

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, March 19, 2012
1:30 p.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Pickard, Engstrom, Frazier, Hammons, Campbell and by telephone Shipp and Malone. The ASL was represented by Director Woosley, Internal Auditor Hyde, Julie Baldrige, Patti Vick, Robert Stebbins, Lisa Tater, Lance Huey, Jeremy Smith, Remmele Mazyck, Valerie Basham and Justin Rogers.

Chairman Lamberth requested approval of the minutes of the February 6 and February 11 meetings, and after motion of Commissioner Frazier, seconded by Commissioner Pickard, the minutes were approved without dissent.

Chairman Lamberth introduced Director Woosley for his report (in file). He noted that February 2012 was a record-breaking sales month with \$49.2 million; and that it was the 5th highest month for transfer amount to the Education Trust at more than \$9 Million. He said he believed the Lottery was on track for a \$47 Million March sales month. He noted that the Lottery Scholarship total since the beginning hit \$237 Million at the end of February. He noted that the percentage of sales on draw games had increased by more than 3%, a favorable thing for scholarships. Commissioner Engstrom asked whether there was any telemarketing of draw games and Steve Beck, said that all retailers receive calls each quarter with the introduction of new Fast Play games.

The FY 2011 Comprehensive Annual Financial Report (CAFR) published in November just was awarded GFOA certification, he noted, and he thanked the members of the Lottery staff who worked on the project with short notice and in the middle of a management transition last fall. Commissioner Engstrom also commended the staff.

A Twitter miniblog and a Facebook page have been established for the Arkansas Scholarship Lottery, and they are being managed by Joanna Bunten's team, he said. He said the instructional and beneficiary videos to be shown at the end of his report were being posted on the website.

A Decades of Dollars promotion is starting soon, he said. It will be the Game of the Month in April, with double Points for Prizes for tickets purchased and entered into the computer that month. In addition, these same Decades tickets will be eligible to win a four-day Outdoor Adventure Trip for four people at Big Cedar Lodge in the Ozarks, near Branson, MO. These same tickets entered by the end of April 15 will be eligible for a \$200 Bass Pro Shop gift card.

He previewed the new mockup display tickets for Powerball, Mega Millions, and our other draw games that will be added to the retailer bins currently holding only instant tickets, an idea of Gaming Director Mike Smith. This will enable players to point to these tickets and ask to buy them, just as the players do for instant tickets. He also reported that there will be a new 5-digit exclusive Arkansas draw game, with a \$1 price point, and draws six nights a week, to be

introduced in August or September. The jackpot will begin at \$25,000 and roll by \$5,000 every draw it is not hit, with an average jackpot of about \$158,000 and lower prizes of \$300, \$7, and \$2. The Director and Commissioners discussed the prize structure. Commissioner Engstrom asked for addition of a page reflecting comparison with the existing budget as part of the monthly Director report. Next, the Commissioners were presented examples of our new instructional videos and beneficiary videos. Commissioner Malone complimented Director Woosley and the team for adding an emphasis on advertising and social media, stressing the benefit of player engagement.

Director Woosley gave a synopsis of the January glitch in the sales of 13 tickets with 18 plays in the new Powerball \$2 game. He said that the issue arose because a number was not changed by Intralot and was detected very quickly by Mike Smith. He said there were several conference calls with MUSL and with the other three states with a similar issue. He said that plans were devised to protect the players, the Lottery, and MUSL. He said that Intralot had been very cooperative and helpful throughout the process. He asked that Intralot be assessed \$5000 in liquidated damages for the timing of the software upgrade and the Lottery's cost for replacement tickets plus their prizes at \$61, said the vendor had agreed to pay along with expenses incurred while the tickets were acquired. Commissioner Hammons asked for details and Director Woosley provided an explanation, including the Lottery acquiring tickets in trust for the holders of each the invalid tickets, purchased at the same retailers to protect their prospective selling bonus. By motion of Commissioner Engstrom, seconded by Commissioner Campbell, the Commission approved the assessment without dissent.

