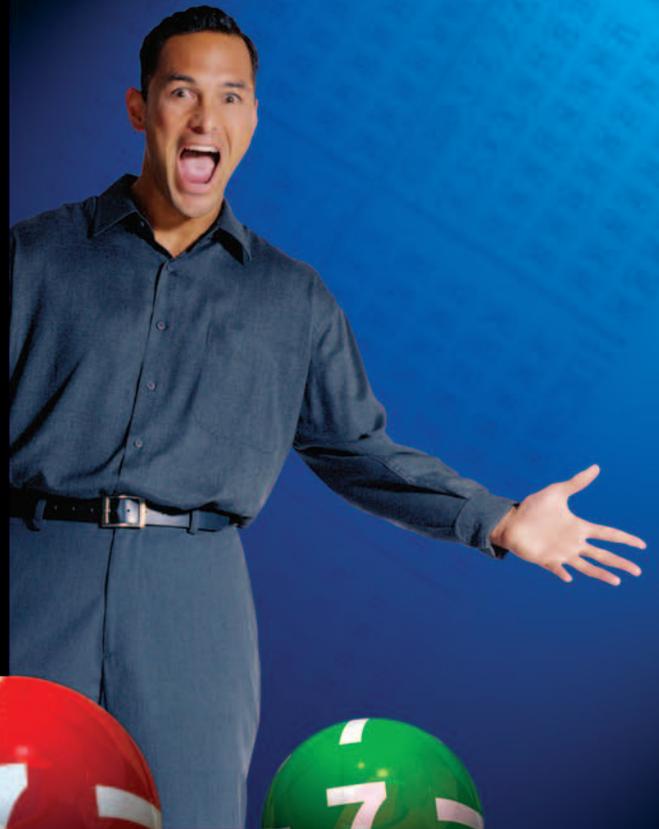




A LOTTERY
DIRECTOR'S
GUIDE TO
SUBSCRIPTION
SALES



subscription club services, LLC



OVERVIEW

QUESTION: Can a State Lottery create a profitable Subscription Sales Program that meets the ever increasing demands of the 21st Century player?

For decades the directors and staff of most state lotteries have tried to figure out how to give their players what they've been asking for – a convenient and flexible subscription play program — without losing the rigid controls the lottery needs to maintain system integrity. A few states have developed traditional subscription programs on their own and most have been at least moderately successful, providing the states not only with additional revenue, but also valuable player information.

But, the traditional subscription programs never provided the convenience and flexibility players were looking for to make them significantly successful and they don't meet the demands of the 21st Century Player due to the increasing competition from casinos and gaming websites. We believe a modern, multi-faceted subscription player program can boost ANY state's online lottery revenues 5% or more by strengthening the current player base, recapturing previous players, and generating new sales from untapped player markets.

Lotteries can no longer afford to give their customers a passive, cut and dried, take it or leave it, 'pay us up front and then wait for the jackpot' approach in a gaming marketplace that is becoming more and more

OVERVIEW

competitive with entertaining and accessible alternatives. Even the once unchangeable banking industry has been forced to radically transform itself through effective relationship marketing to meet the expectations of 21st Century customers who demand 24/7 accessibility, flexible and convenient interaction mechanisms, as well as real value-added services, benefits, rewards and bonuses for their patronage.

Subscription Club Services (SCS) is a company built from the ground up by Lottery industry professionals with the unique needs of individual state lotteries and their 21st Century customers in mind. With over ten years of Lottery experience, and hundreds of millions of successful Player transactions, SCS focuses on creating and operating custom lottery player development and retention programs that enhance the state's lottery efforts by providing their online ticket customers with an attractive subscription package of services.

These programs are designed to increase the play of existing online players AND attract new lottery players by giving them value added bonuses like special lottery pools to increase the number of winners and enhance each player's excitement, BoosterBucks™ (automatic buying of additional lottery tickets based on jackpot levels) to give the players more tickets when they want them, convenient monthly payment options through use of credit cards, debit cards, and ACH (electronic deductions from their checking account) to provide a Pay-as-You-Play™ program, and flexible options for

OVERVIEW

making play changes at anytime. In addition, SCS knows how to retain lottery players by giving them the special rewards and treatment their loyalty deserves.

