

January 30, 2008

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

Dear Governor Kaine:

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

Sales for the month of December 2007 totaled \$127.4 million, up \$21.7 (+21%) million from last month, and nearly \$11 million (+9%) more than December 2006. For the year to date, sales totaled \$679.1 million, which was \$37.2 million (+6%) more than the same period last year. December net income totaled \$41.1 million, for year to date earnings of \$235.0 million, up \$26.4 million (+13%) 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.

This is my final report to you as interim Executive Director of the Lottery; I look forward to working with Paula Otto, newly named Executive Director. Thank you for the opportunity to serve your administration during this transition period. Please let me know if you have any questions or if you would like more information.

Very truly yours,

Frank S. Ferguson

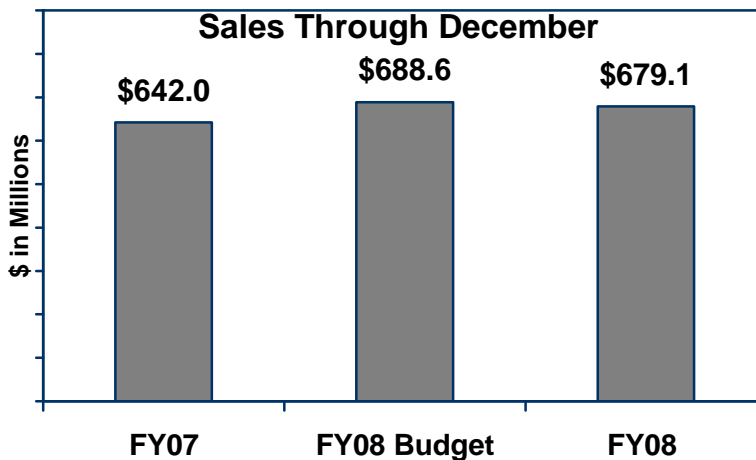
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable Jody M. Wagner, Secretary of Finance
- Richard D. Brown, 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

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
January 30, 2008

Sales

Lottery sales for the 2008 fiscal year through December totaled \$679.1 million, which was \$37.2 million (+6%) more than the prior year. However, sales were \$9.4 million (-1%) lower than expected for the first half of the year.

Scratcher sales were down \$4.8 million (-1%) compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales increased \$5.6 million or 2.5% 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 \$23.7 million (+32%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year.

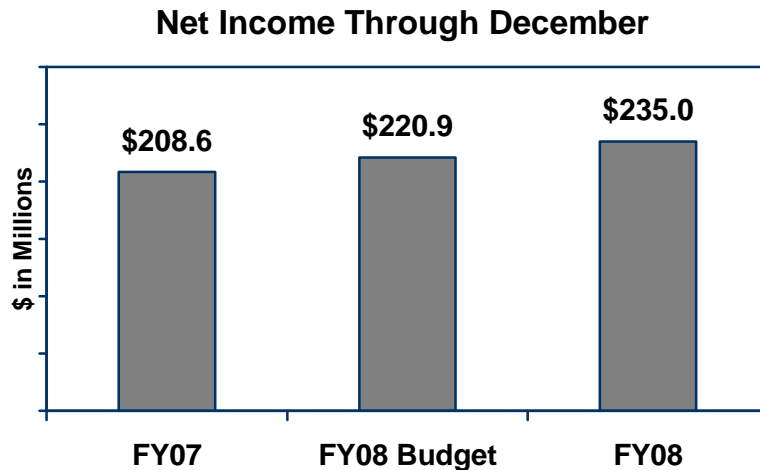


Expenses

The luck of the draw continued to dampen overall prize expense rates, with daily games' prizes totaling only 42.5% of sales. Overall, prizes comprised 55.9% of total sales, compared to 57.4% of sales for the same period in FY2007 and 57.3% as expected for the current year. Retailer compensation increased \$1.2 million because of higher sales, with the retailer compensation rate steady at 5.5%. Operating expenses totaled \$32.7 million, a slight increase of \$0.8 million compared to FY2007.

Net Income

The lower overall prize expense rate combined with sales increases resulted in net income of \$235.0 million for the FY2008 year to date, up \$26.4 million (+13%) 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 \$416,302. Unclaimed prizes totaling \$5,423,258 were also transferred to the Literary Fund for the first half of fiscal year 2008.

MEETINGS

The State Lottery Board conducted a regularly scheduled business meeting on Wednesday January 16, 2008, in Richmond. The Board elected a new slate of officers, with Mr. David Hallock as chair and Mr. James Wofford as vice-chair. The next meeting is scheduled for Wednesday April 23, 2008, in Richmond.