

February 29, 2012

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

Re: January 2012 Lottery Results

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of January 2012, as required in §58.1-4006 of the *Code of Virginia*.

Sales for the month of January, totaled \$129.8 million, down \$2.4 million (-1.8%) compared to the same month last year. Year to date sales totaled \$895.6 million, an increase of \$43.8 million (+5.1%) compared to last year and \$17.9 million (+2.0%) ahead of the revised forecast. Net income for the fiscal year through January totaled \$266.1 million, an increase of \$16.7 million (+6.7%) compared to last year, and \$9.3 million (+3.6%) ahead of forecast. Scratcher tickets, in particular, continue to experience strong sales growth through the first seven months of the fiscal year.

The Lottery participated in the statewide revenue forecasting process, and the Caboose Bill includes a revised estimate of \$454.4 million (+\$18.5 million) in total transfers to the Lottery Proceeds Fund for fiscal year 2012. This increase includes \$9 million in additional revenues from FY11 and \$10 million in additional revenue from FY12 sales. In addition, based on the strong sales and profits already earned, both the House and Senate amendments to the FY12 budget include an additional \$7 million in anticipated lottery profits for the current year.

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

Very truly yours,

Paula I. Otto

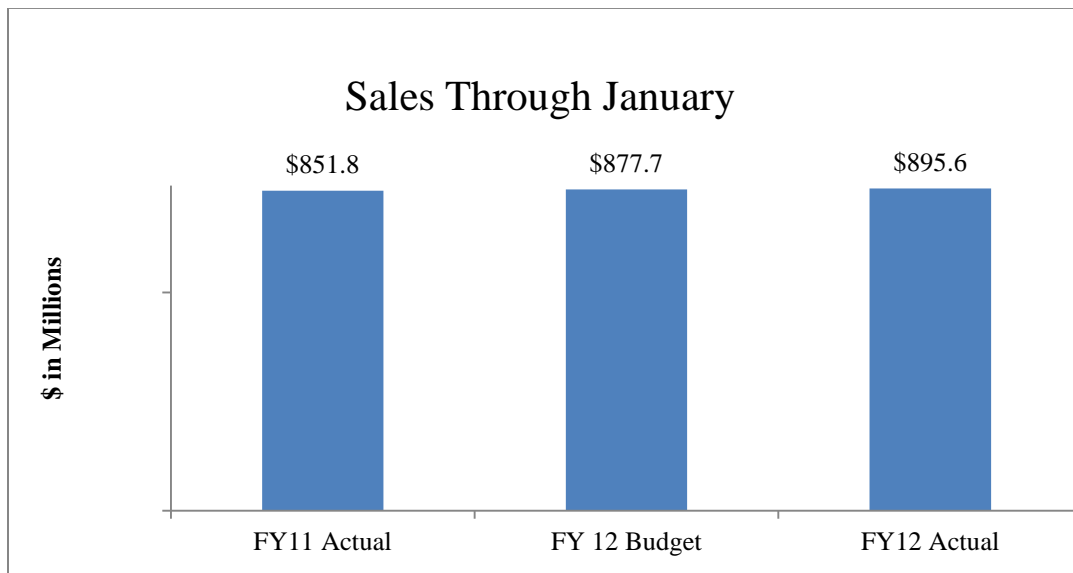
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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 29, 2012

Sales

Lottery sales for the fiscal year totaled \$895.6 million through January. This represents an increase of \$43.8 million (+5.1%) compared to the prior year, and \$17.9 million (+2.0%) more than originally forecast.

Scratcher sales of \$471.0 million were \$41.6 million (+9.7%) higher than last year, accounting for most of the overall sales increase. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased slightly, up \$3.7 million (+1.3%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) decreased \$4.3 million (-3.2%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$2.8 million (+77.3%) higher than last year because of the timing of product availability in this category. New Year's Raffle was a sellout totaling \$6.6 million, the same as last year.



Expenses

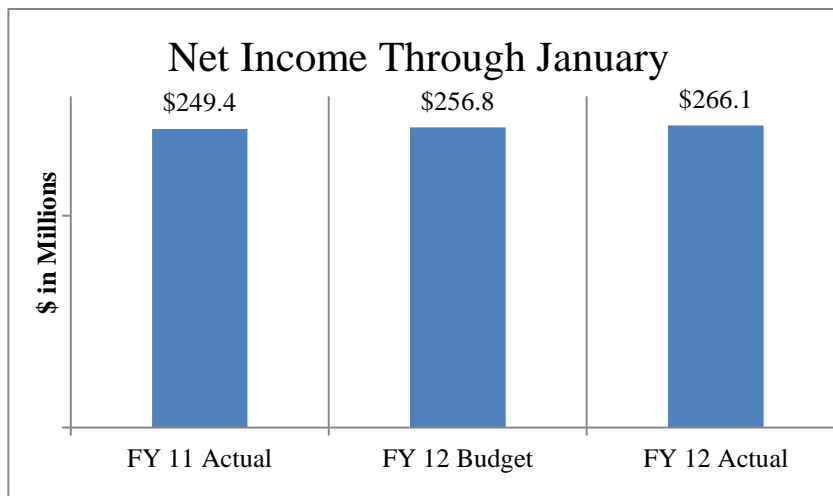
The overall prize expense rate (prizes as a percent of sales) through January was 60.0%, the same as last year's rate. The scratcher prize rate of 67.8 % was lower than last year's rate of 68.3%. The daily games prize rate of 52.4% was 1.2% higher than last year's rate of 51.2%. The jackpot games prize expense rate was 48.9%, lower than last year's unusually high rate of 52.4%. 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 \$2.8 million more than last year, for a total \$50.6 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 \$1.7 million less than the same period last year. Administrative spending stands at 4.8% 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 half 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 January 2012, year to date profits totaled \$266.1 million, an increase of \$16.7 million (+6.7%) compared to last year and \$9.3 million (+3.6%) more than originally forecast.



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 \$899,889. Also, unclaimed prizes totaling \$6,478,083 were transferred to the Literary Fund for the first seven months of fiscal year 2012.

MEETINGS

The Lottery Board will hold its next meeting on March 28, 2012, in Richmond. Included on the agenda will be a discussion of the increased revenue estimate for fiscal year 2012, as reflected in both the House and Senate versions of the budget.