

April 4, 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 February 2008, as required in Section 58.1-4006 of the *Code of Virginia*.

Sales for the month of February 2008 totaled \$128.6 million, up \$20.0 (18%) million from last month, and \$5.7 million (5%) more than February 2007. For the year to date, sales totaled \$916.4 million, which was \$37.8 million (+4%) more than the same period last year. February net income totaled \$39.7 million, for year to date earnings of \$305.2 million, up \$29.8 million (+11%) compared to the same period last year.

Fiscal Year 2008 continues 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 \$4.7 million behind forecast, net income is outpacing the forecast because of the lower than expected prize expense rates. The main sources of this additional net income – low prize expense rates and large jackpots – are both environmental factors and will continue to be unpredictable, by definition, especially over the short term.

It is important to note that all of these comparisons use the current official forecast included in your budget submission from December 2007. The budget revisions approved by the General Assembly call for increases in Lottery profits for both the current year and each year in the next biennium. Upon enactment, we will adjust our reporting to reflect results against the official budget.

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

Very truly yours,

Paula I. Otto

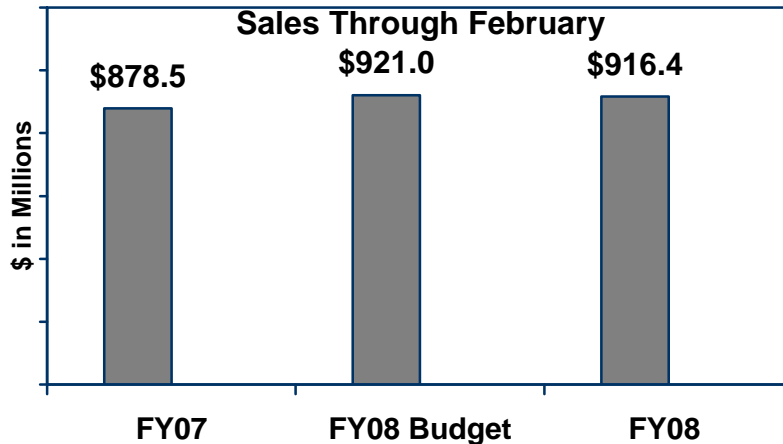
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable 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
April 4, 2008

Sales

Lottery sales for the 2008 fiscal year through February totaled \$916.4 million, which was \$37.8 million (+4%) more than the prior year. However, sales were \$4.7 million (-1%) lower than expected for the first eight months of the year.

Scratcher sales were down \$5.6 million (-1%) compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales increased \$4.2 million or 1.3% 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 \$30.9 million (+28.8%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year. Fast Play Bingo sales are down \$362,000 or (-7%) from last February. Fiscal year 2008 also includes sales of raffle (+\$8.8 million) that are not included in last year's sales totals.

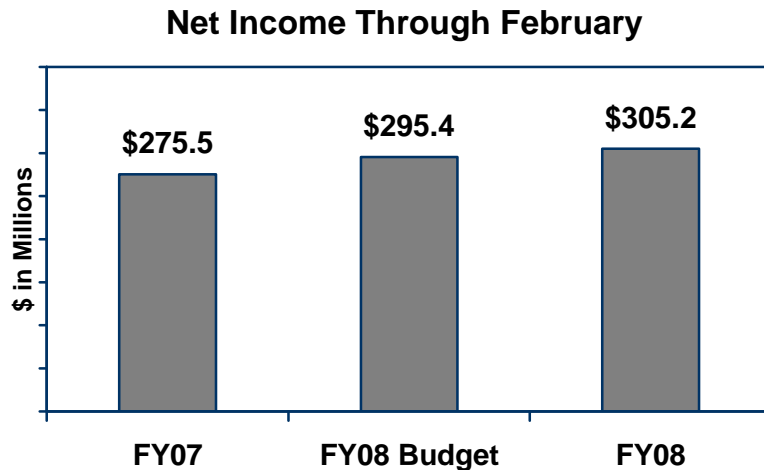


Expenses

Players' luck continued to improve in February, with several drawings of popular numbers in Pick 3. Even so, the overall prize rate is still lower than statistically expected. Overall, prizes comprised 57.0% of total sales, compared to 58.6% of sales for the same period in FY2007 and 57.3% as expected for the current year. Retailer compensation increased \$2.0 million because of higher sales. The retailer compensation rate is 5.6%. Operating expenses totaled \$45.5 million, an increase of \$1.6 million (+3.5%) compared to FY2007.

Net Income

The lower overall prize expense rate combined with sales increases resulted in net income of \$305.2 million for the FY2008 year to date, up \$29.8 million (+11%) compared to last year and \$9.8 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 \$644,924. Unclaimed prizes totaling \$6,729,376 were also transferred to the Literary Fund for the first eight months of fiscal year 2008.

MEETINGS

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