

April 27, 2007

The Honorable Timothy M. Kaine  
Governor  
Commonwealth of Virginia  
Patrick Henry Building, 3<sup>rd</sup> floor  
Richmond, VA 23219

Dear Governor Kaine:

I am pleased to provide our report of monthly activities and the financial update for the month of March 2007, as required in Section 58.1-4006 of the *Code of Virginia*.

Sales for the month of March 2007 set a new monthly record of \$138.6 million, an increase of \$19.9 million (+17 %) compared to March 2006. For the year to date, sales totaled \$1,017.1 million, which was \$30.5 million (-3%) less than the same period last year. March net income totaled \$46.2 million, for year to date earnings of \$321.6 million, down \$25.6 million (-7%) compared to the same period last year.

Compared to the Lottery forecast, year to date sales of \$1,017.1 million are \$43.6 million (+4%) ahead of projections. All product categories are ahead of sales projections, with jackpot sales ahead of budget for the first time all year, spurred by the March record-setting \$390 Mega Millions jackpot. Net income of \$321.6 million through March was \$20.0 million ahead of projections, as a result of strong sales supported by the introduction of Sunday daily games drawings and Fast Play Bingo.

Fiscal Year 2007 continues to reflect an overall decline in total sales compared to the prior year, as originally anticipated when comparing Virginia Lottery sales pre- and post-launch of the North Carolina Education Lottery. However, the decline in scratcher ticket sales, the product comprising more than half of all Virginia Lottery sales, has steadily slowed. The January launch of Sunday drawings for daily game products has helped offset the sales reduction attributed to the NC Lottery competitive offerings, and the February 4, 2007, launch of Fast Play Bingo provided a new product offering for players. The last new product introduction of the fiscal year, Virginia's Millionaire Raffle, went on sale April 15, 2007. This limited-time game is expected to generate over \$6 million in sales this fiscal year, and will make three lucky players millionaires after the June 2007 drawing. The new game and expanded

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product offerings, combined with solid performance of long standing games, will bring another record-setting sales year within reach for the Virginia Lottery. Because of higher prize expenses, however, we do not expect FY07 to be a record year for profits. The Virginia Lottery will continue to creatively address the challenges created by this new competition, particularly along the North Carolina border.

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

Very truly yours,

Sheila Hill-Christian

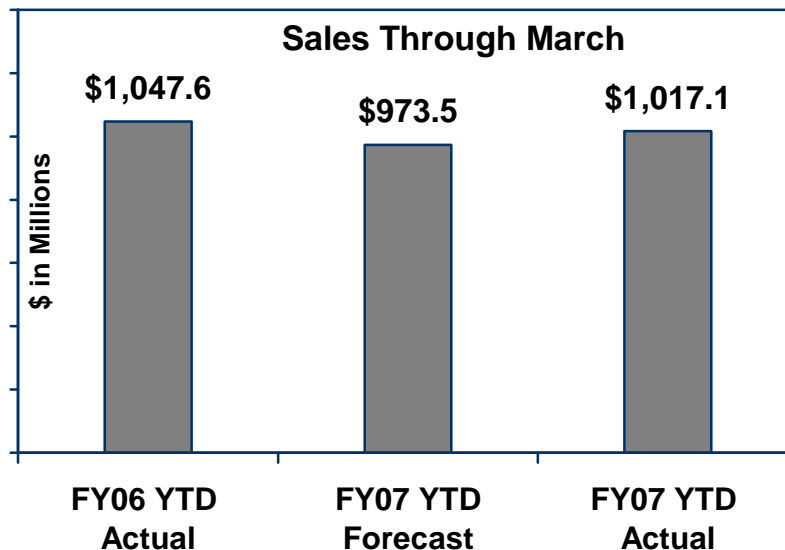
c: The Honorable John H. Chichester, Chairman – Senate Finance Committee  
The Honorable Vincent F. Callahan, Jr., Chairman – House Appropriations Committee  
The Honorable Harry R. Purkey, Acting Chairman – House Finance Committee  
The Honorable William H. Leighty, Chief of Staff – Office of the Governor  
The Honorable Jody M. Wagner, Secretary of Finance  
Mr. Richard D. Brown, Director – Department of Planning & Budget  
Mr. David A. Von Moll, State Comptroller  
Ms. Elizabeth B. Daley, Staff Director – Senate Finance Committee  
Mr. Robert P. Vaughn, Staff Director – House Appropriations Committee

**VIRGINIA LOTTERY**  
**Report to the Governor and**  
**Selected Members of**  
**the General Assembly**  
**April 27, 2007**

Sales

Lottery sales for the fiscal year through March 2007 were \$1,017.1 million, which was \$30.5 million (-2.9%) less than during the same period last year. Increased sales in the daily games products (Pick 3, Pick 4, and Cash 5) of \$4.8 million were not sufficient to offset the \$2.4 million decline in Scratcher sales (-0.5%) and \$41.8 million decline in Jackpot sales. Approximately 20% of jackpot sales have historically come from North Carolina players, so the increased competition from North Carolina's Powerball offering and the high frequency of jackpot wins combined to create the significant decline. The introduction of Fast Play Bingo added nearly \$9 million to total product sales, helping to offset the decline in jackpot sales.

