

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, February 19, 2014

10:00 a.m.

**124 West Capitol Avenue, Third Floor
Little Rock, Arkansas**

Call to Order

Chairman George Hammons called the meeting to order. Commissioners Smokey Campbell, Julie Baldrige, Dianne Lamberth, Raymond Frazier, Bruce Engstrom, Mark Scott, and Doug Pierce were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Bunten, Lance Huey, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham, and Jeremy Smith.

Commissioner Pickard

Chairman Hammons began the meeting by noting that it had been announced earlier that Commissioner Ben Pickard was no longer a member of the Arkansas Lottery Commission. He reminded the audience that Commissioner Pickard had been an inaugural member, serving from late spring 2009 to January 2014, and he thanked him for his leadership and for his promotion of meeting the educational needs of Arkansas students. He added that the Commission would miss his wisdom, insightfulness and commitment to the students. Director Woosley stated that the staff was preparing a plaque for Commissioner Pickard to be presented to him in gratitude for his service to the Arkansas Scholarship Lottery.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on January 15, 2014. Commissioner Lamberth made a motion to approve the minutes, Commissioner Baldrige seconded the motion, and the minutes were approved unanimously.

Report from the Internal Auditor

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that fieldwork recently began on Project No. 8, Points for Prizes and Play it Again Audit, and was ongoing. Fieldwork also began on Project No. 9, IT Gaming Operations. A report was issued on January 30, 2014, for Project No. 13, an audit of In-State Draw Security & Controls. No observations or recommendations were reported for that audit. Project No. 29, an audit for Payroll and Leave, was scheduled to begin the week of February 24.

Consulting Project No. 45, Financial Statements and CAFR Review, was complete and a report was issued on February 11. No observations or recommendations were reported.

Mr. Brown reported that review procedures for Consulting Project No. 46, Instant Ticket Vendor Security Review, were scheduled to take place the week of March 3, 2014. Internal Audit expected to receive a report and analyze the results no later than June 15, 2014.

A report was issued for Audit Project No. 47, Instant Ticket Reconstructions, on January 16, 2014. Internal Audit reported that there was no formal monitoring or review by management of the reconstruction requests sent to Scientific Games on a periodic basis. Also noted was that there was one instance of a reconstruction request for which it could not be demonstrated that ALC personnel had viewed the instant ticket in question or had physical custody of the instant ticket. Management responded by stating that physical receipt - or other supporting documentation - of tickets being reconstructed would be required for an future reconstruction requests, that approval of the Director or Deputy Director of Security would be required for all future payments to players resulting from reconstructions, and that the Director or Deputy Director of Security would perform a monthly review of reconstruction requests going forward. Additional follow-up would be necessary in order to consider these observations cleared.

Project No. 36A, an audit of Financial Accounting and CAFR, was complete and a report was issued on February 11, 2014. An observation was made that there were six inaccuracies in schedules presented in the CAFR for June 30, 2012, and one inaccuracy in schedules presented in the CAFR for June 30, 2013. A complete list of June 30, 2012, inaccuracies noted by Internal Audit were provided to management in completion of the June 30, 2013, CAFR so that any necessary actions could be taken to prevent similar inaccuracies from appearing in the June 30, 2013 CAFR. Internal Audit recommended that management continue to perform detailed review of information presented in supplementary and statistical schedules presented in the CAFR. Management concurred with Internal Audit's recommendation. Additional follow-up would be necessary to consider the observation cleared.

Referring to page 7 of the Internal Audit Update, Commissioner Engstrom asked where the commission stood regarding the major procurement contracts. He asked Director Woosley to provide to the commissioners a section-by-section explanation of the contracts in plain English so that by the time the [contract process] started, they would be prepared. Director Woosley responded that the only contract looming was the one for Advertising, Marketing, and Media Services that he had forwarded to the commission last month. He stated that the proposal he and Ms. Bunten would be bringing to the Commission was for approval of renewing the advertising contract, as well as for approval of two supplemental contracts for creative [advertising]. He asked Commissioner Engstrom if he needed to go section by section on that particular contract, and then present it. Commissioner Engstrom said that he would prefer that method, to ensure he properly understood the language prior to voting to approve or disapprove the contract. He added that it could be done in either a written format or orally. There was a brief discussion regarding timelines, in which Director Woosley informed the Commission that the advertising contract was up for renewal in August of this year and added that it was not as complicated as the two major vendor contracts, although it did have its intricacies. He stated that ALC used very little of the contract services, doing mostly media buys and a little creative through one of the agency's supplemental vendors. He said that in April he

could bring an explanation of the contract before the commission, along with justification for renewal of the contract and for the supplemental contracts. After some discussion, it was determined that this process would be assigned to the Audit and Legal Committee. Commissioner Engstrom commented that because the discussion of the advertising contract could conceivably take much longer than 30 minutes, the committee may need to consider meeting on a separate date.

Report from the Director

Director Woosley was recognized to give his regular report (in file). He reported that the Comparative Income Statement reflected that instant ticket sales were down \$1.9 Million compared to January 2013, while online ticket sales were up \$484,988. He attributed the increase in online ticket sales to ASL's Fast Play games, as well as to the growth of [Powerball and Mega Millions] jackpots during the last part of the month. Net proceeds for January 2014 compared to January 2013 were down by \$922,672, which was a 14.1% drop. Chairman Hammons asked if it was fairly typical that if online ticket sales go up, the online prizes net goes down. Director Woosley replied that it depended on what ALC was selling that particular month. For example, he explained, any time there is a Powerball or Mega Millions run, [ALC] prize percentage is 50% of every dollar, so [ALC] prize expense is not that high, but [ALC] income is higher. Commissioner Engstrom asked Director Woosley if the Raffle loss was included in the \$922,672 drop in net proceeds. Director Woosley responded that a \$284,000 Raffle loss was included in that amount.

Next, he discussed the January Actual versus Budget Comparative Income Statement. He noted that there was again a shortfall in the instant ticket sales, with \$24.8 Million in actual ticket sales as opposed to the \$30.9 Million budgeted amount. The actual amount of online ticket sales for January 2014 was \$6.2 Million, whereas \$7.09 Million had been budgeted for the month. He stated that from a revenue standpoint, everything was lower than anticipated. He said that the net proceeds, although down, would be supplemented by the January unclaimed prize amount. Commissioner Scott noted that expenses for the month were less than the budgeted amounts and he asked if there was a conscious effort to keep expenses down. Director Woosley explained that there was not a conscious effort to keep expenses down, but rather, if sales were down, the operating expenses would be down.

Director Woosley then reported on the Year-to-Date Comparative Income Statement. He said that instant tickets were down over \$15 Million compared to this time last year. Commissioner Engstrom asked if the instant ticket vendor had an explanation as to why the instant ticket sales were down. Mr. Woosley said that it was probably a combination of several things, including the economy or the fact that the lottery had settled in a little bit. He said that he did not want to speak for the vendor, but he offered to have a vendor representative come before the Commission and explain the lower sales. Commissioner Engstrom said he would like for that to happen and Director Woosley responded that he would contact them. Director Woosley reported that while instant ticket sales were down, online ticket sales were up \$7.2 Million for the year. He attributed it partly to the continued popularity of Fast Play games and also to Mega Millions, which had a large jackpot in January.

Commissioner Scott noted that the advertising expenses increased, reflecting 21.3% over budget. He asked if that was an attempt to make up lost ground or if it was just the way the numbers fell. Director Woosley responded that it was just the way the numbers fell in any given month, that management tries to annuitize the advertising budget through the course of the year. He added that currently there was a \$400 Million Powerball jackpot and that would affect the advertising budget accordingly.

Commissioner Pierce commented that he had a copy of the Retail Sales by County and asked if the Director knew if there were any specific trends by county, or if the decline [in instant tickets] appeared to be consistent throughout the state. The Director replied that there are obviously some areas of the state, such as Northwest Arkansas, that just played fewer lottery games. He said that during recent retailer visits throughout the state, he had been told consistently by the stores that sales were down. He added that weather this winter was a big factor in affecting sales, with ice or snow hitting at the worst possible time, especially the weekend, normally the best time for ticket sales. Commissioner Pierce noted that lottery sales density averaged about one retailer per 1,560 residents throughout the state, but that in the counties of Benton, Washington, and Crawford County, the lottery sales retailer density was much lower (1 in 2,000; 1 in 2,800; and 1 in 2,600, respectively). He added that each retailer was worth an average of \$16,000 per year in ticket sales. Robert Stebbins, ALC Sales Director, reported that the Arkansas counties of Benton, Boone, and Clark had recently approved the sale of liquor; new liquor stores were opening on a regular basis and lottery management was hopeful that it would impact sales upward. Commissioner Pierce said that if the Lottery could increase its monthly sales in those counties by as little as \$1 per person, it could increase sales by \$3 million per month. He added that whatever the lottery needed to do, however it needed to do it, the focus needed to be on that area of the state. He asked Director Woosley if he saw a time in which lottery tickets could be purchased via computer or by smart phone app. Director Woosley responded that it was his job to foresee that, or the lottery risked being a dinosaur that didn't make much money.

Commissioner Scott stated that he thought messaging was very different in Northwest Arkansas. He said that education was very important to the residents in those areas, with a lot of Academic Challenge Scholarships going to students in that region - perhaps the marketing should reflect that. Director Woosley said that Commissioner Scott made a very good point and that he wanted to revisit the subject of campus advertising. He reminded the commission that back in 2009 an informal agreement had made not to advertise with colleges or universities. The concern for ALC management had been budgetary, and the commission was concerned that if one school was chosen over another, it would appear as if the Lottery was playing favorites. Chairman Hammons suggested that the subject of campus advertising be sent to the Higher Education Committee.

