

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, May 15, 2014
At 12:00pm

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; Natasha Pierre; Margaret Morton; Kia Murrell; Steven Bafundo; Patrick Birney; and Michael Thompson. Mr. Birney joined the meeting at 12:10 p.m. Mr. Thompson dialed in to the meeting at 11:55 a.m., and arrived in person to join the meeting at 12:13 p.m.

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; Michael Hunter; Jessica Hayton; and Rebecca Lambert.

Call to Order: Chairman Farricker called the meeting to order at 12:06 p.m.

I. Approval of Minutes:

On motion made by Mr. Thompson, seconded by Mr. Bafundo, and unanimously approved, it was:

- Resolved, that the Board hereby approves the February 27, 2014 Board meeting minutes, as amended to reflect Ms. Murrell's request the record indicate her absence was due to a scheduling conflict, and the Connecticut Lottery Corporation was provided advanced notification of her absence;
- Resolved, The Board hereby approves the April 1, 2014 Board meeting minutes.

II. Executive Report:

President's Report:

Ms. Noble thanked Board members for attending today's meeting. She thanked Ms. Helen Duffy for her prior help with the Board meetings and wished her well in future endeavors, and recognized Ms. Jessica Hayton and Ms. Rebecca Lambert for their efforts to organize this Board meeting. Ms. Noble then reviewed the meeting agenda, and she updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- General Fund transfers are up 7%, or \$12 million, which puts the Lottery even or slightly ahead of budget. The Q4 launch of the new game, 5 Card Cash, provided a boost to sales.
- Sales have been soft since November 2013 and this is a trend most lotteries are experiencing. In regard to instant & multi-jurisdictional games, Powerball and MegaMillions are experiencing jackpot fatigue. There are strategies under consideration to address this. Lucky for Life sales would benefit from having a first prize winner. Instant games are performing well, but the economy is having an effect on the sales of these games as well. Q3 sales were soft because of the effect of weather in the region, as well as people having less discretionary income. To date, sales are currently down approximately \$5 million over last year, and \$8 million under budget.
- The Lottery's new game, 5 Card Cash had a very successful launch. In the first 10 days of the game, there have been \$2 million in sales, as well as 2 top draw prize winners. There was an extensive PR campaign surrounding this game. The current plan is to have the game run through summer, and evaluate ongoing strategy based on market circumstances.
- The Lottery's social media presence is growing, and is designed to complement our other media efforts. Our Facebook page now has approximately 20,486 "likes" which is a 1,000% increase from January 2014, and now puts Connecticut in the middle of all other lotteries in regard to social media presence. Our YouTube presence has also increased with our 5 Card Cash "How to Play" video receiving over 10,000 views. Twitter is used to allow the Lottery to reach a broader audience, by not only allowing us to post messages, but for our followers to repost our content. Our social media presence provides a real value to the Lottery, especially because we are not an Ecommerce business, and have certain restrictions to what we can do online with our games.
- Mr. Birney asked how many followers we currently have on Twitter. Ms. Noble replied that we currently have approximately 500 followers. Mr. Birney asked if we currently do any advertising on Twitter. Ms. Noble responded that we advertise on Facebook, and Ms. Patterson reviewed the details of the Whalers Game promotion that was recently run on Facebook.

- In regard to Procurement, the legal services RFP that was issued earlier this year has been concluded, and that the Lottery is now engaged with a number of firms. The Drawing Services RFP is also concluding and a contract is being negotiated. CT Lottery drawings will continue to be televised, with significant cost savings.
- In regard to the Fiscal Year 2015 Budget, Ms. Noble noted that two drafts of the budget were presented to the Finance Committee which met on May 13, 2014. The final budget will be presented to the Board in June, after another review by Finance.
- In regard to the Lottery's Responsible Gambling Initiative, Ms. Noble spoke about the CT Lottery's application with the WLA for Level 3 Accreditation, that she will be speaking about responsible gambling at the La Fleur's 2014 Symposium in June, and that the Lottery is the Hospitality Sponsor at a responsible gambling event at La Fleur's. She also told the group about the Lottery's partnership with Bauzà and Associates to produce a new retailer training video on responsible gambling.

Sales Performance Report:

Using sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends as of April 30, 2014. Her report follows:

- Sales as of April 30 were \$794 million, with \$972 million as of May 14. With no large jackpots, sales have declined from March to April, which follows historical patterns.
- For the month of April, the CT Lottery had \$90.8 million in sales.
- For Connecticut games, we are \$1.6 million ahead of budget.
- For Daily games, we are 6% ahead of budget.
- For Multi-State games, the lack of a big jackpot in 2014 is reflected in the numbers.
- Total sales are \$1.4 million ahead of budget.
- The CT Lottery's General Fund contribution has increased to \$8 billion over the life of the Lottery.
- Instant Games had a strong sales performance in the month of April totaling \$57.5 million in sales. There are 5 more instant game launches planned for this fiscal year.
- 5 Card Cash is generating an average of \$200,000 a day in sales and is exceeding expectations early on. The game saw its first top draw prize winner on May 9 with Rachel Cisinski, a waitress at The Cheesecake Factory in Vernon. The game has an average of 27,000 instant wins and 500 draw wins every day.

