

**SOUTH CAROLINA EDUCATION LOTTERY  
BOARD OF COMMISSIONERS MEETING  
MINUTES  
August 7, 2013  
10:00 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, August 7, 2013, at 10:00 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following members participating:

Tim Madden, Chairman  
Dr. Edward Keith, Vice Chairman  
Sam Litchfield, Secretary  
Peter Bristow  
Otis Morris, Jr.  
Keith Munson  
Lee Edwards

Commissioners Nancy Latham, Treasurer, and Karen Ballentine were unable to attend.

The Chairman called the meeting to order.

**Approval of Minutes**

On motion of Commissioner Munson, seconded by Commissioner Litchfield, the Board unanimously approved the minutes of the May 1, 2013 meeting.

**Reports**

**Marketing Report and Quarterly Advertising Review**

Jay Johnson, Director of Marketing and Product Development, reviewed the quarterly advertising material<sup>1</sup> presented to the Board in advance of the meeting. The DVD for this review included:

---

<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."

- Television Broadcast: Guy Harvey instant ticket;
- Player Information Display: Guy Harvey instant ticket,<sup>2</sup> Mega Millions® Winner Awareness, Palmetto Cash 5 Winner Awareness, and Powerball® Winner Awareness;
- Play Station Posters: June 4<sup>th</sup> Games, FAN-tastic! second-chance; Guy Harvey instant ticket;
- Writing Surface Posters: Cash Count Up Add-A-Play/May Games, June 25<sup>th</sup> Games, and July Games;
- Ticket Topper: Guy Harvey instant ticket; and
- Outdoor Digital Billboard: Guy Harvey instant ticket, Carolina Cash 6 Winner Awareness, and FAN-tastic! second-chance draw.

The DVD also contained a Guy Harvey window poster, buckslip, and T-shirt; CleanSweep buckslip, and a beneficiary message (sports sponsorship) advertisement.

No objections or concerns were expressed regarding the advertising materials 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.

#### **MSR Presentation – Kevin Tawes**

Paula Harper Bethea, Executive Director, introduced Kevin Tawes, Marketing and Sales Representative (MSR) in the North Charleston area. Mr. Tawes presented an overview of the day-to-day responsibilities of an MSR beginning with preparing for a retailer visit to describing a typical in-store visit. Among other tasks, an MSR must ensure SCEL products are properly displayed and that all SCEL materials, including games, advertising, and statutorily mandated information, are current. He also explained retailer training relating to SCEL rules and regulations for our products as well as training to enhance sales through effective display of point of sale material, jackpot awareness, and winner awareness. He stressed the importance of an MSR developing cordial, positive, and professional relationship(s) when providing customer service.

#### **Financial Update**

The Chairman recognized the Director of Finance, Joe Boyle, to provide a financial update. Mr. Boyle highlighted various items in the Financial Report presented in the meeting materials. The total transfer to the Education Lottery Account (ELA) in FY13 was \$300.6M, up from \$297.7M in FY12. SCEL exceeded the Board of Economic Advisors Transfer Projection of \$252.4M by 19.1%. FY13 gross game revenue was \$1,199.2M compared to \$1,135.6M in FY12.

Sales were broken down between instant and terminal games to show the margins achieved by each in total dollars and on a percentage basis. Instant game margin was slightly lower due to sales growth in the lower margin \$10 ticket category. The margins on terminal games

---

<sup>2</sup> This Player Information Display was not contained on the DVD and was reviewed at the Board meeting.

were down more significantly (a decrease of 2.27%), which Mr. Boyle attributed to statistical variations and not necessarily indicative of a long-term trend.

Mr. Boyle summarized year-end FY13 in relation to FY13 expectations and reported:

- Revenue increased by \$218 million;
- Gross profit increased by \$38.2 million;
- Operating expenses decreased by \$2.0 million;
- Advertising decreased by \$1.3 million;
- Administrative expenses decreased by \$0.7 million; and
- Net income increased by \$40.8 million.

