MINUTES ARKANSAS LOTTERY COMMISSION Monday, June 18, 2012 10:00 P.M. ALC Conference Room Third Floor 124 West Capitol Avenue Little Rock, Arkansas

Chairman Ben Pickard called the meeting to order. Commissioners Dianne Lamberth, Steve Faris, Bruce Engstrom, Raymond Frazier, and Patty Shipp were present with Commissioners George Hammons, Smokey Campbell and Bruce Engstrom on conference call. A number of staff members were present including Director Bishop Woosley, Julie Baldridge, Jerry Fetzer, Mike Smith, Patti Vick, Valerie Basham, Robert Stebbins, Lance Huey, Jeremy Smith and Joanna Bunten. Derrick Smith, of Mitchell Williams law firm, was also in attendance as outside legal counsel.

The first order of business was consideration of the draft minutes of the May 21, 2012, meeting. Commissioner Frazier made a motion to approve the minutes, seconded by Commissioner Shipp, and they were approved without dissent.

Next, Chairman Pickard paid tribute to Immediate Past Chair Dianne Lamberth, commending her for coordinating the search for the permanent offices and serving two terms as Chairman during start up, praising her leadership. He said that while all Commissioners had served diligently, Commissioner Lamberth had been the hardest worker in the entire group. He presented her with a framed commemorative gift for her service.

Commissioner Pickard said that during his tenure as Chairman, he will do his best to follow parliamentary procedure and that he will not, as a matter of personal preference, make or second motions and will not vote unless to break a tie. He then presented each Commissioner with a copy of a Board Members Handbook provided by the Office of the Attorney General, for their review. Several Commissioners discussed their desire to have an attorney from the AG's office present a brief overview of their role and responsibilities. By motion of Steve Faris, seconded by Patty Shipp, and approved without dissent, the Commission formalized a request that the Director set up such a briefing.

The Director followed with his monthly presentation (included in file). He noted slower sales and a slightly lower transfer in May 2012 compared to the preceding May and explained that May 2011 saw the launch of the first \$20 ticket, with brisk sales prompted by the novelty. He pointed out, however, that in the first 11 months of FY 2012, sales were at \$460 Million, compared to \$464 Million for the entire 12 months of FY 2011. He said he was hopeful that the fiscal year transfer would surpass the FY 2011 gross sales by \$10 Million as well as surpassing the \$94.2 Million transferred in FY 2011.

He presented the proposal of Intralot to swap out the 400 monitors called for in the current contract, trading them for 600 Product Advertising Displays (PADs), enough to stock about one-third of the current retailers. The PADs are 17-inch monitors that sit on the counter and flash messages about different lottery products and jackpots. He used as an example the current promotion with the prize of a pontoon boat. He said the monitors would also be used for

reminders of scholarship deadlines as well as Amber and Silver Alerts. He asked the Commissioners for permission to make the exchange and implement these monitors. He said decisions on the sale of external advertising on the monitors were premature and said he would return to ask the Commission about selling ads should it appear prudent at a later date. He said implementation would be in or shortly after December 2012. By motion of Commissioner Lamberth, seconded by Commissioner Faris, the implementation of the PADs was approved without dissent. Commissioner Malone recalled discussions in the past about point-of-sale advertising and said that this was a positive move.

The Director next brought forth a proposal related to the Scientific Games contract, noting there was an agreement on the table to add definitions of the Cooperative Services Program, the Properties Plus Program, Linked Games, In Game and Out of Game merchandise, and a \$2 Million cash payment from SGI to the ALC, which would go directly to scholarships and be paid prior to June 30. In addition, the exclusivity clause would be relaxed somewhat, and there would be changes to the pricing proposal in areas such as Properties Plus and Licensed Games along with a \$200,000 merchandise credit. He said that he had sent the proposal to Derrick Smith, outside legal counsel, for review. Fees for linked games were also clarified, he said. Further, the Director said that he had worked with SGI to achieve a reduction in their percentage of gross sales fee of 1.92% to 1.81%, which he said he expected to net \$430,000 to \$440,000 in savings to the Lottery each year for the life of the contract. The Director expressed his appreciation of SGI officials for coming to the table and negotiating for many weeks to achieve this proposal. Discussion followed regarding whether the Commission could delegate the power to the Director to enter into contracts. Outside legal counsel, Derrick Smith, noted that the Commission had the authority to delegate its authority to the Director to enter into contracts. He recommended that the Commission take an actual vote on the terms. Mr. Smith further advised that the terms proposed were sufficiently definite that the Commission could vote to approve the contract at the meeting and that the terms that were cited as not being finalized were merely a language change that was not substantial nor would prevent a vote on the terms as set forth in the packet. Commissioner Faris made a motion, seconded by Commissioner Malone, that the amendment to the SGI instant ticket contract be approved. Commissioner Hammons asked that his position that a Commissioner should vote only on an actual document be entered into the record. Discussion followed about whether procurement should be delegated. A vote was called on Commissioner Faris' motion, which was approved with dissent from Commissioners Hammons and Engstrom.

