

**MINUTES  
SOUTH CAROLINA  
EDUCATION LOTTERY COMMISSION  
February 13, 2008  
10 A.M.**

A meeting of the South Carolina Education Lottery Commission was held at 10 a.m. on Wednesday, February 13, 2008, in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following Commissioners present:

Tim Madden, Chairman  
Jimmy Bailey, Jr., Vice Chairman  
Moffat Burriss, Treasurer  
Ashley Landess, Secretary  
Dr. Edward Keith

Commissioners Lisa Stevens, Boykin Rose, and Nathaniel Spells, Sr. participated by teleconference.

The Chairman called the meeting to order.

**Approval of Minutes**

On a motion of Commissioner Burriss, seconded by Commissioner Bailey, the minutes of the November 14, 2007 meeting were unanimously approved.

On a motion of Commissioner Burriss, seconded by Commissioner Bailey, the minutes of the December 12, 2007 meeting were unanimously approved.

**Intralot Presentation**

The Chairman recognized Tom Little, Intralot President and CEO, to give an overview of the company and to introduce several members of the senior management team as well as the on-site project manager for the conversion. Intralot was awarded the online lottery services contract as a result of a competitive procurement process which successfully concluded December 31, 2007, without protest.

Mr. Little explained that Intralot began with four employees in 1988 as a division of Intercom (a communication company in Greece) to promote lottery services for the National Lottery Organization of Greece (OPAP S.A.). Intralot began to expand into Europe and in 1999, Intralot became a publicly-traded company on the Athens Stock Exchange. Currently, Intralot's gross revenue is \$3.5 billion a year, making it the second largest lottery services company in the world, based upon revenue. The company has 4,000 employees throughout the world. Mr. Little also explained that liquidated damages have never been assessed against the company, and it has never lost a contract during a rebidding process.

Lee Wilson, on-site project manager for the conversion, was introduced by Mr. Little. Mr. Wilson provided an overview of the three phases of the conversion process which, to a degree, will overlap. First, extensive meetings with SCEL staff, which have already begun, to assist Intralot staff in learning more about SCEL operations and to educate SCEL on all aspects of Intralot's software. This phase focuses on the initial software design and the back office applications that will comprise of the core of the new online gaming system (instant ticket inventory control, ticket ordering, validation of claims, and all billing and retailer accounting modules). This phase culminates with extensive testing using test data to ensure all facets perform as designed and any refinements are incorporated as needed. Plans for data conversion also will occur during this phase. The second phase entails several steps relating to the deployment of equipment in the retail outlets and retailer training. Installation of the satellite dish and the communication equipment along with some inside wiring will begin in April and continue into the summer; deployment of the new sales terminals will occur in August and September and the old sales terminals will be removed in November. The final phase involves converting the necessary data from the old system to the new system and extensive testing of the final software applications. This phase will occur from August through November. The scheduled cut-over date from the SGI system to the Intralot system is November 4, 2008; this date was chosen because no sales are allowed on Election Day. It is anticipated that forty-five new employees will be hired by Intralot as permanent staff once the conversion process has been completed.

Demonstration equipment, representing what will be installed in each retail outlet, was available at the meeting to afford Commissioners the opportunity to review this equipment and its operations following the meeting.

## **Reports**

### **Collection RFP**

SCEL utilizes a private debt collection agency as one of several means to collect on outstanding debt owed by former lottery retailers. The contract with the incumbent private debt collector expired December 31, 2007, and is currently in effect on a month-to-month basis. Hogan Brown, Director of Legal Services, explained that prior to the contract's expiration, SCEL contacted the S.C. Budget and Control Board's Materials Management Office (MMO) to begin preparing a new solicitation for collection services. Unexpectedly, the Request for Proposals (RFP) was released by MMO in December before staff had an opportunity to brief the Board.

A memo was provided in the meeting packet outlining what has occurred regarding this procurement and the difference of opinion between SCEL staff and MMO staff. Mr. Brown explained that during the contract period which ended in December, MMO valued the contract at the total value of delinquent retailer accounts (\$947,000). SCEL staff believes the potential value of this contract is significantly lower as the revenue to the vendor is based on a percentage of the sums collected pursuant to the contract. For example, under the existing collections contract, less than \$2,000 was paid to the vendor for the entire three-year term. Consequently, staff is bringing the disputed value of the debt collection contract to the Board's attention as an information item.

