

June 22, 2009

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

RE: May 2009 Lottery Results

Dear Governor Kaine:

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

Sales for the month of May totaled \$117.5 million, for year to date sales of \$1,254.6 million, down \$24.0 million (-1.9 %) compared to the same period last year, and \$24.5 million (-1.9%) behind forecast. May net income totaled \$35.1 million, for year to date earnings of \$402.8 million, down \$19.3 million (-4.6 %) compared to the same period last year but \$6.6 million (+1.7%) ahead of the net income forecast. The prize expense rate (prizes as a percentage of sales) was 57.4% for the current year to date, slightly higher than last year but 0.7% less than the forecast prize rate of 58.1%.

For the current fiscal year, both sales and profits are down when compared to the prior year, as forecast. On June 19, 2009, the Lottery initiated the final transfer of estimated profits to the Lottery Proceeds Fund, transferring a total of \$430.5 million for fiscal year 2009, fully meeting the Lottery's FY09 profit forecast as expected in Chapter 781.

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

Very truly yours,

Paula I. Otto

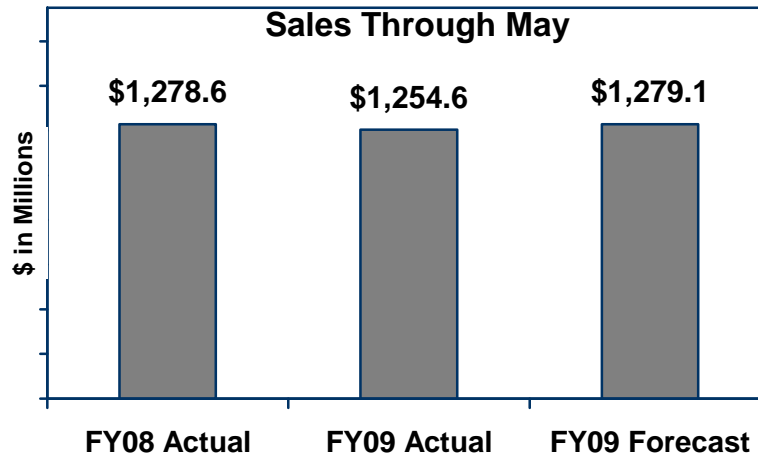
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable 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
June 22, 2009

Sales

Lottery sales for the fiscal year totaled \$1,254.6 million through May, which was \$24.0 million (-1.9 %) less than the prior year and \$24.5 million (-1.9%) less than forecast.

Scratcher sales of \$633.1 million were \$6.2 million (-1.0%) lower than last year and \$10.6 million (-1.6 %) less than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) declined \$4.2 (-1.0 %) from last year and were \$28.5 million (-6.2 %) less than forecast. Sales of the jackpot games, Mega Millions and Win for Life, declined \$12.7 million (-6.6%) from last year due to lower advertised jackpots, but were \$21.0 million (+13.3%) more than forecast. Sales of Fast Play games were \$1.0 million (-15.8%) lower than last year and \$4.8 million (-46.3%) less than forecast.



Expenses

The overall prize expense rate (prizes as a percent of sales) through May was 57.4%, which was slightly higher than last year's 57.2%. The scratcher prize rate is slightly higher than last year, and stands at the expected rate for the current year of 67.2%; the daily games prize rate of 46.1% was down slightly from last year, and lower than the 48.4% forecast at this point in the year. Low daily games prize payouts for two consecutive years have negatively affected sales of these products, a category that represents one third of total lottery sales. Jackpot prize expense was 49.6%, lower than last year's 50.2% and slightly higher than the forecast rate of 49.4% for the current year.

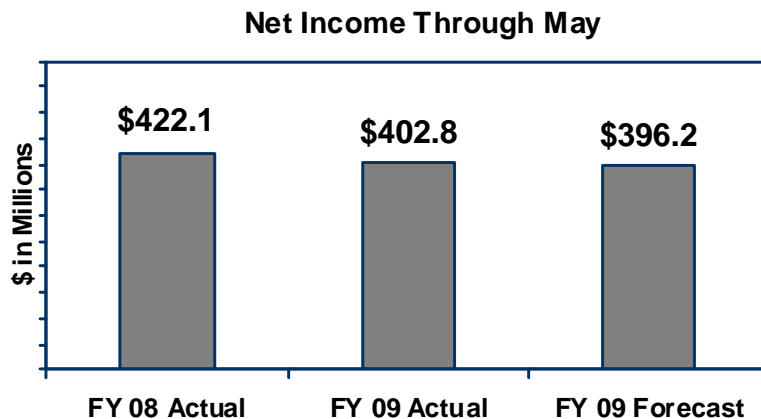
With lower sales, retailers have earned \$1.2 million less than last year, for a total \$70.3 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and

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 \$1.0 million more than during the same period last year but \$6.4 million less than forecast. This increase was anticipated because of the full implementation of the new gaming system contract, initiated in 2007. Administrative operating costs represent 5.3% of sales, well less than the statutory allowance of 10% and less than the 5.7% rate included in the forecast.

Net Income

Through May 2009, year to date profits totaled \$402.8 million, a decline of \$19.3 million (-4.6 %) compared to last year. Declining profits were forecast for the current fiscal year, but profits are slightly ahead (+1.7 %) of the expected \$396.2 million forecast for the first eleven months.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2009 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$1,085,352. Also, unclaimed prizes totaling \$12,322,067 were transferred to the Literary Fund for the first eleven months of fiscal year 2009.

MEETINGS

The next meeting of the Board is scheduled for August 19, 2009, in Norfolk.