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## NORTH CAROLINA EDUCATION LOTTERY POLICIES AND PROCEDURES MANUAL

### CHAPTER 8 – SALES

#### 8.01 – RETAILER RULES AND REGULATIONS

##### **A. SCOPE**

The Retailer Rules and Regulations contain specific rules, regulations, procedures, instructions and directives which apply to Lottery Retailers as defined by the North Carolina State Lottery Act (“Act”). The North Carolina State Lottery Commission does business as the “North Carolina Education Lottery” or “NCEL”; instances of these tradenames throughout serve as a substitute for the agency’s official statutory name. The North Carolina Education Lottery (NCEL) will, from time to time, amend these Rules and Regulations and adopt new Rules and Regulations. When this occurs, all existing Lottery Retailers will be advised of these changes and updated on the Retailer Website for Reporting (<https://nc-lsp.lotteryservices.com>) and the NCEL Website ([www.ncлотtery.com](http://www.ncлотtery.com)). By signing a Retailer Contract, each Retailer agrees to comply with all terms, conditions, obligations and requirements of Retailers set forth in the Act and in these Rules and Regulations, as they may be amended from time to time.

##### **B. GENERAL RULES**

1. At each respective Retailer Business Location (defined below) listed in the Retailer Contract for which a certificate issued by the NCEL and authorizing the sale of NCEL Lottery Tickets (“Certificate of Authority”), each Retailer shall sell NCEL Lottery Tickets, but only for those Lottery games authorized by the NCEL. The Lottery games authorized by the NCEL, in its sole discretion, may include, but are not limited to, Scratch-Off Games, Draw Games, and any other games which may be developed, distributed and sold under the authority of the NCEL. For each of the NCEL Lottery games that the Retailer is authorized by the NCEL to sell, the Retailer shall abide by any and all Rules and Regulations adopted by the NCEL to govern each respective game.
2. No Lottery Retailer may sell any NCEL Lottery Tickets at any location unless that Lottery Retailer has in effect a Retailer Contract issued in accordance with the Act which has not been terminated, suspended, canceled or revoked. No Lottery Retailer shall sell any Lottery Tickets or Shares except from the location listed in its Retailer Contract and as evidenced by the display of a Certificate of Authority for such location (“Retailer Business Location”). However, in certain instances, the NCEL may issue a temporary Certificate of Authority to specifically authorize the sale of Tickets from a temporary location. An authorized Lottery Retailer may only sell Lottery tickets that have been issued to the authorized lottery retailer location. Lottery tickets issued may not be transferred to another Lottery Retailer location unless authorized by NCEL.
3. If the NCEL issues a Certificate of Authority for more than one Retailer Business Location listed in the Retailer Contract, to the extent that it may be necessary for administrative or regulatory purposes, the Retailer Contract shall be deemed a separate contract for each such Retailer Business Location. In the event that the NCEL and Retailer may enter into more than one Retailer Contract for any specific Retailer Business Location, whether at the time of Retailer Contract renewal or otherwise, the most recently dated Retailer Contract shall amend, renew, replace, and restate any prior Retailer Contract in its entirety for each of the Retailer Business

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Locations listed therein.

4. No Lottery Retailer can be exclusively engaged in the business of selling Lottery Tickets or shares or operating electronic computer terminals or other devices solely for entertainment at any Retailer Business Location.
5. No Lottery Retailer may sell Tickets from a mobile or residential location.
6. For each location at which Tickets are to be sold, a Retailer Contract is required which lists the designated location as a Retailer Business Location. A person or entity applying to become a retailer ("Applicant" or "Retailer Applicant") who desires to operate more than one (1) Retailer Business Location to sell Tickets must submit separate information for each such location in such form as the NCEL may require. The NCEL, in its sole discretion, may authorize the sale of Lottery Tickets for all, any or none of the NCEL's Lottery games from all, any, or none of the respective locations.
7. No Retailer Contract is assignable or transferable, in whole or in part, to any person or entity. No Retailer Contract is transferable to any location(s) other than as specified in the Retailer Contract. For purposes of a Retailer Contract, any of the following actions will be deemed to be an impermissible assignment of the Retailer Contract which may result in the Retailer Contract for that Retailer Business Location being suspended or revoked:
  - a. The change in ownership of a controlling equity interest in the Retailer.
  - b. The addition or deletion of any of the owners and/or the sale of all or substantially all of the assets of the Retailer; or a change in the location of the Retailer's business or in the nature of the business of the Retailer. Any proposed new owner must file a new application for a Retailer Contract. If prior notice is provided to the NCEL in writing at least thirty (30) days before any proposed business or location change or change in ownership, an interruption of Lottery Terminal operation may possibly be avoided.
  - c. The Executor of an estate managing the decedent's business will be exempt from the application fee.
8. An Applicant or Retailer shall notify the NCEL of any change in the information in the Applicant's or Retailer's most recent application for a Retailer Contract. The Applicant or Retailer shall notify the NCEL of the change within thirty (30) days following the date of the change.
9. No person shall sell a Ticket or Share at a price other than the price established by the NCEL. No person other than a duly contracted Lottery Retailer shall sell Lottery Tickets, but this shall not be construed to prevent a person who may lawfully purchase Tickets or Shares from making a gift of Lottery Tickets or Shares to another. Nothing shall be construed to prohibit the NCEL from designating certain of its representatives and employees to sell or give Lottery Tickets or Shares directly to the public.

