

December 6, 2007

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

Dear Governor Kaine:

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

Sales for the month of October 2007 totaled nearly \$106 million, an increase of \$2 million (+2%) from last month, but a decline of \$2 million (-2%) compared to October 2006. For the year to date, sales totaled just over \$446 million, which was \$25.6 million (+6%) more than the same period last year. October net income totaled nearly \$37 million, for year to date earnings of \$157.5 million, up nearly \$25 million (+19%) compared to the same period last year.

Fiscal Year 2008 has begun with very strong profits, primarily from the strength of Mega Millions sales resulting from the unusually strong jackpot growth during the period and very unusually low prize expenses for the daily games products. While sales are not as strong as forecast, net income is outpacing the forecast because of the lower than expected prize expense rates. We continue to monitor our sales and profits in accordance with the revised forecast.

Significantly, the Lottery's nearly 5,000 retail partners statewide began selling products via the new lottery network of systems and equipment on Sunday October 28, 2007. While we continue to work through performance and systems issues, we are optimistic that the new system and availability of increased equipment for both player and retailer convenience will result in strong Lottery sales. This project has been an ongoing initiative of the Lottery for over two years, and work will continue over the next several months. We appreciate the continued support and patience of our retailer partners and our players during this exceptional period.

I am proud to serve in your administration during this interim period, until a permanent Lottery Director is appointed. In the meantime, please let me know if you have any questions or if you would like more information.

Very truly yours,

Frank S. Ferguson

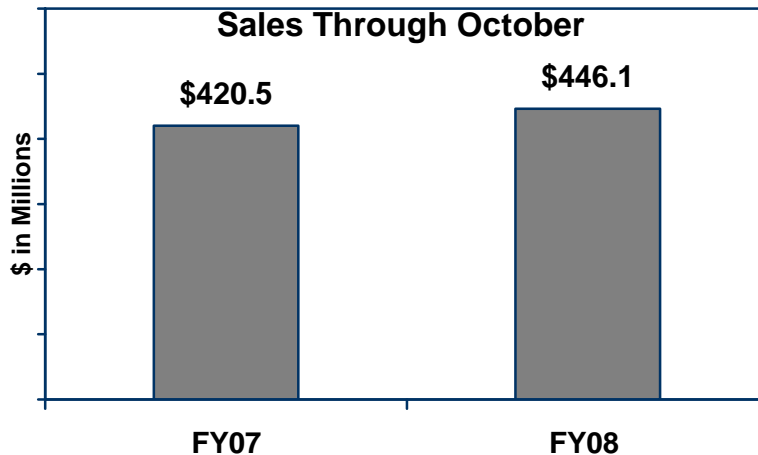
- c: The Honorable John H. Chichester, Chairman – Senate Finance Committee
The Honorable Vincent F. Callahan, Jr., Chairman – House Appropriations Committee
The Honorable Harry R. Purkey, Acting Chairman – House Finance Committee
The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
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
December 6, 2007

Sales

Lottery sales for the 2008 fiscal year through October totaled \$446.1 million, which was \$25.6 million (+6%) more than the prior year.

Scratcher sales were nearly equal to last year, down \$0.2 million compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales increased \$4.9 million or 3% over last year due to the addition of Sunday drawings in January 2007. Sales of the jackpot games, Mega Millions and Win for Life, increased \$18.0 million (+36%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year.

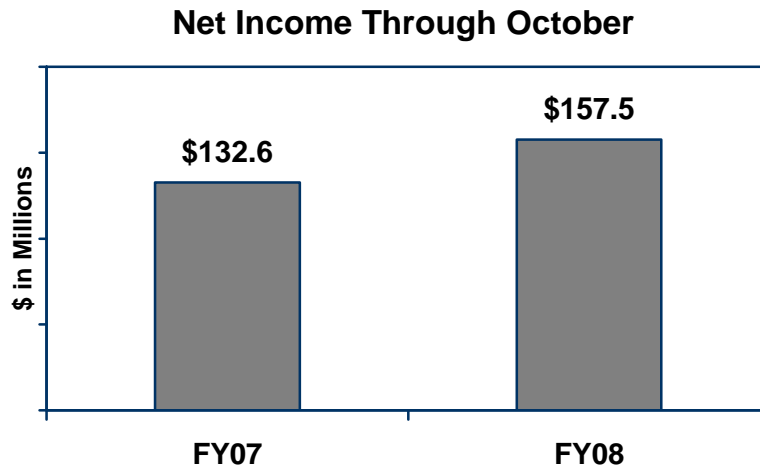


Expenses

The luck of the draw continued to dampen overall prize expense rates, with daily games' prizes totaling only 41.0% of sales. Overall, prizes comprised 55.0% of total sales, compared to 58.1% of sales for the same period in FY2007. Retailer compensation increased \$1.4 million due to the increase in sales, with the retailer compensation rate steady at 5.5%. Operating expenses totaled \$20.7 million, a slight decline of \$0.3 million compared to FY2007.

Net Income

The lower overall prize expense rate combined with sales increases resulted in net income of \$157.5 million for the FY2008 year to date, up \$24.9 million (+19%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2008 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$316,817. Unclaimed prizes totaling \$4,717,013 were also transferred to the Literary Fund for the first four months of fiscal year 2008.

MEETINGS

The State Lottery Board will conduct a regularly scheduled business meeting on Wednesday January 16, 2008, in Richmond.