

IMPORTANT NOTICE TO CALIFORNIA CIGARETTE DISTRIBUTORS

New or Modified Cigarette Tax Stamping Equipment Required; Provides Added Benefits For Distributors

Due to the success of the legislatively mandated encrypted tax stamping program in California, the Board of Equalization (BOE) and the Department of General Services (DGS) worked collaboratively on the procurement and contract to ensure a smooth transition upon completion of the initial contract. The Request for Proposal (RFP) DGS #1003-021, BOE Cigarette Tax Stamps included new requirements for improved stamp security and collection of product information for more prompt and accurate Master Settlement Agreement (MSA) reporting and provides for system upgrades, among other things. Under the provisions of the new procurement, the stamping functions will be modified such that product information will be automatically captured at the time stamps are affixed. This system enhancement will benefit cigarette distributors by automating the manual process of compiling the data for the monthly schedules filed with BOE. Distributors will have on-line access to their information.

Following a competitive bid process, on July 23, 2010, DGS issued a five-year contract to SICPA for cigarette tax stamps and related stamping equipment. As per the requirements of the RFP, certain changes will be implemented in the California tax stamping system. The BOE is requiring these changes under the authority of the Cigarette and Tobacco Products Tax Law and related regulations. California licensed cigarette distributors who wish to continue stamping and distributing cigarettes in California must comply with the changes.

To capture MSA information and meet RFP specifications, all machines require a modification upgrade or replacement.

- **Distributors Will Have a Choice to Modify or Replace High Volume Stamping Machines (HVSM)**
 - **Modify HVSM** - Cigarette distributors will be able to use existing HVSM equipment, but will be required to have SICPA and Meyercord modify HVSMs to add carton UPC scanners. The UPC scanners will read the bar code on cigarette cartons as products are stamped.
 - **Replace HVSM** – Cigarette distributors may elect to purchase or lease new, upgraded HVSMs to comply with required changes. Since the initial implementation of the program in 2005, SICPA and Meyercord have released a new HVSM, offering over 30% faster stamping rates, less moving parts and greater efficiency. The required UPC scanners are already integrated within the new HVSMs.
- **Distributors Will Be Required to Replace Low Volume Stamping Machines (LVSM)**
 - Existing LVSMs must be replaced due to system modifications required by the RFP. Existing LVSMs do not have UPC scanning capabilities.

SICPA will make new LVSMs available for lease or purchase. New LVSMs include the UPC scanning capability and the stamp application and validation process have been simplified to improve operator use and efficiency.

Current leases can be modified and lease rates can be adjusted accordingly. For upgrades, replacements or for lease rates and terms relating to HVSMs, contact Meyercord at (800) 639-3799. Select Option 3 for Sales. For replacements of existing LVSM equipment, contact SICPA Customer Service at 800-313-2790.

Machine orders must be received by December 31, 2010. A representative from Meyercord will be contacting all customers following release of this notice.

Further details will be provided in future notices or communications. For additional information and updates visit http://www.boe.ca.gov/info/fact_sheets/cig_tax_stamp.htm. If you have questions about this notice, please contact Scott Miller, BOE-Special Taxes and Fees Division, at 916-323-3990.

Sent Electronically to Cigarette Distributors with Stamping Equipment on 9/21/10