

TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
December 14, 2012

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2013, 2014, 2015, 2016 and 2017

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

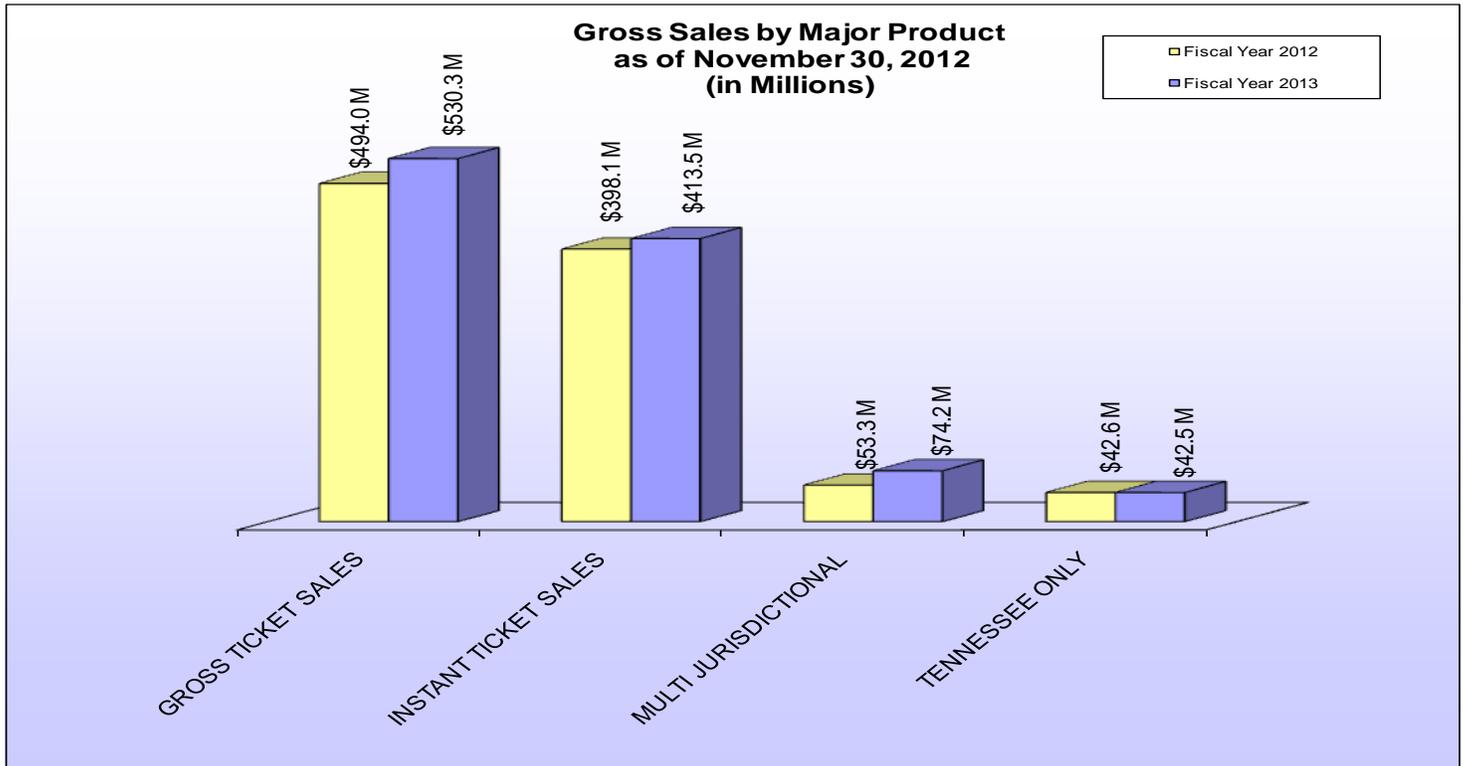
FISCAL YEAR ENDING JUNE 30, 2013

	Fiscal Year 2013 as of 11/30/2012	Fiscal Year 2013 Low Range	Fiscal Year 2013 High Range
Lottery Proceeds			
Sales:			
Instant Games	\$ 413,563,000	\$ 1,035,500,000	\$ 1,054,500,000
Drawing-Style Games	116,790,000	252,597,000	266,500,000
Gross Ticket Sales	\$ 530,353,000	\$ 1,288,097,000	\$ 1,321,000,000
Less: Tickets Provided as Prizes	(36,716,000)	(94,663,000)	(96,829,000)
Net Ticket Sales	\$ 493,637,000	\$ 1,193,434,000	\$ 1,224,171,000
