

An interstate agreement creating a multistate lottery is hereby enacted into law and entered into with all jurisdictions legally joining therein, in the form substantially as follows:

INTERSTATE AGREEMENT CREATING A MULTISTATE LOTTERY

Party lotteries hereby agree to create a multistate lottery, hereinafter referred to as MUSL, an association of state lotteries and the District of Columbia, to operate a game, as follows:

1. That the party lotteries herein establish and create the multistate lottery board of directors, hereinafter referred to as board, on which each participating lottery shall be represented, to initiate, promulgate, administer and carry out a lottery game that will enhance each party lottery's revenue.

2. That a dual system of voting is established. One vote will be taken in which each party lottery has one vote. A second vote will be taken in which each party lottery has a number of votes equivalent to its proportionate percentage of the total population (as per the most recent U.S. census) of the states participating in MUSL multiplied by 100, except that the maximum vote a party lottery shall have under the second vote shall not exceed 1/3 of the total votes cast. Following the commencement of sales, each party lottery's second vote will have the number of votes equivalent to its proportionate percentage of total MUSL sales multiplied by 100, except that the maximum vote a party lottery shall have under the second vote shall not exceed 1/3 of the total votes cast. This percentage will be based upon each lottery's average monthly sales experience for the twelve or proportionate calendar months preceding the vote.

Unless a different percentage is provided in this agreement, the percentage of votes necessary to allow action by the MUSL is 51% of the votes cast pursuant to both methods of voting.

The terms of this agreement cannot be changed without a 2/3 vote of all party lotteries cast pursuant to both methods of voting.

3. That the quorum necessary to hold an official meeting of the MUSL board shall be representation in person or by proxy from at least 51% of all party lotteries. However, unless a majority of the proportionate population votes, as defined in paragraph 2 of this agreement are also represented, any decisions adopted at any MUSL board meeting must subsequently be ratified within 14 days by a majority vote utilizing the proportionate percentage share allocation of votes.

4. That the director or designee, of each party lottery shall represent it on the board and may cast the votes allocated to it either in person or proxy.

5. That the board shall elect for a term as prescribed in its bylaws, a president, vice-president, secretary and two coordinators from its membership hereinafter to be called the executive committee.

6. That a percent of the gross sales as determined by the MUSL board and stipulated in MUSL rules from the MUSL game sales of each party lottery will be aggregated in a common prize pool.

7. That operating costs of the MUSL shall be paid by each party lottery proportionate to its percentage of MUSL game sales as compared with total MUSL game sales. The executive committee will advise the board of the budget and estimated expenditures of MUSL for each fiscal year. The budget proposal will specifically estimate the portion of the total budget to be paid to MUSL by each of the member lotteries based upon the percentage described.

8. That the revenues not allocated to prizes or operating cost as outlined above and generated within each party lottery shall remain in that lottery.

9. That the board's functions shall be performed and carried out by such advisory committees or panels, or both as the board may establish and by such officers and independent contractors as may be appointed by the board. All such officers, independent contractors, agents, consultants and employees shall serve at the pleasure of the board and the board shall prescribe their powers, duties and qualifications and fix their compensation and other terms of their service.

10. That each party lottery shall be responsible for travel and per diem expenses incurred by its board members unless otherwise approved by the board.

11. That the party lotteries shall operate and administer a game in accordance with rules governing the establishment and operation thereof, as promulgated by the board. Notwithstanding the above, the game rules shall be adopted by the party lotteries or similar rules and regulations will be adopted by each lottery which are approved by the MUSL board.

The rules may be changed or modified by the MUSL only after the MUSL has given each member two weeks notice that a rule change or modification will be voted upon at a MUSL meeting. A rule can be changed or modified by the MUSL by an affirmative vote of 2/3 of the MUSL members cast pursuant to both methods of voting. Following receipt of notice that an

amendment or modification has been adopted the party lotteries shall adopt the amendment or modification or a similar amendment or modification which is approved by the MUSL board.

12. That the executive committee shall make annual reports to the party states, which shall include a full and complete statement of MUSL revenues, prize disbursements and other expenses and any other information the party lotteries may require. These reports shall be the basis to determine each party lottery's share of expenses as prescribed in the bylaws, this agreement and the rules.

13. That each party lottery shall provide all necessary operational reports and other data required by MUSL.

14. That all MUSL accounts and transactions shall be subject to annual post audits conducted by independent auditors retained by the board for this purpose and each of the party lotteries shall receive a certified copy of the same. All such records and transactions shall be available to all party lotteries for copying, inspection and auditing purposes as may be required under the laws of their state.

15. That the fiscal year of the MUSL shall be from July 1 of one calendar year to June 30th of the succeeding calendar year.

16. That prizes received pursuant to this agreement shall be subject to the statutory authority and rules and regulations of the party lotteries wherein the ticket was purchased. Any litigation relating to tickets and prizes shall be resolved according to the laws of the state where the ticket was purchased.

