

October 22, 2010

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

Re: September 2010 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of September totaled \$113.9 million, up \$1.8 million (+1.9 %) compared to the same month last year. Year to date sales total \$346.8 million, down \$11 million (-3.1%) compared to last year. Net income for the fiscal year through September totaled \$104.6 million, a decrease of \$9.8 million (-8.5%) from last year. The higher decline in net income, compared to the decline in sales, is due primarily to higher prize expenses in the current fiscal year.

It is important to note that significant fluctuations in sales and prize expense rates occur during the short term. Comparing one or two months of sales and profits to the same period in the prior year does not provide an accurate reflection of expected results. As always, the Lottery is participating in the statewide revenue forecasting process this fall, to determine whether an adjustment to the current \$435.2 million revenue estimate is warranted.

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

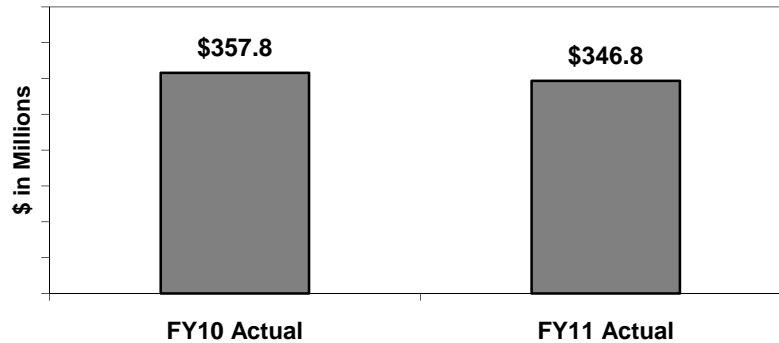
VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
October 22, 2010

Sales

Lottery sales for the fiscal year totaled \$346.8 million through September, which was \$11.0 million (-3.1%) less than the prior year.

Scratcher sales of \$177.1 million were \$1.9 million (+1.1%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$1.8 million (+1.6%) from last year. Sales of the jackpot games (Mega Millions, Powerball, and Win for Life) decreased \$14.4 million (-22.1%) from last year. This decline is significant because of the exceptionally strong product sales in this category during the same period last year, when the Mega Millions jackpot grew to over \$300 million. By comparison, the highest advertised jackpot so far this fiscal year has been \$133 million. Sales in the jackpot product category are highly influenced by the size of the advertised jackpot. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$356,000 (-18.6%) lower than last year.

Sales Through September



Expenses

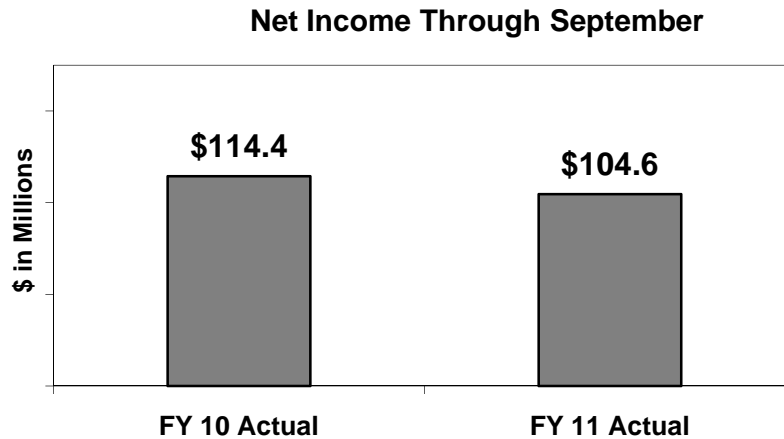
The overall prize expense rate (prizes as a percent of sales) through September was 58.9%, up 1.2% from last year's rate of 57.7%. The scratcher prize rate of 67.4% was up compared to last year's rate of 66.7%. The daily games prize rate of 48.5% was up from last year's 47.8% rate. Jackpot prize expense was 53.5%, up from last year's rate of 50.8%. It is important to note that significant fluctuations in prize expense rates occur during the short term; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With lower sales, retailers earned \$84,000 less than last year, for a total \$19.9 million in earnings. Overall, retailers earned 5.8% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$466,000 more than during the same period last year. Administrative spending stands at 5.2% of sales for the year so far.

Net Income

Through September 2010, year to date profits totaled \$104.6 million, a decrease of \$9.8 million (-8.5%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2011 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$275,042. Also, unclaimed prizes totaling \$3,770,107 were transferred to the Literary Fund for the first three months of fiscal year 2011.

MEETINGS

The next meeting of the Board will be October 27, 2010, in Richmond.