Other Revenues	1,423,000	3,615,000	3,615,000
Total Lottery Proceeds (Net Revenues)	\$ 495,060,000	\$ 1,197,049,000	\$ 1,227,786,000
Expenses:			
Prize Winnings	\$ 310,667,000	\$ 756,945,000	\$ 776,280,000
Retailer Commissions	34,597,000	84,166,000	\$ 86,316,000
Vendor Fees	10,542,000	25,855,000	\$ 26,515,000
Direct Expenses	\$ 355,806,000	\$ 866,966,000	\$ 889,111,000
Non Direct Expenses	10,369,000	33,556,000	33,556,000
Total Expenses	\$ 366,175,000	\$ 900,522,000	\$ 922,667,000
Lottery for Education Proceeds	\$ 128,885,000	\$ 296,527,000	\$ 305,119,000
After-School Program Proceeds	\$ 7,963,000	\$ 11,000,000	\$ 12,000,000

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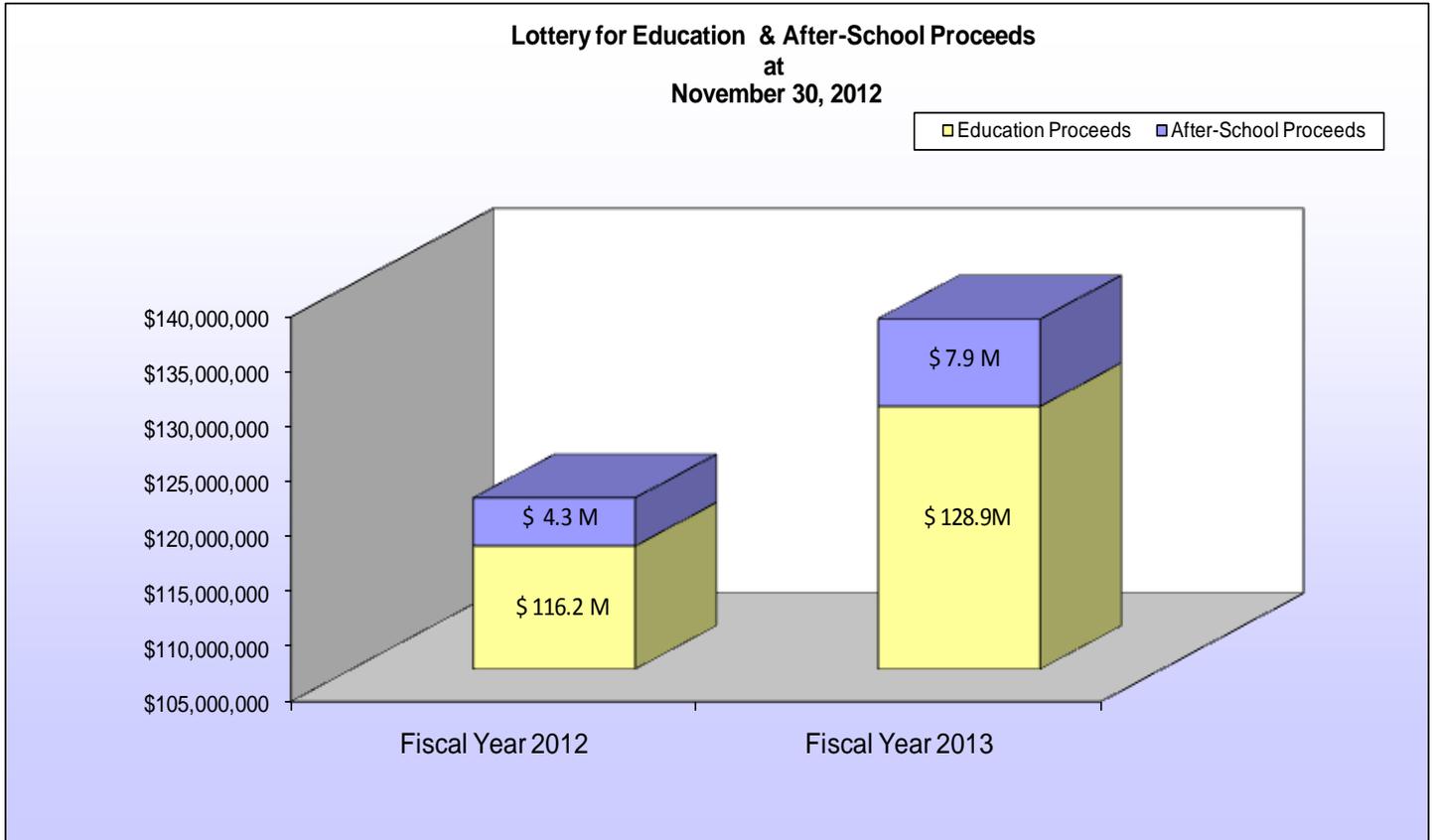
FISCAL YEAR ENDING JUNE 30, 2013