Commissioner Malone thanked Director Woosley for his work in initiating and completing these complicated and successful negotiations. Commissioner Pickard noted that a Legislative Oversight Committee review the next day would allow the changes to move forward.

Chairman Pickard announced the membership for each of the four ALC Committees: Audit and Legal; Personnel; Higher Education; and Retail, and asked that each group meet soon to elect officers for the next year. He noted that discussions were underway on whether to form a fifth Committee on policy and process, a likely agenda item at the next meeting, and encouraged any interested Commissioner to add service on that Committee to their existing commitments.

The Chairman called the Commission into Executive Session for the purpose of discussing the position of Internal Auditor. At the end of the Session, the Commission reconvened and by motion of Commissioner Lamberth, seconded by Commissioner Engstrom, approved without dissent a plan to interview applicants Donald Matthew Brown, Carol Snay and Jerry Fetzer on Friday, June 22, beginning at 1:30 p.m.

By motion of Commissioner Engstrom, seconded by Commissioner Frazier, the Commission approved without dissent accepting the most recent evaluation of Internal Auditor Michael Hyde to entitle him to a 3 per cent merit bonus; and a 3 per cent merit bonus to Director Woosley based on a just-completed evaluation.

Chairman Pickard announced tentative dates for upcoming meetings as follows:

Monday, July 30, in Little Rock, at 10:30 a.m., with a presentation by ADHE Director Shane Broadway;

Monday, August 20, in Little Rock;

Monday, September 17 at 1:30 p.m. in Fayetteville on the University of Arkansas campus.

He said there would be no other meetings in 2012 away from headquarters but that there is an invitation for a meeting at Arkansas State University in Jonesboro after the new year.

Commissioner Pickard said that he had had an opportunity to visit with members of the staff and commended them for the ongoing excellence of their work. Director Woosley reported that the Lottery had received an award for its CAFR completed in November. It was announced that Director Bishop Woosley has been chosen by Arkansas Business magazine as one of its annual "40 Under 40" honorees.

There being no further business, the meeting was adjourned.

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, June 22, 2012
1:30 P.M.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Ben Pickard called the meeting to order. Commissioners Dianne Lamberth, Steve Faris, Smokey Campbell, Raymond Frazier, and Patty Shipp were present. The purpose of the meeting was to interview candidates for the Internal Auditor position, to become vacant at 4:30 p.m. on June 29.

Chairman Pickard announced the withdrawal of Jerry Fetzer as a candidate and said that there would be two interviews with candidates Matt Brown and Carol Snay. The Commission then entered into Executive Session.

Upon reconvening, Commissioner Lamberth made a motion, seconded by Commissioner Faris, to hire D. Matthew Brown as the Arkansas Lottery Commission Internal Auditor, to begin on a date to be decided and contingent upon a satisfactory background check. The motion was approved without dissent.

The meeting was adjourned.



