.

V. Executive Session:

At 12:37 p.m., Chairman Farricker called for a motion to enter into Executive Session. Ms. Glovach, asked Chairman Farricker for the record to reflect that the "Pending Litigation" to be discussed in the Executive Session is 3 fold:

- The Illinois lawsuit brought by players for non-payment of winnings.

- Adam Osmond's recent FOIA complaint against the Corporation.
- Consideration of action to enforce the corporation's legal rights in connection with the 5 Card Cash situation.

On motion made by Mr. Birney, seconded by Mr. Farrell, and unanimously approved the Board moved into Executive Session to discuss:

- New Game Initiatives
- Review of Draft for Keno and Powerball Game Rules
- Attorney/Client Communications Re:
 - Pending Litigations
 - Multi-jurisdictional Games

Ms. Noble, Ms. Patterson, Mr. Hunter, Ms. Glovach, Mr. Granato, Ms. Turner were invited to stay for the Executive Session. The Board reconvened in regular session at 1:23 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

VI. New Business:

Powerball Game Rules

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

Resolved, that after due consideration and based upon the recommendation of the Legislative and Games Committee, the Board of Directors approves the Official "Powerball" Game Rules and Connecticut amendments as presented, subject to the Department of Consumer Protection's approval and the required newspaper publication of a notice of rules adoption. The Multi-State Lottery Association adopted the Official "Powerball" Game Rules, and the Board's action is to allow the CT Lottery to continue to sell the Powerball game.

This resolution passed unanimously.

Keno Game Rules

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

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

This resolution passed unanimously.

VII. Adjournment:

Chairman Farricker reminded members that FOIA training will take place immediately following the meeting. He also noted that the Board's next meeting is February 25, 2016. He then called for a motion to adjourn the meeting.

On motion made by Mr. Birney, seconded by Ms. Floyd, and unanimously approved, the meeting was adjourned at 1:27 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.