	As of 11/30/2012 (in millions)	As of 11/30/2011 (in millions)
Gross Sales	\$530	\$494
Weekly Average Sales	\$24	\$23
BY MAJOR PRODUCT:		
INSTANT GAMES	\$413	\$398
MULTIJURISDICTIONAL		
Powerball	60	39
Mega Millions	14	14
	\$74	\$53
TENNESSEE DRAW-STYLE GAMES		
Cash 3	24	24
Cash 4	11	11
Tennessee Cash	8	8
	\$43	\$43



**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2013



Lottery for Education Proceeds

- \$128.9 million as of 11/30/12
- \$116.2 million as of 11/30/11

Projected Fiscal Year 2013 Range

\$296 – \$305 Million

After-School Program Proceeds

- \$7.9 million as of 11/30/12
- \$4.3 million as of 11/30/11
- Represents actual/realized unclaimed monies
- Significantly impacted by: (1) timing of instant games' closings and (2) large drawing-style game prizes not claimed

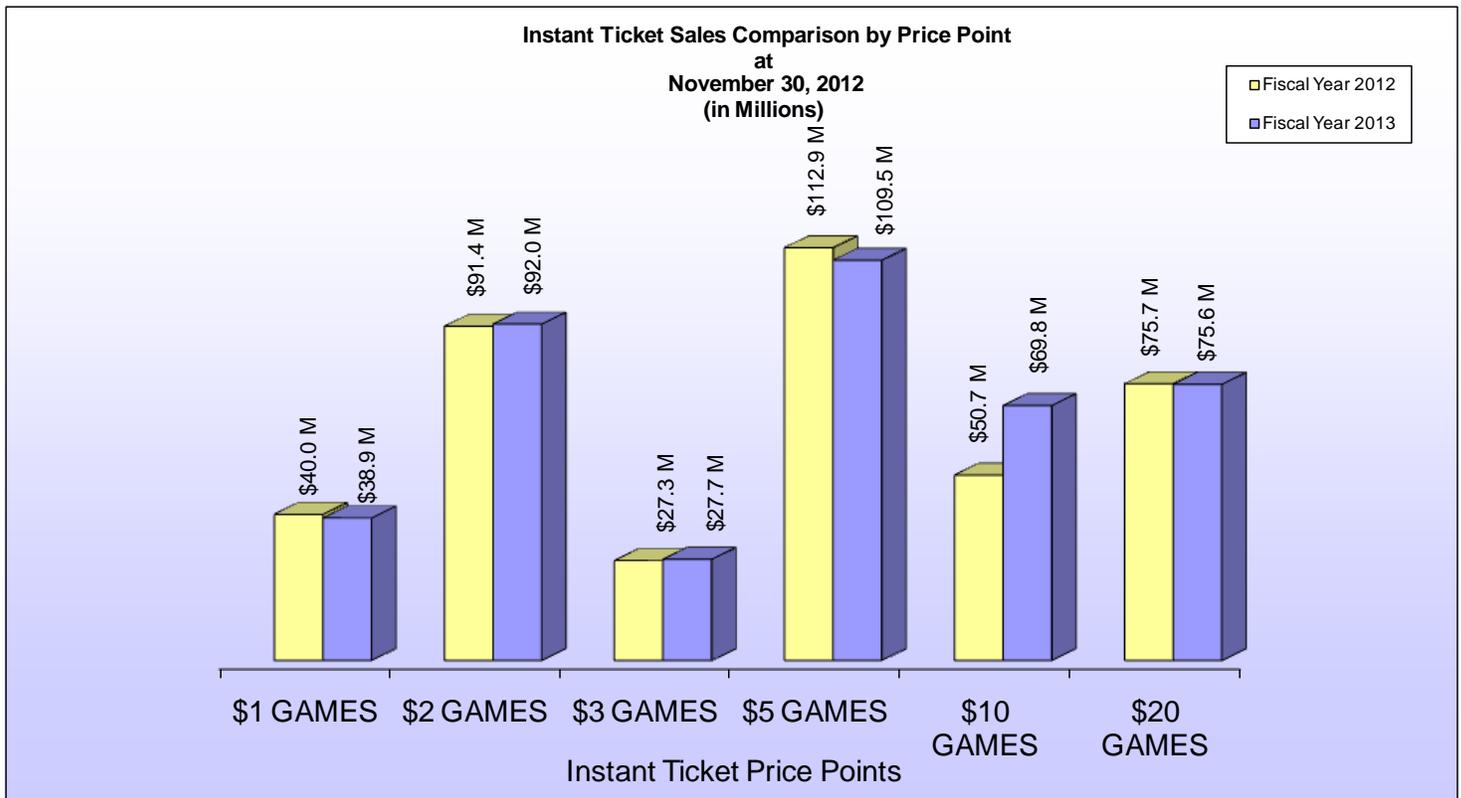
Projected Fiscal Year 2013 Range

\$11 - \$12 Million

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2013

	As of 11/30/12 (in millions)	Projected Annual Sales Range (in millions)
<i>INSTANT GAMES</i>	\$413.5	\$1,035.5 - \$1,054.5
Weekly Average Sales	\$18.9	\$19.8 - \$20.2



- Sales as of November 30, 2012 were \$413.5 million, representing a 3.9 % increase over the same period in fiscal year 2012.
- Instant tickets are budgeted at \$1.035 billion and are projected to remain 80% of revenues, with prize expense payout percentage to remain flat year-over-year.
- The greater percentage of our sales occurs in the \$2 and \$5 products. However, increased instant ticket sales year to date have occurred with our \$10 product.
- TEL continues to develop and launch tickets appealing to players. TEL anticipates launching four additional games in fiscal year 2013, over the total games launched in fiscal year 2012, for a total of approximately 43 games in fiscal year 2013.