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10. Lottery Tickets or Shares may be given by merchants as a means of promoting goods or services to customers or prospective customers, subject to prior approval by the NCEL.
11. Retailers shall not condition the sale of Lottery Tickets upon the purchase of any other goods or services and shall not impose any other unauthorized restriction or condition upon the sale or redemption of Lottery Tickets. Neither Retailer nor its employees shall request, demand or accept gratuities or other remuneration of any kind in exchange for the performance of any obligation required under the Retailer Contract, unless specifically authorized by the NCEL.
12. No Lottery Tickets shall be sold to any person under eighteen (18) years of age ("Minors"). Retailer shall establish such safeguards as are necessary to ensure that no sales are made or prizes paid to Minors.
13. Retailer shall place any vending machine utilized for the purpose of dispensing Scratch-Off and/or Draw Tickets only in locations on the premises which are within the view of such Retailer or an employee of same. Retailer is fully responsible for checking compliance to ensure sales transactions through the vending machine are proper. Each vending machine is equipped with a driver's license reader for age verification purpose only and a conspicuous label prohibiting its use by Minors.
14. Retailers shall not extend credit to the purchaser of Lottery Tickets nor accept a credit card, food stamps or such other governmental benefit card for the purchase of any Lottery Ticket. Lottery Tickets are considered sold as soon as they are provided to a player, unless they are returned and refunded in accordance with the applicable game rules.
15. Retailers shall not sell Lottery Tickets by mail, telephone, fax, Internet or other similar method of communication.
16. Retailers shall make the purchase of Tickets convenient and readily accessible to their customers during the Retailers' normal business hours, unless circumstances arise that are out of a Retailer's control and could not have been avoided by the exercise of due care. This requirement also applies to the American with Disabilities Act ("ADA") requirements.
17. Retailers with vending machine(s) shall issue a refund to a customer who presents a refund slip issued by the vending machine(s) from the Retailer's store. The Retailer shall then retain the refund slip until the end of the Retailer's reconciliation process, at which time the Retailer may either destroy or deface the refund slip. Not properly defaced refund slips presented to the NCEL will be paid the specified refund amount and the Retailer's account shall be adjusted for the value of the refund payment.
18. Retailers shall maintain a copy of "How to Play" Brochures for specified games being sold by the NCEL at all times.

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19. Retailers shall only accept official NCEL Play Slips that are manually completed. Photocopies and computer-generated Play Slips shall not be accepted.
20. Retailers shall not sell lottery Tickets or Shares in the State of North Carolina other than those authorized by the NCEL.
21. Retailers shall not convey to any person or entity any guarantee of a prize win.
22. Retailer shall attend training sessions from time to time, as requested by the NCEL. Retailers that change owners are required to attend a retailer training class even in situations when the same manager and/or employees are retained at the retailer location.
23. Retailer shall:
  12. Immediately report to the NCEL's Security Department any knowledge of unlawful activities or other improprieties that concern the operations of the NCEL or the NCEL's lottery games;
  - b. Report all stolen Scratch-Off Tickets to the NCEL's Security Department within twenty-four (24) hours of discovery.
  - c. File a police report for the alleged stolen Tickets within twenty-four (24) hours of the purported theft or discovery of the purported theft, and forward a copy of the police report to the NCEL's Security Department within seven (7) calendar days of the initial report of the alleged theft to the NCEL (see Scratch-Off Game Rules, Chapter 2.03);
  - d. Fully cooperate with the NCEL in the investigation of any lost, stolen, altered, or counterfeit Lottery Tickets or other unlawful or improper activities affecting the operations of the NCEL or the NCEL's games; and
  - e. Fully cooperate with any NCEL Security Department inspection of a retailer's security procedures, which will include full access, upon request, to all lottery-related accounting/tracking records, equipment, tickets, video recordings of transactions, etc.
24. If more than one Retailer Business Location is covered by a Retailer Contract, each location shall be listed on Page 2 attached to the Retailer Contract Application. Locations may be added or deleted from Page 2 by mutual agreement of Retailer and the NCEL, effective upon the date of a revised Page 2 signed by the Retailer. However, the NCEL may cancel, deny, revoke, suspend, terminate or refuse to renew the Retailer Contract with regard to any individual location(s) for any of the reasons set forth in Section F ("Termination, Cancellation, Suspension and Revocation of the Retailer Contract") of this Policy 8.01.
25. In the event that the Retailer's business, or any of its Retailer Business Locations, is sold, the Retailer shall continue to be liable for the successor owner's NCEL transactions as if the

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successor owner was an agent of the Retailer, unless and until timely written notice from the Retailer on or before such transfer is received by the NCEL specifically requesting cessation of NCEL sales at the transferred Retailer Business Location(s), followed by a reasonable period of time for the NCEL to act on such information and retrieve all Tickets and equipment. The Chief Executive Officer (“CEO”) may adopt, from time to time, any appropriate and necessary procedures to verify the ownership of a Retailer and/or any Retailer Business Location to ensure that Tickets are sold only by Retailers under an approved Retailer Contract and in accordance with the Act and these Rules and Regulations.

