

March 10, 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 January 2008, as required in Section 58.1-4006 of the *Code of Virginia*.

Sales for the month of January 2008 totaled \$108.6 million, down \$18.7 (-15%) million from last month, and \$5 million (-4%) less than January 2007. For the year to date, sales totaled \$787.8 million, which was \$32.1 million (+4%) more than the same period last year. January net income totaled \$30.5 million, for year to date earnings of \$265.5 million, up \$26.3 million (+11%) 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 \$17 million behind 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 forecast included in your budget submission. We have also been in close contact with the Secretary of Finance, and providing information to the staff from the money committees, as work continues on the Commonwealth's budget.

I am enjoying my return to the Lottery in my new role as Executive Director, and serving in your administration. Along with all employees at the Virginia Lottery, I am proud to continue our success and working to achieve our profit goals in support of K-12 public education in Virginia. Please let me know if you have any questions or if you would like more information.

Very truly yours,

Paula I. Otto

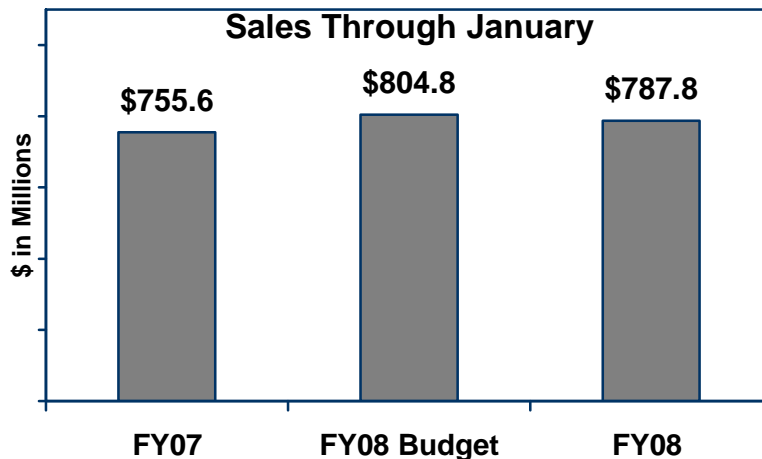
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable 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
March 10, 2008

Sales

Lottery sales for the 2008 fiscal year through January totaled \$787.8 million, which was \$32.1 million (+4%) more than the prior year. However, sales were \$17.0 million (-2%) lower than expected for the first seven months of the year.

Scratcher sales were down \$8.6 million (-2%) compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales increased \$4.4 million or 1.7% 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 \$23.1 million (+26%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year. Fiscal year 2008 also includes sales of raffle (+\$8.8 million) and “fast play” style games (+\$4.4 million) that were not offered during the same period in fiscal year 2007.

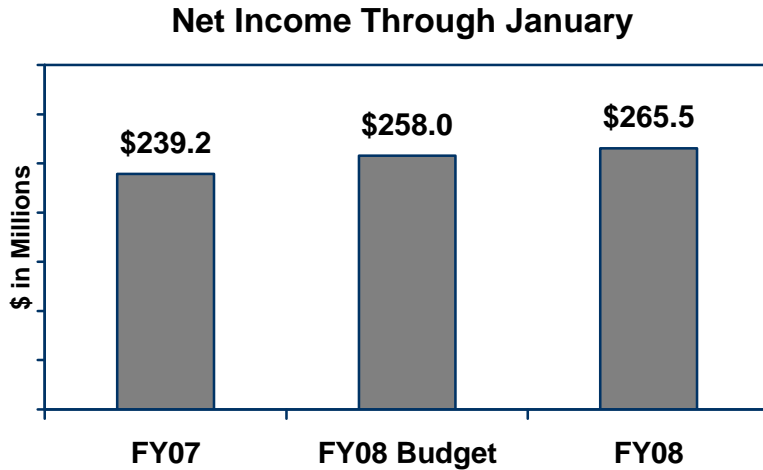


Expenses

Players' luck improved in January, with several drawings of popular numbers in Pick 3 and Pick 4. Even so, the overall prize rate is still lower than statistically expected. Overall, prizes comprised 56.8% of total sales, compared to 58.3% of sales for the same period in FY2007 and 57.3% as expected for the current year. Retailer compensation increased \$1.0 million because of higher sales, with the retailer compensation rate steady at 5.5%. Operating expenses totaled \$38.5 million, an increase of \$1.3 million (+3.6%) compared to FY2007.

Net Income

The lower overall prize expense rate combined with sales increases resulted in net income of \$265.5 million for the FY2008 year to date, up \$26.3 million (+11%) compared to last year and \$7.5 million (+3%) compared to budget.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2008 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$551,585. Unclaimed prizes totaling \$6,125,591 were also transferred to the Literary Fund for the first seven months of fiscal year 2008.

MEETINGS

The Retailer Advisory Council met at Lottery headquarters in Richmond on Tuesday February 26, 2008. The group is comprised of Lottery retailers, representing both independent and corporate chain entities, from across the state. This was the first meeting of this group of council members, as the prior council member terms had ended. This is a critical resource for the Lottery, as these members represent nearly 5,000 selling locations across the state. Information was freely shared among both the retailer representatives and Lottery staff, with discussions ranging from the overall Virginia economy to specific issues relevant to lottery sales.

The next meeting of the State Lottery Board is scheduled for Wednesday April 23, 2008, in Richmond.