

## **POLICY MANUAL**

### **CHAPTER 2 - RETAILER RULES AND REGULATIONS**

#### **2.01 APPLICABILITY OF THESE RULES:**

The Retailer Rules and Regulations contain specific rules, regulations, procedures, instructions and directives that apply to Lottery Retailers (Retailer) as defined by the Tennessee Education Lottery Implementation Law ("Act"). The Tennessee Education Lottery Corporation (TEL) will, from time to time, amend these Rules and Regulations and adopt new Rules and Regulations. When this occurs, all existing Retailers will be advised of these changes. By signing a Lottery Retailer Contract (Retailer Contract), each Retailer shall comply with all terms, conditions, obligations and requirements of Lottery Retailers set forth in these Rules and Regulations, as they may be amended from time to time. When and if a Retailer is unwilling to agree to amendments and revisions to these Rules and Regulations, the Retailer's sole recourse shall be to notify, in writing, the TEL, within 20 calendar days of being advised by TEL of the changes, that the Retailer is voluntarily canceling its Retailer Contract. In the event of a conflict between the Act, the Retailer Rules and Regulations, and the Retailer Contract, the Act will govern the Retailer Rules and Regulations, and the Retailer Rules and Regulations will govern the Retailer Contract.

#### **2.02 DEFINITIONS:**

Capitalized terms used herein shall have the meanings set forth in Appendix A attached hereto, unless otherwise defined in context.

#### **2.03 GENERAL RULES**

- A. At each respective Retailer Business Location listed in the Retailer Contract for which a Certificate of Authority has been issued, each Retailer shall sell Tickets, but only for those lottery games authorized by the TEL, in the TEL's sole discretion, to be sold at each such Retailer Business Location. The lottery games authorized by the TEL may include Instant Games, On-Line Games, and any other games, which may be developed, distributed and sold under the authority of the TEL. For each of the TEL lottery games that the Retailer is authorized by TEL to sell, the Retailer shall abide by any and all Rules and Regulations adopted by TEL to govern each respective game.
- B. No Retailer may sell any Tickets at any location unless that Retailer has in effect a Retailer Contract issued in accordance with the Act, which has not been terminated, suspended, canceled or revoked. No Retailer shall sell any Tickets or Shares except from a Retailer Business Location listed in its Retailer Contract and as evidenced by the display of a Certificate of Authority for such Retailer Business Location; however, in certain instances, the TEL may issue a temporary

Certificate of Authority to specifically authorize the sale of Tickets from a temporary location.

- C. If the TEL 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 TEL and Retailer may enter into more than one Retailer Contract for any specific Retailer Business Location, whether at 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 Locations listed therein.
- D. No Lottery Retailer can be engaged exclusively at any Retailer Business Location in the business of selling Tickets, nor sell Tickets from a mobile or residential location. No Retailer shall be licensed to provide deferred presentment services or be engaged in the pawn brokering business.
- E. For each Retail Business Location at which Tickets are sold or to be sold, a Lottery Retailer Contract is required which lists the designated location as a Retailer Business Location. A 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 TEL may require. The TEL, in its sole discretion, may authorize the sale of Tickets for all, any or none of the TEL's lottery games, as defined in the Act, from each such respective location.
- F. 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. See Section 2.13 below.
- G. An applicant or Retailer shall notify in writing the TEL of any change in the information in the applicant's or Retailer's most recent application for a Retailer Contract or renewal of a Retailer Contract. The applicant or Retailer shall notify the TEL of the change in the information within ten (10) days following the date of the change. Notwithstanding the preceding sentence, a corporate applicant or Retailer is not required to notify the TEL under this subsection of a transfer of ten percent (10%) or less of the corporate stock unless the transfer results in (i) a change in ownership of a controlling equity interest in the Retailer or (ii) the addition or deletion of any of the owners holding more than ten percent (10%) of the Retailer.
- H. No Retailer shall sell a Ticket or Share at a price other than established by the TEL, unless authorized in writing by the CEO. No person other than a duly contracted Lottery Retailer shall sell Tickets or Shares, but this shall not be

construed to prevent a person who may lawfully purchase Tickets or Shares from making a gift of Tickets or Shares to another person. Nothing shall be construed to prohibit the TEL from designating certain of its representatives and employees to sell or give Tickets or Shares directly to the public.

