

December 30, 2010

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

Re: November 2010 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of November totaled \$118.0 million, up \$10.4 million (+9.7 %) compared to the same month last year. Year to date sales total \$584.2 million, down \$268,000 (-0.05%) compared to last year. Net income for the fiscal year through November totaled \$177.3 million, a decrease of \$5.2 million (-2.8%) compared to last year. The higher rate of decline in net income, compared to the rate of decline in sales, is due primarily to higher prize expenses in the current fiscal year. Sales and profits during the same period last fiscal year were supported by strong jackpot game sales because of high advertised jackpots. That has not been the situation for the current fiscal year, where sales in the jackpot category have been depressed because of low advertised jackpots.

As part of the statewide revenue forecasting process, the Lottery maintained its revenue estimate at \$435.2 million for fiscal year 2011. Maintaining the profit estimate was possible because of budget reduction strategies implemented by the Lottery, and outlined in your Executive Budget.

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

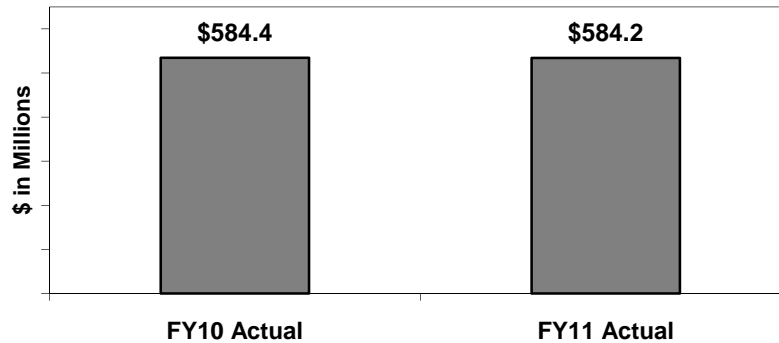
VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
December 30, 2010

Sales

Lottery sales for the fiscal year totaled \$584.2 million through November, which was \$268,000 (-0.05%) less than the prior year.

Scratcher sales of \$299.9 million were \$11.3 million (+3.9%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$3.2 million (+1.7%) from last year. Sales of the jackpot games (Mega Millions, Powerball, and Win for Life) decreased \$14.3 million (-14.2%) 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 \$141 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 \$406,000 (-13.6%) lower than last year.

Sales Through November



Expenses

The overall prize expense rate (prizes as a percent of sales) through November was 58.8%, up 0.5% from last year's rate of 58.3%. The scratcher prize rate of 68.0% was up compared to last year's rate of 67.3%. The daily games prize rate of 48.0% was down from last year's 48.9% rate. Jackpot prize expense was 51.5%, up from last year's rate of 50.5%. 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.

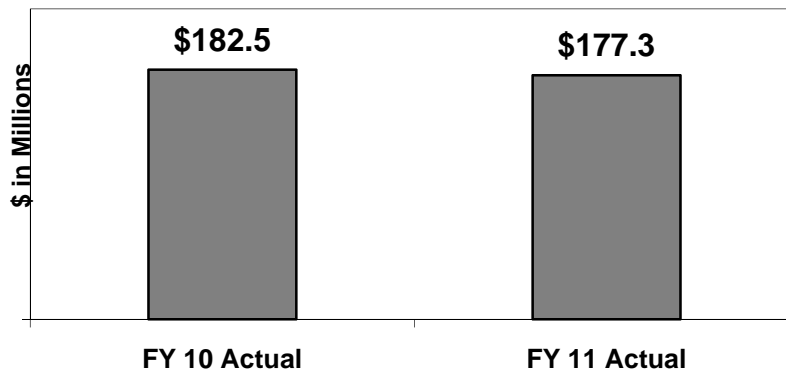
With lower sales, retailers earned \$181,000 less than last year, for a total \$32.7 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$1.3 million more than the same period last year. Administrative spending stands at 5.3% of sales for the year so far.

Net Income

Through November 2010, year to date profits totaled \$177.3 million, a decrease of \$5.2 million (-2.8%) compared to last year.

Net Income Through November



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 \$496,920. Also, unclaimed prizes totaling \$5,247,791 were transferred to the Literary Fund for the first five months of fiscal year 2011.

MEETINGS

The next meeting of the Board will be January 12, 2011, in Richmond.