17. That MUSL shall continue in existence until this agreement is revoked by all of the party lotteries. The withdrawal of one or more party lotteries shall not terminate this agreement among the remaining lotteries. Upon termination of MUSL, any assets acquired by MUSL with the exception of the prize reserve fund, will be liquidated in a manner determined by the board. The proceeds from the liquidation will be divided among all of the lotteries which were members of MUSL in good standing at any time during the 12 months preceding termination. The amount of the proceeds received by each lottery will be calculated by use of the following formula:

individual lottery MUSL sales
during the twelve month period X proceeds
total MUSL sales during the available for
12-month period distribution

A party lottery wishing to withdraw from this agreement shall give the board a six months notice of its intention to withdraw. However, a lottery may terminate such agreement at any time without prior notice if authority to participate is withdrawn by executive or legislative action or if participation in the MUSL is in conflict with the constitution or statutes of any state. In addition, the MUSL can vote out a party lottery for cause with the consent of 2/3 of the party lotteries voting by both methods of voting as outlined in paragraph 2, except the party lottery being voted upon shall be excluded from the vote in that proceeding and in the calculations as outlined in paragraph 2. A lottery which withdraws or is voted out by MUSL more than 12 months prior to termination of MUSL will not be entitled to a share of the property or assets of MUSL, except for such lottery's proportionate share of the prize reserve fund.

In the event that a party lottery terminates, voluntarily or involuntarily, or MUSL is terminated by agreement of the parties, the prize reserve fund share of the party lottery or lotteries shall not be returned to the party lottery or lotteries until the later of one year from and after the date of termination or final resolution of any pending unresolved liabilities arising from transactions processed during the tenure of the departing lottery or lotteries. The voluntary or involuntary termination of a party lottery or lotteries does not cancel any obligation to MUSL which the party lottery or lotteries incurred before the withdrawal date.

18. That all intellectual property rights developed and approved by MUSL with respect to the game including, but not limited to, trade marks, trade names, logos, copyrights, slogans and devices shall be acquired and held by a party lottery designated by MUSL for the use and benefit of MUSL. The use thereof shall be limited to party lotteries participating in this game.

19. That each party lottery agrees that upon termination from MUSL that it will not use any of the intellectual property identified with the game.

20. That the board shall not pledge the credit of the party lotteries, directly or indirectly, except that each party lottery shall be liable for its proportionate shares of prize moneys and operational costs as specified in paragraphs 6 and 7 of this agreement.

21. Compliance with MUSL standards is a prerequisite for MUSL membership. The board shall review the internal control procedures submitted by each lottery and vote upon whether or not each lottery's internal controls comply with MUSL standards as set forth in MUSL rules and regulations. If MUSL incurs a prize liability under this provision due to the error of a lottery whose internal control procedures have been approved and the error was not due to a contractor's actions or omission, the party lottery will pay to the prize winner the disputed prize or \$1,000,000 whichever is less at the direction of the board. Upon the payment herein before outlined, MUSL will indemnify and hold harmless each member lottery for any additional liabilities relating to the MUSL prize payments. In addition, it is recognized that \$1,000,000 may

not be enough to cover the value of the prize liability incurred, and a prize reserve fund will be established to enable MUSL to fund the difference between this amount and the actual prize liability. In addition, the companies which operate online gaming systems on behalf of the party lotteries will be required to have some level of insurance to cover such liabilities in the event one of them makes a mistake.

If MUSL incurs any liability as the result of the acts of a party contractually obligated to the member lottery, that lottery shall pursue all contractual and legal remedies available to it under the contract. Any money recovered by the lottery will be turned over to MUSL up to the amount expended by MUSL as a result of the error. A lottery's pursuit of its contractual and legal remedies against the party at fault is that lottery's only obligation to MUSL in the event of a MUSL loss.

The MUSL shall establish and then maintain a prize reserve fund solely for the purpose of indemnifying the member lotteries. The board will determine the manner in which the prize reserve fund is to be invested and interest earned on the fund will become part of the fund if the fund balance is below the ceiling amount designated by the board. Interest earned on the fund when the fund balance is not below the ceiling amount will be treated as prize money.

22. That no lottery shall be allowed to join the MUSL without the consent of 2/3 of the party lotteries voting pursuant to both methods of voting. The board will designate the terms which must be met by a lottery seeking admission, including but not limited to, setting the amount which the lottery must contribute to the MUSL prize reserve fund. This paragraph is not applicable to the lotteries listed in this first paragraph of this agreement provided that they sign this agreement by October 1, 1987.

23. That this agreement may be executed in as many counterparts, as there are party lotteries. When so executed each shall be deemed to be an original and such counterparts together shall constitute one and the same agreement.

24. That all notices required to be sent to a party lottery pursuant to this agreement shall be in writing and sent by certified mail, return receipt requested at the addresses appearing hereunder or any other address which may be given from time to time to the board.

CREDIT(S)

Laws 1988, ch. 288, § 1.

LIBRARY REFERENCES

Lotteries 3.
Westlaw Topic No. 247k3.
C.J.S. Lotteries §§ 2 to 7, 11.

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