

February 4, 2010

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

RE: December 2009 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of December totaled \$123.1 million, up \$2.0 million (+1.7%) compared to the forecast, and down \$11.2 million (-8.4%) compared to the same month last year due to the timing of the Millionaire Raffle drawing and lower jackpots this December. Net income for the fiscal year through December totaled \$218.0 million, an increase of \$3.3 million (+1.5%) over last year and \$3.3 million (+1.5%) ahead of the forecast. Sales and profits for the first six months have been strong, with Mega Millions, Scratcher, Pick 4 and Cash 5 game sales exceeding last year's totals for the same period. The prize expense rate (prizes as a percentage of sales) was 58.3% for the current year so far, an increase from last year's rate of 57.7%.

For the current fiscal year, both sales and profits are up when compared to the prior year, and are very close to the forecast. The Lottery has begun the required transfers of profits to the Lottery Proceeds Fund, with transfers totaling \$218 million so far this fiscal year. Also of note, the Virginia Lottery began offering Powerball tickets to our players starting with the February 3, 2010, drawing. We are excited to offer this additional well-recognized jackpot game to our players, and to be a part of this historic venture among the 43 U.S. Lottery organizations. We will continue to monitor sales and profits compared to the forecast, and also project any revised estimates for recommended inclusion in the mid-Session revenue adjustment process.

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

Very truly yours,

Paula I. Otto

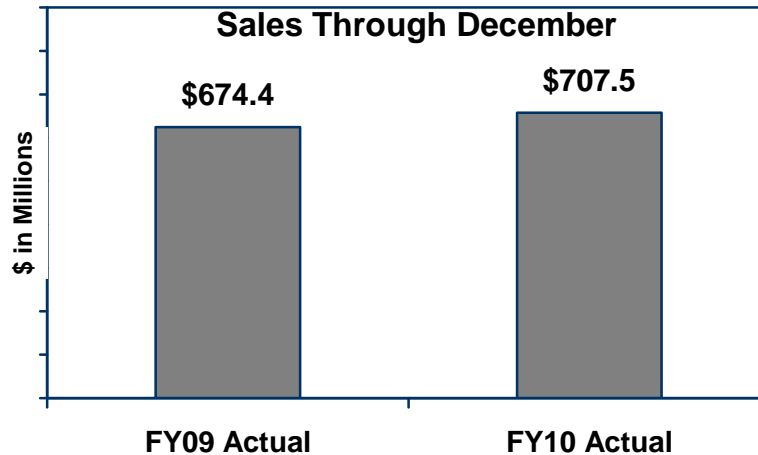
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
February 4, 2010

Sales

Lottery sales for the fiscal year totaled \$707.5 million through December, which was \$33.1 million (+4.9%) more than the prior year.

Scratcher sales of \$351.1 million were \$12.2 million (+3.6 %) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$4.7 million (+2.1%) from last year. Sales of the jackpot games, Mega Millions and Win for Life, increased \$25.2 million (+26.8%) from last year due to higher advertised Mega Millions jackpots. Sales of Fast Play games were \$0.2 million (-4.7%) lower than last year. This year's Millionaire Raffle was a sell-out for the drawing that occurred on January 1, 2010, and the \$6.6 million in Raffle revenue will be recognized in January.



Expenses

The overall prize expense rate (prizes as a percent of sales) through December was 58.3%, up 0.6% from last year's unusually low rate of 57.7%. The scratcher prize rate of 67.2% was up compared to last year's rate of 66.8%. The daily games prize rate of 49.1% was up significantly from last year's abnormally low 47.7% rate, but continues to be slightly lower than statistically expected. More statistically normal daily games prize payouts for six consecutive months have positively influenced sales of these products, a category that represents one third of total lottery sales. Jackpot prize expense was 50.4%, up from last year's rate of 49.4%.

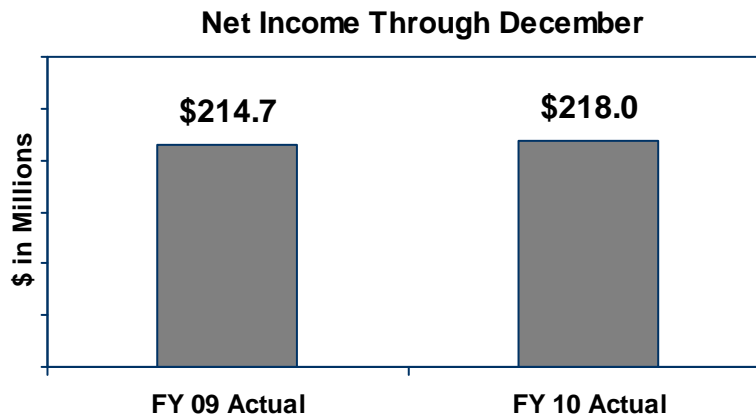
With higher sales, retailers earned \$2.2 million more than last year, for a total \$39.7 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives so

far this fiscal year. More frequent prize winners in the Pick 3 game, in particular, result in more prizes redeemed by retailers, which increases retailer earnings.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$1.5 million more than during the same period last year.

Net Income

Through December 2009, year to date profits totaled \$218.0 million, an increase of \$3.3 million (+1.5 %) compared to last year.



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 \$563,552. Also, unclaimed prizes totaling \$5,815,201 were transferred to the Literary Fund for the first six months of fiscal year 2010.

MEETINGS

The State Lottery Board held a regular business meeting in Richmond on January 13, 2010. During the meeting, the Board elected officers for the next calendar year. Ms. Cynthia D. Lawrence will serve as the Board Chair, and Mr. Gilliam M. Cobbs will serve as Vice-Chair.

On Wednesday, February 3, 2010, I addressed the House Appropriations Committee to discuss Lottery sales and profits, the impact of Powerball on Virginia Lottery sales and profits, and advertising.