Report from the Director July 30, 2012

Comparative Income Statements June 2012, 2011

GAAP Basis Income		•		Percentage
<u>Statement</u>	June 2012	<u>June 2011</u>	<u>Variance</u>	<u>Variance</u>
Revenues				
Instant Tickets \$	28,452,058	\$ 34,247,481	\$ (5,795,423)	-16.9%
Online Tickets	6,058,188	5,076,273	981,915	19.3%
Retailer App/Fidelity	<u>(5,806)</u>	<u>79,151</u>	<u>(84,957)</u>	<u>-107.3%</u>
TOTAL Revenues	34,504,440	<u>39,402,905</u>	(4,898,465)	<u>-12.4%</u>
Operating Expense				
Instant Prizes Net	20,105,531	23,793,780	(3,688,249)	-15.5%
Online Prizes Net	2,899,904	2,351,208	548,696	23.3%
Retailer Commissions	1,924,664	2,225,580	(300,916)	-13.5%
Gaming Contract Costs	1,772,592	2,015,299	(242,707)	-12.0%
Advertising	610,963	671,524	(60,561)	-9.0%
General and Admin.	696,240	866,350	(170,110)	-19.6%
Other Agency Services	<u>(357,731)</u>	<u>978,810</u>	(1,336,541)	<u>-136.5%</u>
TOTAL Operating Expenses	27,652,163	<u>32,902,551</u>	(5,250,388)	-16.0%
Operating Income	6,852,277	6,500,354	351,923	5.4%
Interest Income	34,278	38,454	(4,176)	-10.9%
Other Non Oper. Income	2,000,000	0	2,000,000	100.0%
Income Before Transfers \$	<u>8,886,555</u>	\$ <u>6,538,808</u>	<u>\$</u> 2,347,747	<u>35.9%</u>
Net Proceeds \$	9,179,225	\$ 3,673,259	\$ <u>5,505,966</u>	149.9%

Comparative Income Statements Actual Versus Budget June 2012

GAAP Basis Income		June 2012	J	une 2012			Percentage
Statement		<u>Actual</u>		<u>Budget</u>		<u>Variance</u>	<u>Variance</u>
Revenues							
Instant tickets	\$	28,452,058	\$ 3	33,301,453	\$ (4,849,395)	-14.6%
Online Tickets		6,058,188		5,647,766		410,422	7.3%
Retailer App/Fidelity		<u>(5,806)</u>		<u>38,840</u>		<u>(44,646)</u>	<u>-114.9%</u>
TOTAL Revenues	į	<u>34,504,440</u>	<u>3</u>	88,988,059		<u>4,483,619)</u>	<u>-11.5%</u>
Operating Expense							
Instant Game Prizes		20,105,531	2	22,478,481		(2,372,950)	-10.6%
Online Game Prizes		2,899,904		2,884,912		14,992	0.5%
Retailer Commissions		1,924,664		2,180,677		(256,013)	-11.7%
Gaming Contract Cost		1,772,592		1,985,974		(213,382)	-10.7%
Advertising		610,963		375,000		235,963	62.9%
General and Admin.		696,240		707,607		(11,367)	-1.6%
Other Agency Service		(357,731)		<u>147,107</u>		<u>(504,838)</u>	<u>-343.2%</u>
TOTAL Operating Expenses		27,652,163		<u>30,759,758</u>		(3,107,595)	- <u>10.1%</u>
Operating Income		6,852,277		8,228,301		(1,376,024)	-16.7%
Interest Income		34,278		18,333		15,945	87.0%
Other Non Oper. Income		<u>2,000,000</u>				2,000,000	<u>100.0%</u>
Income before transfers	\$	<u>8,886,555</u>	\$	<u>8,246,634</u>	\$	639,921	<u>7.8%</u>
Net Proceeds	\$	9,179,225	\$	9,434,088	\$	(254,863)	-2.7%

Comparative Income Statements YTD June 30, 2012 Compared to June 30, 2011

GAAP Basis Income	Actual	Actual		Percentage
Statement	YTD 6/30/12	YTD 6/30/11	<u>Variance</u>	<u>Variance</u>
Revenues				
Instant tickets	\$ 391,290,226	\$ 390,114,991	\$ 1,175,235	0.3%
Online Tickets	81,795,382	73,904,360	7,891,022	10.7%
Retailer App/Fidelity	<u>539,989</u>	<u>1,060,988</u>	<u>(520,999)</u>	<u>-49.1%</u>
TOTAL Revenues	473,625,597	465,080,339	8,545,258	1.8%
Operating Expense				
Instant Prizes Net	274,203,122	271,709,950	2,493,172	0.9%
Online Prizes Net	41,115,706	35,744,755	5,370,951	15.0%
Retailer Commissions	26,526,329	26,217,851	308,478	1.2%
Gaming Contract Cos	ts 24,308,153	24,111,720	196,433	0.8%
Advertising	4,461,328	4,631,388	(170,060)	-3.7%
General and Admin.	7,163,551	7,848,729	(685,178)	-8.7%
Other Agency Service	es <u>1,005,549</u>	<u>1,451,438</u>	(445,889)	- <u>30.7%</u>
TOTAL Operating Expenses	378,783,738	<u>371,715,831</u>	7,067,907	1.9%
Operating Income	94,841,859	93,364,508	1,477,351	1.6%
Interest Income	352,430	464,252	(111,822)	-24.1%
Other Non Oper. Income	<u>2,000,000</u>	0	2,000,000	100.0%
Income Before transfers	\$ <u>97,194,289</u>	\$ <u>93,828,760</u>	\$ <u>3,365,529</u>	3.6%
Net Proceeds	\$ 97,582,528	\$ 94,229,349	\$ 3,353,179	3.6%

