

October 1, 2008

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

RE: August 2008 Lottery Results

Dear Governor Kaine:

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

Sales for the month of August totaled nearly \$111.9 million, a decrease of \$14.6 million compared to August 2007. For the year to date, sales totaled \$223.4 million, which was \$12.9 million (-5%) less than the same period last year. The sales decline occurred primarily in Mega Millions, where sales are very dependent upon the size of the advertised jackpot; August 2007 saw exceptionally strong sales as the jackpot grew to over \$300 million. August net income totaled \$37.5 million, for year to date earnings of \$73.8 million, down \$10.3 million (-12%) compared to the same period last year.

The Lottery is participating in the Commonwealth's accelerated revenue forecasting process. For the current fiscal year, both sales and profits are less than the prior year. The Lottery remains committed to executing all of our operations in the most efficient manner practical, a commitment even more important in this challenging revenue climate.

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

Very truly yours,

Paula I. Otto

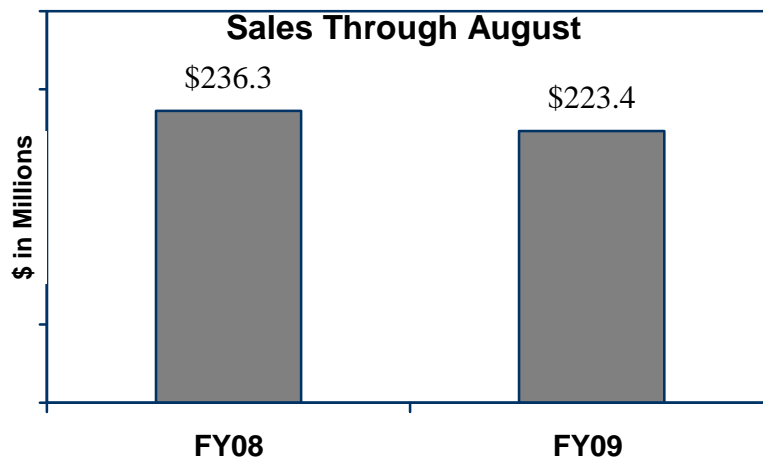
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable Richard D. Brown, Secretary of Finance
- Daniel S. Timberlake, 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
October 1, 2008

Sales

Lottery sales for the fiscal year totaled \$223.4 million through August, which was \$12.9 million (-5%) less than the prior year. The sales decline occurred primarily in Mega Millions, whose product sales were strongly supported by a jackpot roll to over \$300 million in August 2007.

Scratcher sales were down \$1.7 million compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales were down \$1.9 million (-2.4 %). Daily games sales continue to be dampened by very low prize payouts, a situation solely influenced by the “luck of the draw.” Sales of the jackpot games, Mega Millions and Win for Life, decreased \$9.6 million (-2.3%) from last year due to lower advertised jackpots. Sales of Fast Play were up \$342,000 (22.2%) compared to last year due to Dodge Ball, the newest addition to the Fast Play games.



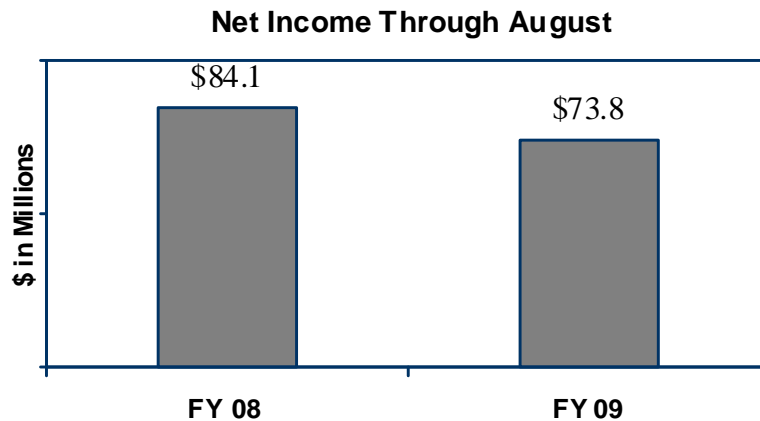
Expenses

The overall prize expense rate (prizes as a percent of sales) through August was 56.4%, which was 1.7% more than compared to the same two month period in FY 2008. The scratcher prize rate increased 1.1% to 67.7%, and the daily games prize rate of 43.0% was 1.8% more than the same period last year. Jackpot prize expense was 50.6% of sales, up 1.6% from last year.

With lower sales, retailers earned \$759,000 less than last year for a total \$12.1 million in earnings. Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$1.3 million more than during the same period last year. This increase was anticipated because of the full implementation of the new gaming system initiated in 2006.

Net Income

August 2008 ended with year to date profits totaling \$73.8 million, down \$10.3 million (-12.2%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2009 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$221,626. Also, unclaimed prizes totaling \$1,478,390 were transferred to the Literary Fund for the first two months of fiscal year 2009.

MEETINGS

The State Lottery Board held a regularly scheduled business meeting on Tuesday September 9, 2008, in Norfolk. As part of the regular meeting, the Board reviewed sales and profits for the 2008 fiscal year, current results through August, and updated sales and profit projections for fiscal year 2009. The next meeting of the Board is scheduled for Wednesday October 29, 2008, in Richmond.