

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – August 9, 2006

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:05 a.m. at the California State Lottery Headquarters, 600 North 10th Street, Sacramento, California 95814.

2. Pledge of Allegiance

John Mass led the Pledge of Allegiance.

3. Roll Call

Mass asked Elisa Topete to call the roll.

Commission Members Present:

Commissioner Rachel Montes
Commissioner Manuel Ortega
Commissioner Loretta Doon
Chairman John Mass

CSL Staff and presenters:

Joan M. Borucki, Executive Division
Linh Nguyen, Executive Division
Jim Hasegawa, Marketing Division
Susan Kossack, Marketing Division
Elisa Topete, Assistant to the Commission
Mary Montelongo, Recording Secretary

4. Consider Approval of the Agenda

Mass asked if any of the Commissioners wanted to make changes to the August 9, 2006 agenda as proposed. Ortega moved to approve the agenda. Seconded by Doon. The motion passed unanimously (4-0).

5. Public Discussion

Mass asked if anyone from the public had anything to discuss. No one had signed up prior to the meeting and no one came forward, so he proceeded to the next item on the agenda.

6. Approval of Minutes

Mass asked if there were any additions or corrections to the June 27, 2006 minutes. Montes moved to approve the minutes. Seconded by Ortega. The motion passed unanimously (4-0).

7. Commission Liaison Reports

Commissioner Ortega :

Ortega attended the Security Strategic Planning session in San Bernardino on July 25. The meeting was attended by Linh Nguyen, Director of Business Planning, Bill Hertoghe, Security Director and the Southern California Lottery Agents.

Commissioner Doon:

Doon was briefed on the Lottery's internal and external audit procedures. Getronics is currently doing a Security evaluation. Internal audits for fiscal year 2006/07 will be released in August. KPMG, the Lottery's external independent auditors, completed the agreed upon procedures that are required for the MEGA Millions® states.

Commissioner Montes:

Montes was briefed on Consent Calendar Items 9a, 9b, and 9c and Action Items 10a and 10b. Montes attended The Big Spin® tapings in Burbank on July 30.

Chairman Mass:

Mass discussed with staff a short term project to promote sales as an on-going basis. Staff provided Mass with an update on the advertising plan for 2006/07, particularly the plans for buying advertising over the internet. Mass was briefed on Action Item 10a.

8. Director's Report

a. Update on Merger of GTECH with Lottomatica

Acting Director Joan Borucki reported that the Lottery has received and reviewed the Financial Due Diligence Report and Disclosure Investigation Report. These reports did not contain any information indicating the merger would affect GTECH's ability to perform its contractual obligations with the Lottery.

Acting Director Borucki then reported that, based on these reports, she signed a letter to GTECH confirming that the merger between GTECH and Lottomatica would not result in termination of GTECH's contract with the Lottery.

b. Legislative Update

Borucki advised the Commission of two legislative bills of interest. Senate Bill 1198, by Senator Florez, would change some rules that apply to card rooms around the state. The bill is of interest because of the recent tribal contracts that are coming across the Legislature's desk. The bill that is of higher impact for the Lottery is Senate Bill 1011. Senator Florez seeks to change the prize claim period for MEGA Millions® prizes from the current 180 days to 365 days to help satisfy a flaw that Judge Connelly has seen and it also would change the percentage of sales that go to administration versus education, cutting administration in half to 8% and giving the other 8% to education. The bill is now set for Assembly Appropriation on August 16.

c. Facilities Report

Borucki gave an update on the Riverside District Office. The Lottery signed a lease on June 30 and the Riverside District Office will now be called the Inland Empire District Office in San Bernardino. It is a firm 4-year term lease and is not to exceed \$601,000 in lease costs. The tenant improvements have started and should be completed by mid-October. The lease is the last of the Lottery's leases that will be operated through the Department of General Services.

The Headquarters complex evaluation is under way and Alpha Tech Cambridge was hired to do the study. Preliminary meetings have taken place and Alpha Tech Cambridge is doing a comprehensive review of the facility and the development going on in the corridor. An analysis will be performed on what the Lottery should be looking at as far as either rehabilitating the current building or looking at other options. The study is expected to be completed in December and staff will update the Commission.

The final facility update is the evaluation of a new Southern California Distribution Warehouse. The current warehouse is too small and does not allow for any growth in the Lottery's production. Staff has decided to contract with a firm to perform an analysis to identify exactly what the Lottery's needs are and what the best options are, whether to lease, purchase, or what makes sense financially for the Lottery as well as the location.

9. Consent Calendar

- a. Approval of a New Lease for Santa Fe Springs District Office
- b. Approval of Scratchers® Tickets Delivery to Retailer Services
- c. Approval of Amendment to Jonathan Goodson Productions Contract for The Big Spin® Production Services

Ortega moved Consent Items 9(a), (b), and (c) for approval. Seconded by Montes. The motion passed unanimously (4-0).

10. Action Items

- a. Approval of Scratchers® Game Profiles for Games 489, 490, 491, 493, 494, 495, 496, and 497

Susan Kossack presented the Commission eight games for the months of November, December, and January. For November, staff brings forward Game 489, the "Holiday Gift Tag." The 12 different scenes are very popular with consumers and retailers. The \$1 game is a simple match three playstyle with an added "Quick \$10 Spot." The top prize for the game is \$1,000 and odds of winning are 1 in 4.62. Game 490 is a \$1 game called "Gimme 5." It is a key number match style and it allows players to win the indicated amount by uncovering a "5" in the play area and a chance of winning up to six times on a ticket. The appeal of the game is delivering \$5.8 million winners and a recommended top prize of \$555 with over all odds of winning at 1 in 5.27.