SCS offers two pricing programs. The program can be outsourced to SCS who will in turn provide a turnkey management package or the program can be licensed and operated by the lottery or its online vendor. Under the turnkey package, SCS does it ALL - hiring and staffing, pays for all overhead expenses, takes care of all the communications with players, and helps you create the marketing materials to generate player interest.

Under the licensing program, SCS will still offer its expertise to help you promote and manage the program and will offer various other services to help make sure that the program is successfully launched and maintained. Retailers can also be included in your subscription program through our optional patent-pending Retailer Marketplace™. Each subscriber will receive promotions from stores within a predetermined distance from their home. Your retailers will appreciate the promotional edge to drive players into their store for their specials, to acquaint the players with what the store has to offer and to create a stronger neighborhood relationship.

The Retailer Marketplace™ offers the state much value in its own right, but it is particularly important when a state is adding a subscription program. Subscription programs take sales and traffic away from the retailers. The Retailer Marketplace gives back that and more to the retailers. Some states

OVERVIEW

have expressed giving some commission on sales, made directly by the lottery, to the retailers, but with the Retailer Marketplace™ that isn't necessary because the Retailer Marketplace™ offers the stores the capability to more than make up for any lost commissions.

The benefits of a well designed and well managed subscription program go far beyond the immediate increase in revenues. It provides a long term permanent platform for anchoring your player base and developing successful relationship marketing techniques, both of which will benefit all of your programs.



STATE BENEFITS

The primary reason for implementing the SCS subscription program is to increase online sales by strengthening the current player base, recapturing previous players, and generating new sales from untapped Player Markets.

One way the SCS program accomplishes this is by creating broader appeal to a broader range of 21st Century players. (See the next chapter: Player Analysis)

SCS attracts former players, homebound players, busy people, vacationers, intermittent players, new players and more affluent players who are willing and able to pay for season lottery tickets if all the work is done for them and it keeps their interest. It not only increases the State's base play during low jackpots, it provides for automatic additional plays during high jackpots through advance play sign-ups.

The State will also benefit because the SCS program is:

- EASY TO IMPLEMENT – The state-of-the-art SCS software is 90% parameter driven and will seamlessly integrate with the Lottery's systems. Players will subscribe via mail using existing game slips with a simple enrollment form or, if allowed, over the internet.
- ECONOMICAL TO MANAGE – There are little or no 'up-front' costs. In addition, the savings due to lower commissions and optional nominal fees pay for the day-to-day operating expenses of the SCS program. All player

STATE BENEFITS

communications and other required actions are automatically handled, therefore the State and the online vendor do not need to worry about subscription plays when considering any game changes or additions.

- **EASY TO ADVERTISE & PROMOTE** — Simple tag lines on existing lottery ads, brochures at retail lottery stores, ticket printout advertising, public relations and advertising on the Lottery's web site should be enough to get the program started.
- **VERY PROFITABLE** — SCS estimates that implementation of the SCS player subscription program can increase play level 10-20% over the current base when jackpots are at their lowest level.
- **AN EFFECTIVE RELATIONSHIP MARKETING PLATFORM** — The SCS program will provide the state with a new window into the hearts and minds of their players through which ANY viable program, product, service or idea can be effectively marketed, and from which DIRECT interaction with their players can be achieved.

In addition, the SCS program provides the Lottery with reporting and valuable research data on subscription players' habits, trends, play histories, etc., and acts as an anchor keeping players consistently connected to current games (even when the jackpots are low) and making them aware of new Lottery offerings.



PLAYER ANALYSIS

The SCS program incorporates significant new features never before offered by any existing state lottery subscription program designed not only to attract, service and retain players, but also to make their play MORE PROFITABLE for the state.

Primarily because of the convenience, flexibility, and affordability of our program, we anticipate that a majority of “New Player” subscribers will be recruited from the ranks of those who have been very infrequent or who have become completely inactive.

We also anticipate that there will be some ‘crossover’ from existing, more frequent single game players, but their new ‘hybrid’ style of play will result in more profits and a stronger and more stable player base for the lottery.