26. Retailer shall maintain financial and accounting records relating to Lottery Ticket sales and its performance under the Retailer Contract, in such form as the NCEL shall, from time to time, prescribe. Retailer shall file reports with the NCEL specifying the Retailer’s receipts and transactions relating to the sale of Lottery Tickets on such forms and in such manner as shall be required, from time to time, by the NCEL. Retailer shall make such records available for inspection and review at any time during Retailer’s normal business hours by any NCEL employees or agents designated to take such action by the CEO.
27. By entering into the Retailer Contract, the Retailer:
  - a. acknowledges that the NCEL has made no representations or warranties as to whether Retailer may or may not be prohibited from engaging in the sale of Lottery Tickets by reason of controlling federal statute, rule, or regulation;
  - b. represents and warrants to the NCEL that it is not prohibited from entering into the Retailer Contract or engaging in the sale of Lottery Tickets by any deed, lease, contract, charter, bylaw or other restriction;
  - c. represents and warrants to the NCEL that Retailer fully satisfies all requirements for a “Retailer” as defined in the Act;
  - d. agrees and acknowledges that failure by Retailer to comply with any of the terms or provisions of the Retailer Contract, including the provisions of the Act and these Rules and Regulations, shall constitute a breach of the Retailer Contract;
  - e. agrees and acknowledges that Retailer shall be liable for all costs incurred by the NCEL in enforcing the Retailer Contract and in collecting any amounts due to the NCEL from Retailer thereunder, including court costs and attorneys’ fees;
  - f. agrees and acknowledges that it shall indemnify, defend, protect and hold harmless the State of North Carolina, the NCEL and any and all Commissioners, officers, directors, employees and agents thereof, from and against all claims, suits or actions arising from any willful or negligent act or omission of Retailer or its officers, directors, employees or agents while performing its obligations under the Retailer Contract or at the Retailer Business Location(s);

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- g. agrees and acknowledges that it is responsible for any loss or property damage to the NCEL or its Contractors which results from a willful or negligent act or omission of Retailer, its owners, partners, shareholders, members, officers, directors, or employees (“Retailer Parties”) or which results from the failure on the part of any of the Retailer Parties to secure, maintain and administer any such property in accordance with sound management practices; and
  - h. agrees and acknowledges that it is responsible for making or having made and bearing all costs associated therewith, any and all necessary or appropriate modifications to its electrical outlet(s), telecommunications systems or facilities which are reasonably requested by the NCEL to facilitate the installation, operation and maintenance of any Lottery related equipment, including Lottery Terminals, vending machines and/or display monitors.
28. Retailer shall not subcontract any of its duties or obligations under the Retailer Contract.
  29. Retailer shall exercise control and supervision over its employees selling Lottery Tickets and shall be fully responsible and liable for their conduct (include the consequences of any and all such conduct), as it relates to Lottery Ticket transactions. Retailer shall provide terminal training and instructions to its employees concerning the Act, these Rules and Regulations, the Retailer Contract and any other information provided by the NCEL from time to time.
  30. Retailer shall maintain any and all bank accounts required by the NCEL and ensure the account is designated as “In Trust for the North Carolina Education Lottery”.
  31. Retailer shall not sell any Lottery Tickets or hold itself out as a Lottery Retailer if the Retailer Contract is no longer in force for any reason, whether by virtue of suspension, termination, revocation, cancellation or non-renewal.
  32. Retailer shall return to the NCEL all Lottery Tickets, goods, materials, and Lottery equipment delivered to the Retailer upon cancellation, denial, termination, suspension, revocation or non-renewal of the Retailer Contract or upon demand by the NCEL. All Lottery equipment and supplies must be protected and properly secured during periods of terminations, suspensions and change of ownership.
  33. Retailer shall not use a NCEL insignia, logo, trademark, service mark or name of any NCEL game in any advertisement without the prior written authorization of the CEO or their Designee in each instance.
  34. Retailer shall not display or publish Lottery related material which may be considered derogatory or adverse to the operation, integrity, or dignity of the NCEL or the State of North Carolina. Retailer shall remove any such materials from the Retailer Business Location upon the request of the NCEL.

