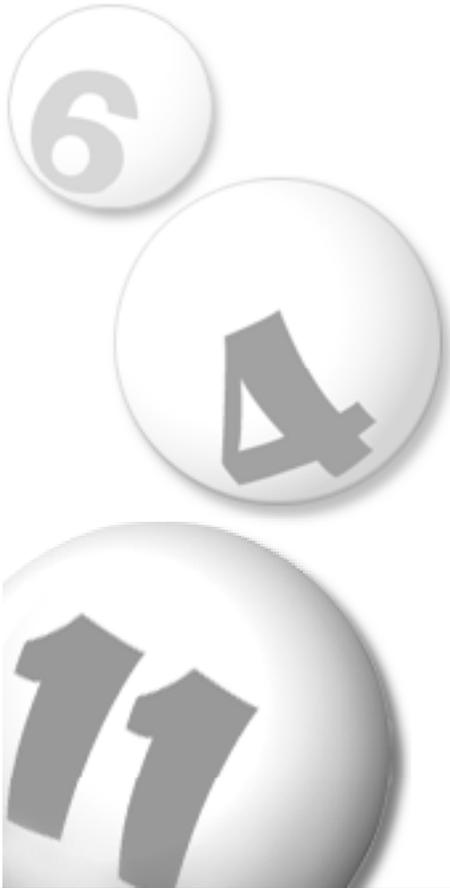


The Virginia Lottery



Discussion of Lottery Revenues

**House Appropriations Committee
September 9, 2008**

**Paula I. Otto
Executive Director, Virginia Lottery**

Overview

- **Update: NC Lottery impact on Virginia Lottery sales & profits**
- **Update: results of Virginia Lottery initiatives to support sales and profits**
- **Update: Review of FY2008 Lottery sales & profits**
- **Challenges for the future**

Review: Estimated VA Sales to North Carolina Players

- **North Carolinians historically accounted for estimated 8-10% of VA sales**
 - About \$100 to \$125 million annually
 - Annual profit about \$35 to \$40 million
- **Over 2/3 sales to North Carolinians were in Scratch and Mega Millions**
 - Scratch ~ 40% of NC residents' purchases
 - Mega Millions ~ 25% of NC residents' purchases
- **About 20% of all Mega Millions tickets sold in Virginia were purchased by North Carolinians**

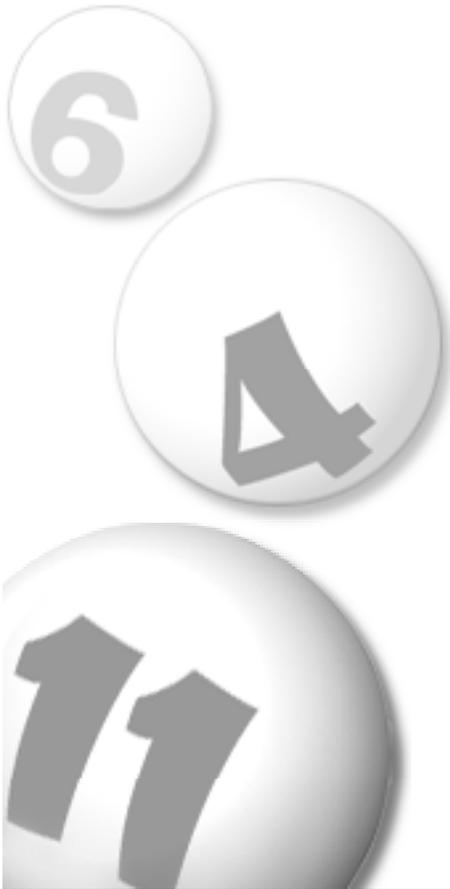
Source: Internal estimates based on numbers of prizes claimed