### **Marketing Report and Quarterly Advertising Review**

Prior to beginning the advertising review, David Barden, Director of Marketing and Product Development, mentioned several items.

Mr. Barden explained that the Marketing and Product Development and Sales and Retailer Relations departments teamed-up during the MegaMatch 6 launch week of February 4<sup>th</sup> - 8<sup>th</sup> for various activities to promote the game. Staff received positive feedback from players on the new play style and believes the collaborative efforts at more than 200 retail locations across the state were a huge success. Mr. Barden also reported that the "cannibalization effect" on Palmetto Cash 5® from the launch of the new MegaMatch 6 game was less than anticipated. Staff will continue to monitor the performance of Palmetto Cash 5® and may recommend refining or a revamping the play style of the game to the Board in 2009.

Although many details remain to be finalized, staff is planning a "Summer Escape 2008" theme for the summer promotion. The tickets and prizes will focus on trucks, cruises, and frequent flyer miles as part of the game prize pool and the second-chance draws.

As previously mentioned at the November 14, 2007 Board meeting, the Marketing and Product Development Department is working with the Legal Department to procure a digital copier to replace the existing copier as the lease has expired. Mr. Barden explained that initial efforts to lease a new copier proved unsuccessful and that SCEL was working with MMO staff to explore other options which may include a purchase if it is cost-effective. Staff will keep the Board informed as this process moves forward.

To facilitate the quarterly advertising review,<sup>1</sup> print media items and a DVD containing broadcast spots were distributed to Commission members in the meeting package provided prior to the meeting. A website link is also available for Commissioners to view, prior to airing, all major media campaign commercials produced by Mad Monkey, SCEL's advertising vendor. Among the items reviewed were:

- Radio – Palmetto Cash 5®, Powerball®, and "Give a Little Jingle" Holiday tickets
- Television – MegaMatch 6, Palmetto Cash 5®, Powerball®, "Give a Little Jingle" Holiday tickets, and Palmetto Tree (Cash on the Spot & On the Money)

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<sup>1</sup> SCEL's enabling legislation requires a quarterly review by the Board of "all past lottery advertising and proposed concepts for major media campaigns to ensure that the advertising did not and does not target with the intent to exploit specific ethnic groups or economic classes of people, and that the content is accurate and not misleading."

- Video Market Place – MegaMatch 6 and Beneficiary Awareness
- Styrene Pieces – Palmetto Cash 5® and “Give a Little Jingle” Holiday tickets
- CDU – MegaMatch 6
- Play station posters – MegaMatch 6, recent winners, and Cash on the Spot/On the Money

Additional items included MegaMatch 6 POS and promotional items: large window poster, tri-fold brochure, “tear-a ways,” wallet card, pump squawker, ticket dispenser topper, pump sign, wobbler, koozie, stickers, and t-shirt; new play pane with MegaMatch 6; winning numbers calendar with MegaMatch 6; beneficiary writing surface; Palmetto Cash 5® t-shirt; Powerball® t-shirts; Extreme \$500 writing surface; and a 3 Times Lucky Add-A-Play writing surface.

No objection was expressed concerning the advertising material submitted to the Commissioners for review. It was therefore the consensus of the Board that SCEL’s past advertising and proposed concepts for major media campaigns did not and do not target with the intent to exploit specific ethnic groups or economic classes of people, and that the content is accurate and not misleading.

#### **Executive Director’s Report**

Mr. Passailaigue briefed the Board on the complexity of constructing the online Request for Proposals (RFP) that lead to the successful award of a new online contract on December 31, 2007, without protest. He praised SCEL staff who developed the RFP, the RFP evaluation team, and the ITMO staff for their extensive efforts and outstanding work. The complete process led to a result that ultimately benefits the stakeholders of South Carolina through reduced costs over the term of the contract. The equipment and software offered by Intralot may also open up new marketing opportunities for SCEL. Mr. Passailaigue looks forward to a continued successful partnership with SCEL’s instant ticket vendor, Scientific Games International, Inc. (SGI). He also acknowledged SGI for being an integral part of SCEL’s launch in 2001 and SCEL’s success over the past six years.

