



M E M O R A N D U M

Date: May 13, 2009

To: California State Lottery Commission

From: Joan M. Borucki
Director

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Subject: Item 9(e) – Amendment to Extend the Term of Scientific Games
International Inc. Instant Ticket Printing Contract

ISSUE

Should the California State Lottery Commission (Commission) approve an amendment to the Scientific Games International Inc. Instant Ticket Printing contract to extend the contract term for four years with an additional expenditure authority of \$25 million for a total contract expenditure authority of \$58 million for Contract #9513?

RECOMMENDATION

Staff recommends that the Commission approve an amendment to the Scientific Games International Inc. Instant Ticket Printing contract to extend this contract for four years. To accommodate this extension, staff recommends that the Commission approve an additional expenditure authority of \$25 million for a total contract expenditure authority of \$58 million for Contract #9513. This extension will guarantee current pricing which is currently one of the lowest rates in the industry.

BACKGROUND

A key component of the California State Lottery's (Lottery) product line is its instant games, known as Scratchers®. Each year, the Lottery introduces between 40 and 45 new Scratchers games. Each game is comprised of millions of tickets that sell for between \$1 and \$5 each. There are only three North American manufacturers of Scratchers games: Scientific Games International Inc., Pollard Banknote Ltd. and GTECH Printing Corporation. All of the lotteries in North America rely on these three companies to provide them with their instant games.

In the past, the Lottery, as well as most US lotteries, generally depended on just one company to print all of its games. However, in recent years, the industry trend has been to contract with more than one of these three companies to reduce costs by encouraging competition and to fully leverage the proprietary printing technologies and game features that the individual vendors can provide. Accordingly, on June 29, 2005, the Commission awarded four contracts for the production of Scratchers games. Scientific Games International Inc. (SGI) was awarded a four-year contract with a total expenditure authority of \$33 million and the option to extend up to four additional years as the Lottery's principal instant ticket printer. Supplemental contracts were awarded to what are today GTECH Printing Corporation (GTECH) and Pollard Banknote Ltd. A fourth contract was awarded but that company has since been purchased and assimilated by SGI.

DISCUSSION

The Lottery has been very pleased with the ability of SGI and its supplemental vendors to deliver innovative games of high quality that have met our sales expectations.

The Lottery gauges the success of Scratchers games not only by weekly sales, but also by retailer feedback and consumer surveys. As the principal provider of our Scratchers games, SGI produces the majority of the instant tickets the Lottery offers every year. These games vary in themes, playstyles, and price from our \$1 game *Make me a Millionaire®* to our most recent \$5 game *\$100,000 Club*.

In assessing the overall performance of its ticket printing vendors, the Lottery also considers such factors as the overall quality of the tickets produced, the vendor's ability to meet the Lottery's timelines to launch new Scratchers games and how responsive the vendor is in resolving any problems that may arise related to production, distribution, security, and ticket accounting.

SGI provides an on-site graphic artist and coordinator and have assigned experienced and seasoned veterans to our account. They have the quickest turn around time, can turn on a dime, are the easiest to work with, know our business well, have fast and efficient printing presses, are accurate, resolve issues quickly, and have data, research, and analysis capabilities that are invaluable in determining which games will be effective in California.

The contract between the Lottery and SGI provides pricing for ticket printing at one of the lowest costs in the industry. Over the last year, SGI has engaged the Lottery in negotiations to add products and services to the extension in exchange for the Lottery accepting a higher price for instant ticket printing. Staff determined that SGI's offers were insufficient to warrant an increase in printing costs.

The Lottery's current contract with SGI allows the Lottery to unilaterally extend the contract on the same terms. The Lottery is satisfied with its current contract and

relationship with SGI. Therefore, staff believes it would be in the best interest of the Lottery to extend the contract with SGI at the existing terms and pricing.

Based on the cost benefit to the Lottery, and SGI's satisfactory performance to date, staff recommends that the Lottery exercise the full four-year contract extension option. This extension will require an additional expenditure authority of \$25 million to cover future Scratchers ticket printing costs. With the four-year extension, the new contract expiration date is June 30, 2013 and with the addition of \$25 million, the total contract expenditure authority will be \$58 million.