- I. Lottery Tickets or Shares may be given by Retailers as a means of promoting goods or services to customers or prospective customers, subject to prior approval by the TEL.
- J. Retailers shall not condition the sale of 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 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 or these Rules and regulations, unless specifically authorized by the TEL.
- K. No Tickets shall be sold to Minors. Retailer shall establish such safeguards as are necessary to ensure that no sales are made or prizes paid to Minors, except as otherwise provided in the Act and Rules and Regulations. However, this does not prohibit the purchase of a Ticket by a person eighteen (18) years of age or older for the purpose of making a gift to any person of any age. Retailers shall place any vending machine utilized for the purpose of dispensing Instant Tickets only in locations on the premises of the Retail Business Location that are within the view of such Retailer or an employee of same, and said vending machine shall bear a conspicuous label prohibiting its use by Minors.
- L. Persons under the age of 18 may handle or transport Tickets or Shares as part of or in the course of such person's employment; provided that the person is under the supervision of another employee who is at least twenty-one (21) years of age.
- M. All Tickets or Shares must be sold for cash only. Retailers shall not extend credit to the purchaser of Tickets and shall not accept a check, credit card, charge card or food stamps for the purchase of a Ticket. For the purpose of this subsection cash means coins or notes.
- N. Retailers shall not sell Tickets by mail, telephone, fax or other similar method of communications.
- O. Retailers shall make the purchase of Tickets conveniently and readily accessible to their customers during the Retailers' normal business hours, unless circumstances arise that are out of the control of the Retailer and could not have been avoided by the exercise of due care.

*Amended 8.23.06*

- P. The TEL shall provide Retailers with the Retailer Rules and Regulations and Retailer Reference Manuals that may be accessed on the Retailers' Lottery Terminals.
- Q. Retailers shall only accept from players official Tennessee Lottery Play Slips that are manually prepared.

*Amended 8.23.06*

- R. Retailers shall sell all On-Line and/or Instant Games authorized by the TEL to be sold at the Retailer's business location.
- S. Retailers shall not sell Tickets or Shares in the state of Tennessee other than those issued to it by the TEL.
- T. Retailers shall not knowingly sell a Ticket or combination of Tickets to any person or entity, which would guarantee such purchaser a grand prize win or jackpot win.
- U. Retailer shall attend training sessions from time to time, as requested by the TEL.
- V. Retailer shall:
- 1) Immediately report to the TEL's security department any knowledge of unlawful activities or other improprieties that concern the operations of the TEL or the TEL's lottery games;

*Amended as of 4.25.05*

- 2) Immediately report all stolen Instant Tickets to the TEL's security department within 24 hours of theft. The Retailer must provide TEL Security personnel with the Game name and Number, the Pack number(s) and the exact range of Tickets stolen. In addition, the Retailer shall file a police report for the stolen Tickets within 24 hours of theft. The Retailer shall mail or fax a copy of the police report and it should be received by TEL Security within 14 calendar days of the initial report of the theft to the TEL; and
  - 3) Fully cooperate with the TEL in the investigation of any stolen, altered, or counterfeit Tickets or other unlawful or improper activities affecting the operations of the TEL or the TEL's lottery games.
- W. If more than one Retailer Business Location is to be covered by a Retailer Contract, each such location shall be listed in a Schedule I attached to the Retailer Contract. Locations may be added or deleted from Schedule I by mutual agreement of Retailer and TEL, effective upon the date of a revised Schedule I signed by both Retailer and TEL; however, TEL 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 2.07 below.

*Amended 4.28.08*

## **2.04 OTHER RETAILER OBLIGATIONS AND AGREEMENTS**

- A. By entering into the Retailer Contract, the Retailer:
- 1) Acknowledges that the TEL has made no representations or warranties as to whether Retailer may or may not be prohibited from engaging in the sale of Tickets by reason of any controlling federal statute, rule or regulation; and
  - 2) Represents and warrants to the TEL that it is not prohibited from entering into the Retailer Contract or engaging in the sale of Tickets by any deed, lease, contract, charter, bylaw or other restriction; and
  - 3) Represents and warrants to the TEL that Retailer fully satisfies all requirements for a "Retailer" as defined in the Act; and
  - 4) 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 the Rules and Regulations, shall constitute a breach of the Retailer Contract; and
  - 5) Agrees and acknowledges that Retailer shall be liable for all costs incurred by the TEL in enforcing the Retailer Contract and in collecting any amounts due to the TEL from Retailer hereunder, including court costs and attorneys' fees; and
  - 6) Agrees and acknowledges that it shall defend, protect and hold harmless the State of Tennessee, the TEL, and any and all officers, directors, employees and designees thereof, from and against all claims, suits or actions arising from any willful or negligent act or omission of Retailer or its officers, directors and employees while performing its obligations under the Retailer Contract; and
  - 7) Agrees and acknowledges that it is responsible for any loss or property damage to the TEL or its Vendors which results from a willful or negligent act or omission of Retailer or which results from the failure on the part of Retailer to secure, maintain and administer any such property in accordance with sound management practices; and
  - 8) 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 facilities which are reasonably requested by the TEL to facilitate the installation, operation and maintenance of any lottery related equipment, including Lottery Terminals and display monitors.

