

March 27, 2015

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

Re: February 2015 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of February 2015, as required in §58.1-4006 of the *Code of Virginia*.

February sales totaled \$156.8 million, bringing the fiscal year to date total to \$1,220.6 million. Cumulative sales were up \$35.3 million (+3.0%) compared to last year, but just \$5.6 million (+0.5%) stronger than the forecast.

Net income for February totaled \$46.8 million, bringing the fiscal year to date total to \$353.9 million. Cumulative net income was \$13.1 million (-3.6%) less than last year, but \$11.6 million (+3.3%) more than forecast. The decline in profits compared to last year is the direct result of higher prize payouts, particularly in the daily games; last year's prize expense rate was unusually low, while the current year's rate is more statistically normal. Profits are stronger than forecast, mainly from lower than expected administrative spending at this point in the year, mainly due to timing differences related to advertising and promotional expenses.

The forecast for the remainder of the fiscal year expects continued strength in sales and profits; however, as I reported last month, some national game initiatives that were included in the Lottery sales and profit forecast have been altered and will not result in sales and profits this fiscal year. In consultation with the Lottery Board, we continue to revise our business plans to adjust to these national changes, and continue to work diligently to meet our forecast as included in the current budget bill. March and April are critical sales and profit months for the Lottery; the strong jackpot sales experienced in February helped offset the negative effects of the winter precipitation experienced statewide. However, with both national game jackpots restarting in March and the decreased store traffic as a result, sales so far in March have been behind forecasted levels. Our annual profit projections, while currently ahead of expectations, continue to track very close to the annual figure included in the budget.

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

Very truly yours,

Paula I. Otto

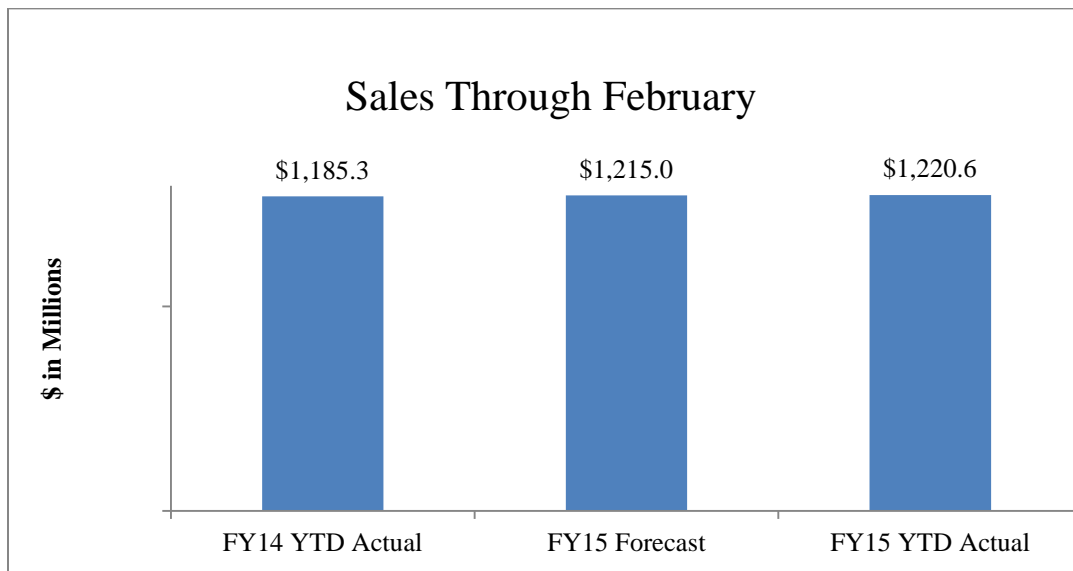
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
 The Honorable S. Chris Jones, Chairman, House Appropriations Committee
 The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
 The Honorable Paul Reagan, Chief of Staff, Office of the Governor
 The Honorable Richard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

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
March 27, 2015

Sales

Lottery sales totaled \$1,220.6 million through February. This represents an increase of \$35.3 million (+3.0%) compared to last year.

Scratcher sales of \$666.3 million were \$35.2 million (+5.3%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were up \$23.2 million (+6.6%) compared to last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, Moneyball, and Decades of Dollars) declined by \$25.8 million (-13.6%) when compared to last year; last year, the advertised jackpots for Mega Millions and Powerball were significantly higher than this year – a primary influencer of sales for those products. During the same period last fiscal year, there were 9 drawings for jackpots of \$300 million or greater; this year there have been only 4, with 3 of those occurring in February. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$2.7 million (+21.3%) higher than last year.



Expenses

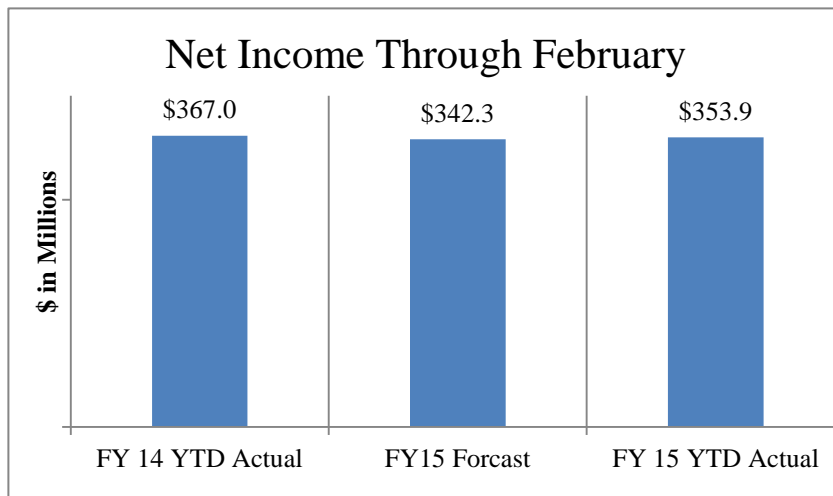
The monthly prize expense rate (prizes as a percent of sales) for February was 60.0%, higher than the 59.3% rate last February. For the current year to date, prizes represented 60.7% of sales, compared to 58.7% last year. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, over the long-term, prize rates reflect outcomes more in line with statistical expectations.

Retailers earned \$69.2 million or 5.7% of sales so far this year.

Operating costs, including online gaming, ticket printing and distribution expenses, were \$0.7 million lower than the same period last year, stable at 4.7% of sales.

Net Income

Profits in February 2015 totaled \$46.8 million, and \$353.9 million for the year to date. Cumulative profits declined from last year because of the overall higher prize expense rate and lower sales in the more profitable jackpot-style games.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

During February, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$160,385, and unclaimed prizes totaling \$915,355 were transferred to the Literary Fund. Year to date, debt setoff collections total \$1,289,978 and Literary Fund transfers total \$8,943,521.

MEETINGS

The Board conducted a regular meeting in Richmond on March 25, 2015. The next meeting is scheduled for July 15, in Richmond.