

April 27, 2009

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

RE: February 2009 Lottery Results

Dear Governor Kaine:

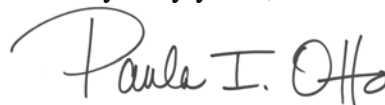
I am pleased to provide our report of monthly activities and financial update for the month of February 2009, as required in §58.1-4006 of the *Code of Virginia*.

Sales for the month of February totaled \$119.7 million, a decline of \$8.9 million compared to February 2008. For the year to date, sales totaled \$902.2 million, which was \$14.2 million (-1.5 %) less than the same period last year, and \$11.3 million (-1.2%) behind forecast. February net income totaled \$35.4 million, for year to date earnings of \$286.1 million, down \$19.1 million (-6.2 %) compared to the same period last year but \$1.5 million (0.5%) ahead of the forecasted net income. The overall prize rate was higher than last year, a factor that has contributed to the net income reduction. The prize expense rate (prizes as a percentage of sales) was 57.8% for the current year to date, compared to 57.0% last year. The forecast prize rate for the current fiscal year to date was 57.9%, 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 when compared to the prior year. However, declining profits were forecast for the current fiscal year, and year to date net income of \$286.1 million is slightly ahead of 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,

A handwritten signature in cursive script that reads "Paula I. Otto". The signature is written in black ink and is positioned above the printed name.

Paula I. Otto

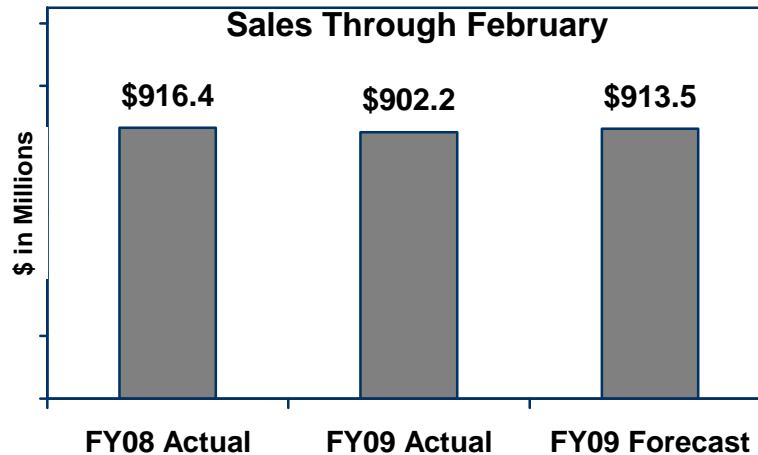
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable 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**  
**April 27, 2009**

Sales

Lottery sales for the fiscal year totaled \$902.2 million through February, which was \$14.2 million (-1.5 %) less than the prior year and \$11.3 million (-1.2%) less than forecast.

Scratcher sales of \$453.9 million were nearly identical to last year's levels, down \$0.4 million (-0.1%) compared to last year, and \$5.2 million (-1.1%) less than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) declined \$1.1 (-0.3%) from last year and were \$10.2 million (-3.3%) less than forecast. Sales of the jackpot games, Mega Millions and Win for Life, declined \$12.3 million (-8.9%) from last year due to lower advertised jackpots, but were \$9.8 million (+8.5%) more than forecast. Sales of Fast Play were \$0.5 million (-10.8%) lower than last year and \$4.0 million (-47.5%) less than forecast.



Expenses

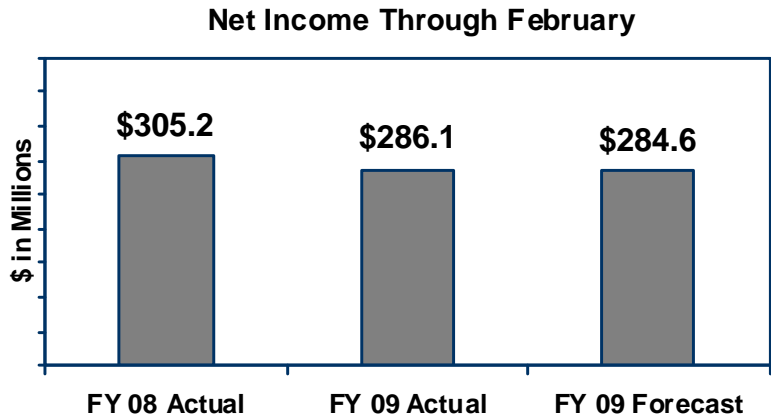
The overall prize expense rate (prizes as a percent of sales) through February was 57.8%, which was 0.8% more than compared to the same period in FY2008. The scratcher prize rate increased 0.3% to 67.2%, equal to the expected rate for the current year; the daily games prize rate of 47.4% was 1.4% more than the same period last year, but lower than the 47.9% forecast at this point in the year. Jackpot prize expense was 49.6%, very close to last year's 49.8% and the forecast rate of 49.4% for the current year.

Retailers have earned \$0.9 million less than last year, for a total \$50.3 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives this fiscal year, the same as 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 \$3.2 million more than during the same period last year but \$4.1 million less than forecast. Administrative operating costs represent 5.4% of sales, well less than the statutory allowance of 10% and less than the 5.8% rate included in the forecast.

Net Income

Through February 2009, year to date profits totaled \$286.1 million, a decline of \$19.1 million (-6.2%) compared to last year. Declining profits were forecast for the current fiscal year, but are slightly ahead (+0.5%) of the expected \$284.6 million forecast for the first eight months.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2009 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$804,812. Also, unclaimed prizes totaling \$8,452,796 were transferred to the Literary Fund for the first eight months of fiscal year 2009.

MEETINGS

The State Lottery Board held a regular business meeting in Richmond on March 11, 2009. The Board congratulated Ms. Susan Smith Feaster on her recent re-appointment to continue to serve as a member of the Board for a second 5-year term. The State Lottery Board's next scheduled meeting will be held on May 13, 2009, in Richmond.