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35. Retailer shall accurately complete, timely return, and otherwise comply with all information update requests or other forms required by the NCEL from time to time during the term of the Retailer Contract.
36. Retailer shall perform its obligations under the Retailer Contract solely as an independent contractor of the NCEL, and not as an agent, partner, joint venture or employee of the NCEL or the State of North Carolina.
37. Notices:
  - a. Retailer shall notify the NCEL in writing or verbally at least thirty (30) calendar days in advance of any of the following changes:
    - i. voluntary cancellation of the Retailer Contract by Retailer;
    - ii. change in the designated “In Trust for the North Carolina Education Lottery” bank account from which payments are to be made; and/or
    - iii. change in ownership of Retailer’s business at any Retailer Business Location(s).
  - b. Retailer shall notify the NCEL in writing as soon as possible, but not later than thirty (30) days, after the occurrence of any of the following changes:
    - i. changes in any of the information submitted to the NCEL in the Retailer’s most recent application, other than ownership changes which must be reported at least thirty (30) days in advance;
    - ii. death or incapacity of owner(s), partner(s), sole proprietor, etc.; and/or
    - iii. any change causing Retailer to no longer satisfy fully all requirements of a “Retailer” as defined in the Act.
38. No waiver by either the NCEL or the Retailer of any term or provision of the Retailer Contract, or of any default there under, shall affect such party’s rights thereafter to enforce such term or provision or to exercise any right or remedy in the event of any other default, whether or not similar.
39. The invalidity or unenforceability of any term or provision of this Policy 8.01 shall not affect or diminish the validity or enforceability of the remaining provisions contained therein.

#### **C. RETAILER SELECTION CRITERIA**

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1. Retailer selection criteria established by the NCEL are designed to comply with all requirements of the Act, to provide clear and objective guidelines to Retailer Applicants and to maximize the participation of retailers in the State of North Carolina.
2. It is illegal to sell North Carolina Lottery tickets without a contract or to sell tickets out-of-state or through the mail. It is also illegal to sell Lottery tickets in North Carolina from any other lottery.
3. Retailer Applicants may be eligible to become Retailers, at the NCEL's sole discretion, to sell Tickets at one or more of its Retailer Business Locations upon the Retailer Applicants meeting all of the following conditions, and those as may be specified in the Lottery Act:
  - The Retailer Applicant cannot be engaged exclusively in the business of selling Lottery tickets or shares or operating electronic computer terminals or other devices solely for entertainment.
  - The Retailer Applicant can only sell tickets from a location that has been issued a Certificate of Authority from the NCEL. A Certificate of Authority is required for each location owned and operated by a Lottery Game Retailer. The Certificate of Authority must be conspicuously displayed at each location.
  - The Lottery Act prohibits contracting with a natural person under 21 years of age to be a Lottery Game Retailer.
  - The Lottery Act prohibits contracting with a person who is not current in filing all applicable tax returns to the State of North Carolina, excluding items under formal appeal under applicable statutes.
  - A Lottery Game Retailer cannot reside in the same household as a member of the Commission, the CEO or any other employee of the NCEL.
  - A Lottery Game Retailer cannot reside in the same household as an individual holding a Certificate of Authority or Retailer Contract which is currently under cancellation, denial, termination, suspension, revocation or non-renewal by the NCEL.
4. As part of the contracting process, the Retailer is required by law to pass a tax check and submit to a criminal background check. A credit report will also be requested. A non-refundable processing fee will be charged for these required financial and criminal background checks. The Applicant, including all proprietors, partners, corporate officers or shareholders either: meets an acceptable level of creditworthiness as assessed through an independent credit agency and has an acceptable level of creditworthiness, in the NCEL's sole discretion, based upon the current or prior payment history with the NCEL; or must provide a financial security deposit or other credit enhancement as requested by the NCEL.
5. The Applicant must submit the required application fee for each Retailer Business Location.
6. The Applicant must establish a separate bank account in the name of the Retailer entitled, "In Trust for the North Carolina Education Lottery" for Lottery proceeds and provide the banking



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information to the NCEL which enables collection of the net Lottery proceeds by way of Electronic Funds Transfer (EFT). Such bank account shall be a dedicated account for the exclusive use of the NCEL to withdraw and deposit funds associated with the Lottery operations of the Retailer.

7. The Applicant must have one (1) or more individuals from each Retailer Business Location attend and successfully complete the training program prescribed by the NCEL including change of ownerships and replacement location operating under a new Retailer Contract.
8. After a visit to each proposed Retailer Business Location by a Lottery Representative, the NCEL will determine whether all information provided by the Retailer appears accurate and that each such retail establishment sells products other than Lottery Tickets, provides services other than those prohibited herein and is not a mobile or residential location.
9. Retailer must sign a Retailer Contract(s), in form and content satisfactory to the NCEL, which lists all proposed Retailer Business Locations.
10. If an Applicant, including all proprietors, partners, corporate officers or shareholders holding any ownership interest, or that has ever held a like position or ownership interest in any NCEL Retailer, has an outstanding unpaid balance owing to the NCEL, the Applicant must first satisfy in full any such balance and may be required, in the NCEL's sole discretion, to provide a financial security deposit or other credit enhancement acceptable to the NCEL.
11. All Retailer Applicants will be informed within reasonable time periods of their failure to comply with any of the provisions in the Act, Retailer Contract and/or these Rules and Regulation, including specific details of the non-compliance. The NCEL will assist the Retailer Applicant on a "best efforts" basis to resolve any outstanding issue.
12. Notwithstanding the criteria in these Rules and Regulations, the NCEL, in its sole discretion, may authorize exceptions to the listed criteria and authorize a Retailer to sell Tickets when the Retailer does not meet all the criteria. The intent of this provision is to allow the NCEL to ensure that: (1) Scratch-Off Games, Draw Games and Lottery Terminals are available in all geographic areas of the State, are represented in a variety of trade styles, are accessible to Retailers which are "minority businesses," as defined by the Act and are available to support marketing initiatives with specific Retailers; and (2) administrative difficulties for Retailer Applicants are avoided (e.g., consent forms would not necessarily need to be required from all corporate officers in a large multi-state conglomerate).
13. Subject to guidelines and requirements as established by the NCEL, a Retailer may be eligible for more than one (1) assigned Lottery terminal and/or equipment per approved Retailer location. Such guidelines and requirements may include, but not limited to, the Retailer's location, size and/or total Lottery ticket sales. From time to time, the NCEL may, in its sole discretion, modify the guidelines and requirements for a Retailer's eligibility for installation of any additional Lottery terminal and/or equipment at any one Retailer location.

