

March 28, 2011

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

**Re: February 2011 Lottery Results**

Dear Governor McDonnell:

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

Sales for the month of February totaled \$123.8 million, up \$12.6 million (+11.0 %) compared to the same month last year. Year to date sales totaled \$975.6 million, an increase of \$37.9 million (+4.0%) from last year. Net income for the fiscal year through February totaled \$285.3 million, a decrease of \$1.7 million (-0.6%) compared to last year, and \$1.0 million (-0.3%) below forecast. 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 (\$586.1 million) to players this year.

We continue to monitor sales and profits, and continue to support the current 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

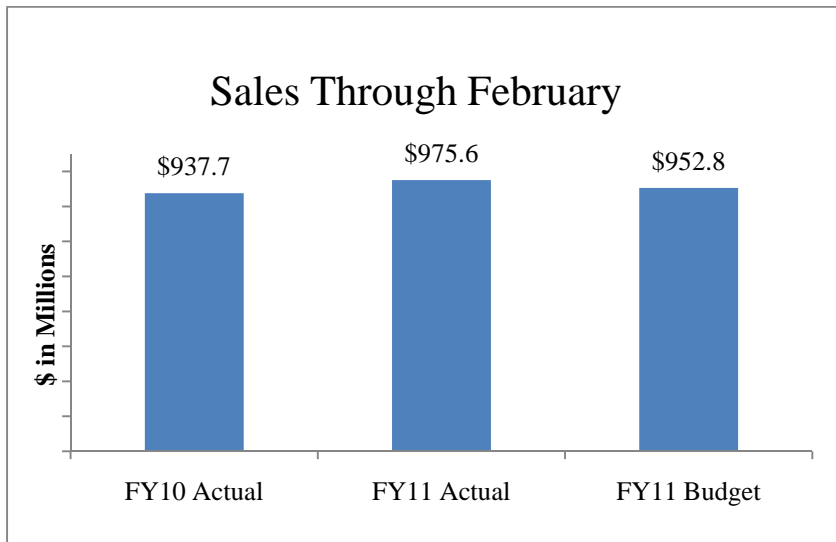
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee  
The Honorable Lacey E. Putney, Chairman, House Appropriations Committee  
The Honorable Harry R. Purkey, Chairman, House Finance Committee  
The Honorable Martin Kent, Chief of Staff, Office of the Governor  
The Honorable Richard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

Sales

Lottery sales for the fiscal year totaled \$975.6 million through February, which was \$37.9 million (+4.0%) more than the prior year and \$22.9 million (+2.4%) ahead of forecast.

Scratcher sales of \$494.2 million were \$32.4 million (+7.0%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$7.5 million (+2.4%) from last year. The Lottery introduced a new game to players in February – Decades of Dollars – where players have a chance twice weekly to win \$250,000 per year for 30 years. This game is a partnership with Georgia and Kentucky, and may include additional states in the future. Included in our jackpot games (Mega Millions, Powerball, Win for Life, and Decades of Dollars), this category saw an overall sales decline of \$2.2 million (-1.4%) compared to last year. Also in February, the Lottery introduced three new Fast Play games to the game portfolio. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$145,000 (+3.1%) higher than last year.



Expenses

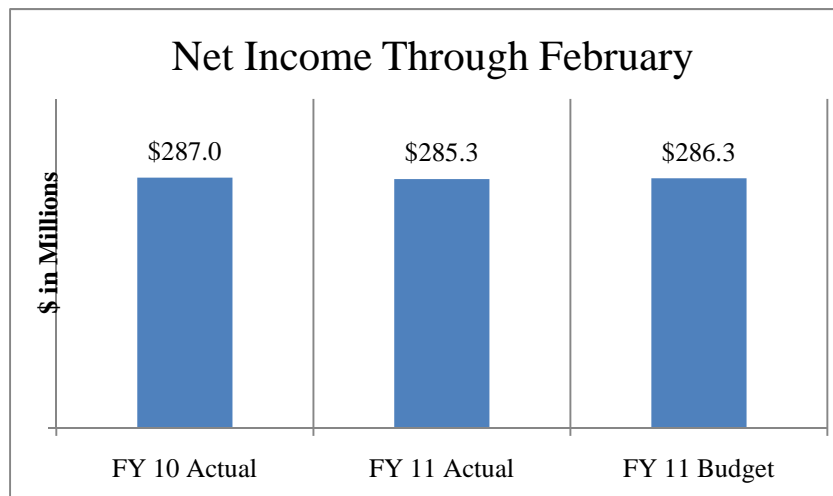
The overall prize expense rate (prizes as a percent of sales) through February was 60.1%, up 1.5% from last year's rate of 58.6% and 0.9% higher than the expected rate of 59.2%. The variation in the prize expense rate is significant – it is unusual for all product categories to experience higher than expected prize payout rates. The scratcher prize rate of 68.5% was up compared to last year's rate of 67.5%. The daily games prize rate of 51.1% was up from last year's 49.9% rate. Jackpot prize expense was 52.0%, up from last year's rate of 50.0%. 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 \$2.2 million more than last year, for a total \$54.8 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 \$339,000 more than the same period last year. The increase is due primarily to the higher sales and associated contractual expenses. Administrative spending stands at 5.2% of sales for the year so far.

### Net Income

Through February 2011, year to date profits totaled \$285.3 million, a decrease of \$1.8 million (-0.6%) compared to last year and \$1.0 million (-0.3%) below forecast.



### 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 \$889,710. Also, unclaimed prizes totaling \$7,499,751 were transferred to the Literary Fund for the first eight months of fiscal year 2011.

### MEETINGS

The State Lottery Board held their meeting on March 9, 2011, in Richmond. The Board elected the new slate of officers for the 2011 calendar year, with Mr. Gilliam M. Cobbs chairman and Ms. Susan Smith Feaster vice-chairman.

The next Board meeting will be on May 18, 2011, in Richmond. The Board will welcome its newest member, Mr. Albert H. Poole, appointed to the Board earlier this month.