For December, Game 493 is a \$1 game called "Cash Cow." It is a match three playstyle with a "Quick \$10 Spot." The game is designed to attract infrequent players during the holiday season with a light hearted animal theme. The game delivers \$6.4 million in prizes from \$10 to a top prize of \$1,000. The overall odds of winning are 1 in 5.04. The next game for December is "Cherry Trippler," which is a \$2 match three playstyle game. Players can win up to ten times on a ticket. The game has \$7.3 million in prizes that triple and a top prize of \$9,000. Overall odds of winning are 1 in 4.74. The last game for December is Game 495. It is a \$5 game with a key number match playstyle. The unique feature for the game is that players can win up to 16 times on one ticket and automatically multiply a prize 2, 5, 10, or even 20 times the total prize amount won by uncovering a special multiplier symbol. Players can also automatically win \$50 by uncovering a "50" play symbol in the "Fast 50" play area. The suggested top prize is \$100,000 with overall odds of winning at 1 in 3.38.

In January, staff brings forward Scratchers® Game 496, "Crazy 8's." The \$1 game has a tic-tac-toe playstyle and is developed to reinforce the 8's theme and delivers over \$8 million in prizes that are \$8 to \$25. The recommended top prize is \$888 and overall odds of winning are 1 in 5.28. Staff is currently working on a name for Game 497. The Lottery conducted a recent player study on several game concepts in which "Multi Money" was ranked as one of the top games. The main benefit of the concept is so that players can win multiple ways in a game by matching their "Lucky Number" to the unique numbers in each of the five games on a ticket. Players can also automatically multiply a prize five times the amount shown in each game by uncovering the "unique" symbol in each of the five games. Staff recommends the game at a \$2 level and a key match playstyle with a top prize of \$20,000 and overall odds of winning at 1 in 4.63.

Scratchers® Game 492 is scheduled for launch in November, 2006 and Game 498 will launch in January, 2007. Game 468, "Bonus Crossword" was previously approved by the Commission in January 2006 and is materially similar to Game 492. Game 478, "Emerald Green 7's" was previously approved by the Commission in March 2006 and materially similar to Game 498. Although game profiles for the games are attached for the edification of the Lottery's Commissioners, Commission approval is not required.

Jim Hasegawa presented Scratchers® Game 491, which is a \$2 game that lends itself to a variety of promotional and publicity efforts to help stimulate sales of the Scratchers® product line during the important holiday season. After reviewing various licensed properties available in the industry and analyzing recent consumer research, the Lottery recommends introducing an "American Idol" themed game. The game will launch at the beginning of November and run through May, prior to the season finale. In the proposed game, players can win American Idol prizes that are not available anywhere else. The grand prize will be to participate in the glamour and excitement surrounding the final episode in May, 2007. A total of 91 winners will receive a trip for two to Hollywood including

luxurious accommodations, limousine transportation and attendance at a special American Idol gala event on the night of the season finale. At least one of the winners will be chosen that evening to sit in the studio audience for the live finale to see who will become the next American Idol.

In addition, there will be merchandise prize packages, including American Idol insignia apparel, a wristwatch, a messenger bag, a cap and a leather jacket. There are no licensing fees associated with this game. The cost is covered through the purchase of the merchandise packages and American Idol trips in the game's prize structure. Staff recommends a game utilizing a key number match playstyle along with the ability to double a prize with the specified symbol. The game is slated to have an instant top prize of \$10,000 and overall odds of 1 in 4.17. The American Idol prizes will be awarded through a second chance drawing. A total of four drawings will be conducted during the course of the game. Players can enter by submitting non-winning tickets from the game.

Doon made the motion to approve Action Item 10(a). Seconded by Ortega. The motion passed unanimously (4-0).

b. Approval of Amendments to Oberthur Gaming Technologies and Pollard Banknote Limited Partnership (LP) Contracts for Scratchers®

Kossack asked the Commissions approval to add \$6 million to the contract for Oberthur Gaming Technologies and \$6 million to the contract of Pollard Banknote Limited Partnership. As a result of a formal bidding process, Oberthur and Pollard were awarded secondary contracts for the printing of Scratchers® tickets in July of 2005. The contract expended authority for each of the contracts is currently \$4 million. A total of \$3.5 million has been expended on the Oberthur contract and \$2.5 million expended on the Pollard Contract. The contract amendment gives the Lottery flexibility to award games to secondary vendors. Additionally, the increased number of games slated to be produced for the fiscal year and in the future, will give staff the ability to award the game to the secondary vendor, based on the best production timetable. The contracts expire June 30, 2009 and the amendment has no affect on the lengths of the contracts. The additional funding will bring the total expenditure authority to \$10 million for each of the contracts.

Ortega made the motion to approve Action Item 10(b). Seconded by Montes. The motion passed unanimously (4-0).

11. Commissioner General Discussion

Commissioners Doon and Montes will be attending the Governor and First Lady's Conference on Women Program in Long Beach on September 26, 2006.

12. Scheduling Next Meetings

The next Commission meetings are scheduled for November 1, 2006, and January 2007, at the Lottery Headquarters in Sacramento. Times for the meetings will be determined.

13. Closed Session

The Commission convened in a closed session at 10:35 a.m. to confer with and receive advice from counsel regarding pending litigation California Coalition Against Gambling Expansion v. California Lottery Commission.

14. Adjournment

Meeting adjourned at 11:10 a.m.