

January 12, 2012

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

Re: November 2011 Lottery Results

Dear Governor McDonnell:

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

Sales for the month of November totaled \$128.8 million, up \$10.8 million (+9%) compared to the same month last year. Year to date sales totaled \$616.0 million, an increase of \$31.9 million (+5.4%) compared to last year and \$4.8 million (+0.8%) ahead of the revised forecast. Net income for the fiscal year through November totaled \$179.1 million, an increase of \$1.8 million (+1.0%) compared to last year, and \$1.7 million (+0.9%) ahead of forecast. Scratcher tickets, Powerball and Pick 4 continue to experience strong sales through the first five months of the fiscal year.

The Lottery participated in the statewide revenue forecasting process, and your 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.

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

Very truly yours,

Paula I. Otto

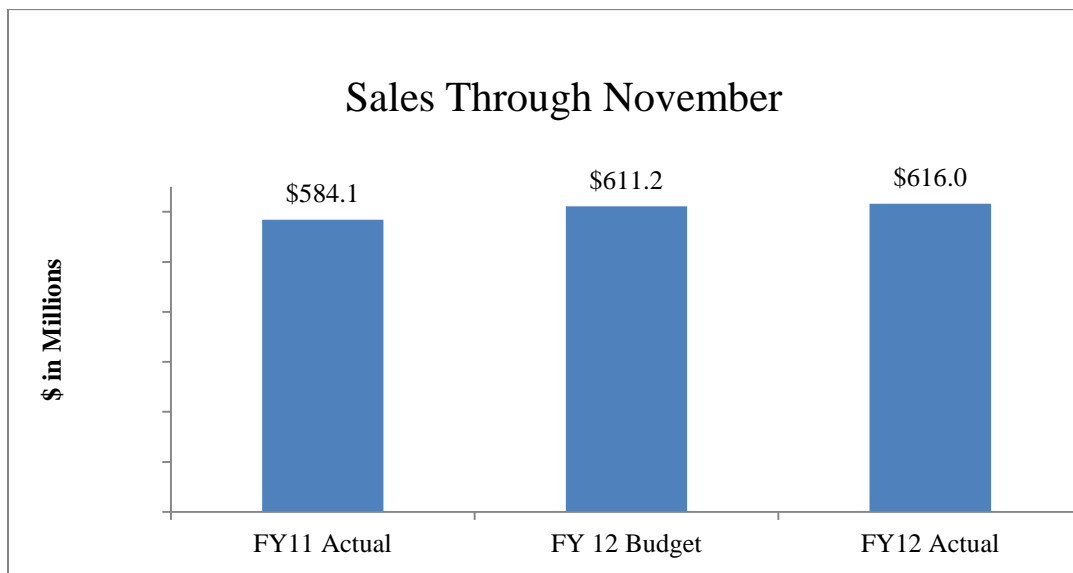
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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 12, 2012

Sales

Lottery sales for the fiscal year totaled \$616.0 million through November. This represents an increase of \$31.9 million (+5.4%) compared to the prior year, and a \$4.8 million (0.8%) ahead of forecast

Scratcher sales of \$326.6 million were \$26.7 million (+8.9%) higher than last year, accounting for the vast majority of the overall sales increase. Sales of daily games (Pick 3, Pick 4, and Cash 5) decreased slightly \$690,000 (-0.4%) from last year. Sales in our jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) experienced an increase of \$3.9 million (+4.6%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$1.9 million (+75.0%) higher than last year because of the timing of product availability in this category.



Expenses

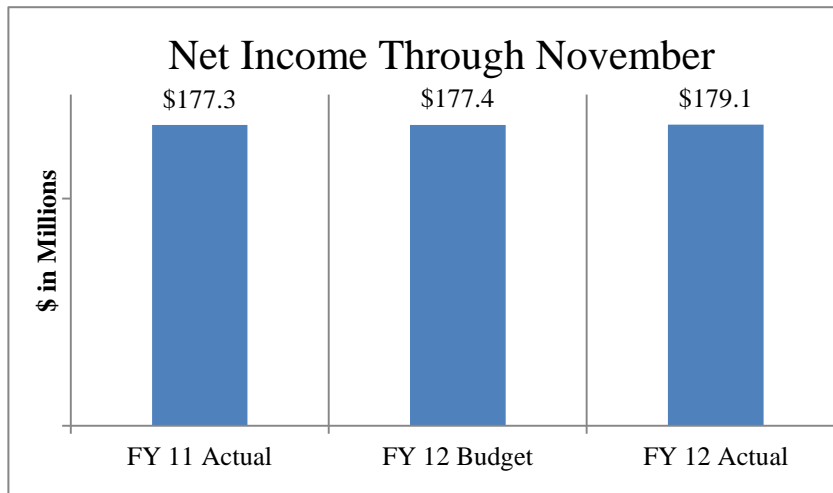
The overall prize expense rate (prizes as a percent of sales) through November was 60.6%, up 1.8% from last year's rate of 58.8%. The scratcher prize rate of 68.0% was the same as last year's rate. The daily game prize rate of 53.7% (Pick 3, Pick 4 and Cash 5) was up compared to last year's rate of 48.0%. Jackpot prize expense was 48.9%, down from last year's unusually high rate of 51.5%. 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 \$2.3 million more than last year, for a total \$35.0 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 \$1.9 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 quarter 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 November 2011, year to date profits totaled \$179.1 million, an increase of \$1.8 million (+1.0%) compared to last year and \$1.7 million (+0.9%) 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 \$615,434. Also, unclaimed prizes totaling \$3,738,697 were transferred to the Literary Fund for the first five months of fiscal year 2012.

MEETINGS

The Lottery Board will hold its next meeting on January 18, 2012, in Richmond.