

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
AUGUST 13, 2014
10 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, August 13, 2014, at 10 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
Nancy Cannon, Treasurer (via phone)
Sam Litchfield, Secretary
Karen Ballentine
Peter Bristow
Tom DeLoach
Otis Morris, Jr.
Keith Munson

The Chairman called the meeting to order.

Approval of Minutes

On motion of Commissioner Litchfield, seconded by Commissioner Munson, the Board unanimously approved the minutes of the May 14, 2014 meeting.

Action Item

Lucky for Life Game Discussion

Chairman Madden recognized Paula Harper Bethea, Executive Director. Mrs. Bethea called on Tony Cooper, Chief Operating Officer, Jay Johnson, Director of Marketing and Product Development, and Joe Boyle, Chief Financial Officer, to join the discussion on Lucky for Life (LFL). Tony Cooper has led the due diligence team.

Mrs. Bethea has been reviewing LFL for more than a year, and it provides a great opportunity to offer our players something new. It is a \$2, terminal generated multi-state game with a top prize of \$1,000 a day for life and a second level prize of \$25,000 a year for life. The lifetime payout (with a twenty-year minimum) offers marketing opportunities to distinguish it from other products and appeal to players in their twenties and thirties.

LFL began in the New England states and is now seeking to expand among some of the states that are not joining the initial launch of the national game this fall. The plan

anticipates a total of twelve to fifteen states (South Carolina would be the fifth largest state based on population) with a launch date in late January 2015. Given this timeline, a decision on SCEL's participation is needed by the end of August.

The LFL draw nights, Monday and Thursday, fall on nights without other multi-state drawings. North Carolina and Georgia are not currently planning to offer LFL, which may generate interest among players along the borders. The payout of 59.4% is in line with PC5 but given the much larger population base, payouts should not fluctuate like PC5 and should more closely follow statistical expectations. Although there may be some cannibalization of PC5 sales, LFL is not expected to impact Pick 3 and Pick 4. There are no current plans to end PC5. However, LFL could be a replacement game if the PC5 volume of play deteriorates further. LFL should enhance transfers by approximately \$5 million annually, partially depending on the impact LFL has on PC5.

Motion Adopted

Commissioner Bristow moved to authorize further due diligence on Lucky for Life and to authorize the Executive Director to take all necessary steps to offer this game if, at the conclusion of the review, she determines it is in the best interest of SCEL to launch this game in January 2015. Commissioner Litchfield seconded the motion, which was unanimously approved.

Reports

Audit Committee Report

Peter Bristow, Audit Committee Chair, was recognized to brief the Board on the Audit Committee meeting held at 9 a.m. Tom McNeish, CPA and shareholder of Elliot Davis, SCEL's audit firm, reported on the FY14 Financial Statement. There are no material misstatements concerning the conformity of the SCEL financial statements with applicable accounting standards. The full report will be ready by October 1, 2014.

Marketing Report and Quarterly Advertising Review

The Chairman recognized Jay Johnson to review the quarterly advertising material¹ made available to the Board in advance of the meeting:

- Television: Play Responsibly
- Player Information Displays (PID): Play Responsibly
- Point of Sale (Print): Clean\$weep, Carolina Panthers, New Games, Play Responsibly
- Digital Billboard (outdoor): Bucks of Fun, Carolina Panthers Big Win!, Honda Final Entry Deadline – July 8, Play Responsibly
- Online Advertising: Cash Count Up 2014, PC5 – Winner, Powerball – \$1 Million Winner, Powerball – \$50,000 Winner
- Print Advertising: Beneficiary – Education, Black Expo, College, Community Ads

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."

Mr. Johnson explained the upcoming Instant Replay Promotion for \$1 and \$2 price point instant games, which allows the customer to download an app and scan a non-winning ticket to enter it into a second-chance draw. If the promotion is successful, SCEL will look at other ways to incorporate apps or other electronic interaction with our players.

No objections or concerns were expressed regarding the advertising materials submitted to the Commissioners for review at this meeting. It was therefore the consensus of the Board that SCEL's past advertising and proposed concepts for major media campaigns, presented today, 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

The Chairman recognized Joseph Boyle to highlighted key year-end items in the Financial Report, presented in the meeting materials. Transfers increased from \$300.6M to \$323.4M (the FY15 transfer is projected at \$298M).

Game Revenue increased \$65.2M to \$1.264B (terminal game revenue of \$388.9M, instant revenue of \$875.5M). Instant Game Revenue increased by \$69.6M, while Terminal Game Revenue decreased \$4.3M (Powerball was down \$24.1M (20.5%) and Mega Millions was up \$18.9M (57.8%) due to the number and magnitude of the jackpot runs. \$10 instant ticket game revenue increased by \$74.1M (15.5%), while other instant price points were down \$4.5M (\$3.8M of the decrease was in in the \$5 price point).

Direct Game Costs were \$16.5M compared to \$16.1M in FY13. Both of these items were consistent from FY13 to FY14 in relation to total revenue. Advertising expense was \$7.4 million in both fiscal years. G&A Expenses (the primary component of which is employee compensation) were \$13.1M in FY14 and \$13.5M in FY13.

Executive Director's Report

Mrs. Bethea addressed the South Carolina Association of Convenient Stores annual meeting on Hilton Head Island in July. She thanked the retailers and acknowledged their efforts. Representative Brian White, Ways and Means Committee Chair, was in the room for the presentation and offered positive feedback.

South Carolina hosted NASPL's professional development seminar in Myrtle Beach in July. There was record attendance. This is another demonstration of SCEL's economic impact on our state. Mrs. Bethea recently met with Governor Haley to discuss economic drivers in South Carolina. Interestingly, SCEL transfers only \$5M less than is generated from corporate income tax each year. The revenue from retailer commissions (7%) is important to the local communities.

Mrs. Bethea recognized the employees who worked tirelessly throughout the consolidation and refresh of our fourth floor, particularly the Security and IT personnel. She also acknowledged the efforts of JoAnn Hastie and Lynette Crolley, who led the day-to-day logistics of the refresh and the move. On August 1, 2014, the new lease became effective. SCEL will save at least one-half a million dollars over the life of the lease. Finally, Mrs. Bethea discussed sustainability of sales and transfers considering how events beyond our control can occur, evidenced by the difference in our margins in the

first month of this fiscal year compared to last year. Moving through the new fiscal year, staff will look to Board for counsel as we strive to transfer \$325 million year-in year-out. Over the last several years, operating expenses have been cut by almost \$2M. Since 2009, SCEL has gone from 149 employees to 115, with no layoffs. Overall, SCEL's controllable operating expenses are approximately 1.2% of revenue and further cuts may adversely affect operations.

Executive Committee Report

The Executive Committee met at 9:15 a.m. to evaluate the performance of the Internal Auditor and the Executive Director. The Committee considered job performance in relation to the stated criteria for the position, a self-evaluation, and input from others.

Evaluation of the Internal Auditor

Mrs. Parler received a very favorable review, and the Committee recommended a salary adjustment of 3% to the Board.

Motion Adopted

The Board adopted the recommendation of the Executive Committee and unanimously approved a 3% salary adjustment.

Evaluation of the Executive Director

Mrs. Bethea received a very favorable review, and the Committee determined that an adjustment to her compensation is appropriate; however, for the fourth year in a row, Mrs. Bethea declined an increase. Chairman Madden thanked her for her service and indicated that the Committee and Board will continue to look for ways to ensure Mrs. Bethea is compensated appropriately.

Other Business

The next Board Meeting will likely to be changed and the new date will be posted as soon as it is set. At that meeting, officers will be elected for 2015.

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 administrative offices, 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.