Director Woosley then reported on the ADHE Transfer Analysis Year-to-Date. He noted a negative increase in the Cumulative Balance for the year of \$4.2 million.

Director Woosley said he wanted to offer a little perspective in ALC's apparent slide in sales. He showed a slide of the Top 20 Lotteries by Rank, which reflected where ALC stood on the national scene. The Calendar Year 2013 ranking for Arkansas was No. 16 in instant ticket sales, with weekly per capita sales of \$2.29.

He also presented a slide of Powerball Sales Comparisons, which reflected larger jackpots but continually decreasing sales. Chairman Hammons asked if there was something structural going on with the Powerball game. Director Woosley responded that he had a few theories about what was going on. He said that the Powerball game change which occurred in January 2012, had raised the price of the ticket to \$2.00, and the jackpots grew faster and larger. Larger jackpots, being a regular occurrence, were no longer as impressive. The other theory was that MUSL had changed the game three or four times since January 2012 and players were tired of the changes. He advised the commission that MUSL was having a meeting in Phoenix in March to discuss Powerball, possibly to change the matrix. He said he would be attending in person to ensure Arkansas was heard, stressing that Arkansas had a problem with a game like Powerball being changed every six months because there were four software loads per year and things had to be moved out of the way to make the changes. He said the other concern was that Powerball players were being continually confused. Commissioner Engstrom asked if the same drop in Powerball sales was occurring in all of the states. Director Woosley said that he did not have exact numbers, but he could state that the jackpots were not meeting their sales projections.

Next, Director Woosley reported that for the week ending February 16, 2014, the Lottery had its best instant tickets sales (\$8,087,610) since the week ending February 17, 2013 (\$9,276,939). The week ending February 16, 2014, was also the best total sales week (\$10,203,013) since the week ending May 19, 2013, when sales were \$13,065,078 (the Powerball jackpot was \$590 Million and the Mega Millions jackpot was \$198 Million). Chairman Hammons asked if higher sales could possibly be because of the instant ticket mix. Director Woosley stated that they specifically schedule the launch of the best games during the months of January, February, and March to maximize sales during the most profitable time of the year.

Director Woosley announced that K-Mart had recently begun selling lottery tickets in five of its Arkansas stores, making it the first Big Box Lottery retailer in Arkansas, adding that TVMs would be sent to those locations shortly.

Director Woosley discussed the launch of a new \$20 instant ticket, Platinum Payout, which offered more \$500 prizes than any other instant game the ASL had ever released. He said it appeared to be selling very well. He also discussed a coupon campaign that began this month. The \$1.00 Instant Ticket coupons were distributed as inserts in various newspapers throughout the state. Thousands of the coupons had been already been redeemed and management was hopeful that the campaign would continue to create excitement.

Director Woosley reported that from March 1 through March 31, 2014, a 5% retailer bonus would be offered. During that period a lottery retailer would receive a 5% bonus of 10% total

commission on additional instant ticket sales compared with instant ticket sales during the same month period from the previous year. Commissioner Engstrom asked if it was possible to offer these types of incentives to individual regions of the state. Director Woosley responded that it could be done, but would most likely upset retailers in other areas of the state. Commissioner Pierce stated that ALC tended to approach marketing in the state as a whole, when there were actually different demographics and different driving forces throughout the regions. He recommended that the lottery move toward more segmented and targeted marketing from this point forward. Director Woosley agreed with his assessment.

Reports from ALC Committees

Higher Education Committee: Nothing to report.

Personnel Committee: Commissioner Lamberth reported that the Personnel Committee met at 9:00 a.m. on this date. She reported that two issues were discussed and both were approved by the Personnel Committee to bring before the full Commission:

- a. *Catastrophic Leave Policy (with amendments):* Commissioner Lamberth brought forward to the Commission on behalf of the Personnel Committee a motion to approve the Catastrophic Leave Policy, with certain changes: (1) *Chief Legal Counsel* was added to the approval process, that is, Shared/Catastrophic Leave requests would be approved by a majority vote of the ALC Director, HR Director and *Chief Legal Counsel*. (2) In the event any of the aforementioned individuals either applied for shared/catastrophic leave or was unavailable to vote on an individual shared/catastrophic leave request, an alternate ALC Director would be appointed by the Chairman of the ALC. Commissioner Engstrom seconded the motion to approve the Catastrophic Leave Policy as amended and the motion passed without dissent.
- b. *360 Evaluation Presentation by Mitchell Communications Group:* The second issue was a motion brought forward by Commissioner Lamberth on behalf of the Personnel Committee to the Commission to approve the proposal of a 360 Evaluation presentation to the ALC Personnel Committee by Mitchell Communications Group, at a cost not to exceed \$1,000.00. Commissioner Scott seconded the motion to approve and the motion passed unanimously.

Audit and Legal Committee: Nothing to report.

Retail and Marketing Committee: Commissioner Pierce reported that the committee met at 9:30 a.m. this date to address whether or not it was appropriate to seek legislative approval to permit the use of debit cards in the purchasing of lottery tickets. After much discussion, it was determined that further research was required and the decision in the form of a motion regarding debit cards would be postponed to June or July in order to give Director Woosley and his team enough time to prepare for the October ALC Legislative Oversight Committee meeting. He stated that there would be a Retail and Marketing Committee meeting at 9:30 on the day of

the next regularly scheduled Commission meeting and the discussion regarding debit cards would continue at that time.

Vendor Committee: Commissioner Scott reported that the Vendor Committee would meet directly following the ALC meeting on this date.

Other Business

Director Woosley presented a Budget Reforecast for the remainder of fiscal year 2014. He reminded the Commission that he had reported at the last meeting that ALC would revise its projections for the benefit of the Legislature so that they would know what to anticipate based on sales of the last six months. He reported that the projection was revised from \$89.5 Million to \$82.78 Million, based on the fact that ALC was behind approximately \$4.2 Million for the current fiscal year. He added that the projection added a \$2.9 Million cushion; management wanted to be as conservative and cautious as possible, while being as accurate as possible. He stated that the majority of the shortfall was because of lower instant ticket revenue, which over the course of the year was about \$15 Million less than projected. After much discussion, Commissioner Scott asked Director Woosley, as a way of addressing declining revenues, to provide the Commission with a “wish list” of items the Director believed would improve sales. Commissioner Lamberth made a motion to approve the budget reforecast, Commissioner Engstrom seconded the motion, and the motion passed unanimously.

Meeting Date

The next commission meeting was set for 10:00 a.m. on Wednesday, March 19, 2014.

There being no further business, the meeting was adjourned.

**Arkansas Lottery Commission
Monthly Internal Audit Update
March 19, 2014**

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**Arkansas Lottery Commission
FY 2014 Internal Audit Plan Status Report
March 19, 2014**

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
1	Audit	Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).	Scheduled		150
7	Audit	Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.	Planning Stage	Status Update: An audit kick-off meeting was held March 12, 2014, with fieldwork expected to begin in early April.	100
8	Audit	Points for Prizes & Play It Again	Controls and procedures surrounding the Points for Prizes and Play It Again programs.	Complete	Status Update: Report issued on March 4, 2014. See Page 4 for additional information.	-
9	Audit	IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	Substantially Complete	Status Update: Fieldwork began the week of February 3, 2014, and primarily finalization and wrap-up tasks remain.	30
17	Audit	Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	Scheduled		86
29	Audit	Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	Planning Stage	Status Update: An audit kick-off meeting was held February 26, 2014, with fieldwork scheduled to begin March 20, 2014.	125
38	Audit	IT General Controls	General IT/Computer-related controls that apply to all system components, processes, and data. ITGCs include logical and physical data center access, system development, change management, backup and recovery, and computer operation controls.	Scheduled		160
40A	Audit	Transparency Reporting & Compliance	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the transparency.arkansas.gov website.	Scheduled		81
43	Consulting Project	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA.	Scheduled		25
46	Consulting Project	Instant Ticket Vendor Security Review (Annually)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.	In Progress	Status Update: Review procedures are scheduled to take place the week of March 3, 2014. Internal Audit expects to receive a report and analyze the results no later than June 15, 2014.	24

**Total Estimated Hours to Complete FY 2014 Plan
(Excluding Follow-Up)**

781

Arkansas Lottery Commission
FY 2014 Internal Audit Plan Status Report
March 19, 2014

Follow-Up Audit Projects Resulting from Previous Audits⁴

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
14F2	Audit Follow-Up	Back Office System (BOS) Administration Follow-Up Procedures	Additional follow-up procedures regarding observations from FY 2014 initial follow-up procedures.	Open	Status Update: Expected to be performed in May and June 2014.	40
19F	Audit Follow-Up	Human Resources Processes Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Expected to be performed in May and June 2014.	45
23F	Audit Follow-Up	Claim Center Operations Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Planning Stage	Status Update: Early follow-up work is planned and will soon be underway.	40
30F	Audit Follow-Up	Federal & State Tax Withholding & Reporting Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Timing unknown at this time.	75
47F	Audit Follow-Up	Instant Ticket Reconstructions Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Timing unknown at this time.	40
36AF	Audit Follow-Up	Financial Accounting & CAFR	Follow-up procedures regarding observations from FY 2013 audit.	Open	Status Update: Earliest timing will be after production of the FY 2014 CAFR. No time included in estimate since this cannot be completed until FY 2015.	-
Total Estimated Hours to Complete FY 2014 Plan (Including Follow-Up)						1,021

Supplemental Projects Approved by the Audit & Legal Committee⁵

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
11	Review	Instant Ticket Quality	Review of independent quality control reports for instant tickets.	Open		18
33	Audit	Travel Reimbursements	Controls and procedures surrounding travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	Open		160
32	Audit	Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	Open		70
18	Audit	Background Checks	Controls and procedures surrounding the background check process.	Open		120
27	Audit	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	Open		160

Notes

¹Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 5 for complete, numbered project universe.

