

January 9, 2013

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

Re: November 2012 Lottery Results

Dear Governor McDonnell:

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

November sales totaled \$152.1 million, up \$17.8 million (+13.3%) compared to the same month last year. Lottery sales for the fiscal year through November totaled \$671.0 million, up \$55.0 million (8.9%) compared to last year and \$26.8 million more than forecast (+4.2%). Net income for the five months totaled \$202.4 million, an increase of \$23.3 million (+13.0%) compared to last year and \$14.6 million (+7.8%) more than forecast. The Lottery had its largest Powerball jackpot in November, reaching \$587.5 million and contributing nearly \$8 million in unexpected profits. Scratcher, Pick 3, Pick 4, Cash 5 and Powerball sales were strong through the first five 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. Preliminary reviews of December sales and profits indicate lower than expected results, due to low jackpots and higher than expected prize payouts. Sales of the annual Millionaire Raffle were also less than forecast, which will be reflected in January results. We continue to caution readers not to take year-to-date variances and add them to prior year results, because 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.

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

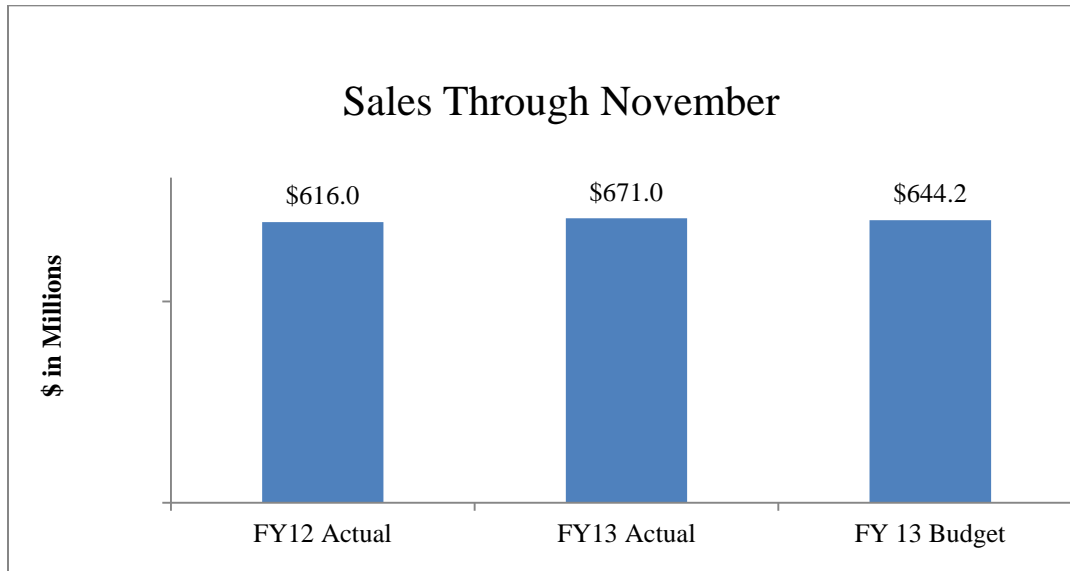
c: The Honorable Richard D. Brown, Secretary of Finance
Daniel S. Timberlake, Director, Department of Planning & Budget
David A. Von Moll, State Comptroller
Elizabeth B. Daley, Staff Director, Senate Finance Committee
Robert P. Vaughn, Staff Director, House Appropriations Committee
Albert H. Poole, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
January 9, 2013

Sales

Lottery sales for the fiscal year totaled \$671.0 million through November. This represents an increase of \$55.0 million (+8.9%) compared to the prior year and \$26.8 million (+4.2%) more than forecast.

Scratcher sales of \$345.2 million were \$18.6 million (+5.7%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased, up \$9.8 million (+5.1%) from last year. With the largest jackpot ever in Powerball, sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased, up \$25.8 million (+28.6%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$771,000 (+17.0%) higher than last year.



Expenses

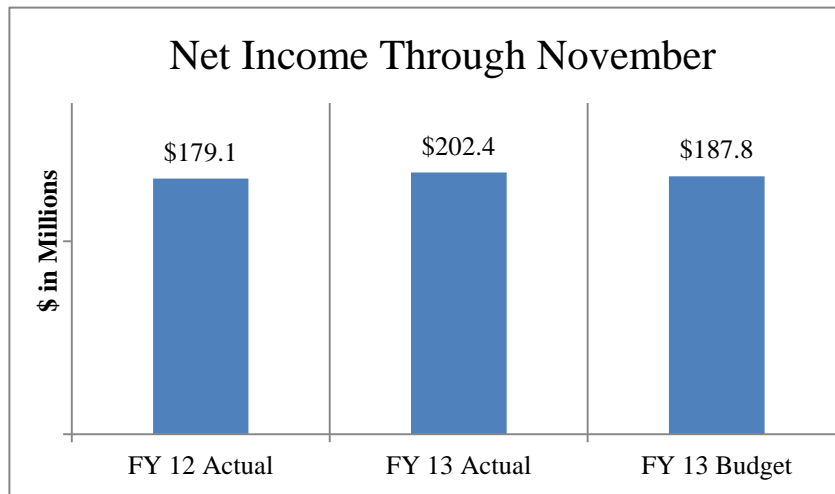
The overall prize expense rate (prizes as a percent of sales) through November was 59.2%, lower than last year's rate of 60.2% and lower than the forecast rate of 59.6%. The scratcher prize rate of 67.6% was lower than last year's rate of 68.0%. The daily games prize rate of 50.1% was lower than last year's rate of 53.7%. The jackpot games prize expense rate was 50.0%, higher than last year's rate of 48.9%. 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 \$2.5 million more than last year, for a total \$37.5 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 \$5.6 million more than the same period last year, primarily due to timing issues, rebranding efforts and technology investments. Administrative spending stands at 5.2% of sales for the year so far, well below the 10% allowed by statute.

Net Income

Through November 2012, year to date profits totaled \$202.4 million, an increase of \$23.3 million (+13.0%) compared to last year and \$14.6 million (+7.8%) 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 \$597,053. Also, unclaimed prizes totaling \$4,137,756 were transferred to the Literary Fund for the first five months of fiscal year 2012.

MEETINGS

The January meeting of the Board will be January 9, 2013, in Richmond. The Board will receive nominations for officers for the calendar year. The next meeting is scheduled for April 17, 2013.