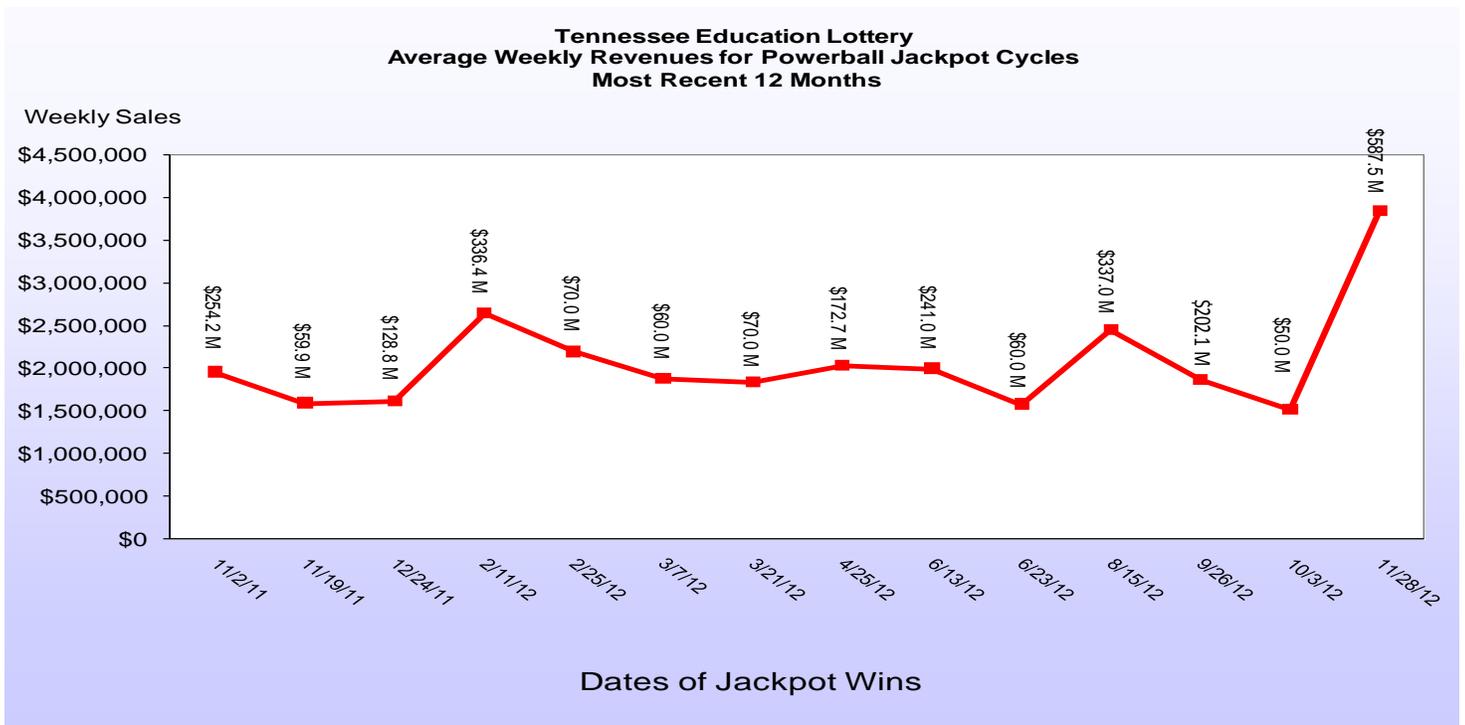
**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2013

MULTI-JURISDICTIONAL GAMES

	As of 11/30/12 (in millions)	Projected Annual Sales Range (in millions)
<i>POWERBALL</i>	\$60.4	\$109.5 - \$115.5
Weekly Average Sales	\$2.8	\$2.1 - \$2.2

- Multi-jurisdictional sales are directly impacted by the size of the games' jackpots.
- In January 2012, the *Powerball* game was enhanced to increase the size of winning jackpots, improve the odds of winning the jackpot, and add additional prizes. The price point was also increased from \$1 to \$2 per play. The changes have proven successful in that there have been ten jackpots averaging \$213 million since the re-launch compared to the ten jackpots averaging \$138 million for the same weeks prior to re-launch. *Powerball* experienced a jackpot cycle between October and November 2012 that saw the jackpot increase to \$587 million, the largest jackpot in the game's history.
- TEL's *Powerball* sales were up \$21.0 million compared to the same period prior year. The increase is primarily due to the \$587 and \$337 million jackpots we have experienced in the current fiscal year.
- TEL expects sales for fiscal year 2013 to be on the higher end of the sales range of \$109.5 to \$115.5 million.



