

February 25, 2009

The Honorable Timothy M. Kaine
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, VA 23219

RE: January 2009 Lottery Results

Dear Governor Kaine:

I am pleased to provide our report of monthly activities and financial update for the month of January 2009, as required in §58.1-4006 of the *Code of Virginia*.

Sales for the month of January totaled \$108.1 million, a decrease of \$524,000 compared to January 2008. For the year to date, sales totaled \$782.5 million, which was \$5.2 million (-0.7 %) less than the same period last year, and \$17.7 million (-2%) behind forecast. January net income totaled \$36.0 million, for year to date earnings of \$250.7 million, down \$14.8 million (-6 %) compared to the same period last year but exactly in line with the forecast net income. Higher prize rates (compared to last year) contributed to the lower net income. The prize expense rate (prizes as a percentage of sales) was 57.6% for the current year to date, compared to 56.8% last year. The forecast prize rate for the current fiscal year to date was 57.7%, so the current year's prizes are very near expectations; last year's very low rate was not typical or expected.

For the current fiscal year, both sales and profits are down from the prior year. However, declining profits were forecast for the current fiscal year, and year to date net income of \$250.7 million is exactly on pace with the forecast. The Lottery remains committed to working diligently to meet our revenue goals while operating in the most efficient manner practical, a commitment even more important in this challenging revenue climate.

Please let me know if you have any questions or if you would like more information.

Very truly yours,

Paula I. Otto

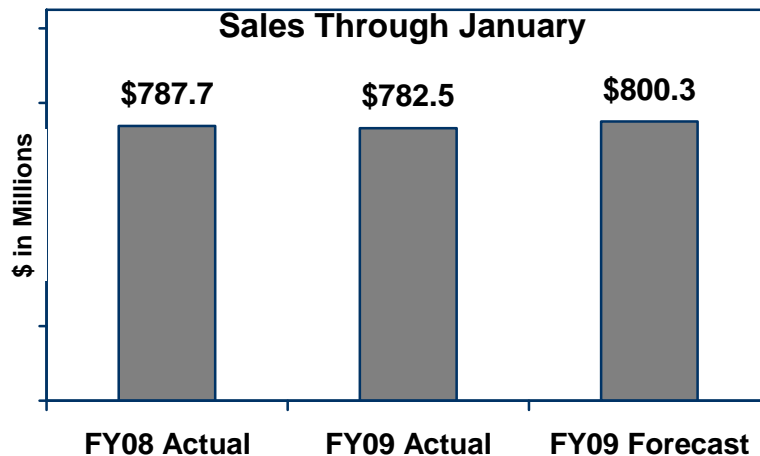
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable Richard D. Brown, Secretary of Finance
- Daniel S. Timberlake, Director – Department of Planning & Budget
- David A. Von Moll, State Comptroller
- Elizabeth B. Daley, Staff Director – Senate Finance Committee
- Robert P. Vaughn, Staff Director – House Appropriations Committee

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
February 25, 2009

Sales

Lottery sales for the fiscal year totaled \$782.5 million through January, which was \$5.2 million (-0.7%) less than the prior year and \$17.7 million (-2.2%) less than forecast.

Scratcher sales of \$394.4 million were nearly identical to last year's levels, up \$555,000 (+0.1%) compared to last year, but down \$5.6 million (-1.4%) compared to forecast. Daily games (Pick 3, Pick 4, and Cash 5) sales declined slightly, down \$918,000 (-0.3%) from last year and \$10.3 million (-3.7%) less than forecast. Sales of the jackpot games, Mega Millions and Win for Life, decreased \$4.6 million (-4.1%) from last year due to lower advertised jackpots, but were \$3.8 million (+3.7%) more than expected. Sales of Fast Play were down slightly \$348,000 (-7.9%) compared to last year and \$3.9 million (-48.8%) compared to forecast; total Raffle sales were up \$107,000 or 1.2% from last year but \$1.7 million (-16%) less than forecast. There are no more raffles planned for this fiscal year, so that deficit will stand through the fiscal year.



Expenses

The overall prize expense rate (prizes as a percent of sales) through January was 57.6%, which was 0.8% more than compared to the same period in FY2008. The scratcher prize rate increased 0.2% to 67.0% but 0.2% less than forecast; the daily games prize rate of 46.9% was 1.4% more than the same period last year, but slightly lower than the 47.6% forecast at this point in the year. Jackpot prize expense was 49.8% of sales, or slightly higher than the 49.4% last year and 49.4% forecast for the current year.

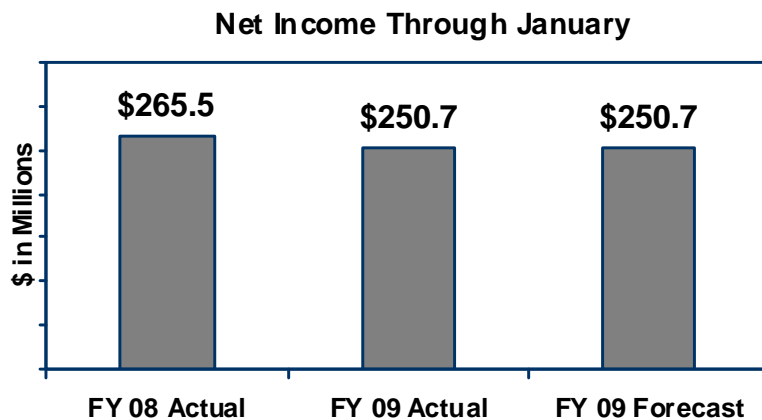
In spite of lower sales, retailers have earned \$278,000 more than last year, for a total \$43.5 million in earnings. The increased retailer compensation dollars are the result of retailer

incentives, including bonuses for selling winning tickets with prizes over \$20,000. Overall, retailers earned 5.6% of Lottery sales in commissions this fiscal year, up less than 0.1% from last year's retailer compensation rate and about 0.1% less than the 5.7% forecast retailer compensation rate for the current fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$3.3 million more than during the same period last year but \$4.3 million less than forecast. Administrative operating costs represent 5.3% of sales, well less than the statutory allowance of 10% and less than the 5.8% rate included in the forecast.

Net Income

Through January 2009, year to date profits totaled \$250.7 million, a decline of \$14.8 million (-5.6%) compared to last year. Declining profits were forecast for the current fiscal year, and are at the expected \$250.7 million forecast for the first seven months.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2009 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$688,802. Also, unclaimed prizes totaling \$7,755,590 were transferred to the Literary Fund for the first seven months of fiscal year 2009.

MEETINGS

The State Lottery Board's next scheduled meeting will be held on March 11, 2009, in Richmond. This is a routine business meeting.