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14. By signing a Retailer Contract, the Retailer shall be subject to the Act and Rules and Regulations, and, in particular, those Rules and Regulations governing the specific Lottery games which the NCEL has authorized the Retailer to sell.

#### **D. IRREVOCABLE STANDBY LETTER OF CREDIT OR SURETY BOND GUIDELINES**

1. If a Retailer Applicant does not meet the minimum requirements of creditworthiness, the Applicant may be required to post an Irrevocable Standby Letter of Credit or Surety Bond.
2. If a Retailer Applicant has an insufficient credit rating, they will be given the opportunity to submit additional information to assist in the credit evaluation, including but not limited to, information regarding the Retailer's trade experience with current vendors and suppliers, banking relationship, current ownership equity, previous ownership experience, and financial condition.
3. The minimum Irrevocable Standby Letter of Credit or Surety Bond, if required, is \$2,000 per location.
4. The NCEL reserves the right to require additional security or to waive some or all of the required Irrevocable Standby Letter of Credit or Surety Bond depending on the Applicant's sales potential and credit evaluation.
5. Deposits will be held for a minimum of twenty-four (24) months, after which a new credit evaluation will be conducted.
6. If a Retailer has three (3) instances of NSF within a rolling 180-day period, an immediate credit evaluation will be conducted to consider whether a new or additional Irrevocable Standby Letter of Credit or Surety Bond is required.
7. The credit evaluation will take into account, among other considerations, the Retailer's general credit history and the Retailer's sales and credit history with the NCEL, including the number, amount and reason for NSF returns.
8. Provided that the Retailer has paid all funds due and owing to the NCEL at the conclusion of the Retailer Contract, the Irrevocable Standby Letter of Credit will be returned to the Retailer or the Surety Bond will be released.

#### **E. APPLICATION, SERVICE AND RENEWAL FEES**

1. Applications submitted to the NCEL for each Retailer Business Location, including applications for a change of ownership of an existing Retailer Business Location, must be accompanied by a cashier's check, money order, business check or personal check, in the amount of \$75.00, plus \$10.00 for each additional Retailer Business Location established under the authority of

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the Act, if the same tax identification number is used.

2. A Retailer shall pay a terminal communication service fee of \$15.00 per week for each Retailer Business Location. This fee shall be included automatically in the settlement process and collected by EFT. This terminal communication service fee may be waived at the discretion of the NCEL in accordance with certain criteria which may be developed and established by the NCEL from time to time.
3. Unless earlier terminated, Lottery Retailer Contracts will remain in effect for three (3) years. The NCEL, at its discretion, may charge a renewal fee applicable to all Retailers. Renewal applications are sent to retailers via RCA.

#### **F. TERMINATION, CANCELLATION, SUSPENSION AND REVOCATION OF THE RETAILER CONTRACT**

1. The Retailer Contract may be canceled by the Retailer at any time with thirty (30) calendar day's prior written notice to the NCEL.
2. If the CEO or Designee(s) determine, in their sole discretion, that cancellation, denial, revocation, suspension or termination of the Retailer Contract is in the best interest of the NCEL, the State of North Carolina and/or the public welfare, the CEO or Designee(s) may at any time cancel, deny, revoke, suspend or terminate the Retailer Contract upon written notice to Retailer in accordance with these Rules and Regulations; provided, however, Retailer may be entitled to dispute such cancellation, denial, revocation, suspension or termination in accordance with Chapter 6.05, "Retailer Dispute Resolution." The CEO or Designee(s) may temporarily suspend Retailer's rights under the Retailer Contract without prior notice, pending resolution of any dispute.
3. Notwithstanding anything to the contrary contained in the Retailer Contract or elsewhere in this Policy 8.01, the NCEL may immediately cancel, deny, revoke, suspend, terminate, refuse to renew a Retailer Contract, or take any other administrative action against the Retailer, if the Retailer or any of its owners:
  - a. violates a provision of the Act, the Retailer Contract and/or these Rules and Regulations;
  - b. is or has been, or retains an employee involved in Lottery transactions who is or has been, convicted of a criminal offense related to the security or integrity of the NCEL or a lottery in any other jurisdiction;
  - c. or any of its employees (but only while at the Retailer Business Location during the term of the Retailer Contract), officers, or directors was, within ten (10) years prior to entering into the Retailer Contract, or is, on or after the date of the Retailer Contract, arrested, charged, convicted of, or plead guilty (including if a prayer for judgment is granted) or