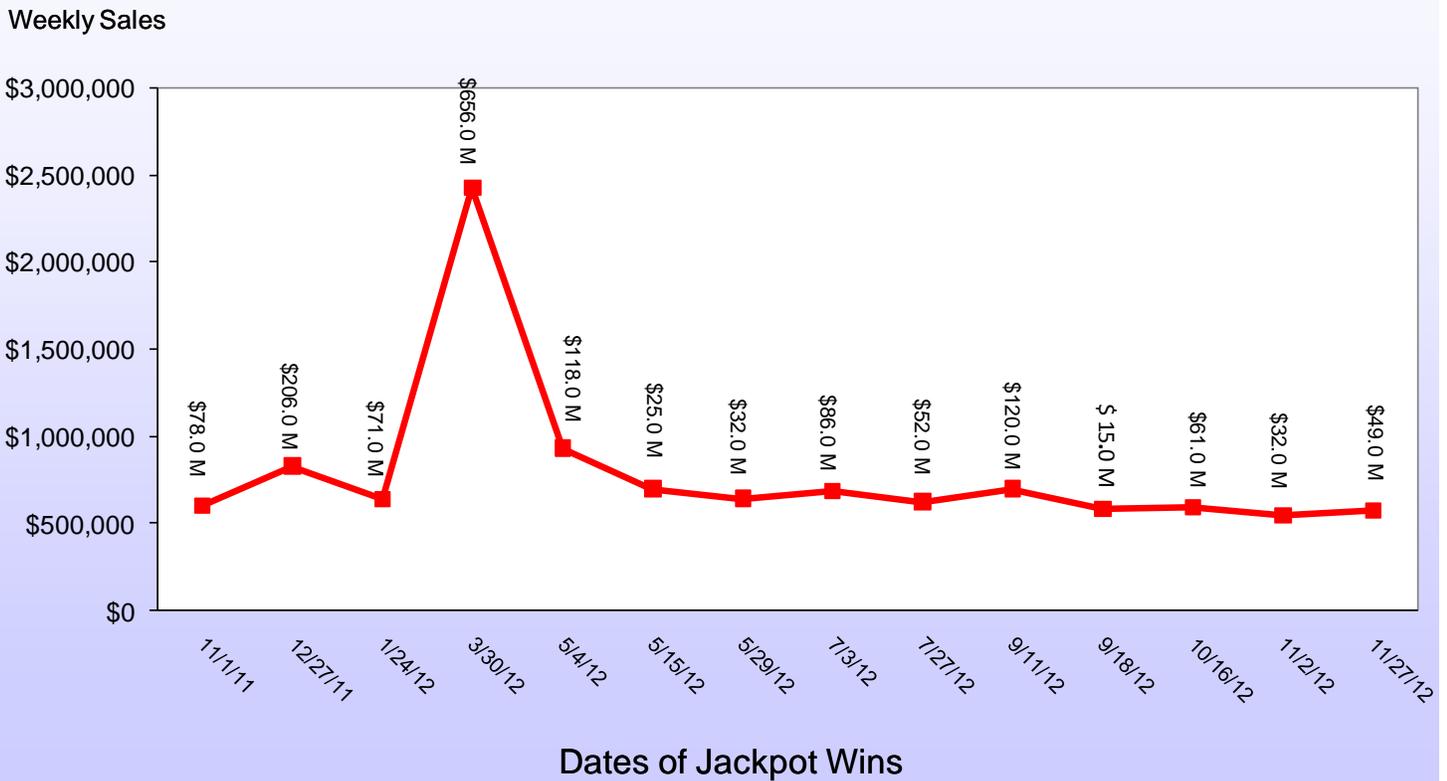
**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2013

	As of 11/30/12 (in millions)	Projected Annual Sales Range (in millions)
MEGA MILLIONS	\$13.8	\$39.0 - \$43.0
Weekly Average Sales	\$.6	\$.7 - \$.8

- *Mega Millions* sales were \$633 thousand per week through November 30, 2012, with the