

January 28, 2014

The Honorable Terence R. McAuliffe
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, Virginia 23219

Re: December 2013 Lottery Results

Dear Governor McAuliffe:

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

December sales totaled \$173.7 million the second highest sales month in our 25 year history, up \$32.8 million (+23.3%) compared to the same month last year. The Lottery had its second largest Mega Millions jackpot in December (\$648 million). Lottery sales for the fiscal year through December totaled \$892.1 million, up \$80.2 million (+9.9%) compared to last year and \$26.6 million more than forecast (+3.1%). Net income for the first six months totaled \$275.6 million, an increase of \$37.0 million (+15.5%) compared to last year and \$28.6 million (+11.6%) more than forecast. Sales in Scratch, Pick 3, Pick 4 and Fast Play continue to experience strong sales this fiscal year.

The Lottery initiated the first transfer of profits to the Lottery Proceeds Fund for FY2014 in December, as called for in the Appropriations Act. Transfers will continue to occur monthly throughout the remainder of the year. 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.

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

Very truly yours,

Paula I. Otto

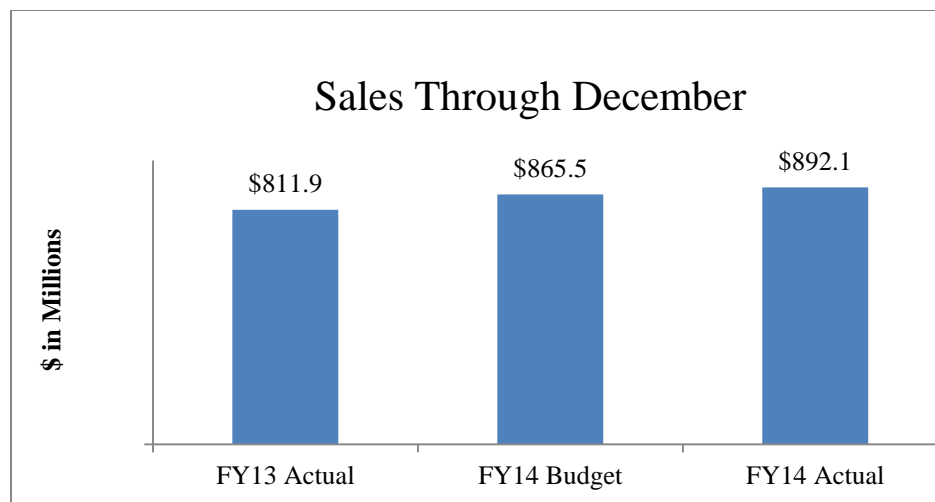
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Paul Reagan, Chief of Staff, Office of the Governor
- The Honorable Richard 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
- Cynthia D. Lawrence, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
January 28, 2014

Sales

Lottery sales for the fiscal year totaled \$892.1 million through December. This represents an increase of \$80.2 million (+9.9%) compared to the prior year and \$26.6 more (+3.1%) than forecast.

Scratcher sales of \$471.6 million were \$46.5 million higher (+10.9%) than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$18.6 million (+7.4%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) were \$12.1 million higher (+9.2%) compared to last year. Sales of Fast Play games, a category that represents about 1% of total sales, were \$3.1 million higher (+47.9%) than last year.



Expenses

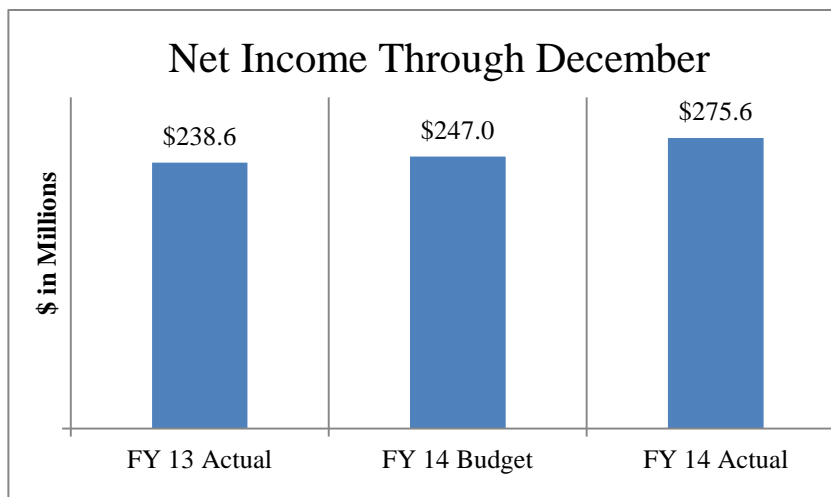
The overall prize expense rate (prizes as a percent of sales) through December was 58.8%, lower than last year's rate of 59.8% and lower than the forecast rate of 60.6%. The scratcher prize rate of 68.6% was higher than last year's rate of 67.9%. The daily games prize rate of 46.6% was lower than last year's rate of 50.5%. The jackpot games prize expense rate was 49.1%, lower than last year's rate of 51.3%. 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 \$3.8 million more than last year, for a total \$49.4 million in earnings. Overall, retailers earned 5.5% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming system, ticket printing and distribution expenses, were \$303,000 more than the same period last year. Administrative spending stands at 4.8% of sales for the year so far.

Net Income

Through December 2013, year to date profits totaled \$275.6 million, an increase of \$37.0 million (+15.5%) compared to last year and \$28.6 million (+11.6%) more than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2014 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$789,589. Also, unclaimed prizes totaling \$5,920,942 were transferred to the Literary Fund for the first six months of fiscal year 2014.

MEETINGS

The Board held a regular business meeting in Richmond on January 14, 2014, during which the Board elected officers for the calendar year. Ms. Cynthia D. Lawrence will serve as Chair of the Board, and Mr. Kevin D. Smith will serve as Vice-Chair of the Board. The next meeting of the Board will be April 23, 2014, in Richmond.