

October 28, 2011

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

Re: September 2011 Lottery Results

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of September 2011, as required in §58.1-4006 of the *Code of Virginia*.

Sales for the month of September totaled \$121.9 million, up \$7.9 million (+7.0%) compared to the same month last year. Lottery sales for the fiscal year through September totaled \$362.0 million, up \$15.2 million (+4.4%) compared to last year. Net income for the first quarter of the fiscal year totaled \$112.6 million, an increase of \$8.0 million (+7.7%) compared to last year. Scratcher tickets and Pick 4 continue to experience strong sales through the first three months of the fiscal year.

As always, the Lottery will participate in the statewide revenue forecasting process this fall, to determine whether an adjustment to the current \$435.9 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

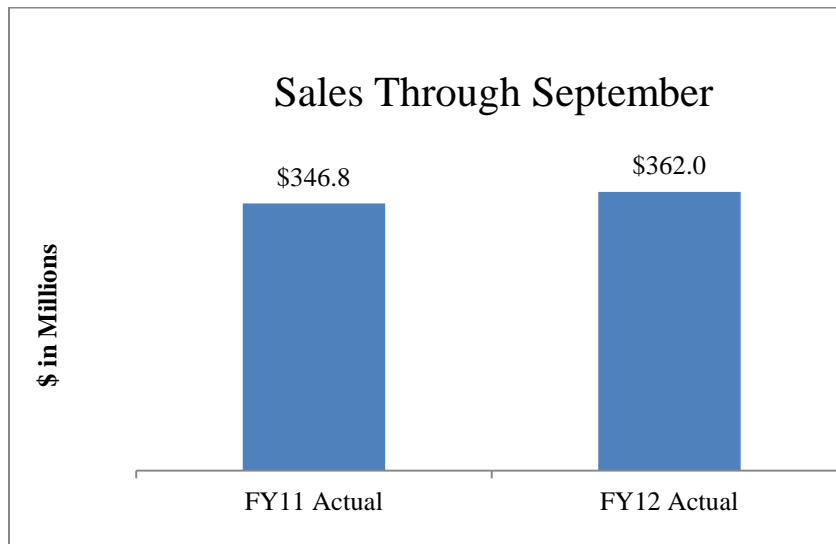
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
The Honorable Harry R. Purkey, Chairman, House Finance Committee
The Honorable Martin Kent, Chief of Staff, Office of the Governor
The Honorable Richard D. 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 28, 2011

Sales

Lottery sales for the fiscal year are \$362.0 million through September. This represents an increase of \$15.2 million (+4.4%) compared to the prior year.

Scratcher sales of \$190.2 million were \$13.1 million (+7.4%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) decreased \$1.6 million (-1.3%) from last year. Sales in our jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) experienced an increase of \$2.5 million (5.0%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$1.2 million (+75.4%) higher than last year.



Expenses

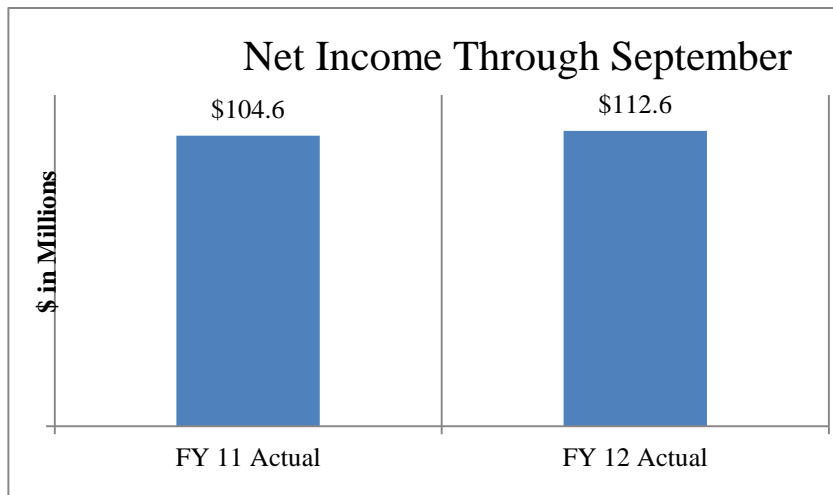
The overall prize expense rate (prizes as a percent of sales) through September was 59.3%, up 0.4% from last year's rate of 58.9%. The scratcher prize rate of 68.0% was up compared to last year's rate of 67.4%. The daily game prize rate of 49.9% (Pick 3, Pick 4 and Cash 5) was up compared to last year's unusually low rate of 48.5%. Jackpot prize expense was 48.8%, down from last year's unusually high rate of 53.5%. 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 higher sales, retailers earned \$571,000 more than last year, for a total \$20.5 million in earnings. Overall, retailers earned 5.7% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$3.5 million less than the same period last year. Administrative spending stands at 4.0% of sales for the year so far, an exceptionally low rate. The decrease is primarily because of accounting adjustments for the timing of expenditure recognition, but also reflects less advertising expenses in the first three months of fiscal year 2012 compared to fiscal year 2011. We expect fiscal year 2012 administrative costs to be similar to last year, about 5.5%, and well less than the 10% allowed by statute.

Net Income

Through September 2011, year to date profits totaled \$112.6 million, an increase of \$8.0 million (+7.7%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2012 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$325,612. Also, unclaimed prizes totaling \$2,207,444 were transferred to the Literary Fund for the first three months of fiscal year 2012.

MEETINGS

The State Lottery Board will hold its next board meeting on November 2, 2011, in Richmond.