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nolo contendere to any criminal offense, whether misdemeanor or felony, including, but not limited to, any gambling offense in any state or federal court of the United States a felony or any gambling offense in any state or federal court of the United States;

- d. fails to notify the NCEL within 10 business days of any occurrence of the immediately foregoing;
- e. commits fraud, embezzlement, misrepresentation or deceit;
- f. provides false or misleading information to the NCEL;
- g. acts in a manner prejudicial to the security or integrity, or the public confidence in the security or integrity, of the NCEL;
- h. is delinquent in the payment of any federal, state or local taxes owed by it;
- i. changes any Retailer Business Location for which NCEL has issued a Certificate of Authority under the Retailer Contract without proper notification to the NCEL in accordance with these Rules and Regulations;
- j. fails to accurately or timely account for proceeds or prizes from the sale of Lottery Tickets;
- k. fails to accurately or timely account for Lottery Tickets received from the NCEL;
- l. fails to maintain a minimum level of sales, as established by the NCEL from time to time;
- m. files for or is placed in bankruptcy, receivership, insolvency or similar proceedings or fails to pay its debts as they become due (applicable to Retailer only);
- n. contracts with any other person or entity for lottery goods or services without the prior written approval of the NCEL;
- o. fails to meet any of the objective criteria established by the NCEL pursuant to the Act;
- p. is subjected to any material change, as determined to be material in the sole discretion of the NCEL, in any matter considered by the NCEL in entering this Retailer Contract;
- q. fails to maintain the dedicated "In Trust for the North Carolina Education Lottery" bank account from which Electronic Funds Transfers (EFT) payments are to be made, withdraws the authorization for the NCEL to initiate EFT transactions to and from such designated account or fails to have sufficient funds available in such dedicated account on the dates specified by the NCEL; and/or

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- r. fails to fully cooperate with any Security investigation.

#### **G. PRIZE PAYMENT POLICY**

1. The determination of whether a person attempting to claim a prize (“Claimant”) is a winner is subject to the game rules and the winner validation procedures and confidential validations tests established by the NCEL for the particular Lottery game involved.
  - a) During normal business hours, each Retailer is required to validate and pay all prizes less than \$600 for any winning Lottery Ticket for all NCEL Lottery games that can be validated through the NCEL Terminal. Retailers are encouraged to pay in cash, but they may pay Mid-Tier Prizes (\$20-\$599) with a business check, money order, cashier’s check, certified check and/or prepaid/store-value gift card. However, approved alternative method(s) of payment, other than cash, must be disclosed in writing and prominently posted to notify the customers prior to any validation of any Lottery tickets. Retailers must also disclose their Lottery cashing threshold due to limited available cash on-hand and provide the customers with the opportunity to return at a different time to validate and pay their winning tickets. Consistent reported failure to pay prizes to Claimants or the issuance of a non-sufficient funds (NSF) prize check is sufficient grounds to suspend or revoke the Retailer’s Certificate of Authority and/or Contract.
2. Before attempting to validate a winning Ticket, the Retailer must instruct the Claimant to sign their name on the back of the Ticket.
3. For Scratch-Off and Draw Games, Retailers must establish that the Ticket is a winning Ticket by using the NCEL validation system. If the Retailer does not receive the appropriate authorization to pay from the system and the Ticket does not meet all the validation requirements as set forth in the Scratch-Off or Draw Game Rules and Regulations, the Ticket should be returned unpaid to the Claimant.
4. Retailers must never cash Scratch-Off or Draw Game Tickets that the NCEL Terminal indicates are “previously paid.” Retailers that honor previously paid Scratch-Off or Draw Game Ticket shall be held financially responsible for the winnings paid. If a Retailer attempts to pay a prize on a Scratch-Off or Draw Game Ticket that is defaced or obviously counterfeit, the Retailer’s Certificate of Authority and/or Contract may be subject to suspension, revocation and/or termination.
5. For High-Tier Prizes (prizes of \$600 or more), Retailers shall provide Claimants with NCEL Winner Claim Forms and direct them to the nearest NCEL Regional Office or Claim Center for assistance.
6. A Retailer shall not charge any player or Claimant a fee for validating a winning Ticket, paying a winning Ticket, verifying a non-winning ticket, or for cashing a check or money order issued

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by the same Retailer for payment of a prize. Violation of this provision shall subject the Retailer's Certificate of Authority and/or Contract to suspension, revocation and/or termination.

7. A Retailer shall not validate a Ticket or pay a prize unless the Claimant presents the actual Ticket to the Retailer. Photographs, photocopies, and other reproductions of winning Tickets shall not be accepted. Violation of this provision shall subject the Retailer's Certificate of Authority and/or Contract to suspension, revocation and/or termination. Additionally, if the physical Ticket is subsequently claimed, the amount of the prize will be charged to the Retailer.