The Director said that his next two items were tentative and were being presented for the Commission's consideration, and that he was not advocating for the direction of their decisions. He reported that an October conversation at the national NASPL meeting in Indianapolis between Commissioner Lamberth and then-interim director Baldrige and Intralot officials had resulted in ongoing talks with Intralot regarding the 400 interactive monitors included in the original Intralot contract and paid for by the Lottery. He said that since the Lottery has no intent to use the monitors, Intralot had agreed to exchange them out for devices that will be useful and promote sales: PADs (player advertising displays), or monitors, that will serve as promotional screens on retailer counters and on which the Lottery can sell advertising. He said he was making the Commission aware of the exchange offer and would bring it back up for approval at a later time. Commissioner Engstrom asked whether the cost of the monitors was in the contract and was told it was not but that the market value was \$1100 apiece. The value of the PADs is somewhat less, but they are more useful and should produce some value through their advertising space that can be sold by the Lottery. He repeated that the Commissioners can consider this item and make their own decisions.

Woosley also reported that there was a meeting the week before with Scientific Games officials the previous Wednesday, with himself, Mike Smith, Patti Vick, and Commissioner Pickard present. Growing out of that meeting was a proposal by Scientific Games legal counsel Phil Bauer received Friday afternoon, which he said he'd barely had time to review and that Mike Smith has not yet seen because he is out this week. The Scientific Games offer includes cleaning up ambiguous language in the contract, an incentive of \$2 Million in cash amortized over the remainder of the contract, a change in the language of the exclusivity clause in the Recital of Selected Options, a \$200,000 credit for already-purchased merchandise and end-game prizes, amend the Lottery's option to purchase merchandise in conjunction with licensed games, and clarification of the rate for linked games.

Commissioner Engstrom asked if Mr. Woosley had ever seen evidence that the ALC had approved the Scientific Games contract and was told that he had not spoken to Mr. Bauer since he sent the document nor thoroughly reviewed it. Mr. Hyde was asked and said he had never found evidence that the Commission approved the contract. The Commissioner also asked whether an agreement to the proposal would retroactively bless that the Lottery has paid more than was bid. Mr. Woosley said he wanted everyone to weigh in. Commissioner Lamberth said that since the information was preliminary and that Mr. Hyde has been looking at this as well, she would like to set a time for the Commission to meet in a week to 10 days. She said that they would hear from the Director and also remarked that Mr. Hyde was very familiar with it and that she would like to hear all of his views and conclusions as well. Commissioner Engstrom asked that Auditor Hyde send out an analysis to quantify the problem for all the Commission to review prior to the meeting. She asked Julie Baldrige to correspond with Commissioners to set a date. She said the regularly scheduled meeting would be on the third Monday of April.

Next, Commissioner Lamberth recognized Michael Hyde to give a brief status report (in file). He said he had worked on finishing the risk assessment with the CFO Jerry Fetzer. He said that Whitney Hall had completed a review of high-tier prizes at the Claim Centers with an exit conference scheduled next week. He said Whitney has completed a review of the trust funds for February 2012. He said he was reviewing the instant ticket contracts, a work in progress. Commissioner Pickard, Chair of the Audit and Legal Committee, said the Committee had not met and recommended that the whole Commission go ahead and hear this rather than deferring to the Committee process. Commissioner Engstrom asked if the CFO needs to hire a Financial Analyst. Mr. Fetzer said with the statutory set limits on the number of slots, he was trying to handle that function for the time being. He said he and Mr. Woosley had discussed the possibility and that many other state agencies have at least one financial analyst. He said in the long term he foresees that position working on budgets and on marketing. Commissioner Frazier asked whether the Director plans to hire new internal legal counsel and was told that he does.

Commissioner Lamberth introduced Derrick Smith, former Commissioner and member of the Mitchell Williams firm, the ALC's newly retained outside legal counsel, and welcomed Mr. Smith to the meeting. She thanked Julie Baldrige for her service as Interim Director and Director Woosley for his first month of service.

Mr. Woosley distributed the Lottery's new instant tickets, including the four Scenic Arkansas tickets with scenes from iconic Arkansas locations pictured on the front.

There being no further business, Commissioner Lamberth adjourned the meeting.