²Definition of Project Status: Open - Project has not yet been scheduled; Scheduled - Project has been scheduled and is included in the Internal Audit master schedule. Project timing subject to change based on a number of factors including business need, internal audit resources, etc.; Planning Stage - Project planning beyond scheduling has begun. Actual fieldwork may be several weeks away and finalization of all phases of the project may be several months away; In Progress - Fieldwork is underway. Project completion and finalization may still be several weeks away; Complete - Project is complete for the fiscal year unless otherwise noted (i.e. partially complete, substantially complete).

³Estimated hours to complete based on current knowledge of expected scope and complexity of the project. Actual hours needed to complete a project are subject to change based on the overall complexity of the project (including the nature and volume of any audit findings), the timing of the project, the availability of Internal Audit resources, and the discretion of the Internal Auditor and/or Audit & Legal Committee.

⁴Follow-Up Projects result from planned audits where items or issues were identified and Internal Audit must perform additional audit procedures to affirm their resolution.

⁵On December 2, 2013, the Audit & Legal Committee approved a list of supplemental audit projects for completion during FY 2014, should all planned projects be completed ahead of schedule. These projects should generally be prioritized for completion after any follow-up projects.

**Arkansas Lottery Commission
Points for Prizes & Play It Again Audit
FY 2014
March 19, 2014**

General Information

- The audit centered on controls, procedures, and processes relative to the Points for Prizes and Play It Again programs (administered through the player loyalty website know as “The Club”).
- Fieldwork included review of documentation and information generated in fiscal years 2013 and 2014.

Observation

- No current SOC 2 or equivalent audit of MDI, a subsidiary of Scientific Games International (SGI) under contract with the ALC, focusing on activities and operations undertaken to administer portions of the ALC’s player loyalty programs.
 - ALC Management has requested that MDI undergo a SOC 2 audit, and MDI / SGI has agreed.
 - A SOC 2 audit engagement of MDI’s operations, focusing on the AICPA Trust Services Security Principle is currently underway.
 - MDI / SGI has agreed to such audit at their cost; there is no known contract requirement for such an audit.
 - IA recommended that Management actively pursue and encourage current audit efforts, that such future audits also address the Availability, Processing Integrity, and Privacy Trust Services Principles, and that this audit requirement be incorporated into any future extension or replacement of ALC contracts for player loyalty program services.
 - Management has responded stating that the current SOC 2 audit underway will cover the period through June 30, 2014 and that audit results should be made available to the ALC at some point thereafter in 2014. Further, Management agreed with IA’s recommendation that the ALC should make this audit a requirement in either the extension or replacement of the vendor contract that governs the player loyalty programs that are set to expire in August of 2016, and that such audit requirements incorporated into the applicable vendor contract should specifically state which AICPA Trust Service Principles need to be covered.
 - Additional follow-up is necessary in order to consider the observation cleared.

Arkansas Lottery Commission
Internal Audit Project Universe for FY 2014 - 2016 Audit Plan

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
Legal - Block						
1 Online Games & Gaming System Contract Compliance			X			
2 Instant Ticket Lottery Game Services Contract Compliance	X					
3 Banking Contract Compliance				X		
4 Advertising Contract Compliance				X		
5 Record Retention				X		
6 Legal Compliance & Monitoring				X		
6A Major Procurement Contracts						X
Gaming & Product Development - Smith						
7 Instant & Online Ticket Game Development			X			
8 Points for Prizes & Play It Again			X			
9 IT Gaming Operations			X		X	
10 IT Gaming Quality Assurance		X			X	
11 Instant Ticket Quality	X			X	X	
Security & Licensing - Huey						
12 Lottery Facilities Security & Controls				X		
13 In-State Draw Security & Controls			X			
14 Back Office System (BOS) Administration		X			X	
15 Instant Ticket Warehouse Operations			X		X	
16 Licensing & Retailer Compliance	X				X	
17 Security Investigations			X			
Human Resources - Basham						
18 Background Checks				X		
19 Human Resource Processes (Hiring, Benefits, Terminations, etc.)			X			
Commission & Legislative Affairs - TBD						
20 Public & Legislative Relations				X		
Sales - Stebbins						
21 Sales Force Reporting				X		
Marketing - Bunten						
22 Advertising & Marketing (excl Contract Compliance)				X		

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
Treasury - Fetzer/Parrish						
23 Claim Center Operations	X		X		X	
24 Cash Receipts				X		
25 Retailer Sweeps/Commissions/Accts Receivable & Adjustments	X				X	
26 Cash Management				X		
Financial Control - Fetzer/Williams						
27 Fixed Assets				X		
28 Accounts Payable/Purchasing/Expenditures		X			X	
29 Payroll & Leave			X			
30 Federal & State Tax Withholding & Reporting			X			
31 Unclaimed Prize Fund				X		
32 Education Trust Fund	X	X				
33 Travel Reimbursements	X	X			X	
34 Revenue/Prize Payments/Reserves - Online Games	X				X	
35 Revenue/Prize Payments - Instant Ticket Games	X				X	
36 Accounting Close & Reporting		X			X	
36A Financial Accounting & CAFR		X			X	
37 Financial Planning/Budgeting		X			X	
Information Technology - Fetzer/Gilmore/Smith						
38 IT General Controls			X			
39 Disaster Recovery/Business Continuity			X		X	
40 IT Help Desk & Desktop Support				X		
40A Transparency Reporting & Compliance			X		X	
Internal Operations - Fetzer/TBD						
41 Lottery Vehicles				X		
42 Building & Facility Maintenance				X		
Recurring Projects						
43 Facilitation/Review of Risk Assessment required by DFA (Biennially)	X		X		X	
44 Gaming System SSAE 16 SOC1 Review (Annually)	X	X	X	X	X	
45 Financial Statements & CAFR Review (Annually)	X	X	X	X	X	
46 Instant Ticket Vendor Security Review (Annually)		X	X	X	X	
47 Instant Ticket Reconstructions (Annually)			X	X	X	

Arkansas



Scholarship Lottery

Report from the Director
March 19, 2014



First, the bad news. On March 14, there was no winner of the Mega Millions jackpot, and Miranda Huffman of Lepanto missed it by just *one* number. If she had gotten all six numbers, she would have *won* the \$353 Million jackpot. Now, the good news! Mrs. Huffman correctly matched the five white balls, purchased the \$1 Megaplier option - and won **THREE MILLION DOLLARS**, the second-largest prize in ASL history.



Mrs. Huffman said it was the first Mega Millions ticket she had ever bought for herself! The first person she told was her father and she plans to use the money to build a house.

The \$3 Million winning ticket was purchased at Jordan's Kwik Stop 14, 130 Highway 135 N in Lepanto.

The current jackpot, which began on January 4, is \$400 Million (\$244.8 Million cash value), which is the third highest Mega Millions jackpot ever.

Mega Millions holds the record for the largest jackpot in North American history. On March 30, 2012, the jackpot of \$656 Million was split three ways by winning tickets in Kansas, Illinois, and Maryland.

Photo (above) of Miranda Huffman and her husband, Jeff, courtesy of the Arkansas Scholarship Lottery



Mega Millions Jackpot Run
Arkansas Sales
January 4, 2014 to Date:

\$4,699,521



Natural State Jackpot Run

Current Jackpot: \$295,000

Sales

January 15, 2014 to Date:

\$1,290,388



September 28, 2009 - February 28, 2014

Sales : **\$2,020,111,780**

Prizes Awarded: **\$1,269,227,444**

Total Net Proceeds: \$ 413,013,309

Scholarships Awarded (AY 2010-2013): 95,057

Comparative Income Statements

February 2014 and 2013

GAAP Basis Income Statement	<u>February 2014</u>	<u>February 2013</u>	<u>Favorable/ (Unfavorable)</u>	<u>Percentage Variance</u>
Revenues				
Instant Tickets	\$ 30,899,677	\$ 36,360,970	\$ (5,461,293)	-15.0%
Online Tickets	8,044,479	5,484,610	2,559,869	46.7%
Retailer App/Fidelity	41,697	41,285	412	1.0%
Total Revenues	38,985,853	41,886,865	(2,901,012)	-6.9%
Operating Expense				
Instant Game Prizes	22,456,592	26,417,040	3,960,448	15.0%
On-Line Game Prizes	4,063,073	2,640,009	(1,423,064)	-53.9%
Retailer Commissions	2,198,399	2,366,184	167,785	7.1%
Gaming Contract Costs	1,888,633	2,170,509	281,876	13.0%
Advertising	345,443	301,012	(44,431)	-14.8%
General and Administrative	587,274	573,742	(13,532)	-2.4%
Other Agency Services	68,333	110,000	41,667	37.9%
Total Operating Expenses	31,607,747	34,578,496	2,970,749	8.6%
Operating Income	7,378,106	7,308,369	69,737	1.0%
Interest Income	14,089	14,783	(694)	-4.7%
Other Income	247,500		247,500	100.0%
Income Before Transfers	\$ 7,639,695	\$ 7,323,152	\$ 316,543	4.3%
Net Proceeds	\$ 5,909,956	\$ 6,447,119	\$ (537,163)	-8.3%

Note – Net Proceeds does not include unclaimed prizes.