Comparative Income Statements YTD June 30, 2012 Compared to 2012 Budget

GAAP Basis Income	Actual	Budget	Percentage	
<u>Statement</u>	YTD 6/30/12	YTD 6/30/12	<u>Variance</u>	<u>Variance</u>
Revenues				
Instant tickets	\$ 391,290,226	\$ 374,600,000	\$16,690,226	4.5%
Online Tickets	81,795,382	84,697,500	(2,902,118)	-3.4%
Retailer App/Fidelity	<u>539,989</u>	<u>559,000</u>	(19,011)	<u>-3.4%</u>
TOTAL Revenues	473,625,597	<u>459,856,500</u>	13,769,097	3.0%
Operating Expense				
Instant Prizes Net	274,203,122	252,855,000	21,348,122	8.4%
Online Prizes Net	41,115,706	44,118,000	(3,002,294)	-6.8%
Retailer Commissions		25,720,659	805,670	3.1%
Gaming Contract Cos	ts 24,308,153	23,424,173	883,980	3.8%
Advertising	4,461,328	4,500,000	(38,672)	9%
General and Admin.	7,163,551	8,717,125	(1,553,574)	-17.8%
Other Agency Service	es <u>1,005,549</u>	<u>1,765,280</u>	<u>(759,731)</u>	<u>-43.0%</u>
TOTAL Operating Expenses	378,783,738	361,100,237	<u>17,683,501</u>	4.9%
Operating Income	94,841,859	98,756,263	(3,914,404)	-4.0%
Interest Income	352,430	220,000	132,431	60.2%
Other Non Oper. Income	2,000,000	0	2,000,000	<u>100.0%</u>
Income Before transfers	\$ <u>97,194,289</u>	\$ <u>98,976,263</u>	\$ <u>(1,781,973</u>)	<u>-1.8%</u>
Net Proceeds	\$ 97,582,528	\$ 102,931,131	\$ (5,348,603)	-5.2%

ADHE Transfer Analysis

	2012	2011	Over/Under	Cumulative
<u>Month</u>	<u>Transfers</u>	<u>Transfers</u>	<u>2011</u>	<u>Balance</u>
July, 2011	\$7,152,903	\$8,540,913	\$1,388,010	\$1,388,010
August	7,543,554	7,966,836	423,282	1,811,292
September	6,973,180	7,404,758	431,578	2,242,870
October	8,133,706	7,215,546	918,160	1,324,710
November	7,994,126	8,256,269	262,143	1,586,853
December	7,888,279	6,696,765	1,191,514	395,339
January, 2012	5,522,747	9,033,775	3,511,028	3,906,367
February	9,729,593	8,229,742	1,499,851	2,406,516
March	12,827,373	10,292,244	2,535,129	128,613
April	7,066,188	8,397,458	1,331,270	1,202,657
Мау	7,571,654	8,521,785	950,131	2,152,788
June	<u>9,179,225</u>	3,673,258	5,505,967	3,353,179
Totals	<u>\$97,582,528</u>	<u>\$94,229,349</u>		

Prizes Paid in July

Play it Again Draw

\$1,000,000

\$50,000

\$25,000

\$20,000

\$2.000

Total \$1,097,000

Harley-Davidson Motorcycles

\$33,475 X 2

Total \$66,950

Claim Centers \$5,000 and above Instant Tickets

\$100,000 (In the Money)

\$77,777 (Jewel 7's)

\$100,000 (\$50,000 X 2 – Betty Boop Crossword & Spicy Cash Crossword)

