



M E M O R A N D U M

Date: May 24, 2012

To: California State Lottery Commission

From: Robert T. O'Neill
Director

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Subject: Item 8(c) – Amendment to Add Funds to Scientific Games International, Inc.
Instant Ticket Printing Contract

ISSUE

Should the California State Lottery Commission (Commission) approve an amendment to add \$15 million to the contract with Scientific Games International, Inc (SGI)?

RECOMMENDATION

California State Lottery (Lottery) Staff recommends that the Commission approve the amendment to add \$15 million to contract #9513 with SGI.

BACKGROUND

On June 29, 2005, the Commission approved the award of one principal instant ticket printing contract and three supplemental printing contracts. SGI was awarded the principal contract for the printing of Scratchers[®] tickets for a total contract expenditure authority of \$33 million and an extension option up to four additional years. On May 13, 2009, \$25 million was added to the contract for a total contract amount of \$58 million, and an extension of term for four additional years until June 30, 2013.

DISCUSSION

Assembly Bill 142 has provided the Lottery with the ability to offer Higher Prize Payout (HPP) games which contributed to our phenomenal sales growth and provided us with the ability to grow Scratchers sales by approximately 38% since 2009.

Due to Scratchers' sales increases and player demand in the marketplace, our SGI ticket production orders have increased from 758 million tickets in Fiscal Year (FY) 09/10, to 969 million tickets by the end of FY 11/12. In addition, the successful

introduction of our first \$10 game has also paved the way to continue offering higher price point games such as \$10 and \$20 games with larger than normal ticket runs.

In order to continue our sales momentum, the upcoming FY 12/13 Business Plan includes launching two \$10 games and ten \$5 games. In addition, it includes increasing the number of \$5 games carried by our Retailers from five to six, which will also necessitate increasing our ticket orders for all upcoming \$5 games.

The additional funding is also expected to cover the expenditures of any ticket reorders of games that sell exceptionally well.

Staff is recommending additional funding to the SGI contract under the existing terms for a total funding expenditure authority of \$73 million.