

January 25, 2013

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

Re: December 2012 Lottery Results

Dear Governor McDonnell:

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

December sales totaled \$140.9 million, down \$8.9 million (-6.0%) compared to the same month last year. Lottery sales for the fiscal year through December totaled \$811.9 million, up \$46.1 million (+6.0%) compared to last year and \$29.7 million more than forecast (+3.8%). Net income for the six months totaled \$238.6 million, an increase of \$15.6 million (+7.0%) compared to last year and \$12.1 million (+5.4%) more than forecast. Scratcher, Pick 3, Pick 4, Cash 5 and Powerball sales were strong through the first six 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 strong, December sales and profits were lower than expected 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.

During its January 9th meeting, the Lottery Board reviewed sales and profits and recommended a \$7 million increase in expected transfers to the Lottery Proceeds Fund for fiscal year 2013. This increase would make \$487.3 million available to the Lottery Proceeds Fund, for distribution by the Department of Education. No adjustments were recommended for fiscal year 2014 expected profits. 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 original (\$480.3 million) estimate for total transfers; future comparisons will refer to the increased (\$487.3 million) estimate reflected by the Governor's amendments.

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

Very truly yours,

Paula I. Otto

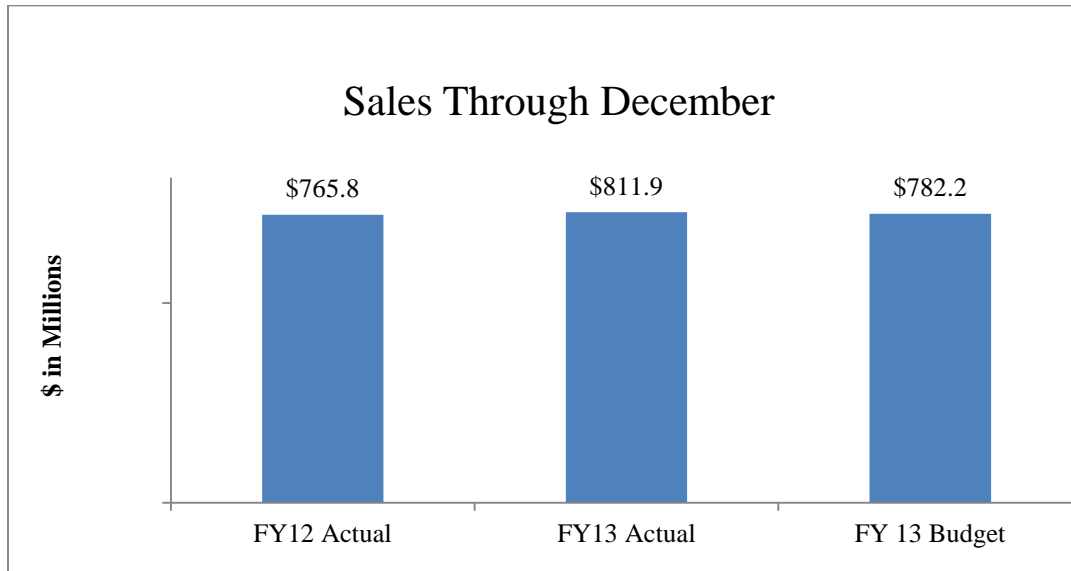
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
January 25, 2013

Sales

Lottery sales for the fiscal year totaled \$811.9 million through December. This represents an increase of \$46.1 million (+6.0%) compared to the prior year and \$29.7 million (+3.8%) more than forecast.

Scratcher sales of \$425.1 million were \$18.6 million (+4.6%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased, up \$8.1 million (+3.3%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased, up \$18.4 million (+16.4%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$0.9 million (+16.6%) higher than last year.



Expenses

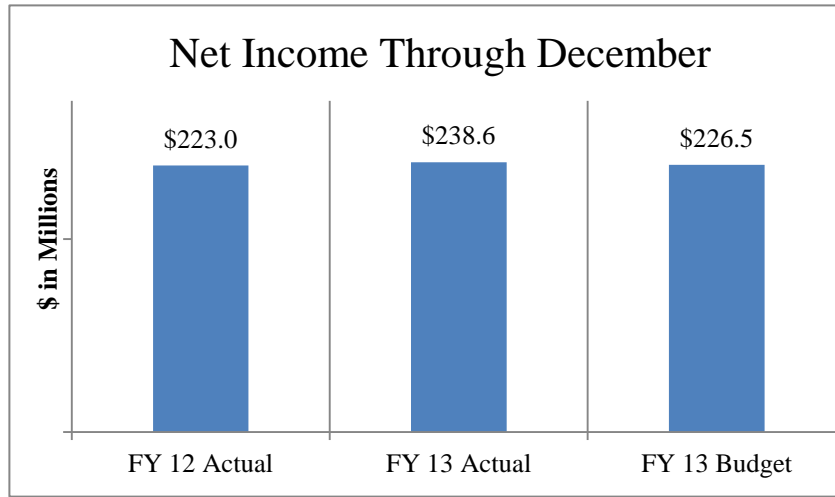
The overall prize expense rate (prizes as a percent of sales) through December was 59.8%, lower than last year's rate of 60.7% and slightly lower than the forecast rate of 59.9%. The scratcher prize rate of 67.9% was lower than last year's rate of 68.1%. The daily games prize rate of 50.5% was lower than last year's rate of 53.4%. The jackpot games prize expense rate was 51.3%, higher than last year's rate of 49.3%. 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 \$2.2 million more than last year, for a total \$45.6 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 \$6.6 million more than the same period last year, primarily due to timing issues, rebranding efforts and technology investments. Administrative spending stands at 5.3% of sales for the year so far, well below the 10% allowed by statute.

Net Income

Through December 2012, year to date profits totaled \$238.6 million, an increase of \$15.6 million (+7.0%) compared to last year and \$12.1 million (+5.4%) 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 \$684,965. Also, unclaimed prizes totaling \$5,044,021 were transferred to the Literary Fund for the first six months of fiscal year 2012.

MEETINGS

The January meeting of the Board was held on January 9, 2013, in Richmond. The Board elected Mr. Albert Poole to remain chairman for the year, with Ms. Cynthia Lawrence serving as vice chairman for the 2013 calendar year. The Board also recognized Mr. David Hallock for his years of service on the Board; his second term expired on January 15, 2013. The next meeting is scheduled for April 17, 2013, in Richmond.