Comparative Income Statements

February 2014 Actual Versus Budget

GAAP Basis Income Statement	February 2014 Actual	February 2014 Revised Budget	Favorable/ (Unfavorable)	Percentage Variance
Revenues				
Instant tickets	\$ 30,899,677	\$ 30,449,362	\$ 450,315	1.5%
Online Tickets	8,044,479	8,064,938	(20,459)	-0.3%
Retailer App/Fidelity	41,697	45,000	(3,303)	-7.3%
Total Revenues	38,985,853	38,559,300	426,553	1.1%
Operating Expense				
Instant Game Prizes	22,456,592	21,130,644	(1,325,948)	-6.3%
On-Line Game Prizes	4,063,073	4,507,728	444,655	9.9%
Retailer Commissions	2,198,399	2,276,919	78,520	3.4%
Gaming Contract Costs	1,888,633	2,008,947	120,314	6.0%
Advertising	345,443	400,000	54,557	13.6%
General and Administrative	587,274	620,941	33,667	5.4%
Other Agency Services	68,333	100,000	31,667	31.7%
Total Operating Expenses	31,607,747	31,045,179	(562,568)	-1.8%
Operating Income	7,378,106	7,514,121	(136,015)	-1.8%
Interest Income	14,089	20,000	(5,911)	-29.6%
Other Income	247,500		247,500	100.0%
Income Before Transfers	\$ 7,639,695	\$ 7,534,121	\$ 105,574	1.4%
Net Proceeds	\$ 5,909,956	\$ 7,266,148	\$ (1,356,192)	-18.7%

Note – Net Proceeds does not includes unclaimed prizes.

Comparative Income Statements

YTD February 28, 2014 Compared to February 28, 2013

GAAP Basis Income Statement	Actual YTD 2/28/14	Actual YTD 2/28/13	Favorable/ Unfavorable	Percentage Variance
Revenues				
Instant tickets	\$ 207,334,962	\$ 228,236,898	\$ (20,901,936)	-9.2%
Online Tickets	61,767,085	51,968,312	9,798,773	18.9%
Retailer App/Fidelity	380,280	376,840	3,440	0.9%
Total Revenues	269,482,327	280,582,050	(11,099,723)	-4.0%
Operating Expense				
Instant Game Prizes	147,314,987	159,536,191	12,221,204	7.7%
On-Line Game Prizes	32,553,407	25,405,336	(7,148,071)	-28.1%
Retailer Commissions	15,038,876	15,684,375	645,499	4.1%
Gaming Contract Costs	13,327,041	14,068,372	741,331	5.3%
Advertising	2,844,667	2,361,009	(483,658)	-20.5%
General and Administrative	4,710,447	4,732,451	22,004	0.5%
Other Agency Services	685,744	1,018,880	333,136	32.7%
Total Operating Expenses	216,475,169	222,806,614	6,331,445	2.8%
Operating Income	53,007,158	57,775,436	(4,768,278)	-8.3%
Interest Income	184,116	227,640	(43,524)	-19.1%
Other Income	247,500		247,500	100.0%
Income Before Transfers	\$ 53,438,774	\$ 58,003,076	\$ (4,564,302)	-7.9%
Net Proceeds	\$ 48,216,712	\$ 53,507,878	\$ (5,291,166)	-9.9%

Arkansas Lottery Commission

ADHE Transfer Analysis

Month	2014 Transfers	2014 Unclaimed Prizes	2014 Budget	Over/Under Budget	Cumulative Balance
July,2013	\$ 4,891,372	\$ 747,115	\$ 5,621,039	\$ 17,448	\$ 17,448
August	6,401,829	87,431	6,959,900	\$ (470,640)	(453,192)
September	6,023,766	618,079	7,279,088	\$ (637,243)	(1,090,435)
October	6,773,937	94,334	7,497,572	\$ (629,301)	(1,719,736)
November	6,768,352	257,183	7,629,131	\$ (603,596)	(2,323,332)
December	5,831,219	672,632	8,025,502	\$ (1,521,651)	(3,844,983)
January, 2014	5,616,281	1,175,002	7,209,769	\$ (418,486)	(4,263,469)
February	5,909,956	122,302	7,534,121*	\$ (1,501,863)	(5,765,332)
March					
April					
May					
June					
Totals	\$ 48,216,712	\$ 3,774,078	\$ 57,756,122		

* Revised Budget

Weekly Instant Ticket Sales

Week Ending	Sales
January 26, 2014	\$5,765,847
February 2, 2014	\$5,831,897
February 9, 2014	\$6,372,790
February 16, 2014	\$8,087,610
February 23, 2014	\$7,882,689
March 2, 2014	\$7,808,829
March 9, 2014	8,014,080
March 16, 2014	7,934,712

Powerball Sales YTD Compared to FY 2013

Member Lottery	% Change
Arkansas	-9.90%
Arizona	-7.80%
California	100.00%
Colorado	-15.58%
Connecticut	-6.88%
D.C.	-17.75%
Delaware	-5.58%
Florida	-15.88%
Georgia	-8.46%
Iowa	-12.17%
Idaho	-7.19%
Illinois	-15.29%
Indiana	-10.74%
Kansas	-7.04%
Kentucky	-11.00%
Louisiana	-5.63%
Maine	-5.02%
Maryland	-2.94%
Massachusetts	-9.01%
Michigan	-8.22%
Minnesota	-10.52%
Missouri	-4.95%
Montana	-13.23%

Member Lottery	% Change
Nebraska	-6.95%
New Hampshire	-8.42%
New Jersey	.91%
New Mexico	-13.28%
New York	-12.66%
North Carolina	-10.71%
North Dakota	-11.69%
Ohio	-8.71%
Oklahoma	-8.76%
Oregon	-5.81%
Pennsylvania	-8.36%
Rhode Island	-10.34%
South Carolina	-8.51%
South Dakota	-11.99%
Tennessee	-10.49%
Texas	1.58%
Virginia	-4.51%
Virgin Islands	-0.02%
Vermont	-10.79%
Washington	-6.08%
West Virginia	-5.28%
Wisconsin	-7.84%

Arkansas Lottery Commission

Megamillion Jackpots

Run Dates	Jackpot (000's)	ALC Sales (000's)	During Run when Jackpot was (000's)	ALC Sales (000's)	%
1/25/12 - 3/30/12	\$ 640,000	\$ 10,698	\$ 363,000	\$ 5,331	1.5%
10/2/13 - 12/17/13	\$ 636,000	\$ 7,242	\$ 344,000	\$ 3,556	1.0%
1/4/14 - 3/14/14			\$ 353,000	\$ 3,953	1.1%

Instant Game Launches

MARCH

<p>(\$1) 10X The Cash</p>  <p>Match any of YOUR NUMBERS to the WINNING NUMBERS, win prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>	<p>(\$2) 20X The Cash</p>  <p>Match any of YOUR NUMBERS to either of the WINNING NUMBERS, win prize shown. Get a "20X" symbol, win 20 TIMES the prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>	<p>(\$5) 50X The Cash</p>  <p>Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Get a "50X" symbol, win 50 TIMES the prize shown. Get a "20X" symbol, win 20 TIMES the prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>	<p>(\$10) 100X The Cash</p>  <p>Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Get a "100X" symbol, win 100 TIMES the prize shown. Get a "50X" symbol, win 50 TIMES the prize shown. Get a "20X" symbol, win 20 TIMES the prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>
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APRIL

<p>(\$1) Hot Dice</p>  <p>Match any of YOUR NUMBERS to the WINNING NUMBERS, win prize shown. Get a "7" symbol, win 7 TIMES the prize shown. Get a "6" symbol, win 6 TIMES the prize shown. Get a "5" symbol, win 5 TIMES the prize shown. Get a "4" symbol, win 4 TIMES the prize shown. Get a "3" symbol, win 3 TIMES the prize shown. Get a "2" symbol, win 2 TIMES the prize shown. Get a "1" symbol, win 1 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>	<p>(\$2) St. Louis Cardinals</p>  <p>Match any of YOUR NUMBERS to either of the WINNING NUMBERS, win prize shown for that number. Get a "20X" symbol, win 20 TIMES the prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p> <p>(\$2) Extreme Jumbo Bucks</p>  <p>Match any of YOUR NUMBERS to either of the two SERIAL NUMBERS, win prize shown for that number. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>	<p>(\$3) Queen of Diamonds</p>  <p>Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Get a "15X" symbol, win 15 TIMES the prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. Get a "3X" symbol, win 3 TIMES the prize shown. Get a "2X" symbol, win 2 TIMES the prize shown. Get a "1X" symbol, win 1 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>	<p>(\$5) Money Matters</p>  <p>Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Get a "100X" symbol, win 100 TIMES the prize shown. Get a "50X" symbol, win 50 TIMES the prize shown. Get a "20X" symbol, win 20 TIMES the prize shown. Get a "10X" symbol, win 10 TIMES the prize shown. Get a "5X" symbol, win 5 TIMES the prize shown. Get a "2X" symbol, win 2 TIMES the prize shown. Get a "1X" symbol, win 1 TIMES the prize shown. TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.</p>
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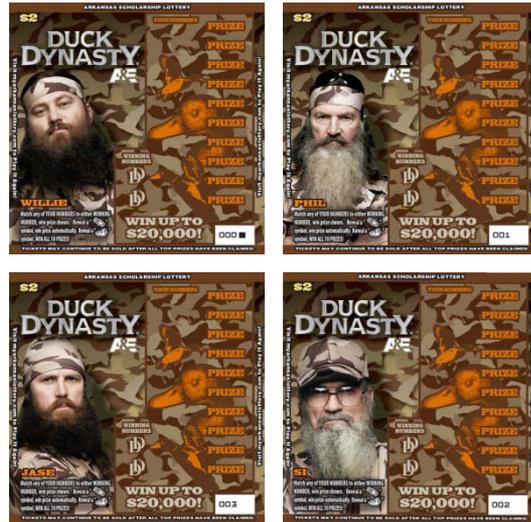
Instant Game Launches