Therefore, regardless of where the subscription players come from, the net result is a very positive outcome for the Lottery.

Here’s a closer look at the two categories, Hybrid and New Players:

HYBRID PLAYERS

These are more frequent players who will move a majority of their traditional play to the subscription program while continuing most of their impulse and ‘big jackpot’ play through retail outlets. The benefits of moving these players into a subscription program are many.

- These players will be anchored to the lottery.
- Sales will increase because there will be no missed drawings.

PLAYER ANALYSIS

- Sales during low jackpot periods will be higher and more stabilized.
- Cost to the lottery will be decreased by up to 50% because retail commissions will not be paid or will be paid at a lower level.
- The Lottery will be provided with a relationship marketing platform to allow greater communication, interaction and cross selling.
- The Lottery will be provided with a larger database for research to help future product sales.

NEW SALES WILL COME FROM HYBRID AND “NEW PLAYERS”

Hybrid Players will spend more.

- Even though they have a subscription they will still spend discretionary dollars on on-line games when they are in the store buying general merchandise, instant tickets and when jackpots are on the rise.
- The SCS program allows players to sign up for additional individual tickets, which the players will receive automatically as the jackpots start rising.
- The SCS program provides players with attractive pooling options, which will also generate more sales automatically at all jackpot levels. These lottery pooling sales will be over and above what the player currently spends. For example, many players will increase their play from \$1 per drawing to \$2 per drawing if the second dollar gives them ten more chances to become a winner.

“New Players” will be attracted.

- (a) - Former Lottery Players – attracted by the new services
- (b) - Infrequent Lottery Players – Includes (1) those who forget or are too busy to buy tickets every drawing, (2) those who don't want to drive to the store every week, (3) those who don't play often because they forget to check results or misplace their tickets, (4) those who are in and out of town, and (5) those who don't think playing is very exciting.

PLAYER ANALYSIS

“New Players” will be attracted (cont’d).

- (c) - New Players – intrigued by this new way of playing
- (d) - Pay at the Pump Players who rarely set foot in the convenience store
- (e) - Homebound Players – allows them to play
- (f) - Business People – too busy to buy and check tickets themselves
- (g) - Vacationers – love the convenience and not missing out
- (h) - More Affluent People – looking for someone to do it all for them.
- (i) - Non-Impulse Players – appreciate a well organized program
- (j) - Gifts – subscription programs make excellent gifts

Our ten years experience with lottery players tells us that this will be a very successful endeavor for the state. There will be substantial new sales and existing players who become subscribers will bring more profit to the State.

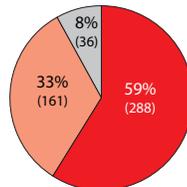
PLAYER ANALYSIS

PLAYER SURVEY RESULTS

Many of the above conclusions can be verified from the analysis of a mail-in market survey we recently conducted with existing lottery players from across America. These are some of the results gathered from the responses of the almost 500 players who participated.

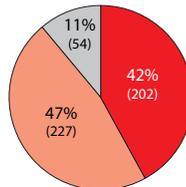
1. Would you consider participating in a program that allowed you to buy Lottery Season Tickets (tickets for the next 3, 6, or 12 months of play)?

Yes: 59% (288)
 Maybe: 33% (161)
 No: 8% (36)



2. How important is the ability to pay Monthly, as you play?

Very Important: 42% (202)
 Important: 47% (227)
 Not Important: 11% (54)



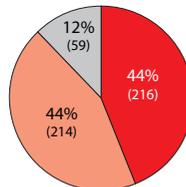
PLAYER ANALYSIS

3. How important is the ability to buy more tickets when jackpots are high?

Very Important: 44% (216)

Important: 44% (214)

Not Important: 12% (59)

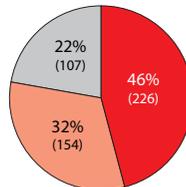


4. How important is the ability to pay by credit, debit or electronic check?

Very Important: 46% (226)

Important: 32% (154)

Not Important: 22% (107)