- B. Retailer shall not subcontract any of its duties or obligations under the Retailer Contract.
- C. Retailer shall exercise control and supervision over its employees selling Tickets and shall be fully responsible and liable for their conduct, as it relates to the sale of Tickets. Retailer shall provide instructions to its employees concerning the Act, the Rules and Regulations and the Retailer Contract.
- D. Retailer at its own cost shall maintain any and all bank accounts required by the TEL.
- E. Retailer shall not sell 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, denial, revocation, cancellation or non-renewal.
- F. Retailer shall return to the TEL all Tickets, goods, materials, and lottery equipment delivered to the Retailer pursuant to the Retailer Contract upon cancellation, denial, termination, suspension, revocation or non-renewal of the Retailer Contract or upon demand by the TEL.
- G. Retailer shall not use a TEL insignia, logo, trademark, service mark or name of any TEL lottery game in an advertisement without the prior written authorization of the CEO in each instance.
- H. Retailer shall not display or publish lottery related material, which may be considered derogatory or adverse to the operation or dignity of the TEL or the State of Tennessee. Retailer shall remove immediately any such materials from the Retailer Business Location upon the request of the TEL.
- I. Retailer shall accurately complete, timely return, and otherwise comply with any and all information update requests or other forms required by the TEL from time to time during the term of the Retailer Contract.
- J. Retailer shall perform its obligations under the Retailer Contract solely as an independent contractor of the TEL, and not as an agent, partner, joint venture or employee of the TEL or the State of Tennessee.
- K. Notices.
  - 1) Retailer shall notify the TEL in writing at least twenty (20) calendar days

in advance of any of the following changes:

- a. Voluntary cancellation of the Retailer Contract by Retailer pursuant to Section 2.07 below; or
- b. The change in any Retailer Business Location(s) listed in the Retailer Contract; or
- c. The change in the designated separate bank account from which payments are to be made (see Section 2.12 below); or
- d. The change in ownership of Retailer's business at any Retailer Business Location in the event that the new owner has applied to become a Retailer at such location pursuant to Section 2.13 below.

2) Retailer shall notify the TEL in writing no more than ten (10) calendar days after the occurrence of any of the following changes:

- a. The change in any of the information submitted to TEL in the Retailer's most recent application, including ownership changes, pursuant to Section 2.03(G) above; or
- b. The death or incapacity of owner(s), partner(s), sole proprietor, etc.; or
- c. Any change causing Retailer no longer to satisfy fully all requirements of a "Retailer" as defined in the Act. Specifically, without limitation, Retailer shall submit such notice if, at any time during the term of the Retailer Contract, Retailer or any of its owners are convicted of, or enter a plea of guilty or nolo contendere, to a criminal offense prohibited by the Act, or have assessed against them a tax delinquency, within ten (10) calendar days of the occurrence of such event.

L. No waiver by either the TEL or the Retailer of any term or provision of the Retailer Contract, or of any default hereunder, 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.

M. The invalidity or unenforceability of any term or provision of the Retailer Contract shall not affect or diminish the validity or enforceability of the remaining provisions contained therein.

*Repealed Section 2.04N 4.28.08*

## 2.05 RETAILER SELECTION CRITERIA

- A. Retailer selection criteria established by the TEL 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 Tennessee.