NC Lottery Impact

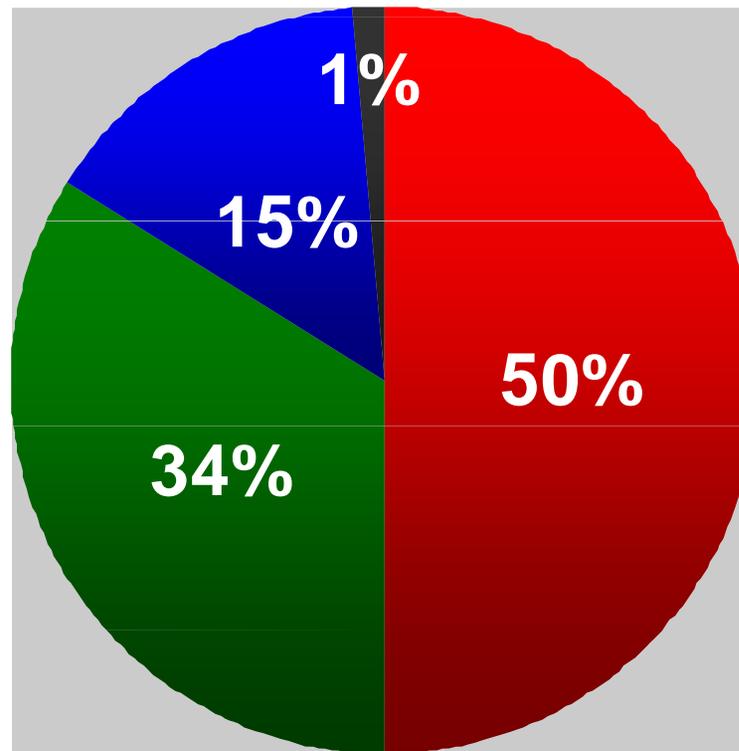
Our best estimate:

Lost sales : 5% or \$75 million

Lost profits: \$20-25 million



Lottery Product Mix



 Scratch  Daily Games  Jackpot Games  Other

Scratch Strategies

Maximize competitive advantages

Initial Strategy (2007)

Offer “blockbuster” style games with prizes that the NC Lottery could not have

Current Status

- Sales were not as strong as expected
- NC Lottery began offering enhanced prizes in early calendar year 2008, eliminating the Virginia competitive advantage

\$20 VIRGINIA LOTTERY®

OVER \$100 MILLION IN TOTAL CASH PRIZES!

\$100 MILLION CASH EXTRAVAGANZA

Match any of the WINNING NUMBERS to any of YOUR NUMBERS, win prize shown for that number. Reveal a "\$\$\$" symbol, win prize shown automatically. Reveal a "10X" symbol, win 10 times the prize shown.

OVER 350,000 PRIZES FROM \$100 TO \$500!

TEN \$1,000,000 TOP PRIZES!

OVER 18,000 PRIZES FROM \$1,000 TO \$25,000!

WINNING NUMBERS

YOUR NUMBERS

PRIZE	PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE	PRIZE

HIGHEST PAYOUT % IN VIRGINIA HISTORY!

\$50 BONUS \$50 BONUS \$50 BONUS \$50 BONUS

BONUS: Find two like symbols in the same \$50 BONUS box, win \$50!

WIN UP TO 24 TIMES!

773-V0-1D0

Scratch Strategies

Continuing Strategy (2008)

Need to meet consumer demands for appealing games and play styles, including proven successful licensed properties like Harley Davidson, Monopoly, etc.