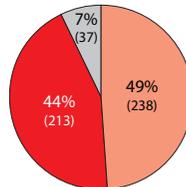


5. How important is the ability to be included in a lottery "pool" with others?

Very Important: 44% (213)

Important: 49% (238)

Not Important: 7% (37)

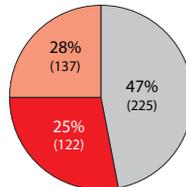


6. How important is the ability to monitor your play on the internet?

Very Important: 25% (122)

Important: 28% (137)

Not Important: 47% (225)

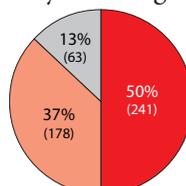


7. How important is the ability to change or cancel your play at any time?

Very Important: 50% (241)

Important: 37% (178)

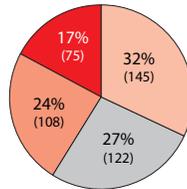
Not Important: 13% (63)



PLAYER ANALYSIS

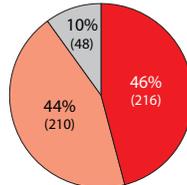
8. If you could have ALL the previous features, and if all the work was done for you, what is the MOST PER MONTH you would pay for this service (in addition to your tickets)?

\$6: 17% (75)
 \$4: 24% (108)
 \$2: 32% (145)
 Nothing: 27% (122)



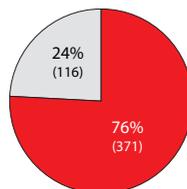
9. Do you think that you would still buy scratchers and other lottery tickets if you had Lottery Season Tickets?

Yes: 46% (216)
 Maybe: 44% (210)
 No: 10% (48)



10. Would you like to see Special offers and 'member only' rewards?

Yes: 76% (371)
 No: 24% (116)





PLAYER BENEFITS

21st Century Lottery players will love the convenience, affordability, personal service, and the surprising flexibility of the SCS program.

There is an obvious appeal to the concept of having your own Personal Lottery Assistant™ who makes sure you never miss a game, never have to drive to the store and wait in line, never lose a ticket, never have to worry about checking the results or claiming your winnings, and who takes your phone calls and responds to your needs by answering your questions and sends out information. Other player benefits include:

- **BOOSTER PLAY™ OPTIONS** – The SCS system allows Players to pre-authorize increases in their individual tickets as jackpots rise.
- **POOLING OPTIONS** – Pooling is the ‘icing on the cake’ for most players, especially since jackpot totals continue to rise, as do the chances against winning. Pooling renews players’ excitement about winning and, when used as an incentive, will anchor players to the subscription service.
- **AFFORDABLE MONTHLY PAYMENT OPTIONS** – While some players can afford to pay for a subscription in full and will use the mail to send in their payment, many others would rather opt for our “Pay as You Play™ option.” With SCS, players can choose to pay for their subscription through monthly electronic deductions from their checking account, or by credit and debit card (if State permitted) making playing the lottery more convenient and affordable.

PLAYER BENEFITS

- 24/7 INTERNET OPTIONS – All subscribers will be able to view their activity and play results on the internet through a password protected member area. If allowed by the State, the SCS system can also accommodate players who ONLY want to use the internet to enroll, track, pay for, and manage their lottery play.

- “MEMBERS ONLY” REWARDS – colorful newsletters, special offers & promotions, contests, jackpot alerts, free drawings, and many other great options to keep players interested.

Through 400 million player transactions and 10 years of attracting, programming for, servicing, and retaining lottery players, SCS has developed both an in-depth and robust software package and marketing system to make players feel excited, involved, and rewarded for their loyalty.



LottoSoft™

At the heart of the SCS system is the patent-pending LottoSOFT™ software program and business process method — everything a State Lottery needs to offer its Players a comprehensive, flexible and state-of-the art subscription services program.

Together these provide a unique and effective system of comprehensive program management procedures, tools, materials, and customer service personnel – ALL tailor-made for each state lottery's individual needs.