MAY

(\$1) Buckaroo



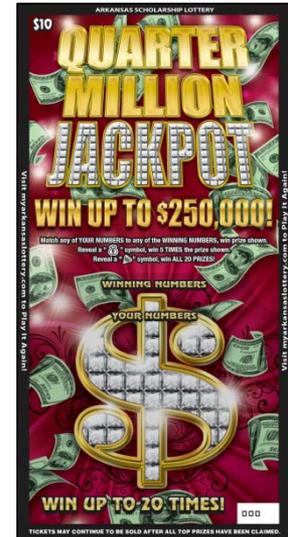
(\$2) Duck Dynasty (4 scenes)



(\$5) \$100 Grand



(\$10) Quarter Million Jackpot



(\$1) Fireball 7's



(\$2) Spicy Hot 7's



(\$3) Bankroll Bingo



(\$5) Sizzlin' 7's & Giant Jumbo Bucks



JUNE

(Do not have ASL version yet)

Lucky for Life

Proposition B

\$2000/Day for Life
\$25,000/Year for Life

Wager Price : **\$2**
 Base matrix : **5** out of **48** 1,712,304.00
 Bonus Ball : **31**
 Jackpot Odds = 1: **53,081,424.00**

Prize Pool **59.43%**

Net Sales (Gross - Free Bets) **\$106,162,848.00**

Assumed Per Cap Draw sales would yield 1 top tier prize winner every :
16.08 Draws
8.04 Weeks
 See next sheet for populations / per caps

Draw Sales: **\$6,600,663**
 Draw Wagers: **3,300,331**
 Coverage: **6.22%**

Match	Winners	Odds	Prize	Liability	% of Net Sales	% of Prize Pool	Coverage Winners	Coverage Liability
5 1	1	53,081,424.000	\$2000/Day for Life	17,000,000.00	16.01%	26.94%	0.06	1,056,973.00
5 0	30	1,769,380.800	\$25,000/Year for Life	16,500,000.00	15.54%	26.15%	1.87	1,025,885.56
4 1	215	246,890.344	5,000.00	1,075,000.00	1.01%	1.70%	13.37	66,838.00
4 0	6,450	8,229.678	175.00	1,128,750.00	1.06%	1.79%	401.03	70,179.90
3 1	9,030	5,878.342	150.00	1,354,500.00	1.28%	2.15%	561.44	84,215.88
3 0	270,900	195.945	10.00	2,709,000.00	2.55%	4.29%	16,843.18	168,431.76
2 1	123,410	430.123	20.00	2,468,200.00	2.32%	3.91%	7,673.00	153,460.04
2 0	3,702,300	14.337	3.00	11,106,900.00	10.46%	17.60%	230,190.07	690,570.20
1 1	617,050	86.025	8.00	4,936,400.00	4.65%	7.82%	38,365.01	306,920.09
1 0	18,511,500	2.867		0.00	0.00%	0.00%	0.00	0.00
0 1	962,598	55.144	5.00	4,812,990.00	4.53%	7.63%	59,849.42	299,247.09
0 0	28,877,940	1.838		0.00	0.00%	0.00%	0.00	0.00
		5,691,984	9.326	\$63,091,740.00	59.43%		353,898.44	\$3,922,721.51

\$605,968.80 left to use as prizes for 60% prize pool

	Lifetime Prize	Cost
Tier 1:	\$2000/Day for Life	\$17,000,000.00
	* divided by the number of winners	
Tier 2:	\$25,000/Year for Life	\$550,000.00

SAVE BIG ON SCRATCHERS

SPEND \$5

Get **\$1** INSTANT TICKET COUPON

Use toward your next purchase or redeem for a \$1 instant ticket **FREE!**

	S	M	T	W	T	F	S
APRIL			1	2	3	4	5
	6	7	8	9	10	11	12
	13	14	15	16	17	18	19
	20	21	22	23	24	25	26
	27	28	29	30			

APRIL
Offer valid
4/1-4/30

YOU MUST PRESENT
COUPON PRIOR TO
PURCHASE.

SPEND \$10

Get **\$2** INSTANT TICKET COUPON

Use toward your next purchase or redeem for a \$2 instant ticket **FREE!**

	S	M	T	W	T	F	S
MAY					1	2	3
	4	5	6	7	8	9	10
	11	12	13	14	15	16	17
	18	19	20	21	22	23	24
	25	26	27	28	29	30	31

MAY
Offer valid
5/1-5/31

YOU MUST PRESENT
COUPON PRIOR TO
PURCHASE.

ATTENTION LOTTERY RETAILERS:

This coupon can be redeemed at any Arkansas Scholarship Lottery retailer. All transactions are subject to lottery rules and applicable laws. Coupon can only be redeemed once. Limit one coupon per transaction. For promotional use only. No cash value. Original coupon required. April offer expires end of day 4/30/2014. May offer expires end of day 5/31/2014. This coupon may not be used in combination with any other lottery coupon or promotional offer.

To process this coupon, follow these steps below:
From the main terminal screen, press the "COUPON" button and scan the barcode on the coupon. For your records, a receipt will print out that confirms the \$1 credit. You will receive a \$1 credit adjustment on your Financial Sales and Invoice reports.

THE RETAILER BONUS\$ IS BACK!

Arkansas Scholarship Lottery retailers have the opportunity to make a 5% bonus commission on increases in same-store instant ticket lottery sales over last year's numbers.

From March 1 to March 31, you can receive a 5% bonus of 10% total commission on additional instant ticket sales compared with your instant ticket sales during the same month from the previous year.

This 5% bonus commission:

- is only from March 1 through March 31, 2014.
- is on your increased instant ticket sales only.
- is only on any instant ticket sales increases above and beyond your instant ticket sales figures from the same period in the previous year.

**5%
BONUS**

To qualify for the 5% bonus incentive, retailers must have been an active retailer with the ASL for at least one year. You must also be in good standing with the Arkansas Lottery Commission and the State of Arkansas and have no outstanding debts to either.

Sell this much more in March:	Earn this much in commission:
\$1,000	\$100
\$5,000	\$500
\$10,000	\$1,000

As always, your Arkansas Scholarship Lottery sales team will assist you with the 5% bonus incentive program and help determine eligibility at your place of business.



Theft Recovery

The Arkansas Lottery Commission (ALC) has received **\$247,500** from Arkansas Fidelity Bond Trust Fund. National Union has agreed to pay ALC **\$213,546.98** for its loss from cashed tickets. National Union will not pay the 1% cashing commission paid to retailers in the amount of \$4,780.83 as they consider it an indirect loss under the policy.

The loss indications are as follow:

Misappropriation Year	Confirmed Loss Amount
2009	\$736.00
2010	\$24,852.00
2011	\$189,135.00
2012	<u>\$263,350.00</u>
Total	\$478,073.00

National Union deducted the following amounts from the above loss amount as pre-loss recovery*:

Unused Leave by Employee: \$735.60

Arkansas Public Employee Retirement: \$12,790.42

The total amount to ALC in settlement of losses will be **\$461,046.98**.

*ALC Legal is currently working to capture these funds.

Wish List

1. Lucky for Life membership.
2. Approval of monitor games.
3. Approval to use debit cards.
4. Request or purchase additional PADS for ALC retailers.
5. Allow staff to use unclaimed prize money in accordance with the law.
6. Amend law related to retailer bonding.
7. Approval of ancillary advertising and marketing contracts (April Audit & Legal Committee).
8. Immediate consideration of contract renewal proposals from instant and online vendors.

Wish List

9. Retailer incentive line item in budget (amount TBD).
10. Commission/committee meetings on every other month basis.
11. Additional MSR position.
12. Hiring of analyst position.
13. Lifting of prohibition against in-state college sports team advertising.
14. Orderpads for MSRs.
15. Reconsideration of Play It Again.