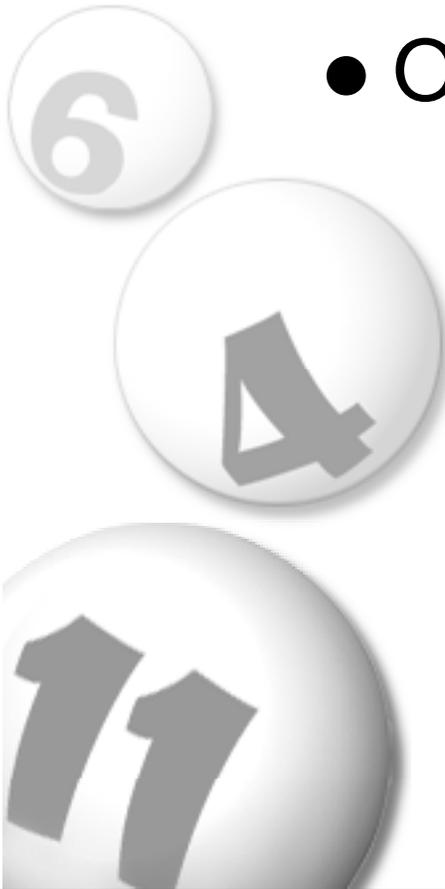
Computer Games

Mega Millions and Win For Life

- Smaller percentage of total Lottery sales come from jackpot games
- Sales grow exponentially when jackpots grow to over \$200 million
- Larger jackpots are required to generate the same player interest
 - \$20 million Lotto jackpot back in 1992 generated \$7.5 million in sales
 - \$330 million Mega Millions jackpot in FY08 generated <\$7 million in sales

Daily Games

- Drawings twice daily
- One-third of total Lottery sales



Other Computer Products

FAST PLAY

DODGE

BaLL

FAST PLAY

BINGO



Fast Play Games

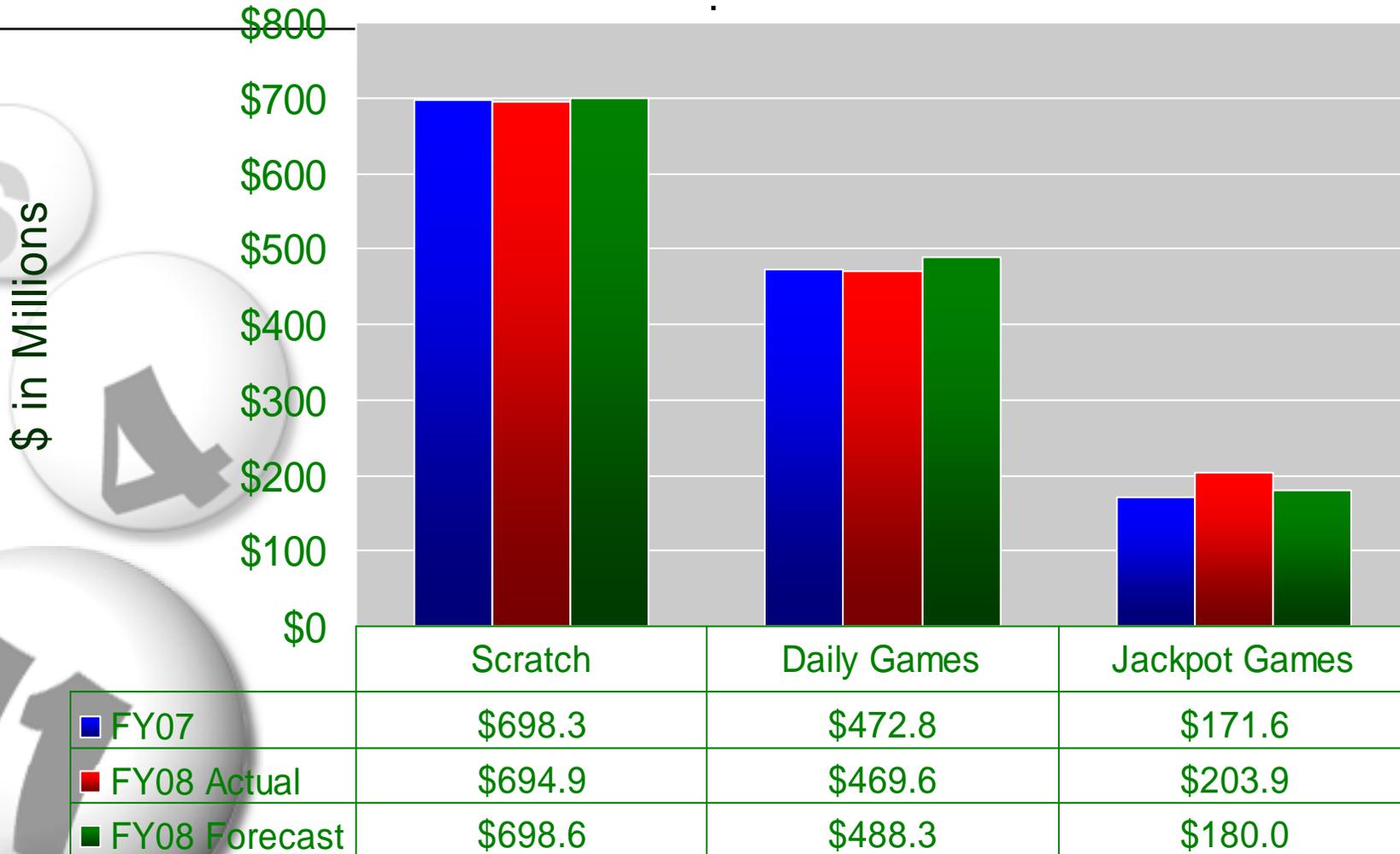
- Instant-Win games produced on the spot
- Less costly to produce and deliver
- Frequent “refresh” needed to maintain player interest and attract new players