This patent-pending business process and software system will:

- ENROLL, TRACK, ACT & REVISE each Player, their play activity and choices effortlessly via both traditional and web-based systems.
- ACCOMMODATE CHANGES desired by either the Players or the Lottery, including: play number changes, changes in game rules, increasing or decreasing quantity of tickets, additional advance play tickets, monthly payments, etc. Freedom and flexibility give players the confidence that THEY are in control of their play and the interaction and interest to keep them playing.
- PROVIDE SUPERIOR CUSTOMER SERVICE to all. Friendly personnel answer Player phone calls, not machines — and newsletters, a website, and other “Members-Only” privileges make Players feel special like private club members with their own Personal Lottery Assistant™.

LottoSoft[™]

Complete Customer Satisfaction and unsurpassed Customer Service is the core business of the SCS program. In a very direct sense, SCS serves two customers: the State Lottery that hosts our program, and the individual Lottery Player who subscribes to the program. We work diligently to meet the ever-changing needs of both.



PRICING AND FEES

The SCS program is a service, and as such, the Lottery can choose to offer it to their lottery players for free, but by charging a nominal fee, players will recognize the true value of the service and perceive it as a bargain with real value. The revenues received by charging a small fee will enable the Lottery to continue providing a quality service, which will result in increased player growth and retention.

Currently there are a handful of states that offer traditional subscription programs where players have a very limited number of options, and must pay in advance for all their tickets. Generally, these are ‘no frills’ programs with almost no flexibility and allowing few if any player changes. In the past, lotteries have absorbed all the costs and some have even offered ‘discounts’ on subscription play.

SCS’s Lottery Subscription Player Program is filled with attractive and valuable services for subscribers, and our research from player surveys combined with 10 years experience tells us that Lottery Subscription Players would gladly pay a fee for the quantity and quality of services and value-added bonuses they will receive.

A small fee would create value in the minds of the Subscriber and would help offset the costs of running the service. FREE Customer services are being cut back in almost every business sector, and are being replaced with ‘on-demand’ fee-based services. People have come to expect to pay ‘something’ when they receive a quality service, and to be skeptical of the ‘value’ of anything they get for free. An example of the benefits of charging even a small fee can be seen with some of the programs currently offered by state lotteries. Some states give away \$4 on a yearly subscription of \$104. For the most part, the \$4 discount over that period of time amounts to ‘nothing’ in

PRICING AND FEES

the mind of the subscriber, and for some it is a slap in the face. On the other hand, paying a 60¢ monthly service fee to receive a benefit-rich subscription would be perceived by Subscribers as ‘chicken feed’, yet it would amount to \$7.20 a year or an \$11.20 significant difference in revenue compared to giving the \$4 discount. Given that the service offers a variety of benefits, 60¢ a month would, in fact, be a real bargain and understood as a real value.

In understanding the costs of offering the subscription services, it is easier to view the services as Mail-Managed and Internet-Managed. There are significant fixed costs of providing the subscription services for players who want a Mail-Managed service. The costs of mailing out forms, certificates, winnings statements, newsletters, checks, renewal letters, etc are the same regardless of the amount of the person’s play. These costs can run as high as \$1.50 a month on a three month subscription. The fixed costs associated with an Internet managed service, on the other hand, can be much smaller, with the largest portion being the costs charged by the banking system for debit cards, credit cards and ACH transactions. The individual costs associated with individual subscribers obviously will be reflective of the combined costs of the different services chosen by them, and the total costs of operating the service will reflect the combined mix of more expensive Mail and less expensive Internet subscribers.

The SCS program can be operated by SCS, or it can be licensed by SCS to be operated either by the State or its online vendor. The cost of operating the program will depend on the number of services and options offered to the players. Regardless of who operates the program, SCS will actively participate in its installation, launch and continued marketing.



INFO, MISC. & FAQS

We hope that you have found the contents of this guide useful and that it will help you move toward a decision to offer a subscription player program from SCS in your state. What follows this page is an appendix of miscellaneous information, including: frequently asked questions, SCS company profiles, and patent and other legal information.

If you have any additional questions, or would like to arrange for a program presentation in your state, please feel free to contact us anytime.



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FREQUENTLY ASKED QUESTIONS

Q. Is any other state currently offering subscription services?

A. There are eight states currently offering subscription services. These are: Illinois, Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont and Virginia. The individual State Lotteries at their own expense operate all of the services. Some even offer discounts on their tickets in order to secure players.

