

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
December 13, 2012
1:30 P.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Thursday, December 13, 2012, at 1:30 p.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*
Moffatt Burriss, Treasurer
Sam Litchfield, Secretary
Nancy Latham
Peter Bristow
Karen Ballentine
Lee Edwards

The Chairman called the meeting to order.

Approval of Minutes

Commissioner Edwards requested the inclusion of a comment he made during the consideration of the Audit Committee report in the August 8, 2012 Board minutes. Mr. Edwards requested advance notice when a change in the compensation of the Internal Auditor or the Executive Director is to be considered by the Board. Without objection, this amendment was adopted. On motion of Commissioner Burriss, seconded by Commissioner Keith, the August 8, 2012 Board minutes were approved as amended.

Election of Officers

The Chairman recommended the current slate of officers for re-election: Tim Madden, Chairman; Dr. Edward Keith, Vice Chairman; Moffatt Burriss, Treasurer; Sam Litchfield, Secretary; and Nancy Latham, Executive Committee, Member at Large. The new term of the office begins on January 1, 2013.

Commissioner Burriss indicated he did not wish to seek re-election as Treasurer. The Chairman then opened the floor for nominations for each office.

*Due to an unforeseen scheduling conflict, Dr Keith participated via teleconference.

Motions Adopted

Lee Edwards nominated Tim Madden to serve as Chairman. Sam Litchfield seconded the motion and by acclamation, the Board unanimously elected Tim Madden.

Lee Edwards nominated Edward Keith to serve as Vice Chairman. Nancy Latham seconded the motion and by acclamation, the Board unanimously elected Edward Keith.

Sam Litchfield nominated Nancy Latham to serve as Treasurer. Edward Keith seconded the motion and by acclamation, the Board unanimously elected Nancy Latham.

Edward Keith nominated Sam Litchfield to serve as Secretary. Nancy Latham seconded the motion and by acclamation, the Board unanimously elected Sam Litchfield.

Tim Madden nominated Peter Bristow to serve as the Member at Large, Executive Committee. Lee Edwards seconded the motion and by acclamation, the Board unanimously elected Peter Bristow.

Instant Ticket RFP

SCEL's instant ticket production, warehousing, and distribution contract, currently with Scientific Games International (SGI), is set to expire in September 2013. Ms. Bethea informed the Board that staff would like to begin preparing a Request for Proposals (RFP) in early 2013 for instant ticket production, warehousing, distribution, and other services.

Motion Adopted

On a motion of Commissioner Bristow, seconded by Commissioner Latham, the Board unanimously approved beginning development of the "instant ticket RFP."

Chairman Madden directed staff to keep the Executive Committee apprised of developments as they arise during the RFP process. The Chairman also asked Commissioner Ballentine to work with staff on this project on behalf of the Board.

Reports

Marketing and Retailer Relations Committee Report

Sam Litchfield, Marketing, and Retailer Relations (M&RR) Committee Chair, briefly reviewed the minutes of the committee meeting held on October 17, 2012, which were included in the meeting materials provided in advance of the Board meeting.

Mr. Litchfield explained that development work continued on "Carolina Cash 6" since the Committee meeting and staff was now ready to seek Board approval for this game, which could launch as early as April of 2013.

Motion Adopted

On a motion of Commissioner Litchfield, seconded by Commissioner Edwards, the Board unanimously approved "Carolina Cash 6" and authorized the Executive Director to take all appropriate actions to implement this decision including rule-making authority and the discretion to establish an appropriate launch date.

Marketing Report and Quarterly Advertising Review

Jay Johnson, Director of Marketing and Product Development, reviewed the quarterly advertising material¹ presented to the Board in advance of the meeting. One DVD for this review included: Television Broadcast: Carolina Panthers, Mega Millions® Power of One series, and the Holiday 2012 instant tickets; and Player Information Display: Carolina Panthers, 10th Anniversary Add-A-Play, and the Holiday 2012 instant tickets. The second DVD included:

- Play Station Posters: August Games, 10th Anniversary Add-A-Play, September Games, Carolina Panthers, October Games, November Games, Holiday Games, and December Games;
- Writing Surface Posters: Powerball® and Mega Millions®, 10th Anniversary Add-A-Play, and Holiday Cash Add-A-Play and Carolina Riches;
- Ticket Topper: 10th Anniversary Add-A-Play and Holiday Games; and
- Carolina Panthers (window cling, t-shirt, outdoor digital billboard), new instant tickets outdoor digital billboard, and a sports sponsorship college football and basketball program ad.

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.

Financial Update

Ms. Bethea introduced SCEL's interim Director of Finance Joseph Boyle. He noted that year-to-date sales through October were \$370M, the highest since FY06. Prize payouts were correspondingly higher at \$240.5M. Sales growth is largely attributable to instant ticket sales of \$249.2M. Terminal generated games sales were \$120.8M (this total does not include the most recent Powerball® jackpot run). Operating and other controllable expenses are relatively static after declining over the past three years.

Through October, the FY13 transfer to Education Lottery Account (ELA) is \$89.9M. The November transfer, which occurred after the meeting materials were prepared, is \$27.5M, approximately \$6M more than the comparable period in the previous fiscal year.

The allocation of total revenue, from July 1 – October 31, 2012, was:

- 64.81% Prizes
- 24.92% Net Proceeds
- 7.03% Retailer and Sales Commissions
- 1.43% Gaming Costs (Vendor Costs and Supplies)
- 1.16% SCEL Internal Administrative Costs
- 0.65% Advertising

¹SCEL'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."

Executive Director’s Report

Ms. Bethea reported the Panthers instant ticket has been a great success for both SCEL and the Panthers. It was a popular game for SCEL, and the Panthers extended their advertising reach into South Carolina beyond the upstate area. Another ticket is under consideration for next year.

Ms. Bethea also acknowledged SCEL’s hard work in organizing and staffing the retailer education sessions (“retailer rallies”), held every other year to thank our retailers and their employees for their contributions to our success.

Del Collins, Deputy Director of Infrastructure, was recognized to give Board members an overview of the security measures used to protect against cyber-attacks, both internally and externally. SCEL employs a network engineer to monitor security. The South Carolina Inspector General recently acknowledged SCEL’s efforts in protecting sensitive information. SCEL works with law enforcement agencies, locally and nationally, to guard against cyber-attacks.

Ms. Bethea and Bethany Parler, Internal Auditor, reviewed the activities relating to embezzlement by a former employee in the Finance Department. The internal investigation into certain accounting discrepancies began on October 5, 2012, and SCEL requested a criminal investigation by the South Carolina Law Enforcement Division (SLED) on that day. The integrity and security of our games was never compromised. The employee who was the subject of the investigation was terminated on October 10th and on November 26th, SLED issued an arrest warrant. At the conclusion of the report, Chairman Madden applauded the quick and thorough work of SCEL staff and the diligent efforts of SLED to complete the criminal investigation in less than two months.

There being no further business, the meeting was adjourned.

/s/
Timothy E. Madden, Chairman

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.