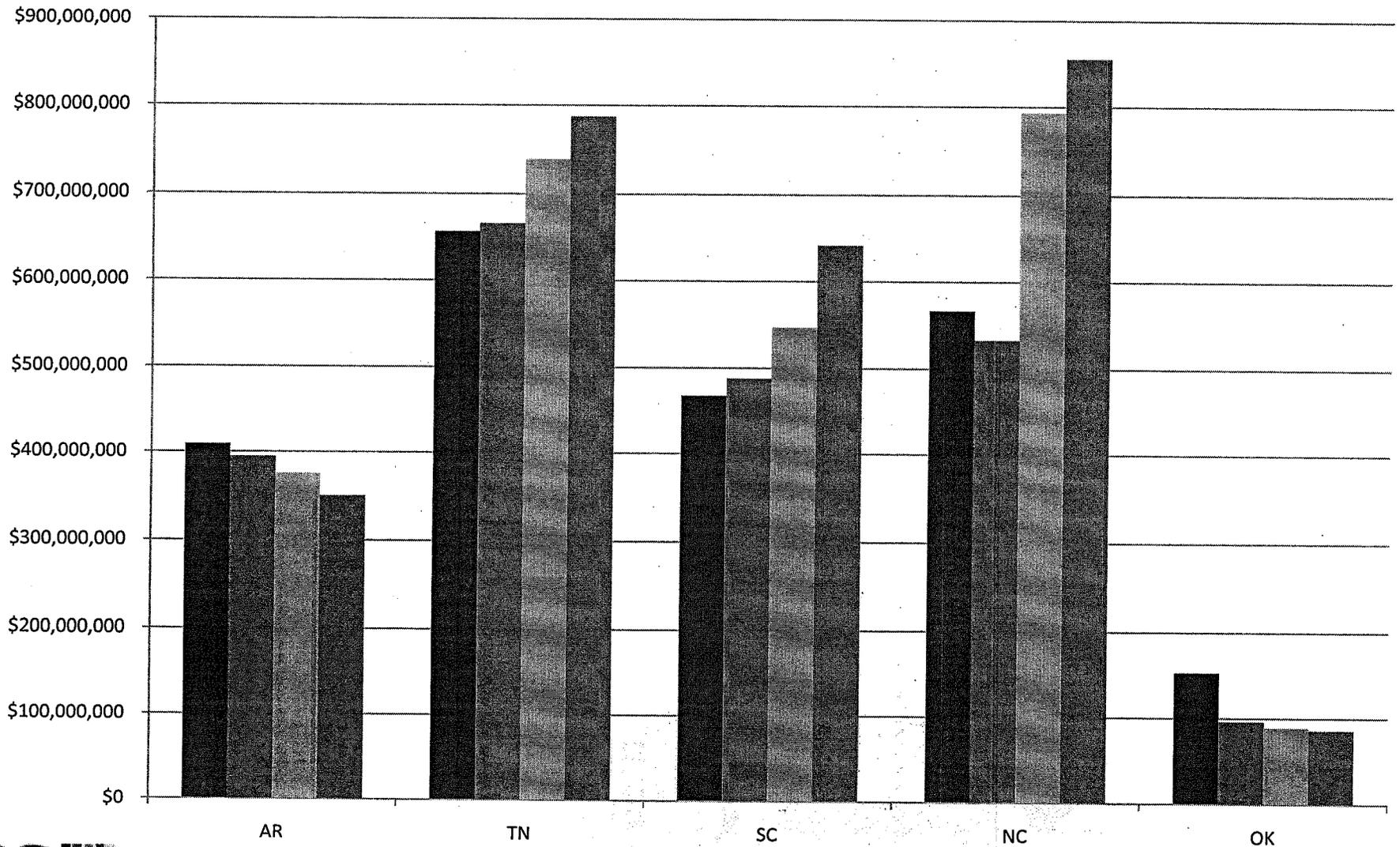
Arkansas Scholarship Lottery

COMMISSION MEETING
MARCH 19, 2014



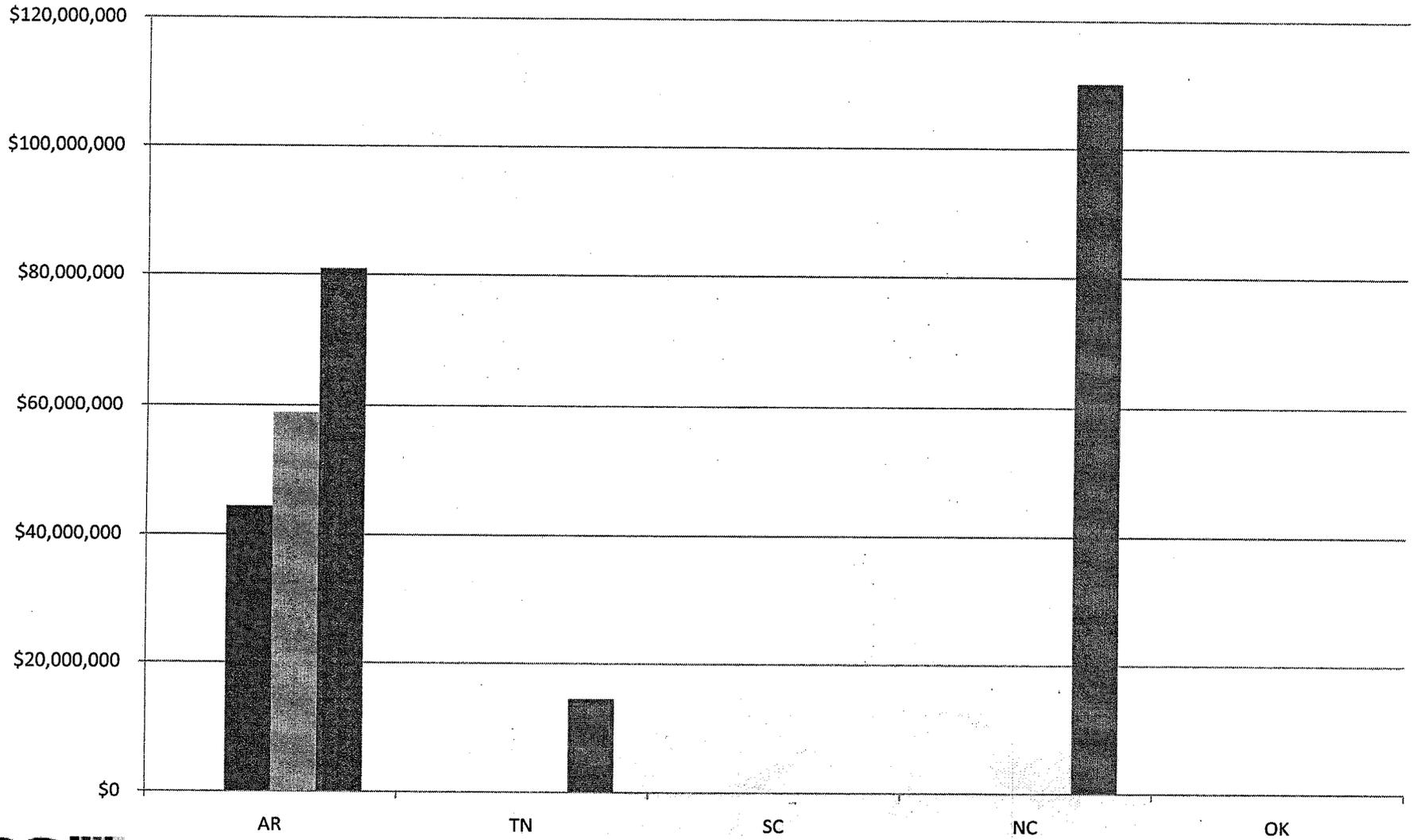
Total Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



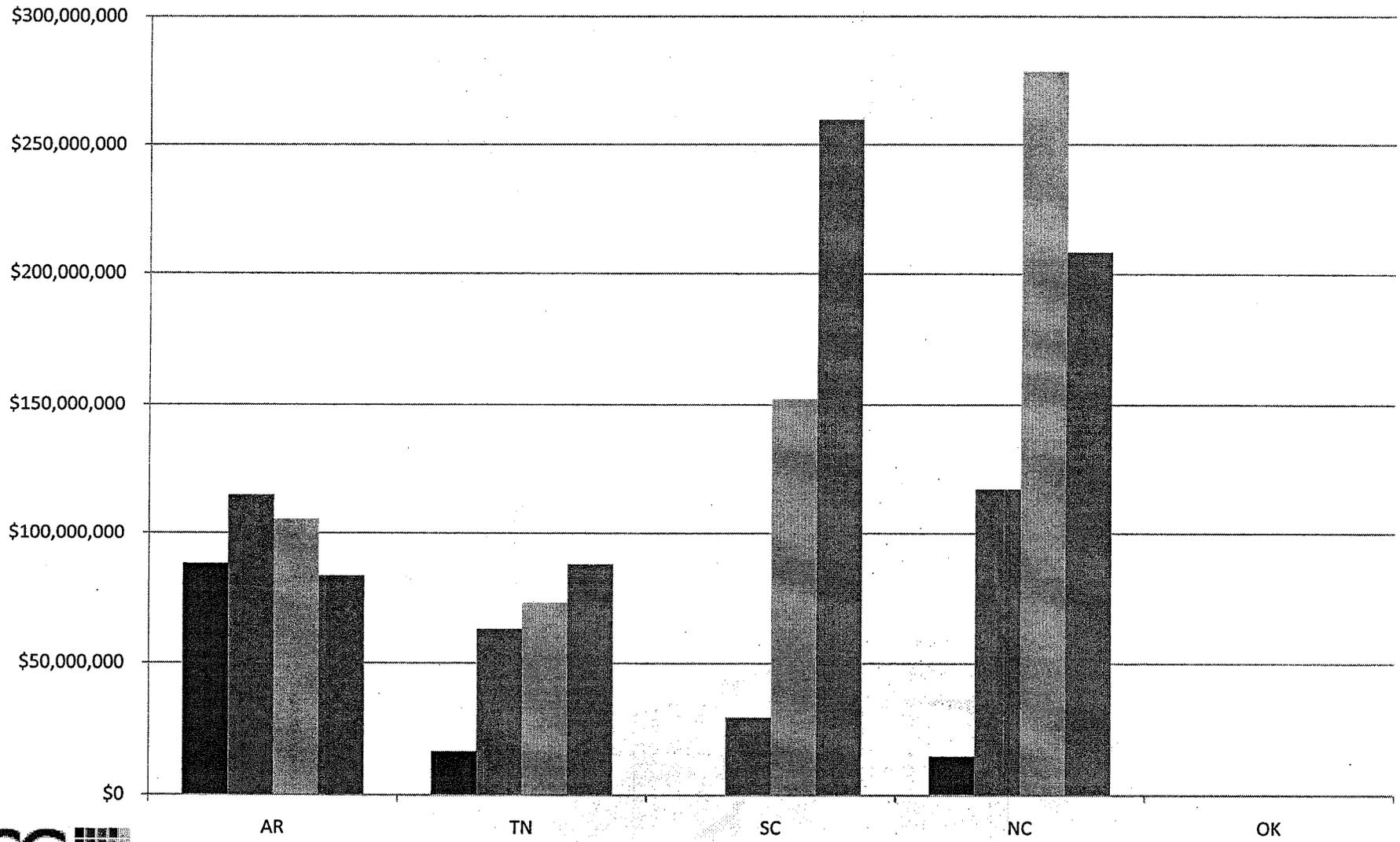
\$20 Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