Q. Is the SCS club service legal?

A. In most states, this subscription service is legal, however, every state's statutes are different and each lottery has varying rule capability. For those states with significant rule capability, we suggest they make any changes to allow themselves the choice to pursue a subscription program like SCS offers. Given the sometimes lengthy process of getting the legislature to make changes, it might also be advantageous to initiate legislative changes as soon as possible if further clarification relating to legalities is necessary.

Q. Does anyone else offer the same services as SCS?

A. Not that we are aware of, and because our unique system of software and business methods is both proprietary and patent pending, it is highly unlikely anyone will be able to duplicate our efforts.

Q. What makes the SCS service unique?

A. There are many parts of this patent-pending service that are unique. A few of them are (1) the capability to allow changes during the life of the subscription; (2) the capability to allow players to sign up ahead of time for extra individual tickets when the jackpot reaches specific levels as determined by the player; (3) the capability to allow players to sign up ahead of time for inclusion in one or more lottery pools when the jackpot reaches specific levels as determined by the lottery; (4) the capability for players to review their results on-line; and (5) the capability to make monthly payments resulting in a more convenient and affordable subscription play and therefore increased lottery sales.

Q. How secure is the service?

A. The program is as secure as any known current lottery system and maybe even more so due to our "SMARTicket™" security system. Every lottery ticket that is assigned in the system is tied to a Player Id, Certificate Number, Name, Address and Social Security Number of the owner. In addition, each

FREQUENTLY ASKED QUESTIONS

Confirmation Certificate also includes a Serial Number and Control Number that is produced by a Compiled Algorithm tied to the numbers being played and factors external to that certificate, which cannot be reproduced with any other set of numbers. The Compiled Algorithm can even accommodate a duo-algorithm provided each in part by the Lottery and SCS.

Q. How are the higher tier tickets validated?

A. Ticket Validation, as it is ordinarily referred to, does not exist with subscription systems because there is no physical ticket and there is no bearer instrument. The name, social security number and other owner identification is already recorded and known for each ticket sold. The player's Confirmation Certificate can be used as a validation vehicle, if desired, however there are currently eight states offering subscriptions and they only rely on what is registered in their computer and proper identification for higher tier prizes.

Q. Is the SCS service currently being operated?

A. The current SCS system and LottoSOFT™ software are built upon a successful platform program which has been in operation in Arizona for ten years, in Michigan for over two years and in Minnesota for one year. This existing program, while not a part of the State Lottery itself, has conducted over 400 million player transactions with a 99.999% accuracy record with players in a highly successful lottery pooling service. Over the past ten years SCS has developed a comprehensive and robust program to offer state lotteries and is quite confident that it will be the subscription program of choice for those states which are looking for a significant boost to their revenues.

Q. How are Player orders placed?

A. Players can choose to be Internet Subscribers (if the Lottery so desires) or Mail-In Subscribers. Players can call on the telephone to ask questions, but for security and data integrity, they must use the mail or internet to submit their order or any changes.

Q. How do we confirm that Players are of age and have local state addresses?

A. For mail-in programs, each person who subscribes will have to fill out an age and address verification form. Players who sign up for service using the internet will have their age and address verified while on-line.

PATENT, COPYRIGHT & LEGAL

PROPRIETARY RIGHTS, USE LIMITATION AND PROHIBITED USE

Application has been made to the United States Patent and Trademark Office for a patent under 35 U.S.C. § 111 et seq. for Subscription Club Services, LLC's method and system for subscription lottery play and the application is pending.

NO PATENT INFRINGEMENTS

Recent statements have been issued by eLOT, Inc. regarding their patents. SCS's patent counsel, Tiffany & Bosco has reviewed eLOT's patents and as well as the public records relating to the prosecution of the relevant patent applications and has provided an opinion to SCS. SCS has concluded that its process does not infringe any of the claims of the eLOT patents. SCS has its own unique business and process method.

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Patent applications have been filed, pursuant to 35 U.S.C. § 111 et seq., covering one or more features of the LottoSOFT™ subscription system

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