

January 29, 2015

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

Re: December 2014 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of December 2014, as required in §58.1-4006 of the *Code of Virginia*.

December sales totaled \$168.7 million, down \$5.0 million (-2.9%) compared to the same month last year. Cumulative sales totaled \$906.0 million, up \$13.9 million (+1.6%) compared to last year. Compared to the forecast for the first half of the fiscal year, sales were slightly ahead (+0.2%) of expectations.

Net income for the December totaled \$47.3 million, \$5.8 million less than (-10.9%) the same month last year. For the fiscal year to date, net income totaled \$257.1 million, down \$18.5 million (-6.7%) compared to last year. The decline in profits is the direct result of higher prize payouts, particularly in the daily games; last year's prize expense rate was unusually low. Compared to the forecast for the first half of the fiscal year, profits were less than 2% stronger than expected, mainly due to the timing of advertising spending.

The forecast for the remainder of the fiscal year expects continued strength in sales and profits; however, some national game initiatives there 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.

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

Very truly yours,

Paula I. Otto

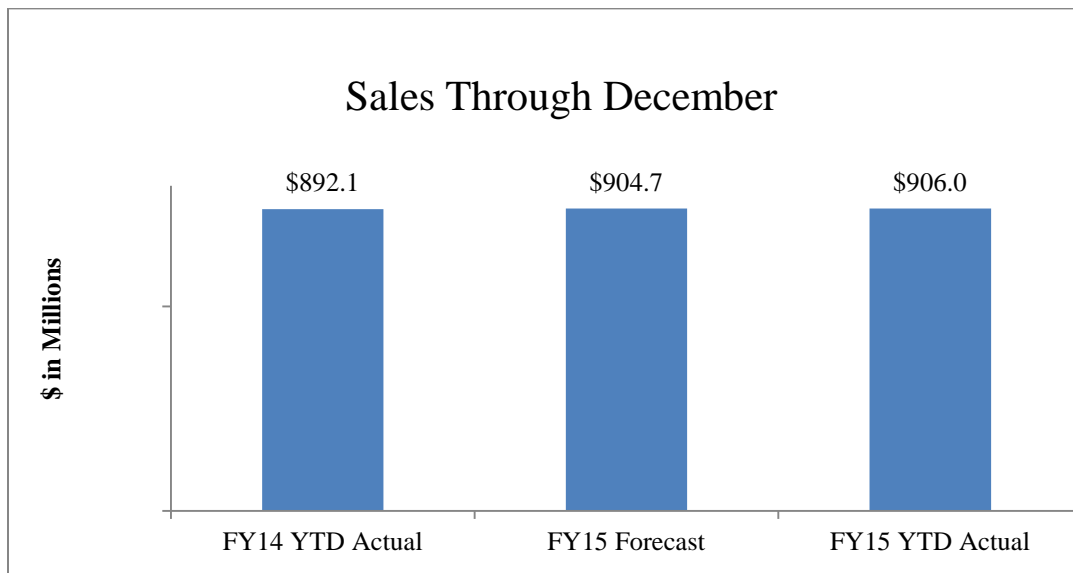
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
The Honorable Paul Reagan, Chief of Staff, Office of the Governor
The Honorable Richard D. Brown, 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
January 29, 2015

Sales

Lottery sales totaled \$906.0 million through December. This represents an increase of \$13.9 million (+1.6%) compared to last year.

Scratcher sales of \$505.6 million were \$34.0 million (+7.2%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were up \$14.8 million (+5.5%) compared to last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, Moneyball, and Decades of Dollars) declined by \$36.8 million (-25.7%) 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 first half of last fiscal year, there were seven drawings for jackpots of \$300 million or greater; this year, there has been only one drawing for a jackpot of \$300 million or greater. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$1.9 million (+19.9%) higher than last year.



Expenses

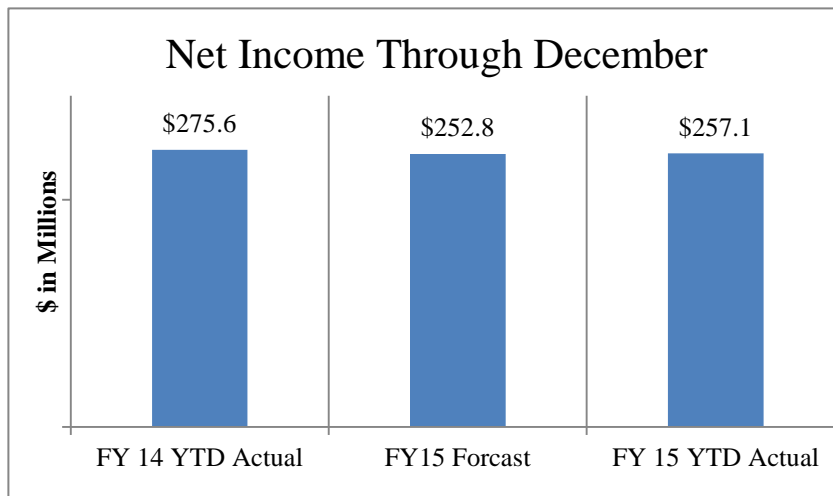
The overall prize expense rate (prizes as a percent of sales) for December was 61.9%, higher than the 59.5% rate last December. For the current year to date, prizes represented 61.3% of sales, compared to 58.8% last year. It is important to note that significant fluctuations in prize expense rates occur 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 \$51.3 million or 5.7% of sales so far this year.

Operating costs, including online gaming, ticket printing and distribution expenses, were \$0.4 million lower than the same period last year, stable at 4.7% of sales.

Net Income

Profits in December 2014 totaled \$47.3 million and \$257.1 million for the year to date. Cumulative profits declined from last year because of the overall higher prize expense rate and lower than anticipated sales in the jackpot style games.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

During December, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$160,341, and unclaimed prizes totaling \$757,290 were transferred to the Literary Fund. Year to date, debt setoff collections total \$948,494 and Literary Fund transfers total \$6,559,092.

MEETINGS

The Board held its regular business meeting in Richmond on January 14, 2015, and elected new officers for the year. Mr. Fred Helm will serve as Board Chair, and Mr. Bob Howard will serve as Vice Chair. The Board also welcomed Ms. Cynthia Lawrence to another term after her official reappointment. The next meeting of the Board will be March 25, 2015, in Richmond. This is a regularly scheduled business meeting of the Board.