*Amended 8.23.06*

- B. Applicants will be eligible to become Retailers if:
- 1) The applicant returns a completed application form; and
  - 2) The applicant provides a listing of all proprietors, partners, corporate officers and shareholders of closely held corporations holding more than ten percent (10%) of the ownership interest in the applicant; and
  - 3) The applicant provides a certification of compliance with the provisions of the Act; and
  - 4) The applicant provides a notarized consent form from each proprietor, partner, corporate officer or shareholder of closely held corporations holding more than ten percent (10%) of the ownership interest, thereby allowing the TEL to investigate criminal, financial and tax status; and
  - 5) The applicant is not reported as delinquent in filing or payment of taxes by the Tennessee Department of Revenue; and
  - 6) The applicant, including all proprietors, partners, corporate officers or shareholders holding more than ten percent (10%) of the ownership interest, have not been convicted of a criminal offense prohibited by the Act; and
  - 7) The applicant, including all proprietors, partners, corporate officers or shareholders holding more than ten percent (10%) of the ownership interest, either:
    - a. Meets an acceptable level of creditworthiness as assessed through an independent credit agency or in the TEL's sole discretion, based upon the current or prior payment history with the TEL; or
    - b. Provides a financial security deposit or other credit enhancement acceptable to the TEL; and
  - 8) The applicant submits the required application fee for each Retailer Business Location; and



- 9) The applicant establishes a separate bank account in the name of the Retailer as "Trustee for the Tennessee Education Lottery Corporation" for lottery proceeds (as defined in the Act) and provides the banking information to the TEL which enables collection of the net lottery proceeds by way of Electronic Funds Transfer (EFT); and
- 10) The applicant has one (1) or more individuals from each Retailer Business Location attend and successfully complete the training program prescribed by the TEL; and
- 11) After a visit to each proposed Retailer Business Location by a Lottery Sales Representative, the TEL determines that all information provided by the Retailer appears accurate and that each such retail establishment sells products other than Tickets, is not a mobile or residential location, is not in the business of deferred presentment services (as defined in the Act), and is not a pawn shop (as defined in the Act).
- 12) Retailer signs a Retailer Contract or Retailer Contracts, in form and content satisfactory to the TEL, which list all proposed Retailer Business Locations.
- 13) For an applicant, including all proprietors, partners, corporate officers or shareholders holding more than ten percent (10%) of the ownership interest, that has ever held a like position or ownership interest in any TEL Retailer which has or has had an outstanding unpaid balance owing to the TEL, the applicant:
  - a. Must satisfy in full any legally enforceable outstanding balance which was not paid to the TEL when due; and
  - b. May be required, in the TEL's sole discretion, to provide a financial security deposit or other credit enhancement acceptable to the TEL.

The foregoing notwithstanding, the TEL may deny a Retailer Contract to any Retailer applicant in accordance with Section 2.07 of the Retailer Rules and Regulations.

- C. All Retailer applicants will be informed within reasonable time periods of their failure to comply with any of the provisions in Section 2.05(B), above, as well as specific details of the non-compliance. The TEL will assist the Retailer applicant on a "best efforts" basis to resolve any outstanding issue.

*Amended 4.19.06 and 8.23.06*

- D. Retailers failing to meet the creditworthiness criteria as referenced in 2.05 A(7)(a) and (b) above, but that meet all other eligibility requirements to sell all Lottery Games, may be offered, at the sole discretion of the TEL, the opportunity to sell Instant Ticket Games only by providing a financial security deposit pursuant to the TEL's Retailer Credit and Financial Security Policy, Section 4.1.5 (D). The amount of the financial security deposit will be determined based on the TEL's financial exposure for two billing cycles.
- E. Notwithstanding the criteria in Section 2.05(B), above, the TEL, in its sole discretion, may authorize exceptions to the listed criteria and authorize a Retailer to sell Tickets for Lottery Games when the Retailer does not meet all the criteria. The intent of this provision is to allow the TEL to ensure that: (1) Lottery 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-owned businesses", (as defined in 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).
- F. 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 TEL has authorized the Retailer to sell.

*Amended 4.28.08*

## **2.06 APPLICATION, RETAILER AND FIDELITY FUND FEES**

- A. Applications submitted to the TEL 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 or business check (personal checks are not acceptable) in the amount of \$95.00 to cover the application fee of \$45.00, and a deposit in the amount of \$50.00 per Retailer Business Location to the Fidelity Fund established under the authority of the Act.
- B. The Fidelity Fund has been established pursuant to the Act and any losses incurred by the TEL due to the nonfeasance, malfeasance or misfeasance of a Retailer may be paid out of this fund.
- C. If a potential Retailer submits the application fee of \$45.00 and either fails to qualify as a Retailer or withdraws their application prior to initiating the sale of Tickets, they will not receive a refund of this fee. However, those potential Retailers required to make a contribution to the Fidelity Fund who fail to qualify or who withdraw their application prior to initiating the sale of Tickets will receive a refund of the amount deposited to the Fidelity Fund.