Compared to the forecast, total sales were \$43.6 million (+4.5%) higher than projected through March, primarily due to the introduction of Sunday drawings for daily games and the launch of Fast Play Bingo. All product category sales are ahead of forecast for the first time this year. Scratcher ticket sales are \$9.4 million (+1.8%) ahead of forecast for the first three quarters. Daily game product sales are up \$16.3 million or 4.9% over forecast, and jackpot sales of Mega Millions and Win For Life are \$9.0 million or 7.3% ahead of forecast. Fast Play Bingo sales added nearly \$9 million to the sales surplus for the first three quarters. Notably, total sales crossed the \$1 billion threshold just two weeks later than last year.



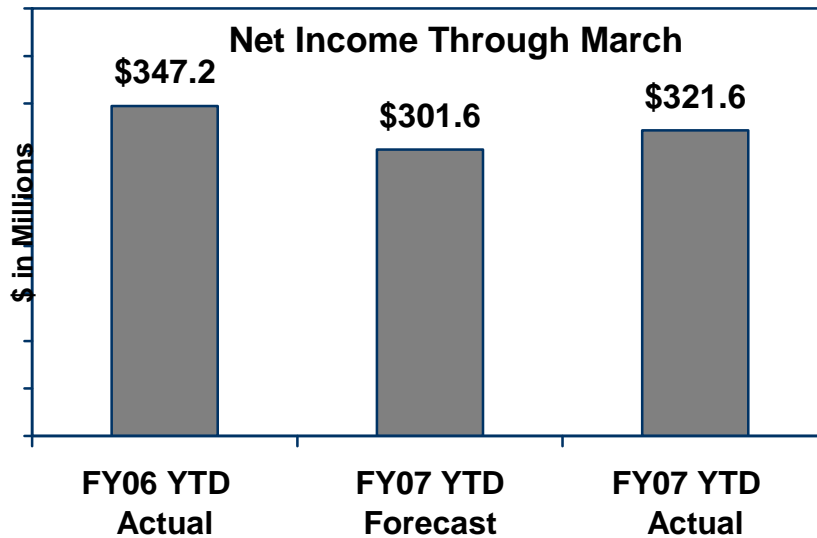
### Expenses

The overall prize expense rate (prize expense as a percent of sales) of 58.3% was 1.4% higher than last year, but slightly lower (-0.2%) than forecast for the year. The scratcher prize rate of 66.3% was higher than last year (+0.4%), but 0.3% lower than forecast. The most significant variance in prize rates occurred with the daily games – for the year to date, the daily games prize rate of 50.4% was 4.0% higher than last year and 1.1% higher than statistical expectations.

With the overall sales decline, retailers earned nearly \$0.7 million less than last year; however, the compensation rate for the year so far stands at 5.6%, slightly ahead (+0.1%) of last year. Administrative operating costs were \$0.4 million more than during the same period last year as a result of advertising support for the new product offerings this year. The overall administrative spending rate of 5.0% for the year is higher than last year's rate of 4.9% during the same period, but less than the 5.5% forecast.

### Net Income

The overall sales decline (-2.9%) combined with higher prize expenses (+1.4%) resulted in net income through March of \$321.6 million, down \$25.6 million (-7.4%) compared to last year at this point. Compared to the forecast, net income was \$20.0 million (+6.6) ahead of forecast for this point in the year, due to stronger sales (+4.5%) and lower operating expenses (-0.5%).



### CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Pursuant to the Setoff Debt Collection Act, the Lottery made payments to the Department of Taxation totaling \$116,652 in March, bringing the year-to-date total to \$926,906. Also, the Lottery transferred unclaimed prizes of \$1,283,867 in March, or \$8,586,627 for the year.

## NORTH CAROLINA EDUCATION LOTTERY UPDATE

The North Carolina Education Lottery (NCEL) began selling scratch tickets on March 30, 2006, and the multi-state jackpot game Powerball tickets on May 30, 2006. The NCEL also began offering daily Carolina Pick 3 games on October 6, 2006, and Carolina Cash 5 on October 27, 2006. North Carolina daily games offer drawings seven days a week.

With the North Carolina Education Lottery fully operational for an entire year, the table below shows the localities most affected by comparing annual sales before versus after the launch of lottery product sales in North Carolina. Education Lottery. Based on the period of July 1<sup>st</sup>, 2006 through March 15<sup>th</sup>, 2007, the five counties on the North Carolina border with the greatest percentage sales loss versus the same period in the prior year are:

Total % Change	City or County	Total \$ Change
-51%	Carroll	-\$8,879,180
-45%	Greensville	-\$4,888,038
-34%	Mecklenburg	-\$9,678,193
-33%	Henry	-\$6,636,549
-28%	Grayson	-\$584,513

## MEETINGS

The State Lottery Board held a regularly scheduled business meeting on Wednesday April 4, 2007, in Richmond. The Board reviewed financial results and upcoming games as part of their regular business.