

May 25, 2010

The Honorable Robert F. McDonnell
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, Virginia 23219

Re: April 2010 Lottery Results

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of April 2010, as required in §58.1-4006 of the *Code of Virginia*.

Sales for the month of April totaled \$125.6 million, up \$10.6 million (+9.2 %) compared to the forecast, and up \$9.0 million (+7.7%) compared to the same month last year. Strong scratcher sales and the addition of Powerball contributed to the sales increase this month compared to last year. Year to date, sales totaled \$1,191.9 million through April, which was \$54.8 million (+4.8%) more than the prior year and \$22.0 million (+1.9%) more than forecast.

Net income for the fiscal year through April totaled \$361.4 million, a decline of \$6.4 million (-1.7%) from last year but \$691,500 (+0.2%) above the forecast. Net income is meeting the expected forecast; stronger than expected sales have been sufficient to offset the unusually high prize expenses. The prize expense rate (prizes as a percentage of sales) was 59.0% for the current year so far, a significant increase from last year's rate of 57.2%, and 0.7% higher than the 58.3% rate expected in the forecast. This difference is the result of the "luck of the draw" and several large payouts in Pick 3 and Pick 4, products with fixed prizes.

For the current fiscal year, sales and profits are very close to the forecast. The Lottery is continuing the required transfers of profits to the Lottery Proceeds Fund, with transfers totaling \$325.0 million so far this fiscal year. There was no forecast adjustment for the current fiscal year.

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

Very truly yours,

Paula I. Otto

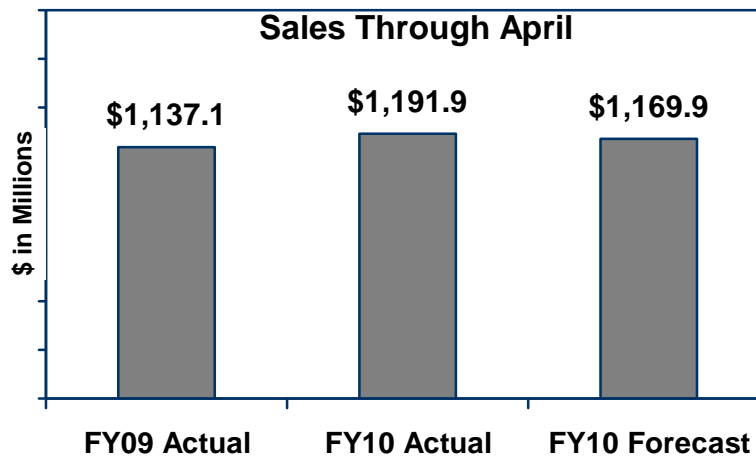
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
May 25, 2010

Sales

Lottery sales for the fiscal year totaled \$1,191.9 million through April, which was \$54.8 million (+4.8%) more than the prior year and \$22.0 million (+1.9%) more than forecast.

Scratcher sales of \$588.5 million were \$15.3 million (+2.7 %) higher than last year and \$3.7 million (+0.6%) higher than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$3.6 million (+0.9%) from last year, but fell \$4.2 million (-1.1%) below the forecast. Sales of the jackpot games (Mega Millions, Powerball, and Win for Life) increased \$37.5 million (+23.1%) from last year, and stand \$20.6 million (+11.5%) higher than the forecast. This growth is due to higher advertised Mega Millions jackpots, and the addition of Powerball to the product mix. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$629,000 (+12.2%) higher than last year, and \$1.9 million (+48.6%) ahead of the forecast.



Expenses

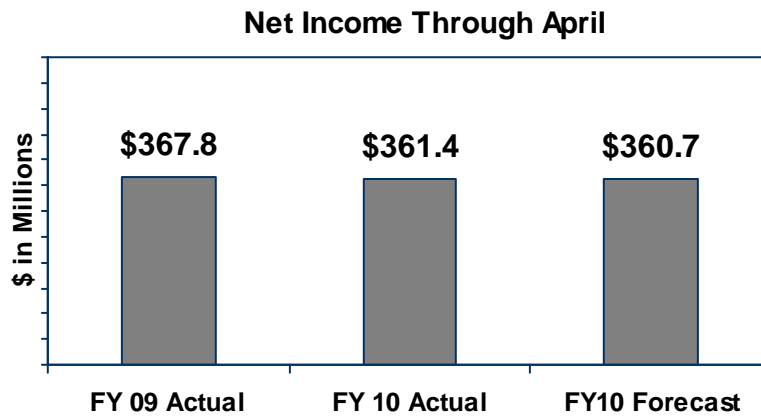
The overall prize expense rate (prizes as a percent of sales) through April was 59.0%, up 1.8% from last year's unusually low rate of 57.2%, and 0.7% higher than expected in the forecast. The scratcher prize rate of 67.9% was up compared to last year's rate of 67.1%, and higher than the expected 67.3% for the year. The daily games prize rate of 50.6% was up significantly from last year's abnormally low 45.9% rate, and was 1.6% higher than statistically expected. Players have won more prizes in the daily games products this fiscal year, above the statistically expected levels, after an extended period of very low prize payouts over the past two fiscal years; this has positively influenced sales of all product categories. Jackpot prize expense was 49.5%, up from last year's rate of 49.3%, and on par with the forecast.

With higher sales, nearly 5,000 retailer locations throughout the Commonwealth earned \$3.3 million more than last year, for a total \$66.9 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives so far this fiscal year, a rate slightly lower than forecast and on par with the prior year's rate.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$2.2 million more than during the same period last year, but \$1.4 million lower than forecast. As total sales increase, certain variable administrative costs also increase, including contractual arrangements with private third-party partners that provide ticket printing and gaming network services. Administrative spending stands at 5.2% of sales, less than last year's 5.3% rate, and also less than the 5.5% forecast rate.

Net Income

Through April 2010, year to date profits totaled \$361.4 million, a decrease of \$6.4 million (-1.7 %) compared to last year, but \$691,500 (+0.2%) higher than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2010 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,085,803. Also, unclaimed prizes totaling \$8,621,524 were transferred to the Literary Fund for the first ten months of fiscal year 2010.

MEETINGS

The State Lottery Board held a regularly scheduled meeting on May 19, 2010. The next meeting of the Board will be August 25, 2010, in Roanoke.