*Amended 4.28.08*

- D. A Retailer shall pay a fee of \$15.00 per week to cover the cost of all services provided by the TEL. This fee shall be included automatically in the settlement process and collected by EFT. This fee may be waived in the discretion of the TEL in accordance with uniform minimum sales criteria and other criteria, which may be established by the TEL from time to time.

*Amended 8.23.06*

- E. All Lottery Retailer Contracts may be renewable at the discretion of the TEL unless canceled, terminated, suspended or revoked. The TEL at its discretion may charge a renewal fee applicable to all Retailers.

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

- A. The Retailer Contract may be canceled by Retailer at any time upon twenty (20) calendar days prior written notice to the TEL.
- B. If the CEO or CEO's designee(s) determine, in his/her sole discretion, that cancellation, denial, revocation, suspension or termination of the Retailer Contract is in the best interest of the TEL, the State of Tennessee or the public welfare, the CEO or CEO's designee(s) may at any time cancel, deny, revoke, suspend or terminate the Retailer Contract upon written notice to Retailer; provided, however, Retailer shall first be entitled to a hearing on such cancellation, denial, revocation, suspension or termination in accordance with the Act and the Rules and Regulations; provided, further, that the CEO or CEO's designee(s) may temporarily suspend Retailer's rights under the Retailer Contract without prior notice, pending any prosecution, hearing or investigation, in accordance with the Act.
- C. In addition to the foregoing, the TEL may immediately cancel, deny, revoke, suspend, terminate, or refuse to renew a Retailer Contract if the Retailer or any of its owners:
- 1) Violates a provision of the Act, the Rules and Regulations or Title 39, Chapter 17, Part 6 of the Tennessee Code Annotated; or
  - 2) Is or has been, or retains an employee involved in the sale of Tickets who is or has been, convicted of a criminal offense related to the security or integrity of the TEL or a lottery in any other jurisdiction; or
  - 3) Is or has been, or retains an employee involved in the sale of Tickets who is, or has been, convicted of a felony involving gambling-related offense or any misdemeanor involving gambling, theft, computer offenses, forgery, perjury, dishonesty or unlawfully selling or providing a product or

substance to a minor in any jurisdiction unless the person's civil rights have been restored or at least five (5) years have elapsed from the date of the completion of the sentence without a subsequent conviction of a crime described above; or

- (4) Commits fraud, deceit or misrepresentation; or
- (5) Provides false or misleading information to the TEL; or
- (6) Acts in a manner prejudicial to the security or integrity, or the public confidence in the security or integrity, of the TEL; or
- (7) Conducts business for the sole purpose of selling Tickets; or
- (8) Is delinquent in the payment of any federal, state or local taxes owed by it; or
- (9) Changes any Retailer Business Location for which TEL has issued a Certificate of Authority under the Retailer Contract; or
- (10) Fails to accurately or timely account for proceeds or prizes from the sale of Tickets; or
- (11) Fails to accurately or timely account for Tickets received from the TEL; or
- (12) Fails to comply with any term of the Retailer Contract; or
- (13) Fails to maintain a minimum level of sales, as established by the TEL from time to time; or
- (14) Substantially changes the ownership of Retailer without prior written notice to, or consent of, the TEL; or
- (15) Files for or is placed in bankruptcy, receivership, insolvency or similar proceedings or fails to pay its debts as they become due; or
- (16) Resides in the same household as any director, officer or employee of the TEL; or
- (17) Contracts with any person or entity other than the TEL for lottery goods or services without the prior written approval of the TEL; or
- (18) Fails to meet any of the objective criteria established by the TEL pursuant to the Act; or

- (19) Is subjected to any material change, as determined in the sole discretion of the TEL, in any matter considered by the TEL in entering this Retailer Contract; or
  - (20) Fails to consistently pay prizes to Claimants or issues a non-sufficient funds (NSF) prize check or money order; or
  - (21) Fails to maintain the designated account from which Electronic Funds Transfers (EFT) payments are to be made, withdraws the authorization for the TEL to initiate EFT transactions to and from such designated account, or fails to have sufficient funds available in such designated account on the dates specified by the TEL.
- D. Any request for a hearing shall be in writing, addressed to the CEO, and must be filed with the TEL within five (5) calendar days after receipt of the notice of cancellation, denial, termination, revocation, suspension, rejection, or refusal to renew the Retailer Contract. The request must include a statement of the factual basis for the protest, and it must be signed by the Retailer's authorized representative. All requests for hearings shall be sent by certified mail, return receipt requested or hand delivered.
- E. All disputes shall be handled in accordance with the procedures outlined in the TEL's Dispute Resolution Procedures, available upon written request. Prior to seeking judicial relief with respect to any claim or controversy in connection with a Retailer Contract, a Retailer must first pursue and exhaust any and all remedies available to it in accordance with the aforementioned dispute resolution procedures. By executing a Retailer Contract, each Retailer agrees that the Retailer Contract shall be governed by and construed in accordance with the laws of the State of Tennessee, and, in accordance with the Act, any action arising hereunder must be brought in the Chancery Court of Davidson County, Tennessee. Likewise, Retailer waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the venue of any proceeding, which is brought in the Chancery Court of Davidson County, Tennessee.