largest jackpot to date of \$120 million. TEL expects sales to remain on target within the projected range of \$39 to \$43 million, which includes one (1) projected \$300 million plus jackpot.

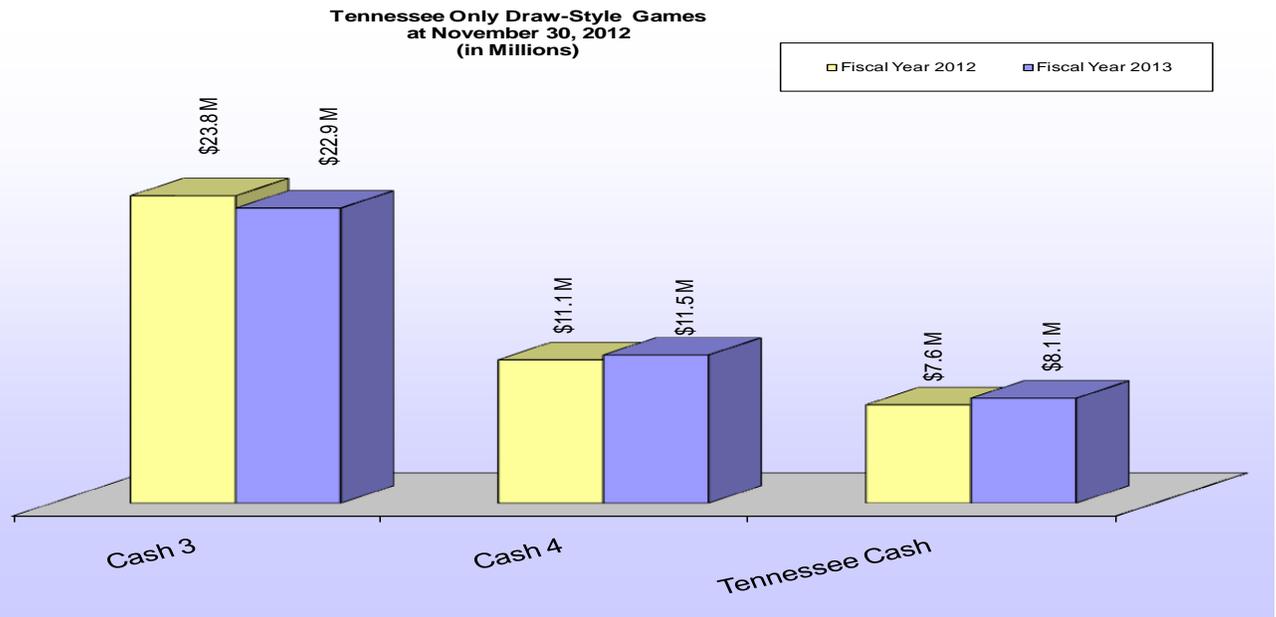
**Tennessee Education Lottery
Average Weekly Revenues for Mega Millions Jackpot Cycles
12 Months**



