

March 22, 2010

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

Re: February 2010 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of February totaled \$111.1 million, down \$3.9 million (-3.4 %) compared to the forecast, and down \$8.5 million (-7.1%) compared to the same month last year. Poor weather conditions across the state, and lower advertised jackpots, were the main contributors to the sales decline. Year to date, sales totaled \$937.7 million through February, which was \$35.5 million (+3.9%) more than the prior year and \$3.6 million (+0.4%) more than forecast.

Net income for the fiscal year through February totaled \$287.1 million, an increase of \$890,000 (+0.3%) over last year but \$816,000 (-0.3%) below the forecast. Net income is slightly less than expected, in spite of slightly stronger than expected sales, primarily due to higher prize expenses. The prize expense rate (prizes as a percentage of sales) was 58.6% for the current year so far, an increase from last year's rate of 57.8%, and 0.3% higher than the 58.3% rate expected in the forecast.

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 \$287.1 million so far this fiscal year. There was no recommended 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

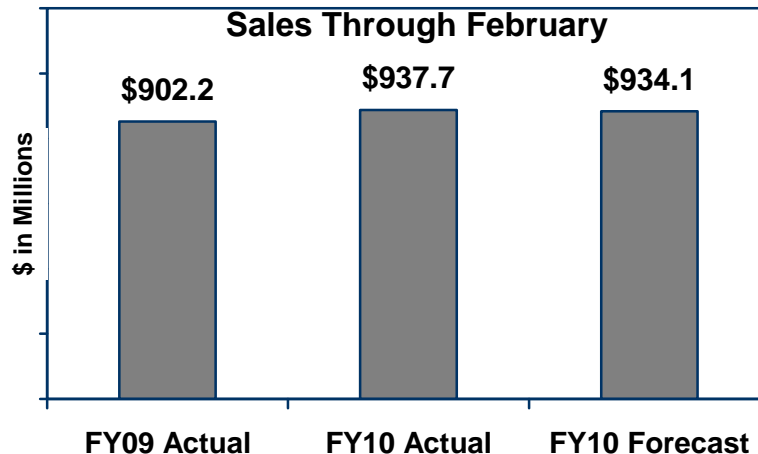
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
March 22, 2010

Sales

Lottery sales for the fiscal year totaled \$937.7 million through February, which was \$35.5 million (+3.9%) more than the prior year and \$3.6 million (+0.4%) more than forecast.

Scratcher sales of \$461.8 million were \$7.9 million (+1.7 %) higher than last year but \$2.8 million (-0.6%) lower than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$545,000 (+0.2%) from last year, but total \$4.5 million (-1.4%) below the forecast. With Powerball sales beginning January 31, 2010, sales of the jackpot games (Mega Millions, Powerball, and Win for Life) increased \$29.2 million (+23.2%) from last year, and stand \$9.7 million (+6.7%) higher than the forecast. This growth is due to higher advertised Mega Millions jackpots. Sales of Fast Play games were \$182,500 (+4.1%) higher than last year, and \$1.2 million (+36.2%) ahead of the forecast.



Expenses

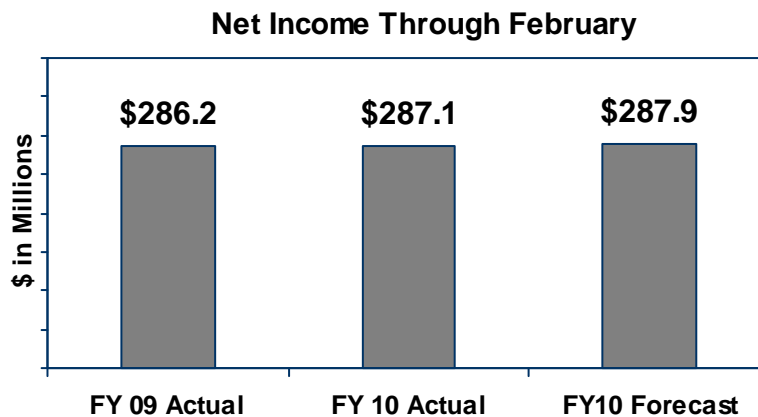
The overall prize expense rate (prizes as a percent of sales) through February was 58.6%, up 0.8% from last year's unusually low rate of 57.8%, and 0.3% higher than expected in the forecast. The scratcher prize rate of 67.5% was up compared to last year's rate of 67.2%, and slightly higher than the expected 67.2% for the year. The daily games prize rate of 49.9% was up significantly from last year's abnormally low 47.4% rate, and was slightly higher than statistically expected. Players have won prizes in the daily games products this fiscal year near the statistically expected levels, after an extended period of very low prize payouts over the past two fiscal years; this return to normalcy has positively influenced sales of these products, a category that represents one third of total lottery sales. Jackpot prize expense was 50.0%, up from last year's rate of 49.6%, and on par with the forecast.

With higher sales, retailers earned \$2.3 million more than last year, for a total \$52.6 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. 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, but \$890,000 lower than expected.

Net Income

Through February 2010, year to date profits totaled \$287.1 million, an increase of \$0.9 million (+0.3 %) compared to last year, but \$0.8 million (-0.3%) lower 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 \$764,148. Also, unclaimed prizes totaling \$7,196,998 were transferred to the Literary Fund for the first eight months of fiscal year 2010.

MEETINGS

The State Lottery Board held a regularly scheduled meeting on March 10, 2010. The next meeting of the Board will be May 19, 2010, in Richmond.