## **2.08 PAYMENT OF PRIZES**

- A. During normal business hours, each Retailer is required to immediately validate (through the TEL Lottery Terminal) and pay Prizes (i.e., prizes less than \$600) for any winning Ticket from all lottery games that the Retailer is authorized by TEL to sell. Retailers are encouraged to pay in cash, but they may pay Prizes from \$20.00 - \$599.99 with a business check or money order, if this is disclosed in advance of validation to the Claimant. Retailers are prohibited from charging Claimants for any method of payment including money orders.

- B. For Instant Games and On-Line Games, Retailers must establish that the Ticket is a winning Ticket by using the TEL validation system. If the Retailer does not receive the appropriate authorization to pay from the TEL's validation system and the Ticket does not meet all the validation requirements as set forth in either the Instant Game Rules and Regulations or the On-Line Game Rules and Regulations, the Ticket should be returned unpaid to the Claimant.

*Amended 10.29.07*

- C. After validating and paying a winning Instant Game Ticket, the Retailer shall deface and retain the Instant Game Ticket until he/she has reconciled his/her accounting records; thereafter he/she must properly dispose of or retain the Instant Game Ticket for promotional purposes.

*Amended 10.29.07*

- D. Retailers should never pay a prize for On-Line Game Tickets that the TEL's validation system indicates are "previously paid". Retailers that honor previously paid On-Line Game Tickets shall be held financially liable for them.
- E. For High-Tier Prizes (prizes of \$600 or more), Retailers shall provide Claimants with a TEL Winner Claim Form and, when requested, assist the Claimant in completing the Winner Claim Form or direct them to the nearest TEL District Office or Claim Center.
- F. 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 by the same Retailer for payment of a prize.
- G. If a Claimant of a winning Ticket is less than eighteen (18) years of age, the prize must be claimed by an adult member of the person's family or a legal representative of the person on behalf of such person.

*Amended 5.18.09*

- H. Retailers and their employees claiming High-Tier Prizes (prizes of \$600 or more) must complete a Winner Claim Form. Retailers and their employees must mark the appropriate box in the Winner Claim Form to indicate that the Claimant is an employee or owner or partial owner of a Retailer Business Location. Retailers or their employees who fail to complete the Winner Claim Form correctly and truthfully may subject the Retailer and/or Retailer Business Location to administrative action by the TEL, including, but not limited to, suspension, revocation or termination of the Retailer Contract.

## **2.09 MINIMUM SALES REQUIREMENTS**

- A. The TEL has sole discretion to establish minimum sales requirements in order for a Retailer to continue selling Tickets at one or more of its Retailer Business

Location(s).

- B. The TEL has sole discretion to establish minimum sales requirements and other such criteria (i.e., number of stores), for a Retailer to be designated a Corporate Retailer Account.

## **2.10 MERCHANDISING**

- A. Unless the TEL agrees otherwise in writing, each Retailer shall offer to its customers all available lottery games and Tickets which the TEL has authorized the Retailer to sell at any given Retailer Business Location. The Retailer shall use the Ticket dispensers and/or vending machines provided by the TEL for the sale of Instant Tickets. The Retailer shall place such dispensers, vending machines, and any Lottery Terminals provided by the TEL in a prominent location in the Retailer's establishment near the cash register or checkout area that is within view of the Retailer's employee.
- B. Each Retailer shall prominently display, in an area visible to the Retailer's customers at each Retailer Business Location authorized by the TEL, the Certificate of Authority for such Retailer Business Location issued to it by the TEL. Additionally, the Retailer shall prominently display for its customers signage indicated by law and issued by the TEL indicating "must be 18 years old to play". Retailer shall return each such Certificate of Authority to the TEL immediately upon any termination, denial, cancellation, suspension, revocation or non-renewal of the Retailer Contract.
- C. In accordance with instructions issued from time to time by the TEL, the Retailer shall:
  - 1) Maintain displays, notices and materials supplied by, or on behalf of, the TEL;
  - 2) Prominently display and maintain such signage and point-of-sale materials as may be supplied by, or on behalf of, the TEL to be used in conjunction with 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, or on behalf of the TEL;