**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2013

	As of 11/30/12 (in millions)	Projected Annual Sales Range (in millions)
<i>TENNESSEE ONLY DRAWING-STYLE GAMES</i>	\$42.5	\$103.0 - \$108.0
Weekly Average Sales	\$1.9	\$2.0 - \$2.1



Cash 3 and Cash 4

- *Cash 3* and *Cash 4* are daily drawing-style games drawn twice daily six (6) days a week and once on Sunday.
- As of 11/30/12, *Cash 3* and *Cash 4* sales weekly average of \$1.6 million remains consistent to prior year, and are trending to the lower end of the projected sales ranges.
- Fiscal Year 2013 projected sales are \$57 - \$60 million for *Cash 3* and \$26 - \$28 million for *Cash 4*.

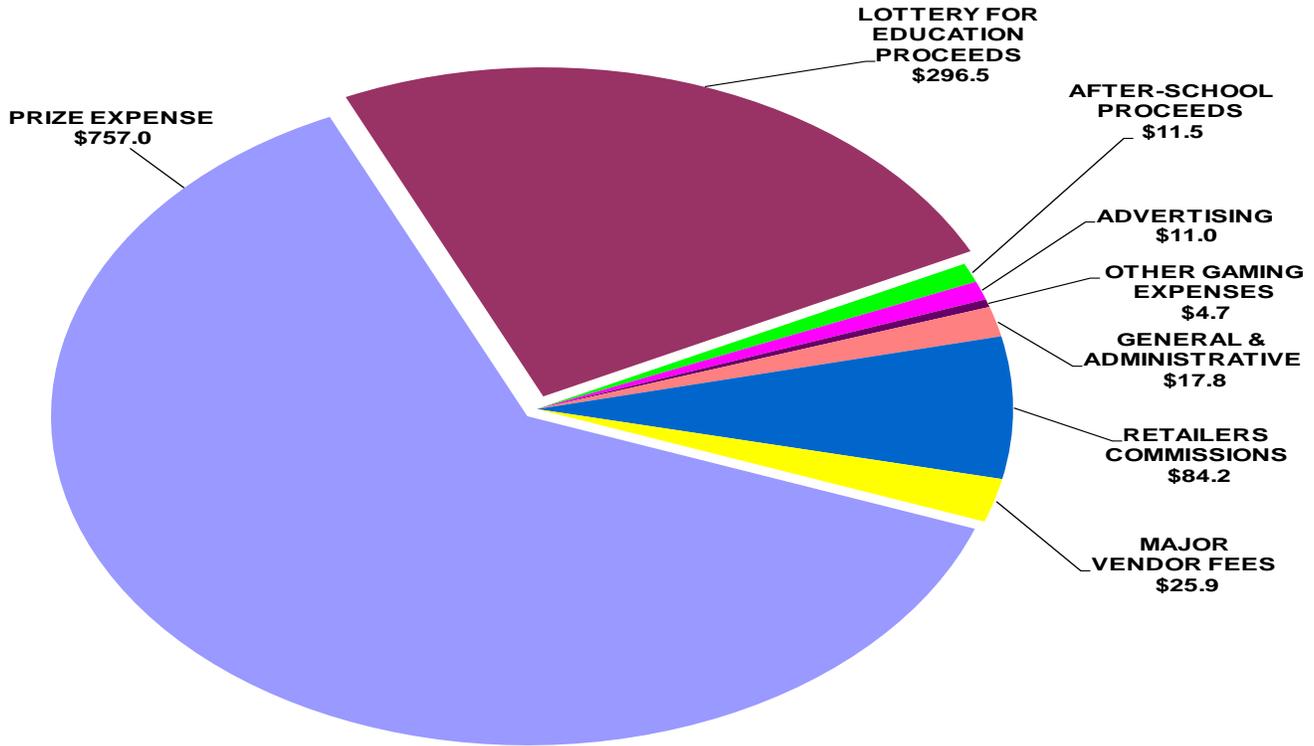
Tennessee Cash

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- The average weekly sales for *Tennessee Cash* were \$373 thousand year to date at November 30, 2012, on target with TEL's overall projected sales of \$18 - \$20 million for Fiscal Year 2013.
- Tennessee Cash Sales are 6.7% ahead of the prior year by \$512 thousand. This increase is largely driven by the 4th largest jackpot to date for this game of \$935,000 during the quarter ended September 2012.

**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2013

**FISCAL YEAR 2013 BUDGETED EXPENSES
(in millions)**



Direct Gaming-Related Expenses

- Aggregate Prize Expense for Instant Games is projected at **67.0%** for fiscal year 2013.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** for fiscal year 2013.
- Aggregate Prize Expense for all Games is projected at **63.2%** for fiscal year 2013.
- Retailer sales commissions are **6.5%** of gross sales, with additional commissions for selling winning drawing-style tickets of \$1 million or more and cashing tickets for *Cash 3* and *Cash 4*.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.24%** of net ticket sales of all drawing-style games.

Non-Direct Expenses

- Advertising is estimated at \$ **11.0** million or **.8%** of gross sales for fiscal year 2013.
