

June 23, 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 May 2008, as required in Section 58.1-4006 of the *Code of Virginia*.

Sales for the month of May 2008 totaled \$123.7 million, up \$8.0 million (7%) from last month, and \$9.7 million (8%) more than May 2007. For the year to date, sales totaled \$1,278.6 million, which was \$33.6 million (+3%) more than the same period last year. May net income totaled \$40.0 million, for year to date earnings of \$422.1 million, up \$26.1 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. Lottery net income goals for the final month of the year will be negatively affected by (1) the loss of interest earnings because of the required interim transfers that were not planned when the original forecast was prepared and (2) the delayed introduction of one product and the cancellation of another from the original sales plan for FY2008. These adjustments to the operating plan were made mid-year, for business reasons, to best position Lottery product offerings both in terms of consumer demand and operational capacity. While we continue to strive to generate additional profits for K-12 public education, meeting the net income target for June will require the positive influence of environmental factors beyond our control – significantly low prize payouts, in particular.

The Lottery has made two scheduled interim transfers of Lottery profits to the Lottery Proceeds Fund, as required by the Appropriations Act, for the 2008 fiscal year. The final transfer of estimated profits will be completed prior to June 24, 2008, as stipulated in the Act. Our best estimate of total transfers for FY2008 profits is \$455 million, \$5 million (+1.1%) more than the original estimate in the budget bill, but \$4 million (-0.9%) less than the revised estimate included in Chapter 847. While this is our best estimate, we will continue to monitor sales and profits in the remaining days of the fiscal year and will report final profits after certification by the Auditor of Public Accounts on August 15, 2008.

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

Very truly yours,

Paula I. Otto

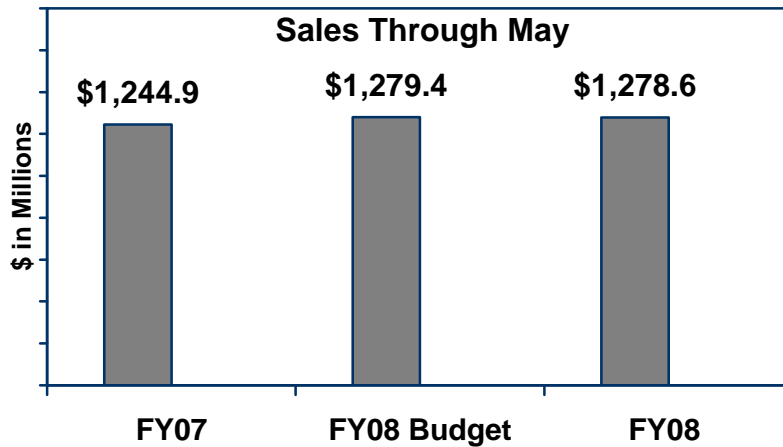
c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee  
The Honorable Lacey E. Putney, Chairman – House Appropriations Committee  
The Honorable Harry R. Purkey, Chairman – House Finance Committee  
The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor  
The Honorable 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**  
**June 23, 2008**

Sales

Lottery sales for the 2008 fiscal year through May totaled \$1,278.6 million, which was \$33.6 million (+2.7%) more than the prior year. Sales were \$818,000 (-0.1%) lower than expected for the year.

Scratcher sales were down \$2.9 million (-.5%) compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales decreased \$6.2 million or 1.4% compared to last year. Sales of the jackpot games, Mega Millions and Win for Life, increased \$33.0 million (+20.7%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year. Fast Play Bingo sales are down \$5.4 million or (-44.9%) 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.

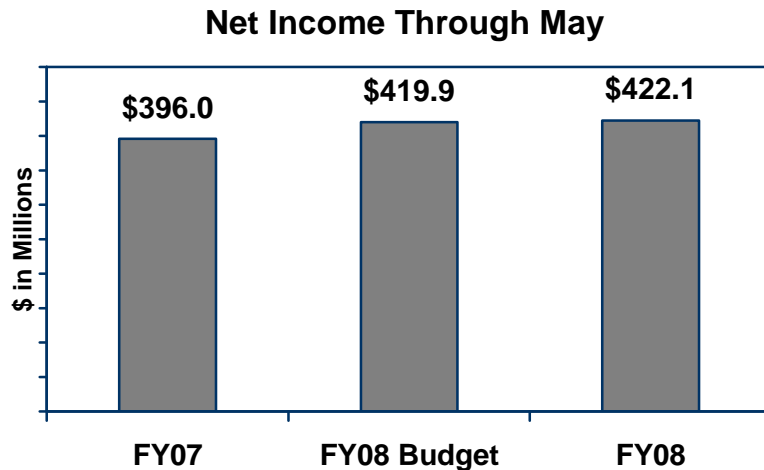


Expenses

Prize expense rates for the year continue to be below the 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 \$1.6 million because of higher sales. The retailer compensation rate is 5.6%. Operating expenses totaled \$65.9 million, an increase of \$3.6 million (+5.8%) compared to FY2007, but nearly \$6.0 million (-8.3%) less than budgeted for the year.

### Net Income

The lower overall prize expense rate combined with sales increases resulted in net income of \$422.1 million for the FY2008 year to date, up \$26.1 million (+6.6%) compared to last year and \$2.2 million (+0.5%) 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 \$1,004,270. Unclaimed prizes totaling \$9,429,680 were also transferred to the Literary Fund for the first eleven months of fiscal year 2008.

### MEETINGS

The next meeting of the State Lottery Board is scheduled for July 9, 2008, in Richmond.