- The 5 Card Cash 30 second TV advertisement titled “High Energy Guy” was shown. When the video finished, Ms. Patterson spoke about the “How To Play” video and demo of the game on the Lottery’s website as tools to educate our players and retailers.
- An overview of individual games’ performance follows:
 - Play3-Play4 Day and Night combined were strong with \$19.8 million in sales for the month of April 2014.
 - Play3 Day had \$4.4 million in sales in April 2014.
 - Play3 Night had \$6.3 million in sales in April 2014.
 - Play4 Day had \$3.6 million in sales in April 2014.
 - Play4 Night had \$5.5 million in sales in April 2014.
 - Lotto! has a current jackpot of \$2.2 million, with the last winner receiving a jackpot of \$3.4 million on February 18, 2014.
 - A “Lucky Retailer” in East Berlin, CT, the Berlin Convenience & Deli has had 3 quick pick tickets sold that all won \$1 million or higher jackpots; Powerball jackpot of \$1 million from February 2012, MegaMillions jackpot of \$1 million in April 2013 and Lotto! jackpot of \$3.4 million in February 2014.
 - Cash5 sales are following the expected trend.
 - Super Draw 10 has 800 more prizes than the last version of the game, with a drawing being held on July 6. In keeping with the idea of educating our players, the Lottery created and posted a 15 second YouTube video about the Super Lucky promotion, where the purchase of a \$10 Super Draw ticket would give the player a free \$2 Lucky for Life ticket.
 - The lack of a jackpot is affecting Powerball and MegaMillions sales.
 - The Powerball jackpot is currently at \$100 million.
 - The current jackpot for MegaMillions is \$136 million. Mr. Farricker inquired whether there has been any difference in the game since the matrix changed. Ms. Noble responded that the game is outperforming the budget expectations, in contrast to Powerball. She believes that the change in the matrix has had a positive impact on sales.
 - The last Lucky for Life top prize was won in August 2013, but since the introduction of the second prize level, Connecticut has had 8 second prize winners in the game.

This concluded the Executive Report.

III. Committee Reports:

Legislative and Games:

Ms. Morton reported that the Legislative and Games Committee met on April 21, 2014 to review games performance, new game initiatives and a Capitol update.

Audit:

Mr. Morgan reported that the Audit Committee met on April 21, 2014 and discussed the items listed in the agenda for discussion in today’s Executive Session.

Finance:

Mr. Birney reported that the Finance Committee met to review financial statements for the nine months ended March 31, 2014. In Executive Session, the Finance Committee reviewed and discussed the second version of the FY15 budget. The Committee expects to meet again early-mid June to finalize the FY15 budget and present it to the Board late June. He then asked Mr. Granato to provide the Board with the financial report:

- Sales for the quarter ended March 31, 2014 totaled \$267.5 million, down \$5.6 million or 2.1% from the same period a year earlier. Year-to-date sales were \$830 million, up \$6.4 million from the same period last year. This was an increase of just under 1%.
- Instant ticket sales for the quarter were \$161.8 million, down \$3.9 million or 2.3% compared to the same period a year ago. Year-to-date sales for the first nine months totaled \$491 million and accounted for 59% of total sales.
- The Daily 3/4 games continued their strong performance and were up \$6.6 million compared to prior year despite the fact prize expense was significantly down.
- Powerball and MegaMillions are highly dependent on jackpot levels. MegaMillions had a small jackpot run mid March of up to \$400 million which contributed double the sales from the prior year. As of March 31, 2014, year-to-date sales were \$14 million ahead of last year. This gain is offset by the decrease in Powerball sales. Powerball has not had a significant jackpot run and sales were down \$11 million for the first nine months.
- Prize expense for the first nine months was down \$12.1 million. This may be partly due to the fact that the Daily 3/4 games prize payout averaged only 43.8% this last quarter. Typically, the prize payout averages approximately 50%.
- For the nine months ended March 31, retailer commissions, on-line systems and marketing costs were modestly up.
- Total operating expenses for the first nine months were \$15 million, up 4.3% from a year ago. The increase was driven by salaries and benefits with benefit costs rising faster than salaries. However, compared to budget, operating expenses were \$744.7 thousand below budget. Other operating expenses have been and will continue to be tightly controlled.
- General Fund transfers for the first nine months totaled \$237.9 million, up \$8.4 million or 3.7% from the same period one year ago. Compared to budget, General Fund transfers were \$2.3 million or 1% ahead.

Mr. Birney commended the Lottery for keeping operating expenses at or below budget. Ms. Murrell agreed with Mr. Birney and praised the Lottery for keeping expenses modest. Ms. Murrell inquired if the efforts to reduce costs were short term or long term efficiencies. Mr. Granato responded that the efficiencies are built into the FY15 budget. Ms. Noble added that it is a combination of both short and long term efforts. Contract cost reduction is more long term whereas production costs can be more varied. Ms. Murrell commented that the Lottery operates at an efficient level and she would not want to see costs reduced so much that company morale is negatively affected.

IV. Executive Session:

At 12:40 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Bafundo, seconded by Mr. Mattison, and unanimously approved, the Board moved into Executive Session to discuss:

- Attorney/Client Communications Re:
 - Pending Claims and Litigation
 - FOIA Requests
- Alumni Road Lease
- New Game Initiatives

Ms. Noble, Ms. Glovach, Ms. Patterson and Ms. Turner were invited to join Executive Session.

The Board reconvened in regular session at 1:19 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

V. Old Business: None.

VI. New Business: None.

VII. Next Board of Directors' Meeting:

The next scheduled meeting of the Board will be held on Thursday, June 26, 2014 at 12:00 p.m. at the Connecticut Lottery Corporation.

VIII. Adjournment:

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

On motion made by Mr. Mattison, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 1:20 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.