

September 25, 2009

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

RE: July/August 2009 Lottery Results

Dear Governor Kaine:

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

Fiscal year sales for July and August totaled \$246.0 million, up \$22.5 million (+10.1%) compared to the same period last year. Year to date net income through August totaled \$79.9 million, an increase of \$6.2 million (+8.4%) over last year. Sales and profits for the first two months were strong, largely resulting from the Mega Millions jackpot progression to \$333 million in August and strong scratch ticket sales. The prize expense rate (prizes as a percentage of sales) was 57.4% for the current year to date, an increase of 1.0% compared to the same period last year.

For the current fiscal year, both sales and profits are up when compared to the prior year. As always, the Lottery will review the forecast for the current fiscal year and the next biennium as part of the statewide revenue forecasting process. Lottery sales and profits may vary significantly from year to year when comparing results for comparable time periods, because of uncontrollable factors including of jackpot size and prize payout rates.

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

Very truly yours,

Paula I. Otto

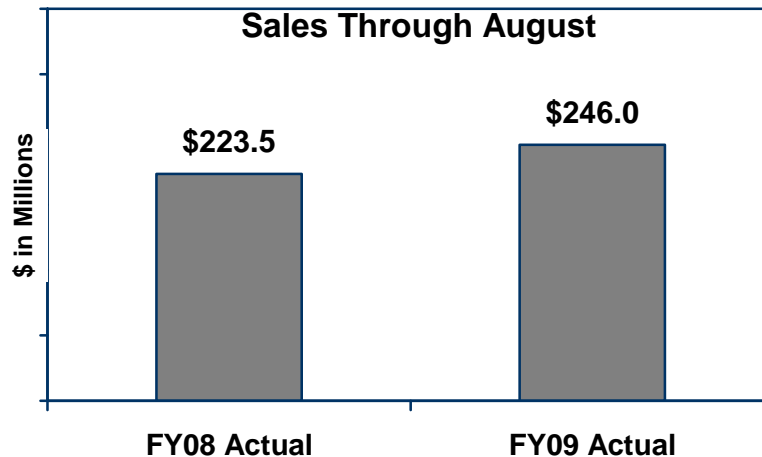
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
The Honorable Harry R. Purkey, Chairman, House Finance Committee
The Honorable Wayne M. Turnage, Chief of Staff, Office of the Governor
The Honorable Richard 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
September 25, 2009

Sales

Lottery sales for the fiscal year totaled \$246.0 million through August, which was \$22.5 million (+10.1%) more than the prior year.

Scratcher sales of \$118.1 million were \$7.7 million (+7.0%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$117,000 (+0.2%) from last year. Sales of the jackpot games, Mega Millions and Win for Life, increased \$15.3 million (+45.4%) from last year due to an advertised Mega Millions jackpot of \$333 million in August; the highest jackpot during the comparable period last year was \$132 million. Sales of Fast Play games were \$541,000 (-28.7%) lower than last year.



Expenses

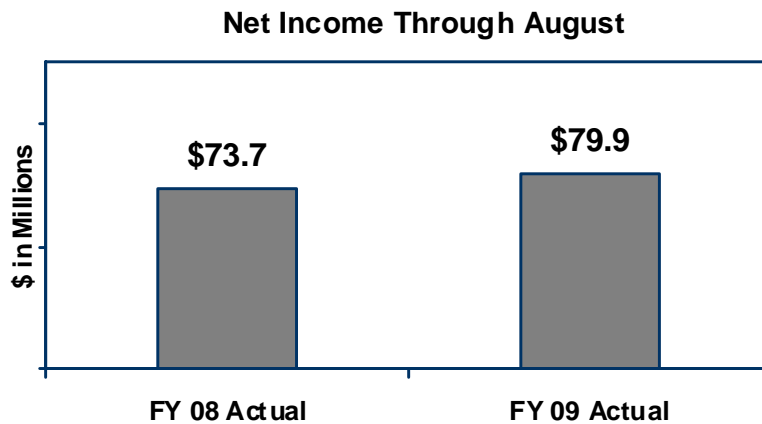
The overall prize expense rate (prizes as a percent of sales) through August was 57.4%, which was 1% higher than last year's rate of 56.4%. The scratcher prize rate of 66.7% was the same as last year. The daily games prize rate of 47.7% was up significantly from last year's 43.0% rate, although still lower than statistically expected. Higher daily games prize payouts for two consecutive months have positively influenced sales of these products, a category that represents one third of total lottery sales. Jackpot prize expense was 50.6%, the same as last year.

With higher sales, retailers earned \$1.6 million more than last year, for a total \$13.7 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives this fiscal year, higher than last year's retailer compensation rate of 5.4% for the same period. Higher prize payouts for Pick 3 result in more prizes paid by retailers, which increase retailer earnings.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$572,000 less than during the same period last year.

Net Income

Through August 2009, year to date profits totaled \$79.9 million, an increase of \$6.2 million (+8.4%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$173,699. Also, unclaimed prizes totaling \$3,443,349 were transferred to the Literary Fund for the first two months of fiscal year 2010.

MEETINGS

The State Lottery Board held a business meeting in Norfolk on August 19, 2009. The next meeting of the Board is scheduled for October 21, 2009, in Richmond.