- Other Gaming is estimated at \$ **4.7** million or **.4%** of gross sales for fiscal year 2013.
- General and Administrative is estimated at \$ **17.8** million, or **1.4%** of gross sales for fiscal year 2013.

**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEARS ENDING JUNE 30, 2014, 2015, 2016 and 2017

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Gross Sales	\$1,326- \$1,360 Million	\$1,365- \$1,400 Million	\$1,405- \$1,442 Million	\$1,447- \$1,485 Million
Total Lottery Proceeds	\$1,220- \$1,252 Million	\$1,256- \$1,289 Million	\$1,294- \$1,328 Million	\$1,333- \$1,368 Million
Lottery for Education Proceeds	\$302 - \$311 Million	\$308- \$317 Million	\$314 - \$323 Million	\$320- \$329 Million
After-School Programs Proceeds	\$12 - \$13 Million	\$13 - \$14 Million	\$13 - \$14 Million	\$13 - \$14 Million
Total Education Funding	\$314 - \$324 Million	\$321 - \$331 Million	\$327 - \$337 Million	\$333 - \$343 Million

Over the last six (6) fiscal years, TEL’s average sales growth was 4.3% compared to the lottery industry’s sales growth of 1.9%, excluding the highest and lowest growth years to adjust for anomalies.

Over the last six (6) fiscal years, TEL’s average net proceeds growth was 2.2% compared to the lottery industry’s beneficiary funding growth of 1.1%, excluding the highest and lowest growth years to adjust for anomalies.

Based on TEL’s and the industry year-over-year growth in the most recent fiscal years, we anticipate annual sales and net proceeds growth in Fiscal Years 2014, 2015, 2016 and 2017 of **3% and 2%**, respectively.

After-School Programs Proceeds

After-School Programs Proceeds are based upon historical prize claim experience for Tennessee. In fiscal year 2012, TEL’s historical unclaimed experience rate was approximately 1.7% of prize expense. Projected funding in the future years for the After-School Program account is based on the unclaimed experience rate to date.