

November 26, 2012

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

Re: October 2012 Lottery Results

Dear Governor McDonnell:

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

October sales totaled \$134.3 million, up \$9.9 million (+7.9%) compared to the same month last year. Lottery sales for the fiscal year through October totaled \$518.9 million, up \$31.6 million (6.5%) compared to last year. However, players had very good luck in October, driving prize expense up and profits for the month down. Net income for the four months totaled \$153.0 million, an increase of \$3.4 million (+2.2%) compared to last year. Scratcher, Pick 3, Pick 4, Cash 5 and Powerball sales were strong through the first four months of the fiscal year.

The Lottery continues to participate in the statewide revenue forecasting process, and continues to strive for efficiencies and strong profits in support of K-12 public education. Our revenue estimate is the best possible information for sales and profits, using the best available economic data and mathematical modeling techniques. 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. 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

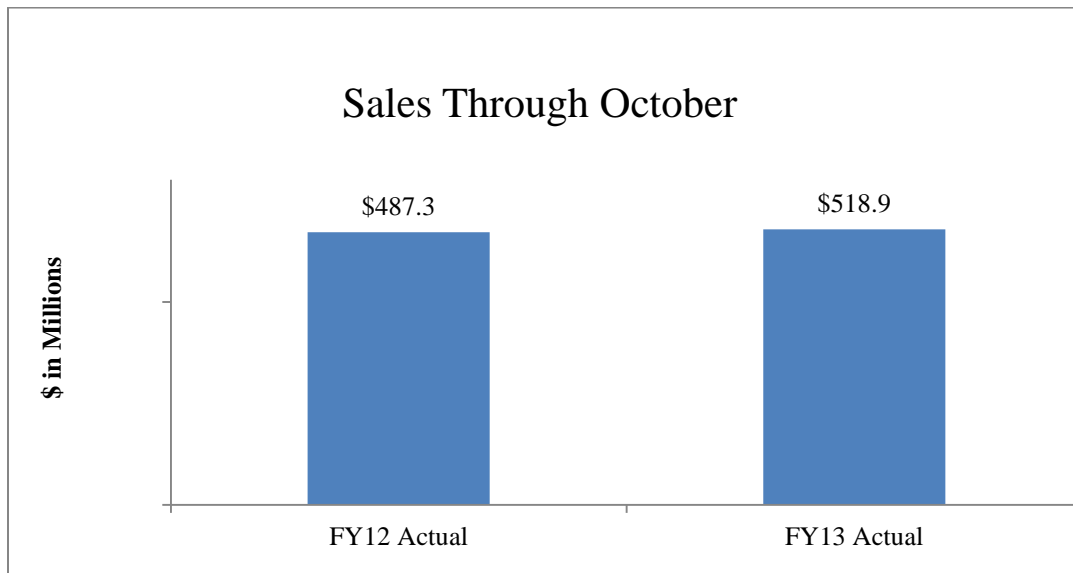
c: The Honorable Richard D. Brown, Secretary of Finance
Daniel S. Timberlake, Director, Department of Planning & Budget
David A. Von Moll, State Comptroller
Elizabeth B. Daley, Staff Director, Senate Finance Committee
Robert P. Vaughn, Staff Director, House Appropriations Committee
Albert H. Poole, Chairman,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

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
November 26, 2012

Sales

Lottery sales for the fiscal year totaled \$518.9 million through October. This represents an increase of \$31.6 million (+6.5%) compared to the prior year.

Scratcher sales of \$275.0 million were \$18.4 million (+7.2%) higher than last year, accounting for more than half of the overall sales increase. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased, up \$7.3 million (+4.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased slightly, up \$5.3 million (+7.4%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$599,000 (+16.5%) higher than last year.



Expenses

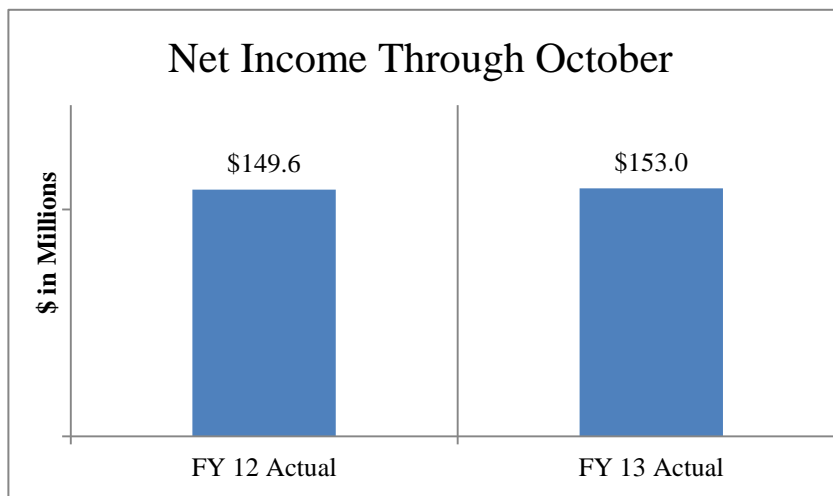
The overall prize expense rate (prizes as a percent of sales) through October was 59.8%, higher than last year's rate of 59.3%. The scratcher prize rate of 67.3 % was lower than last year's rate of 67.9%. The daily games prize rate of 51.9% was higher than last year's rate of 49.9%. In October, Pick 4 players won a record \$16.5 million in prizes, with several highly popular number combinations drawn during the month. The jackpot games prize expense rate was 49.5%, higher than last year's rate of 49.0%. 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 \$1.3 million more than last year, for a total \$29.0 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 \$5.7 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 October 2012, year to date profits totaled \$153.0 million, an increase of \$3.4 million (+2.2%) compared to last year.



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 \$482,840. Also, unclaimed prizes totaling \$3,289,878 were transferred to the Literary Fund for the first four months of fiscal year 2012.

MEETINGS

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