#### **H. POINT OF SALE MATERIALS AND LOTTERY EQUIPMENT**

1. Unless the NCEL agrees otherwise in writing, each Retailer shall offer to its customer all available Lottery games and Tickets which the NCEL has authorized the Retailer to sell at any given Retailer Business Location. The Retailer shall use the Lottery Ticket dispensers and/or vending machines provided by the NCEL for the sale of Scratch-Off and/or Draw Tickets. The Retailer shall place such dispensers, vending machines and any Lottery Terminals provided by the NCEL in a prominent location in the Retailer's establishment near the cash register or check-out area for easy access and monitoring for purposes of security and prevention of purchase/redemption of tickets by Minors.
2. Each Retailer shall prominently display the Certificate of Authority, at each Retailer Business Location, in an area visible to the Retailer's customers. Retailer shall return each such Certificate of Authority to the NCEL immediately upon any termination, denial, cancellation, suspension, revocation or non-renewal of the Retailer Contract.
3. In accordance with instructions issued from time to time by the NCEL, the Retailer shall:
  - a. Maintain displays, notices and materials supplied by, or on behalf of, the NCEL;
  - b. Prominently display and maintain such signage and Point-Of-Sale materials as may be supplied by, or on behalf of, the NCEL to be used in conjunction with Lottery Ticket sales, including door decals, game posters, display Tickets, danglers, change mats, lighted interior signs, banners, odds of winning and any other items provided by the NCEL;
  - c. Upon request from the NCEL, remove all such items listed in subsections (a) and (b) immediately above;
  - d. Utilize and properly maintain Scratch-Off Ticket dispensers, vending machines, Lottery Terminals and such other Lottery-related equipment that may be provided by, or on

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behalf of, the NCEL;

- e. make available to potential Lottery customers player brochures supplied by the NCEL from time to time and to explain Lottery game rules;
- f. abide by any and all promotional guidelines established by the NCEL; and
- g. provide adequate supplies of Winner Claim Forms and Play Slips and provide adequate space for a play center.

#### **I. SETTLEMENT AND RETAILER INVOICING**

1. The accounting period for purposes of preparing Retailer invoices shall be one week from Sunday at 5:00 a.m. through Sunday at 2:00 a.m.
2. All Packs of Scratch-Off Tickets settled in an accounting period and all sales of Draw Games occurring within the accounting period will be invoiced to the Retailer. The Retailer invoice will be available through the NCEL Lottery Terminal after 5:00 a.m. on the Sunday immediately following the end of the accounting period.
3. For Scratch-Off Games, all Ticket Packs settled between Sunday at 5:00 a.m. and Sunday at 2:00 a.m. in an accounting period will be included in the Retailer invoice for that accounting period. As a general rule, a Pack of Scratch-Off Tickets will settle (*i.e.* become a Settled Pack) twenty-one (21) days after activation. However, a Retailer cannot have more than four (4) packs from the same game active at any given period. When a fifth pack is attempted to be activated the first Pack activated for that game will automatically settle (which means that this first Ticket Pack may settle prior to the twenty-one (21) day settlement period expiring). In this instance, the remaining active Ticket Packs of the same game will remain on the twenty- one (21) day settlement period, unless the Retailer activates another Ticket Pack of that same game which would then initiate settlement of the second ticket pack activated. This process will continue each time a new pack is activated. The predetermined formula or schedule for determining the time of settlement of Packs of Tickets may be modified at the discretion of the NCEL in accordance with uniform criteria established by the NCEL from time to time.
4. The Retailer invoice will provide a calculation of the proceeds due the NCEL during the accounting period. The proceeds will be equal to the retail value of Settled Packs of Scratch-Off Game Tickets, plus the retail value of Draw Ticket sales, less applicable Sales Commissions and bonuses, if any, less any validations of winning Tickets by the Retailer, plus service fees, plus or minus any adjustments to the Retailer account as calculated by the NCEL.
5. For purposes of calculating the Retailer invoice, free Ticket prizes validated by the Retailer shall have the same value as the applicable retail value of a free Ticket provided to the Claimant.

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#### **J. BANKING, DEPOSITS AND PAYMENT REQUIREMENTS**

1. These conditions and guidelines described below detail the responsibilities of the Retailer in order to ensure fair and equitable handling of all financial circumstances with regards to Retailer accounts. Any deviation from these guidelines will be at the discretion of the CEO.
2. Each potential Retailer Business Location must be approved by the NCEL prior to obtaining a Certificate of Authority to dispense Lottery products. A portion of this approval process includes a background check verifying the financial status of the Retailer Applicant by obtaining personal and business credit history. A report containing questionable or unresolved credit issues may cause the Applicant to be subject to a conditional status, requiring that a security deposit or security bond be posted in an amount determined by the NCEL based on anticipated or current sales. Questionable items may include debts sent to a collection agency marked as “unpaid,” unresolved judgments and personal or business bankruptcy. These guidelines are intended to be applied fairly to all Applicants.
3. In addition, personal credit reports on all owners, officers and/or directors may be run annually or as often as deemed necessary to update the status of active retailers. Decisions based on the results of new information may include the requirement of a security deposit or security bond according to guidelines.
4. Payment for Lottery tickets is to be made weekly via Electronic Funds Transfer (EFT), or more frequently as determined in the sole discretion of the NCEL, from the Retailer's dedicated bank account to the NCEL receiving account. It is the responsibility of the Retailer to deposit all Lottery proceeds on a daily basis into a dedicated bank account set up as “In Trust for the North Carolina Education Lottery.”
5. On the first occasion (Step 1) of a failed EFT, the following will apply:
  - The Retailer will be charged a \$25.00 NSF fee.
  - The NCEL will attempt to contact the Retailer via telephone. If unsuccessful, Retail Accounting may notify the Retailer in writing regarding the failed EFT.
  - The Retailer shall deliver a cashier's check, money order, or such other payment form as approved by the NCEL Retail Accounting Unit, for the uncollected balance to NCEL Headquarters or an NCEL regional office by no later than 12 p.m. (noon) the following business day.
  - If payment is not received by 12 p.m. (noon) the following business day, the Lottery terminal will be disabled and scratch-off ticket deliveries will cease until such time the amount due is settled. If payment is not received or payment arrangements are not made within the specified period, the NCEL may request all inventory be picked up, all Activated Packs forced to settle and credit given for any unsold Activated/Settled Packs.
6. On the second occurrence (Step 2) of a failed EFT occurring within six (6) months of the first