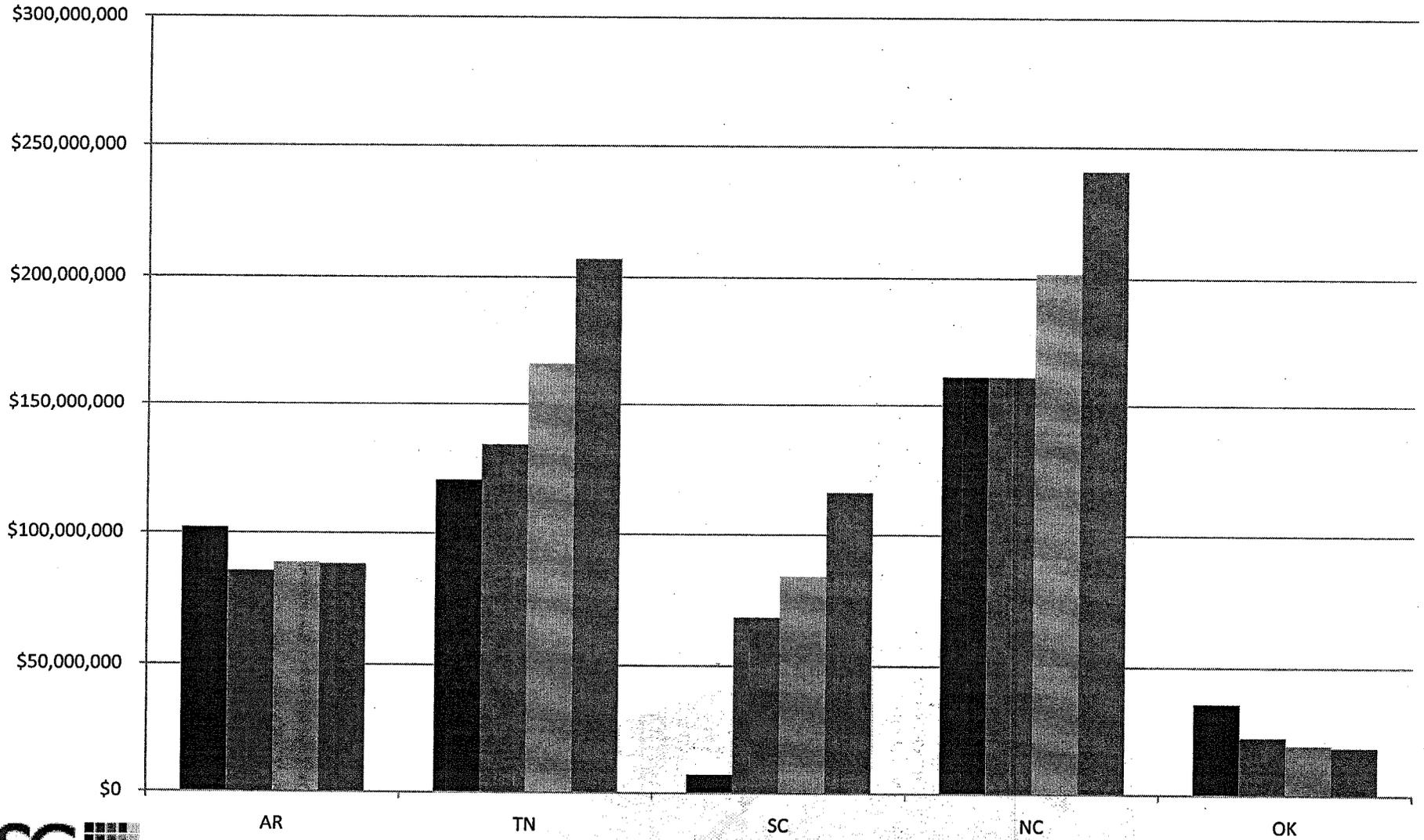
\$10 Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



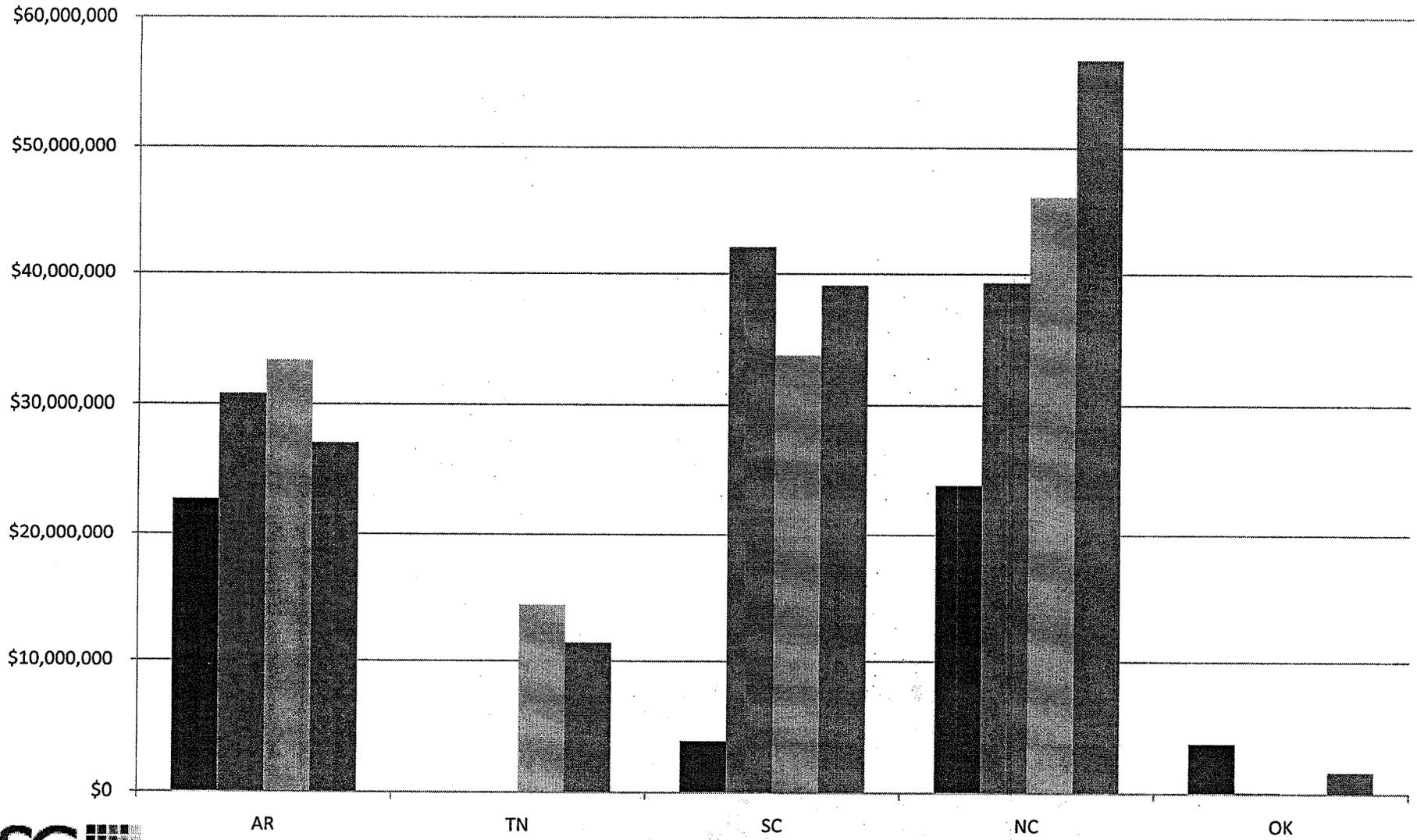
\$5 Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



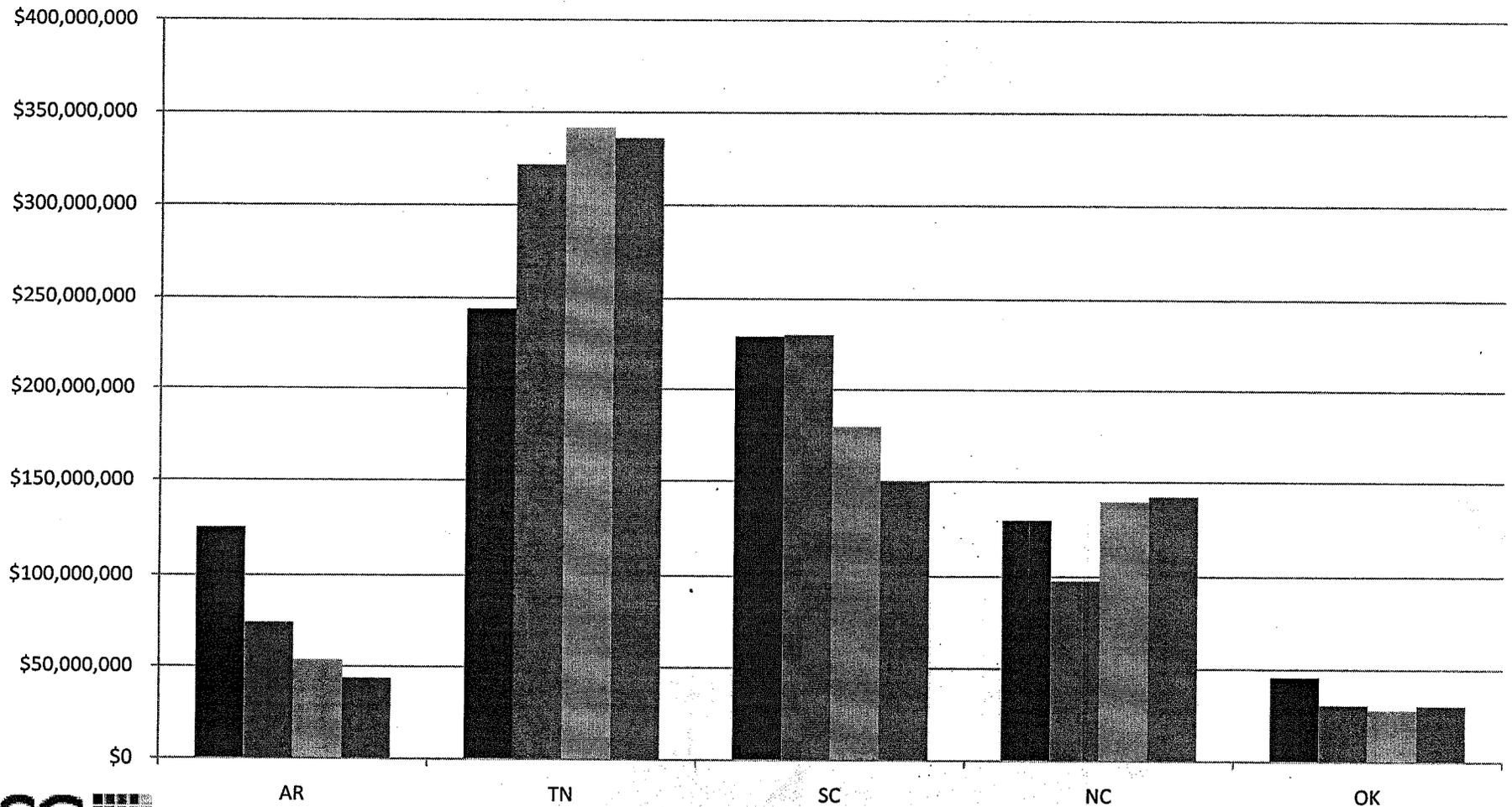
\$3 Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



