

March 27, 2012

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

Re: February 2012 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of February, totaled \$143.1 million, up \$19.3 million (+15.6%) compared to the same month last year and the Lottery's 3rd highest sales month on record, supported largely by a Powerball jackpot roll to over \$300 million during the month. Year to date sales totaled \$1,038.7 million, an increase of \$63.1 million (+6.5%) compared to last year and \$33.5 million (+3.3%) ahead of the revised forecast. Net income for the fiscal year through February totaled \$312.6 million, an increase of \$27.3 million (+9.5%) compared to last year, and \$11.8 million (+3.9%) ahead of forecast. Scratcher tickets, in particular, continue to experience record sales growth through the first eight months of the fiscal year.

The Lottery participated in the statewide revenue forecasting process, and the Caboose Bill now includes a revised estimate of \$461.4 million available to the Lottery Proceeds Fund for FY 12. This increase includes \$9 million in additional revenues from FY11 and \$17 million in additional revenue from FY12 sales. This additional \$17 million includes recent amendments to the House and Senate budgets to reflect very strong sales in January and February 2012.

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

Very truly yours,

Paula I. Otto

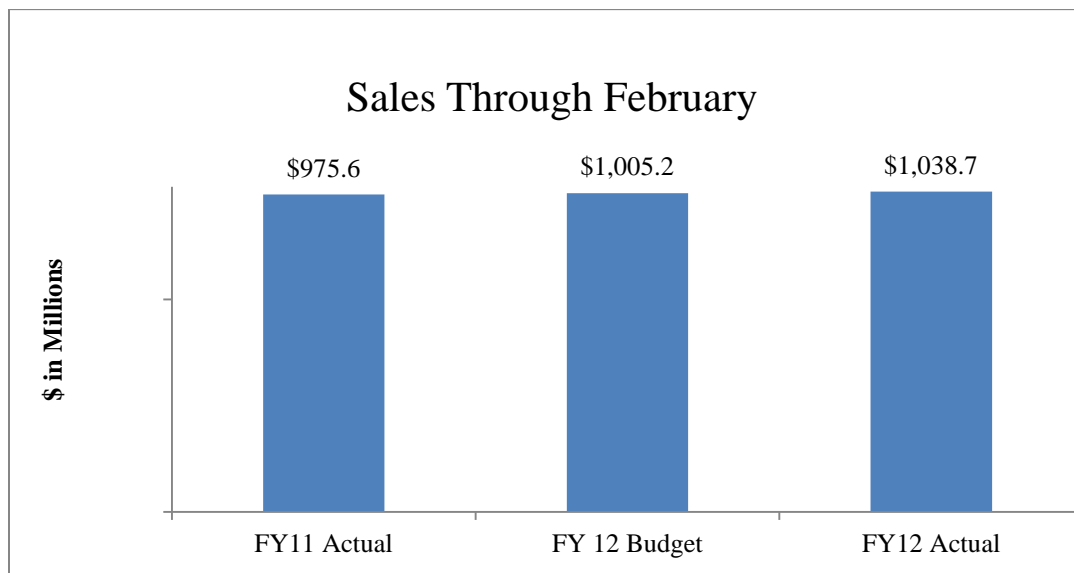
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
March 27, 2012

Sales

Lottery sales for the fiscal year totaled \$1,038.7 million through February. This represents an increase of \$63.1 million (+6.5%) compared to the prior year, and \$33.5 million (+3.3%) more than originally forecast.

Scratcher sales of \$546.2 million were \$52.0 million (+10.5%) 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 \$6.8 million (+2.1%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased \$1.3 million (+0.9%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$2.9 million (+60.8%) higher than last year because of the timing of product availability in this category.



Expenses

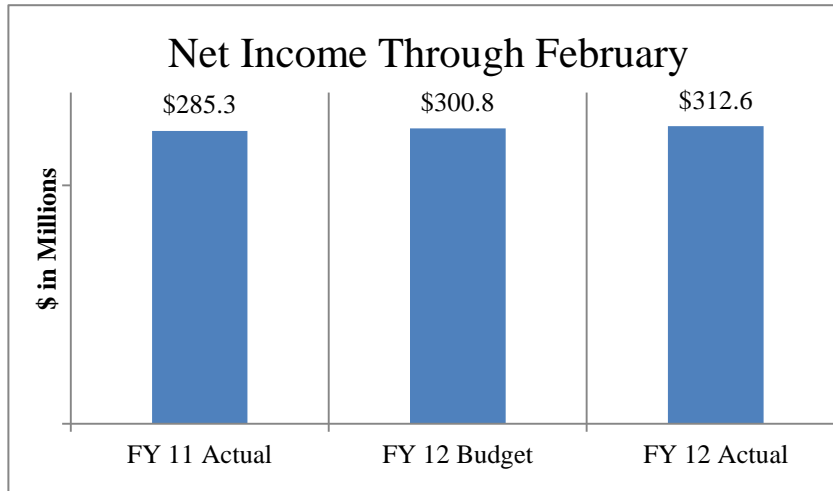
The overall prize expense rate (prizes as a percent of sales) through February was 59.8%, less than last year's rate of 60.1%. The scratcher prize rate of 67.9% was lower than last year's rate of 68.5%. The daily games prize rate of 51.6% was 0.5% higher than last year's rate of 51.1%. The jackpot games prize expense rate was 48.6%, lower than last year's unusually high rate of 52.0%. 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 \$3.6 million more than last year, for a total \$58.4 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 \$2.2 million less than the same period last year. Administrative spending stands at 4.7% 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 lower than last year's rate of 5.5%, and well less than the 10% allowed by statute.

Net Income

Through February 2012, year to date profits totaled \$312.6 million, an increase of \$27.3 million (+9.5%) compared to last year and \$11.8 million (+3.9%) more than 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 \$1,048,968. Also, unclaimed prizes totaling \$8,221,754 were transferred to the Literary Fund for the first eight 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.