Raffle Games

- Limited-time offerings with guaranteed prizes
- Appeals to different players
- Careful consideration for timing and frequency of offerings to meet consumer demand and generate anticipation

Sales vs. Forecast, Prior Year

Jackpot sales offset shortfall in daily games



Highlights of FY08 Results

- **Total Lottery Sales and Profits set new records, but are short of the target in the Appropriations Act**
- **FY08 sales forecast: \$1.399 billion**
- **FY08 actual sales: \$1.386 billion**
 - \$13 million less than forecast
- **FY08 target profit: \$459 million**
- **FY08 actual profit: \$455 million**
 - \$4 million less than target

FY08 Goals

- **Sales Goal: \$1,399.1 Million**
 - Actual Sales: \$1,386.4 Million (99.1%)
- **Net Income Goal: \$459.0 Million**
 - Actual Income: \$455.3 Million (99.2%)
- **Admin Expense Rate: 5.6%**
 - Actual Rate: 5.3%

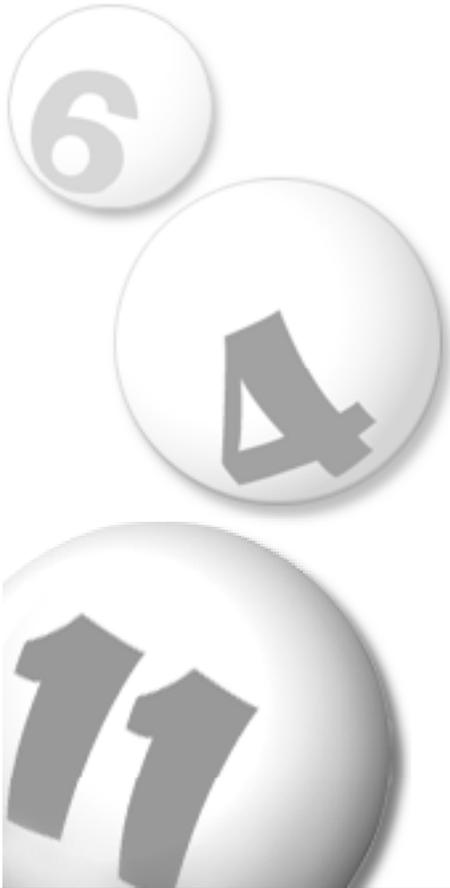
Strategies for the Future

- **Continually assess jackpot games with consortium members**
- **Improve profits within current operating restrictions and evaluate potential for revenues if product offerings were expanded**
- **Continue to explore alternative distribution markets and new retailer tradestyles**

Future Forecast Issues

- **Jackpot dependency for Mega Millions**
 - Size of jackpot depends largely on luck
- **Variability of prize expenses**
 - Prize expense for daily game offerings vary with luck of the draw – high prizes decrease short-term profits, but low prizes depress long-term sales
- **Significant Reduction in Other Income**
 - Requiring interim transfers of estimated Lottery profits during the year will reduce other income by more than \$7 million annually
- **Impact of Weak Economy/Price of Gasoline**

Questions?



Paula I. Otto
Executive Director, Virginia Lottery