

April 30, 2008

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

Dear Governor Kaine:

I am pleased to provide our report of monthly activities and financial update for the month of March 2008, as required in Section 58.1-4006 of the *Code of Virginia*.

Sales for the month of March 2008 totaled \$122.8 million, down \$5.8 million (-5%) from last month, and \$15.8 million (-11%) less than March 2007. For the year to date, sales totaled \$1,039.2 million, which was \$22.1 million (+2%) more than the same period last year. March net income totaled \$39.3 million, for year to date earnings of \$344.5 million, up \$22.9 million (+7%) 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. While total sales continue to lag behind the forecast, with a cumulative shortfall of \$5.5 million, net income is outpacing the forecast by \$9.2 million because of the lower than expected prize expense rates and higher interest earnings on our cash balances. Lower than expected operating costs – primarily in advertising costs, due to delayed product launches – also contribute to the excess earnings over forecast. The main sources of this additional operating 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

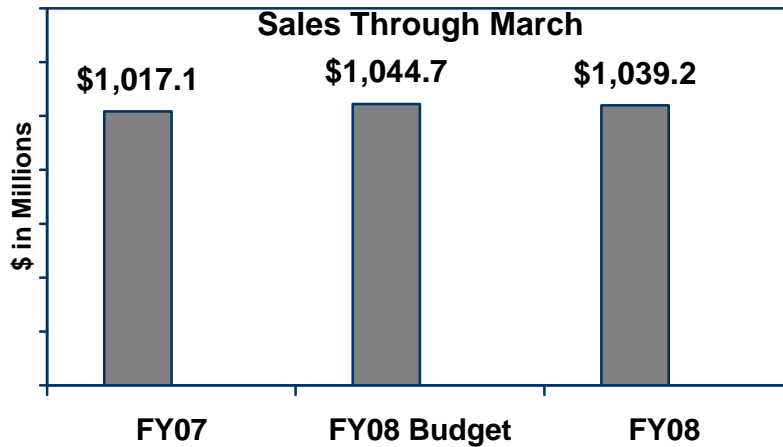
c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee  
The Honorable Lacey E. Putney, Chairman – House Appropriations Committee  
The Honorable Harry R. Purkey, Chairman – House Finance Committee  
The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor  
The Honorable 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 30, 2008**

Sales

Lottery sales for the 2008 fiscal year through March totaled \$1,039.2 million, which was \$22.1 million (+2.2%) more than the prior year. However, sales were \$5.5 million (-0.5%) lower than expected for the first three quarters of the year.

Scratcher sales were down \$5.6 million (-1.1%) compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales increased \$1.5 million or 0.4% over last year. Sales of the jackpot games, Mega Millions and Win for Life, increased \$20.7 million (+15.5%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year. Fast Play Bingo sales are down \$3.4 million or (-37.6%) from last year; this product launched in February 2007, and strong initial sales followed by a continual decline are typical for this type of product. Fiscal year 2008 also includes sales of raffle (+\$8.8 million) that are not included in last year's sales totals.

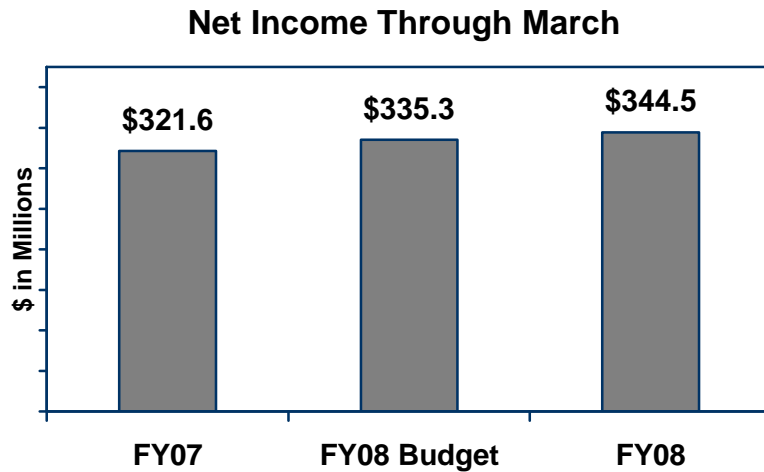


Expenses

Players' luck continued to improve in March, with prize expense rates for the year continuing to rise to near statistically expected levels. Overall, prizes comprised 57.2% of total sales, compared to 58.3% of sales for the same period in FY2007 and 57.4% as expected for the current year. Retailer compensation increased \$0.9 million because of higher sales. The retailer compensation rate is 5.6%. Operating expenses totaled \$52.5 million, an increase of \$1.3 million (+2.5%) compared to FY2007, but nearly \$5.7 million (-9.8%) less than budgeted for the year.

### Net Income

The lower overall prize expense rate combined with sales increases resulted in net income of \$344.5 million for the FY2008 year to date, up \$22.9 million (+7.1%) compared to last year and \$9.2 million (+2.7%) 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 \$792,473. Unclaimed prizes totaling \$7,566,887 were also transferred to the Literary Fund for the first three quarters of fiscal year 2008.

### MEETINGS

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