

January 31, 2011

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

Re: December 2010 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of December totaled \$135.6 million, up \$12.5 million (+10.1 %) compared to the same month last year. Year to date sales totaled \$719.7 million, an increase of \$12.2 million (1.7%) from last year. Net income for the fiscal year through December totaled \$210.5 million, a decrease of \$7.5 million (-3.5%) compared to last year. The decline in net income, in spite of the increase in sales, is due primarily to higher prize expenses in the current fiscal year. The Lottery has awarded record prizes (\$431.6 million) through December.

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

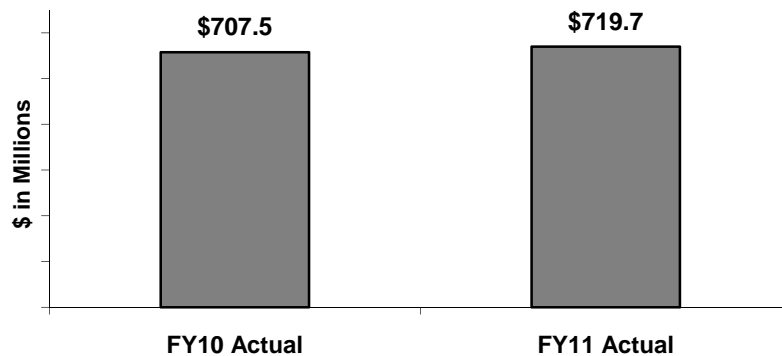
VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
January 31, 2011

Sales

Lottery sales for the fiscal year totaled \$719.7 million through December, which was \$12.2 million (1.7%) more than the prior year.

Scratcher sales of \$369.3 million were \$18.2 million (+5.2%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$3.1 million (+1.3%) from last year. Sales of the jackpot games (Mega Millions, Powerball, and Win for Life) decreased \$8.6 million (-7.2%) from last year. The jackpot game category experienced record sales during the first half of last year, because of high advertised jackpots. This year, by comparison, jackpot levels have been quite low with the exception of the Mega Millions jackpot run that ended with a \$380 million jackpot on January 4, 2011. The sales from this jackpot helped offset the shortfall in sales compared to last year. 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 \$417,000 (-11.9%) lower than last year.

Sales Through December



Expenses

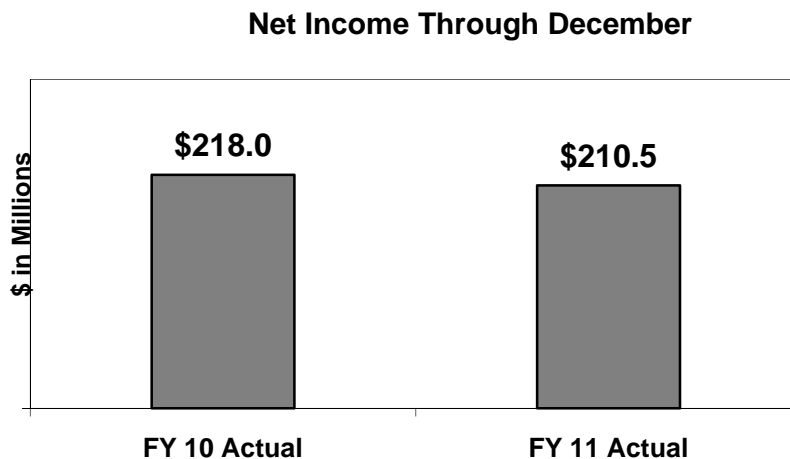
The overall prize expense rate (prizes as a percent of sales) through December was 60.0%, up 1.7% from last year's rate of 58.3%. The scratcher prize rate of 68.3% was up compared to last year's rate of 67.2%. The daily games prize rate of 50.4% was up from last year's 49.1% rate. Jackpot prize expense was 52.8%, up from last year's rate of 50.4%. 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 \$503,000 more than last year, for a total \$40.2 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 \$167,000 less than the same period last year. Administrative spending stands at 5.3% of sales for the year so far.

Net Income

Through December 2010, year to date profits totaled \$210.5 million, a decrease of \$7.5 million (-3.5%) 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 \$566,409. Also, unclaimed prizes totaling \$5,904,537 were transferred to the Literary Fund for the first six months of fiscal year 2011.

MEETINGS

The State Lottery Board held a regular business meeting in Richmond on January 12, 2011. The next meeting of the Board will be March 9, 2011, in Richmond.