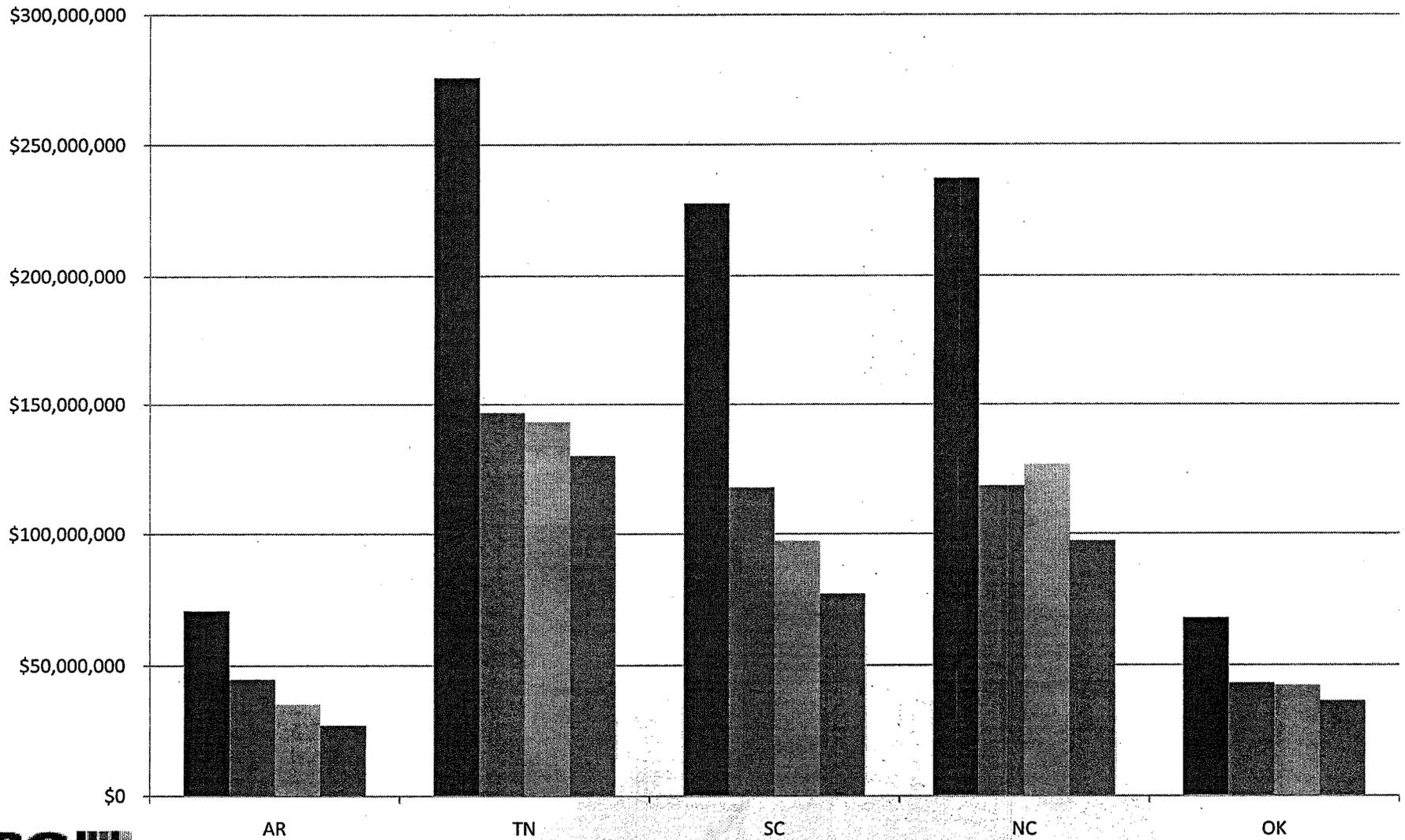
\$2 Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



\$1 Sales by Launch Year

■ Year 1 ■ Year 2 ■ Year 3 ■ Year 4



Initiatives We Are Exploring

- Pack activation closer to launch
- Possibly reduce the number of \$20 games in market
- Expanding POS distribution and placement
- Increase winner awareness
- Constantly re-structuring prize structures
- Re-evaluating the product mix
- Reduce ticket quantities
- Implemented partial return policy
- Expand promotional program
- Re-vitalize “The Club”
- Increase the “relevance” of lottery

U.S. lotteries' FY12 ad budgets as % of sales

	Fiscal Year Ends	FY12 Ad Budget	FY12 Ticket Sales ¹	FY12 Ad Budget as % of Sales
Arizona	6/30	\$14,000,000	\$646,675,473	2.2%
Arkansas	6/30	\$4,500,000	\$473,085,607	1.0%
California	6/30	\$47,833,141	\$4,371,491,746	1.1%
Colorado	6/30	\$10,142,000	\$545,303,548	1.9%
Connecticut	6/30	\$10,526,074	\$1,081,740,066	1.0%
Delaware ¹	6/30	\$2,900,000	\$134,685,576	2.2%
D.C.	9/30	\$6,200,000	\$249,675,000	2.5%
Florida	6/30	\$33,407,095	\$4,449,896,000	0.8%
Georgia	6/30	\$20,563,000	\$3,559,892,000	0.6%
Idaho	6/30	\$3,372,873	\$175,827,760	1.9%
Illinois	6/30	\$43,630,000	\$2,670,401,680	1.6%
Indiana	6/30	\$10,446,069	\$855,584,757	1.2%
Iowa	6/30	\$6,603,456	\$310,851,725	2.1%
Kansas	6/30	\$2,490,084	\$246,144,512	1.0%
Kentucky	6/30	\$8,937,000	\$767,887,000	1.2%
Louisiana	6/30	\$7,473,508	\$429,615,669	1.7%
Maine	6/30	\$3,310,000	\$228,353,561	1.4%
Maryland ¹	6/30	\$11,055,478	\$1,794,892,455	0.6%
Massachusetts	6/30	\$2,000,000	\$4,729,602,000	0.0%
Michigan	9/30	\$17,690,900	\$2,413,458,637	0.7%
Minnesota	6/30	\$7,442,000	\$520,033,537	1.4%
Missouri	6/30	\$7,269,569	\$1,097,427,696	0.7%
Montana	6/30	\$765,477	\$52,601,836	1.5%
Nebraska	6/30	\$5,250,000	\$150,612,389	3.5%
New Hampshire	6/30	\$3,514,898	\$254,659,970	1.4%
New Jersey	6/30	\$20,356,000	\$2,758,424,844	0.7%
New Mexico	6/30	\$2,275,000	\$133,787,352	1.7%
New York ¹	3/31	\$91,644,000	\$7,012,689,000	1.3%
North Carolina	6/30	\$14,313,555	\$1,596,693,000	0.9%
North Dakota	6/30	\$611,848	\$26,043,816	2.3%
Ohio ¹	6/30	\$21,615,855	\$2,738,975,000	0.8%
Oklahoma	6/30	\$1,652,640	\$199,854,378	0.8%
Oregon ¹	6/30	\$8,760,000	\$323,160,828	2.7%
Pennsylvania	6/30	\$37,000,000	\$3,480,900,689	1.1%
Rhode Island ¹	6/30	\$2,286,578	\$249,482,770	0.9%
South Carolina	6/30	\$8,700,000	\$1,135,528,280	0.8%
South Dakota ¹	6/30	\$472,116	\$53,137,476	0.9%
Tennessee	6/30	\$8,289,000	\$1,215,855,000	0.7%
Texas	8/31	\$33,622,908	\$4,190,815,913	0.8%
Vermont	6/30	\$1,515,717	\$100,927,079	1.5%
Virginia	6/30	\$20,007,913	\$1,616,004,647	1.2%
Washington	6/30	\$10,758,649	\$535,197,166	2.0%
West Virginia ¹	6/30	\$4,950,134	\$201,289,000	2.5%
Wisconsin	6/30	\$7,495,009	\$547,640,734	1.4%
Total		\$587,649,544.16	\$60,326,807,171.50	1.0%

¹ Sales exclude VLT net machine income

Source: LaFleurs



Questions