\$50,000 (\$25,000 X 2 – Wild 10's)

\$21,000 (Deluxe 7-11-21)

\$25,000 (\$12,500 X 2 – Wild 10's)

\$100,000 (\$10,000 X 10 – (AR Millionaires, In the Money, Money Maker)

\$32,000 (\$8,000 X 4 – Electric 8's)

\$14,000 (\$7,000 X 2 – Jewel 7's)

\$160,000 (\$5,000 X 32 – AR Millionaires, Deluxe 7-11-21, Red Hot Fiery 5's,

Sunny Money, Wild 10's)

Total \$679,777

Points for Prize Drawings

\$23,603 (Cantabria Spa)

\$7,470 (Fishing Package 5 X \$1,494)

Total \$ 31,073

Claim Centers \$5,000 and above Terminal Games

\$19,759 (Arkansas 50/50)

\$40,000 (Mega Millions)

\$20,000 (\$10,000 X 2 Decades of Dollars)

\$15,200 (Cash 4 - \$10,000 & \$5,200)

Total \$94,959

Prizes Paid 7/1/12 - 7/23/12 (Claim Centers \$5,000 and above) TOTAL = \$1,969,759.

Natural State Jackpot



- Arkansas Exclusive Lotto style game
- Game starts Monday August 27th
- Pick 5 of 39 (or have computer select)
- \$1 per play
- Draws are Monday through Saturday (8:00 p.m.)
- Jackpot starts at \$25,000 and rolls by \$5,000
- Match 5 Jackpot
- Match 4 \$300
- Match 3 \$7
- Match 2 \$2
- Based on sales estimates and odds, the average jackpot should be approximately \$158,000

MEDIA

Radio

:15 Launch

:30 Prelaunch/Launch

Eblasts

Video Pump Signage

TV

:15 Prelaunch

:30 Launch

Facebook Promotion

Electronic Billboards(3)

Newspaper (state-wide)

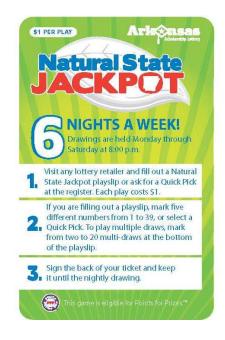


RETAIL SIGNAGE

Street Talker



Wallet Card





RETAIL SIGNAGE

Door Cling



Counter Mat







PUMP SIGNAGE

Hose Signs



Pump Signs



RETAILERS

Newsletter





PRIZE	CAT	EGO	RIES	AND	ODDS

Matching Numbers	NSJ Prizes	Game Odds
00000	*JACKPOT	1 in 575,757
0000	\$300	1 in 3,387
000	\$7	1 in 103
00	\$1	1 in 10

*Jackpot prize will be divided equally among the number of Matching 5 of 5 winning tickets in a draw.

A Message From the Arkansas Scholarship Lottery:

The dust has settled on fiscal year 2012, but with the end of the year comes good news for Arkansas college-bound students, the Arkansas Scholarship Lottery and our retail partners. The Arkansas Scholarship Lottery ended FY 2012 more than \$10 million ahead compared with annual sales from the previous fiscal year. The Arkansas Lottery Commission amounced total annual sales of nearly \$475 million; unaudited results were \$474.067.276.

"The people of Arkansas voted in favor of starting a lottery because they wanted our citizens to have a better chance of going to coilege and getting a degree," ALC Chairman Ben Pickard said. "Ten million dollars more in sales was not easy to achieve. I commend the great work of the lottery staff for getting through a difficult year and keeping their eye on the ball to get this done. All of us know our only mission is to maximize scholarship dollars."

Arkansas Scholarship Lottery Director Bishop Woosley said he was optimistic that scholarship funding this year will outstrip those of previous years: "With the 64,708 scholarships [awarded] thus far, 'he said, 'it appears the people of Arkansas are getting more familiar with the lottery and see that it is doing a lot of good."

Also, we're excited about the new Natural State Jackpot 5-digit lotto style game that launches August 27, with drawings ix nights a week. The game's jackpot starts at \$25,000 and increases by \$5,000 every draw until it is won. You will be receiving new door clings and other signage for the game next month. Ask your marketing sales rep for more details.

Jackpot Stickers



PROMOTIONAL ITEMS

T-Shirts

Play Slip Holder