### **Executive Director's Report**

Mrs. Bethea announced that the Legislative Audit Council (LAC) is beginning its statutorily required audit of SCEL operations that is performed every three years. The scope of the audit will be developed in the fall. Bethany Parler, Director of Audit Services, introduced the lead LAC auditors: Andrea Truitt and Caroline Overcash.

Mrs. Bethea congratulated SCEL staff and SCEL's vendors and retailers who all worked to achieve the most successful fiscal year in both sales and transfers to the ELA since FY06 (the year prior to North Carolina launching a lottery). SCEL will also continue to consider cost-cutting measures and is currently reviewing a consolidation of office space.

Mrs. Bethea announced that in early June the Materials Management Office (MMO) posted an award for the instant ticket production, warehousing, and distribution services contract to Scientific Games International (SGI). This is the third Request for Proposals issued for these services since 2001 and SGI has been awarded the contract each time. The term for the new award will begin October 1, 2013 and will expire September 30, 2020. The total contract value ranges from \$42M-\$50M depending upon the quantity and types of tickets ordered and the number of ticket shipments.

Mrs. Bethea introduced Jim Kennedy, President of Instant Products & Chief Marketing Officer<sup>3</sup> of SGI. Mr. Kennedy spoke briefly about SCEL's sales. SCEL's instant game sales increased 6.14% over the most recent fifty-two weeks while the industry average was 4.55% over the same fifty-two week period. Using the same timeframe, SCEL's total sales growth increased 5.63% compared to the industry of growth of 3.83%. Mr. Kennedy thanked the Board and SCEL staff for the continuing business relationship and the opportunity to build upon existing successes.

SCEL recently launched a new \$5 instant ticket, featuring conservationist and artist, Guy Harvey. Players have responded well to this game and SCEL is preparing a press conference to promote the ticket. SCEL will release a \$3 price point instant ticket featuring Honda all-

---

<sup>3</sup> On September 17, 2013, after an organizational restructuring of SGI into two industry groups: Gaming and Lottery, Mr. Kennedy was named Executive Vice President, Group Chief Executive of Lottery.

terrain vehicles as prizes. A press conference is planned for early September at the Honda headquarters in Timmonsville, South Carolina, where the vehicles are manufactured.

Mrs. Bethea announced that MMO is in the process of awarding a secondary instant ticket printing contract under which up to five instant games could be ordered per year at SCEL's discretion.

Mrs. Bethea reported that, pursuant to Board policy,<sup>4</sup> a transfer of \$47,718.76 from the Fidelity Fund to the ELA occurred in June. The Fidelity Fund, established by statute<sup>5</sup> from fees paid by retailers, is used to offset uncollectable accounts of former retailers. SCEL's collection efforts include the use of a private debt collection agency, the Government Entities Accounts Receivable (GEAR) program (which can establish a tax lien and/or garnishment), and filing lawsuits using in-house resources.

Mrs. Bethea will be attending the North American Association of State and Provincial Lotteries (NASPL) annual meeting in Providence, Rhode Island, in October. Mrs. Bethea currently serves as 2<sup>nd</sup> Vice President of NASPL and it is anticipated she will be elected 1<sup>st</sup> Vice President at the annual meeting.

SCEL continues to monitor the sales performance and profitability of all games. On April 2, 2013, SCEL launched Carolina Cash 6. Initially this terminal generated game was well received by players as projected by focus groups and market research. Despite a generous payout compared to other terminal games, sales have slumped significantly and this game has cannibalized Palmetto Cash 5 sales. Mrs. Bethea requested permission of the Board to end Carolina Cash 6 and begin the taper-down process.

**Motion Adopted**

Commissioner Edwards moved to authorize the Executive Director to end Carolina Cash 6 and to begin the taper-down process of the game. Commissioner Keith seconded the motion, which was unanimously approved by the Board.

There being no further business, the meeting was adjourned.

\_\_\_\_\_/s/  
Timothy E. Madden, Chairman

\_\_\_\_\_/s/  
Sam Litchfield, Secretary

As required by § 30-4-80, notification for this meeting was posted at SCEL headquarters, 1333 Main Street in Columbia. As provided in the Board 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.

<sup>4</sup> Legal and Security Committee – September 27, 2005.

<sup>5</sup> Established in Section 59-150-170(A).