

June 21, 2010

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

Re: May 2010 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of May totaled \$125.3 million, up \$8.7 million (+7.5 %) compared to the forecast, and up \$7.8 million (+6.6%) 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 \$1,317.1 million through May, which was \$62.6 million (+5.0%) more than the prior year and \$30.7 million (+2.4%) more than forecast.

In contrast to sales, net income for the fiscal year through May totaled \$393.2 million, a decline of \$9.6 million (-2.4%) from last year and \$3.3 million (-0.8%) less than forecast. Stronger than expected sales have not been sufficient to offset unusually high prize expenses for the year. The prize expense rate (prizes as a percentage of sales) was 59.5% for the current year so far, a significant increase from last year's rate of 57.4%, and 1.2% 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 completed the final FY2010 transfer to the Lottery Proceeds Fund on June 18, 2010. Total Lottery transfers to the Fund were \$439.1 million, in accordance with estimates in the Appropriation Act. This represents \$430.2 million for fiscal year 2010 estimated profits, plus \$8.9 million transferred in August 2009 representing the residual transfer of FY2009 profits. Because of the high prize expense rate for fiscal year 2010, the Lottery does not expect any residual transfer of FY2010 profits next year – estimated profits already transferred should be very close to the audited profit figures that will be certified by the Auditor of Public Accounts in August 2010. In fact, if a significant prize payout occurs before June 30, our profit transfers could be overstated for the year. We will continue to monitor sales and prizes, and notify the recipients of this letter related to any such events as soon as possible.

June 21, 2010
Page Two

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

Very truly yours,

Paula I. Otto

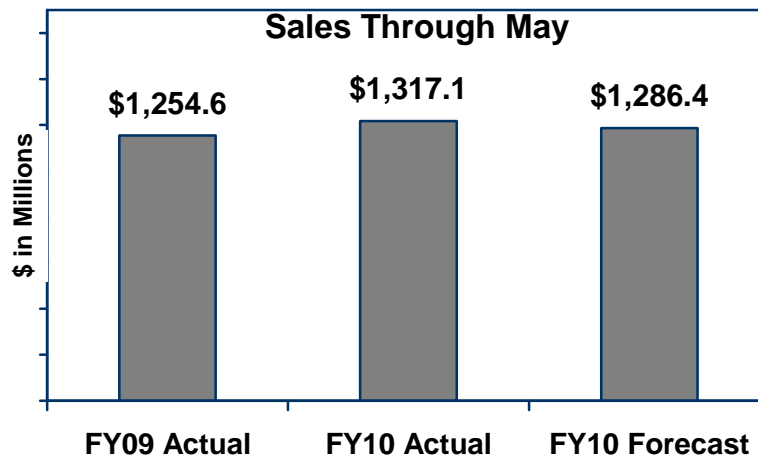
c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
The Honorable Harry R. Purkey, Chairman, House Finance Committee
The Honorable Martin Kent, Chief of Staff, Office of the Governor
The Honorable Richard D. Brown, 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
June 21, 2010

Sales

Lottery sales for the fiscal year totaled \$1,317.1 million through May, which was \$62.6 million (+5.0%) more than the prior year and \$30.7 million (+2.4%) more than forecast.

Scratcher sales of \$650.5 million were \$17.6 million (+2.8 %) higher than last year and \$5.7 million (+0.9%) higher than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$5.1 million (+1.2%) from last year, but fell \$3.2 million (-0.7%) below the forecast. Sales of the jackpot games (Mega Millions, Powerball, and Win for Life) increased \$41.4 million (+23.1%) from last year, and stand \$26.0 million (+13.4%) 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 \$788,000 (+14.1%) higher than last year, and \$2.2 million (+53.4%) ahead of the forecast.



Expenses

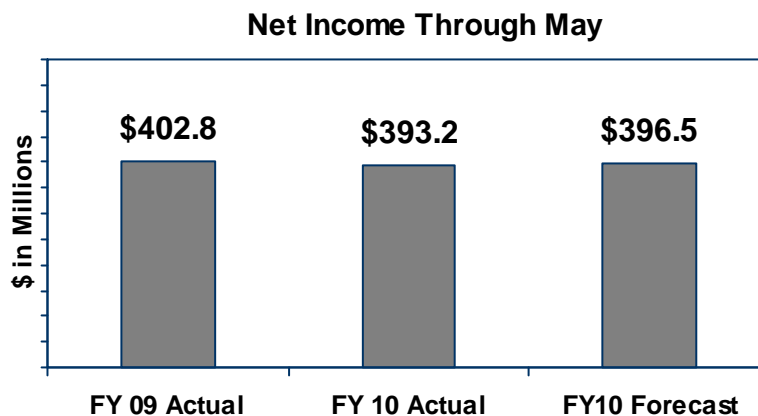
The overall prize expense rate (prizes as a percent of sales) through May was 59.5%, up 2.1% from last year's unusually low rate of 57.4%, and 1.2% higher than expected in the forecast. The scratcher prize rate of 68.0% was up compared to last year's rate of 67.2%, and higher than the expected 67.3% for the year. The daily games prize rate of 52.0% was up significantly from last year's abnormally low 46.1% rate, and was 3.0% 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 49.9%, up from last year's rate of 49.6%, and the expected rate of 49.6%.

With higher sales, nearly 5,000 retailer locations throughout the Commonwealth earned \$3.6 million more than last year, for a total \$73.9 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 \$947,000 more than during the same period last year, but \$2.7 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 5.1% of sales, less than last year's 5.3% rate, and also less than the 5.5% forecast rate.

Net Income

Through May 2010, year to date profits totaled \$393.2 million, a decrease of \$9.6 million (-2.4 %) compared to last year, and \$3.3 million (-0.8%) less 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 \$1,251,897. Also, unclaimed prizes totaling \$9,495,075 were transferred to the Literary Fund for the first eleven months of fiscal year 2010.

MEETINGS

The State Lottery Board will hold a scheduled meeting on August 25, 2010, in Roanoke.