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occurrence, the following will apply:

- The Retailer will be charged a \$75.00 NSF fee.
  - The lottery terminal will immediately be disabled until the amount due is settled.
  - The NCEL will attempt to contact the Retailer via telephone. If unsuccessful, Retail Accounting may notify the Retailer in writing regarding the failed EFT.
  - The Retailer must deliver a cashier's check, money order, or such other payment form as approved by the Retail Accounting Unit, for the uncollected balance plus \$75.00 to NCEL Headquarters or an NCEL regional office by no later than 12 p.m. (noon) the following business day. The Lottery terminal will remain disabled and scratch-off ticket deliveries will cease until such time the amount due is settled. If payment is not received or payment arrangements are not made within the specified period, the NCEL will request all inventory be picked up, all Activated Packs forced to settle and credit given for any unsold Activated/Settled Packs.
    - The NCEL Retail Accounting Unit will provide the average of the scratch-off sales per week over the prior thirteen (13) weeks and enter this average as a credit limit for any subsequent ordering packs of tickets. The Retailer will be notified in writing of the credit limit.
    - The Retailer may also be required to submit within thirty (30) days an Irrevocable Standby Letter of Credit or Surety Bond with a minimum amount of two thousand dollars (\$2,000) in order to maintain active selling status.
    - Scratch-Off tickets will be issued to the Retailer on a limited basis for a minimum of six (6) months. After such time and if the Retailer does not incur any other NSFs during the six (6) month period, the Retail Accounting Unit will evaluate the Retailer's inventory status to determine the appropriate level of scratch-off tickets to be issued to the Retailer based on the Retailer's expected sales.
7. On the third occurrence or any subsequent (Step 3) failed EFT within six (6) months of the first occurrence, the following will apply:
- A \$100.00 NSF fee, automatic disabling of the Lottery terminal for up to thirty (30) days, ceasing of scratch-off ticket deliveries and the settlement and retrieval of all scratch-off tickets in the possession of the Retailer.
  - The NCEL will attempt to contact the Retailer via telephone. If unsuccessful, Retail Accounting may notify the Retailer in writing regarding the insufficient funds. The Retailer must deliver a cashier's check, money order, or such other payment form as approved by the Retail Accounting Unit, for the uncollected balance plus the \$100.00 NSF fee to NCEL Headquarters or an NCEL regional office by no later than 12 p.m. (noon) the following business day.
  - An Irrevocable Standby Letter of Credit or Surety Bond will be required to restore the Lottery Contract.
  - If payment is received within the specified period and the required Irrevocable Standby Letter of Credit or Surety Bond has been posted within thirty (30) days of the NCEL's notice regarding the additional financial requirement, the Lottery Contract will be restored, the Lottery terminal will be enabled and scratch-off tickets will be issued to the Retailer on a limited basis for a minimum of six (6) months. After such time, the Retailer

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Accounting Unit will evaluate the Retailer's inventory status to determine the appropriate level of scratch-off tickets to be issued to the Retailer based on the Retailer's expected sales.

8. In addition, any Lottery Retailer with two (2) or more failed EFT payments during a six (6) month period from the first occurrence will be ineligible for any incentive programs during the six (6) month period.
9. Any Retailer may regain "good financial standing" with the completion of six (6) consecutive months of successful EFT sweeps. "Good financial standing" allows a Retailer to participate in incentive programs that may be in effect.
10. In the event that a Retailer defaults on payment, individuals listed as having a financial interest in the business (those individuals listed in the retailer application) may be considered financially liable for any outstanding balance owed to the NCEL at the time of default, as well as all scratch-off tickets and equipment not returned to the NCEL.
11. In the event payment is not forthcoming after a period of thirty (30) days from the date of default, depending upon the business structure of the Retailer, the names of the responsible individuals may be forwarded to a collection agency, the North Carolina Attorney General's office, and/or placed on the State debt setoff list for the purpose of collecting the debt. An unpaid debt may result in a listing on the personal credit history file of each individual financially associated with the defaulting Retailer.