*Amended 10.24.05*

## **2.11 SETTLEMENT AND RETAILER INVOICING**

- A. The accounting period for purposes of preparing Retailer invoices shall be from Sunday at 5:00 a.m. through Saturday at 1:00 a.m.
- B. All Packs of Instant Tickets settled in an accounting period and all sales of On-Line Games lottery products occurring within the accounting period will be

invoiced to the Retailer. The Retailer invoice will be available through the TEL Lottery Terminal after 5:00 a.m. on the Sunday immediately following the end of the accounting period.

*Amended 4.28.08*

- C. For Instant Games, all Ticket Packs settled during the accounting period will be included in the Retailer invoice for that accounting period. The TEL has the discretion to designate a specific time period after the pack has been activated to settle the pack. The time period for settling packs may be modified at the discretion of the TEL in accordance with uniform criteria established by the TEL from time to time. Notwithstanding the foregoing, in order to protect the best interest of the TEL, the CEO may demand payment at any time from a Retailer for any Tickets sold.
- D. The Retailer invoice will provide a calculation of the proceeds due the TEL during the accounting period. The proceeds will be equal to the retail value of Settled Packs of Instant Game Tickets, plus the retail value of On-Line Game Ticket sales, less applicable sales Commissions, less any validations of winning Tickets by the Retailer, plus service fees, plus or minus any adjustments to the Retailer account as approved by the TEL.
- E. 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.
- F. The Retailer Commission shall be at least six and one-half percent (6 ½%) of all Ticket sales for Instant Games, and On-Line Games. Retailer shall also receive one percent (1%) of the prize on winning CASH 3 and CASH 4 On-Line Game Tickets, with a value of up to \$599, paid by Retailer

## **2.12 BANKING, DEPOSITS AND PAYMENT REQUIREMENTS**

- A. Each Retailer and officers of each Retailer shall have a fiduciary duty to preserve and account for all proceeds from the sale of Tickets collected by it and shall be responsible and liable for all such proceeds. Unless otherwise authorized and directed by TEL, each Retailer is required to establish a separate bank account in the name of the Retailer as "Trustee for the Tennessee Education Lottery Corporation" in an institution insured by the Federal Deposit Insurance Corporation (FDIC) and to provide the TEL with authorization to transfer lottery proceeds from this account using EFT. All proceeds from the sale of Tickets and all other funds due the TEL shall constitute a trust fund in favor of the TEL until paid to the TEL, and such proceeds are required by law to be deposited daily into the above noted separate bank account no later than the close of the next banking day after the date of their collection by the Retailer. All deposits and transfers of lottery proceeds shall be made in accordance with the Act and the Rules and Regulations.



- B. Lottery proceeds due the TEL as calculated on the invoice for an accounting period will be transferred from the Retailer's bank account to the TEL on the designated transfer day.
- C. On the designated transfer day, if all net lottery proceeds as detailed on the Retailer invoice, are not in the separate Retailer bank account, the Retailer will be deemed to be in default due to non-sufficient funds (NSF). A \$25 fee will be charged to the Retailer account for each NSF default. Each time an NSF default occurs, the TEL will immediately contact the Retailer and proceed as follows:
- 1) If the NSF default is the first one within a one hundred eighty (180) day period, the TEL shall require the Retailer to deposit the required funds into the separate lottery account and provide notice to the TEL of funds availability to enable an automated clearing house (ACH) debit using EFT. If the Retailer fails to deposit the required funds to cover the NSF amount, the Retailer's Lottery Terminal operation and Instant Ticket deliveries may be immediately suspended; and
  - 2) If the NSF default is the second one within a one hundred eighty (180) day period, the TEL shall immediately suspend the Retailer's Lottery Terminal operation and Instant Ticket deliveries until the Retailer pays the overdue amounts; and
  - 3) If the NSF default is the third or more within a one hundred eighty (180) day period, the TEL may immediately suspend the Retailer Contract for up to an additional thirty (30) days, with a review of the Retailer's account prior to reactivation. The TEL may require, in its sole discretion, a security deposit or other credit enhancement as a condition of reactivation.
  - 4) If more than thirty days lapse before a NSF default is paid by the Retailer, regardless of the number of occurrences within a 180-day period, the TEL, in its sole discretion, may require a security deposit or other credit enhancement prior to reactivation.
  - 5) Notwithstanding any of the above, the TEL, in its sole discretion, may require a security deposit or other credit enhancement for a Retailer who no longer meets the TEL's acceptable level of creditworthiness as assessed through an independent credit agency and/or based upon the current or prior payment history with the TEL.
- D. Failure of a Retailer, including all sole proprietors, partners, corporate officers, or shareholders holding more than ten percent (10%) of the ownership interests, to pay a delinquent account shall constitute cause for the TEL, in its sole discretion, to terminate, cancel, suspend, or revoke:

