

March 19, 2013

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

**Re: February 2013 Lottery Results**

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of February 2013, as required in §58.1-4006 of the *Code of Virginia*.

February sales totaled \$134.7 million, down \$8.4 million (-5.8%) compared to the same month last year; recall that February 2012 included one additional sales day because of leap year. Lottery sales for the current fiscal year through February totaled \$1,080.2 million, up \$41.5 million (+4.0%) compared to last year. Net income for the eight months totaled \$316.4 million, an increase of \$3.8 million (+1.2%) compared to last year. Scratcher, Pick 3, Pick 4, Cash 5 and Powerball sales were strong through the first eight months of the fiscal year.

The Lottery continues to monitor and evaluate sales and profits, striving for efficiencies and strong profits in support of K-12 public education. While year to date results are good, February sales and profits were lower than expected due to low jackpots and higher than expected prize payouts in Pick 3 and Pick 4. In particular, Pick 4 players won \$6 million in prizes from the February 28<sup>th</sup> drawing, the second time this fiscal year when players won \$6 million in prizes from a quadruple hit (5-5-5-5 in October 2012; 4-4-4-4 in February 2013). With odds of a quadruple hit equal to 1 in 1,000, we expect a quadruple hit about once every year and a half.

We continue to remind readers that lottery sales and profits have seasonal fluctuations, variances from jackpot size, and swings resulting from player luck of the draw. To the extent possible, our forecasts account for these factors. Comparisons to forecast included in this letter refer to the increased (\$487.3 million) estimate for total transfers for 2013 fiscal year. While we expect our profits to fall behind last year's earnings at the end of March (recall the phenomenal earnings from last March with the \$656 million Mega Millions jackpot), we do expect to meet our revised FY2013 income projections.

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

Very truly yours,

Paula I. Otto

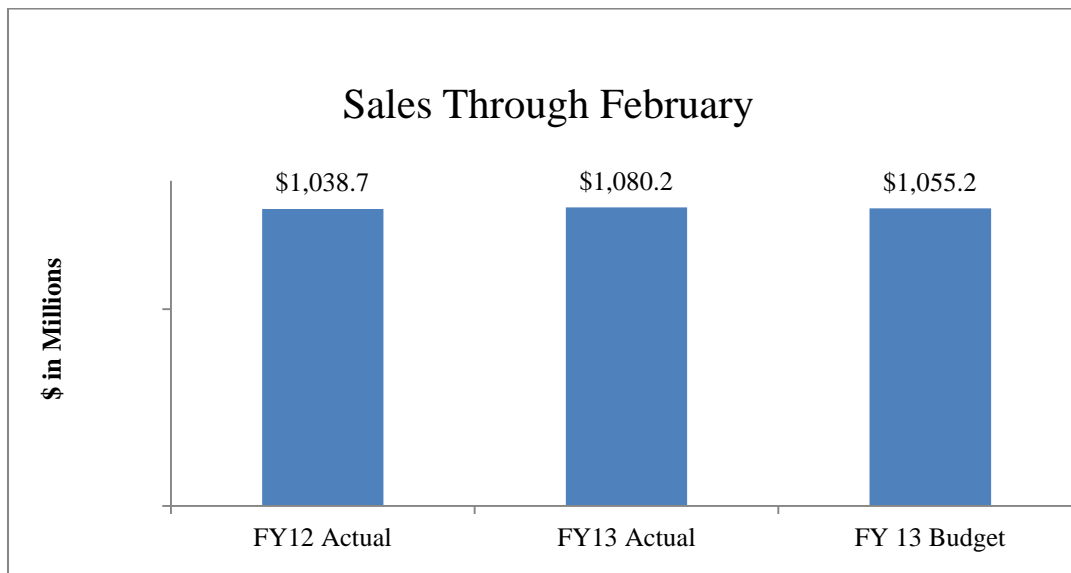
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
- Albert H. Poole, Chairman, Virginia Lottery Board

**VIRGINIA LOTTERY**  
**Report to the Governor and**  
**Selected Members of**  
**the General Assembly**  
**March 19, 2013**

Sales

Lottery sales for the fiscal year totaled \$1,080.2 million through February. This represents an increase of \$41.5 million (+4.0%) compared to the prior year and \$25.0 million (+2.4%) more than forecast.

Scratcher sales of \$569.3 million were \$23.1 million (+4.2%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$6.7 million (+2.1%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased \$10.4 million (+6.7%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$1.0 million (+13.2%) higher than last year.



Expenses

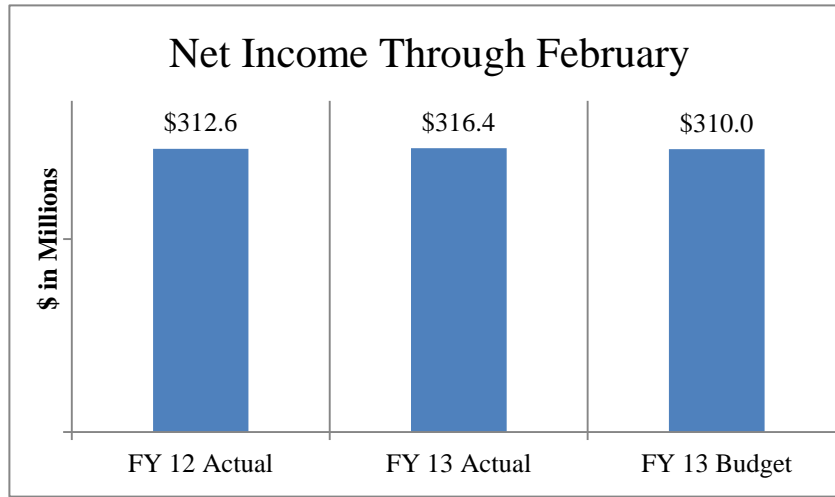
The overall prize expense rate (prizes as a percent of sales) through February was 60.1%, higher than last year's rate of 59.8% and higher than the forecast rate of 59.7%. The scratcher prize rate of 67.8% was slightly lower than last year's rate of 67.9%. The daily games prize rate of 51.3% was lower than last year's rate of 51.6%. The jackpot games prize expense rate was 50.9%, higher than last year's rate of 48.6%. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With higher sales, retailers earned \$2.7 million more than last year, for a total \$61.1 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 \$5.9 million more than the same period last year, primarily due to timing issues, rebranding efforts and technology investments. Administrative spending stands at 5.0% of sales for the year so far, well below the 10% allowed by statute.

### Net Income

Through February 2013, year to date profits totaled \$316.4 million, an increase of \$3.8 million (+1.2 %) compared to last year and \$6.4 million (+2.0%) more than anticipated in the revised forecast.



### CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2013 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$975,002. Also, unclaimed prizes totaling \$6,932,507 were transferred to the Literary Fund for the first eight months of fiscal year 2013.

### MEETINGS

The next Board meeting is scheduled for April 17, 2013, in Richmond.