An overview of SCEL’s FY08 sales from July 1, 2007 through January 31, 2008, including product revenue comparisons for the same time frame in FY07, was presented. The difference (\$26.4 million) between the fiscal years is primarily due to a decline in online game and Powerball® sales. Despite the decline, the revenue for the first seven months of FY08 (\$551.3 million) puts SCEL on target to meet the internal sales goal of \$935 million and possibility exceed expectations. The financial information has been communicated to the Board of Economic Advisors (BEA).

The transfer of net proceeds to the Education Lottery Account (ELA) for the first seven months of FY08 (July 2007 through January 2008) reflects a decrease of \$5.5 million from the same period in FY07. Through January, SCEL has transferred \$153.8 million to the ELA which is 61% of the BEA’s FY08 revenue transfer estimate of \$252.4 million. SCEL’s annual report and other financial data, including expenditures, are available on our website.

Mr. Passailaigue reminded Commissioners that all claims in excess of \$500 either must be presented at one of the four claims centers or mailed in for validation and payment. Based upon the addresses of claimants, Mr. Rhodes estimated claims presented by North Carolina residents as a percentage of all claims processed. Since the launch of the North Carolina lottery, the estimate of nearly thirty-five percent play by North Carolina residents dropped to approximately twenty percent, but has improved slightly in recent months. Mr. Passailaigue believes the recent uptick is a result of the loyal nature of the player base to the products and prize percentage payouts offered.

Mr. Passailaigue reported on the “The Lottery Dollar” breakdown for FY08 through January 31, 2008. It is distributed as follows:

- 61.8% Prizes
- 26.9% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.7% Gaming Costs (Vendor)
- 1.8% SCEL Internal Administrative Costs
- 0.7% Advertising

Mr. Passailaigue commented that the net proceeds percentage had fluctuated slightly since start-up for a variety of reasons. Initially, SCEL launched with \$1 and \$2 price point instant tickets which typically yields a higher prize percentage payout than online games. Once online games were added as part of the product mix, the prize percentage payout decreased slightly because the online prize percentage typically is approximately 50%. Adding \$5 and \$10 price point instant tickets, which generally have prize percentage payout in excess of 70%, obviously affected the overall payout percentage. The combination of the prize payout for all instant tickets and online games results in an average an overall prize payout of just over 60%. He further explained that the overall cost structure of the gaming contracts are essentially fixed along with most administrative expenses. As the revenue increases throughout the fiscal year, the overall percentage of the administration expenses and gaming contracts decreases. The same holds true for the advertising expense percentage as two of the major campaigns occur in the summer and late fall of each year. In sum, Mr. Passailaigue explained that staff continues to monitor gross sales in relation to the payout percentages and expenses to maximize the net transfer of proceeds to the ELA.

Mr. Passailaigue, who is a member of the Multi-State Lottery Association (MUSL) Powerball® Development Committee, explained that the Committee met in November 2007 to discuss possible changes to the Powerball® matrix. No action was taken at the meeting as it was decided more research was needed on the various options under consideration. There will be another meeting in Des Moines, Iowa, at the end of March to discuss the research results. The Development Committee may be ready to vote at that time or the decision may be deferred to a later meeting. Implementation of any Powerball® matrix change may occur near the critical time of the transition to the Intralot online system.

Finally, Mr. Passailaigue reminded the Board he would attend the North American State and Provincial Lotteries' (NASPL) Winter Directors meeting in Philadelphia. He invited Commissioners to attend the Public Gaming Research Institute International (PGRI) SMART-TECH conference which SCEL will be a co-hosting in Charleston from April 28<sup>th</sup> through May 1<sup>st</sup>.

**Other Business**

The Chairman recognized Hogan Brown to provide a brief update on Cuming v. SCEL. Mr. Brown reported that a hearing was held the previous week before Judge Seymour on the motion for certification of the plaintiff class. No ruling was made at the conclusion of the hearing. The Board will be informed immediately upon the decision of the court.

There being no further business, the meeting was adjourned.

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Timothy E. Madden, Chairman

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Ashley Landess, Secretary

As required by Section 30-4-80, the notification of this meeting was posted at SCEL headquarters, 1333 Main Street in Columbia. As provided in the Commission bylaws, the meeting notice and agenda were also posted on the SCEL website, sceducationlottery.com, and sent via facsimile transmission pursuant to requests made by media outlets and other organizations. These notifications included the time, date, place, and agenda of the meeting.