- 1) The delinquent Retailer Contract; and
  - 2) Any other non-delinquent Retailer Contract also held by the same Retailer; and
  - 3) Any other non-delinquent Retailer Contract for which there is a common ownership interest exceeding ten percent (10%) in both the delinquent and the non-delinquent Retailer Contracts held by the same natural person or legal entity, whether a person, partnership, corporation, officer or other owner.
- E. Failure of a Retailer, or its principal officers or owners who hold a greater than ten percent (10%) ownership interest, to pay a delinquent Retailer account, shall constitute a material factor in the decision whether to grant the Retailer, or its principal officers or owners who hold a greater than ten percent (10%) ownership interest, a Retailer Contract for a different Retailer Business Location, or for a Retailer account under a different name or corporate entity.

## **2.13 CHANGE OF OWNERSHIP**

*Amended as of 4.25.05*

- A. Retailer Contracts are not assignable. For purposes of a Lottery Retailer Contract, any of the following 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: the change in ownership of a controlling equity interest in the Retailer; or the addition or deletion of any of the owners holding more than ten percent (10%) of the equity interest of the Retailer; 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.

Notwithstanding the foregoing, the transfer or sale of an equity interest in a Retailer or Retailer applicant shall not be deemed an impermissible assignment if the equity interest is being transferred or sold to a current owner of an equity interest of more than ten percent (10%) of the Retailer or Retailer applicant prior to the transfer or sale and if no new Federal Employer Identification Number (FEIN) is required for the Retailer or Retailer applicant; provided, however, that the remaining owner(s) of an equity interest of more than 10% of the Retailer or Retailer applicant shall comply with the notice procedures set forth in this Section 2.13A and must be in compliance with the selection criteria in Section 2.05, above.

Any proposed new owner must file a new application for a Retailer Contract no less than twenty (20) days before any proposed business or location change or change in ownership. If the required prior written notice is provided to the TEL

and the conditions set forth in Section 2.13B, an interruption of Lottery Terminal operations may possibly be avoided.

- B. Whenever the ownership of a Retailer Business Location, which has been authorized by the TEL to sell Tickets is changed to a different Retailer or Retailer applicant, the TEL may, in its sole discretion, allow the Retailer Business Location to sell Tickets for all Lottery Games if the following conditions are satisfied by the Retailer or Retailer applicant:

- 1) The TEL is given timely notice of the proposed transfer; and
- 2) The acquiring Retailer or Retailer applicant has filed an application for a Retailer Contract, has met all of the criteria established by the TEL and has been approved by the TEL as a Lottery Retailer; and

*Amended 4.28.08*

- 3) The selling Retailer has made complete financial settlement with the TEL, to the TEL's satisfaction, for that Retailer Business Location sold or transferred.

*Amended 4.28.08*

- 4) All prior outstanding balances at the Retailer location have been paid. At the discretion of the CEO, or designee, the applicant shall be given the opportunity to post a financial security deposit.

*Amended 4.28.08*

If required to post a financial security deposit, and failing to do so, the TEL will deny the application to become an authorized Retailer at said location.

- C. Whenever the ownership of a Retailer Business Location, which has been authorized by the TEL to sell Tickets is changed to a different Retailer or Retailer applicant, without the TEL's knowledge and approval, the Retailer shall continue to be liable for the successor owner's TEL transactions as if the successor owner were an agent of the Retailer, unless and until timely written notice from Retailer on or before such transfer is delivered to TEL specifically requesting cessation of TEL sales at the transferred Retailer Business Location(s). The 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 in fact are sold only by Retailers under an approved Retailer Contract, all in accordance with the Act and the Rules and Regulations.