

October 23, 2008

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

RE: September 2008 Lottery Results

Dear Governor Kaine:

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

Sales for the month of September totaled nearly \$104.3 million, an increase of \$458,000 compared to September 2007. For the year to date, sales totaled \$327.7 million, which was \$12.5 million (-4%) less than the same period last year. September net income totaled \$34.6 million, for year to date earnings of \$108.4 million, down \$12.2 million (-10%) compared to the same period last year. Last year, the advertised Mega Millions jackpots during the first quarter were much higher than average, spurring very strong sales. By contrast, the jackpots during the first quarter of the current year were lower than average.

On September 20, 2008, the Virginia Lottery celebrated its 20th birthday. A special Birthday Raffle game created yet another Virginia millionaire. Activities in honor of the 20th birthday, including the sale of the redesigned Match 3 scratch game, will continue for our players and retail partners throughout the year.

For the current fiscal year, both sales and profits are down from 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

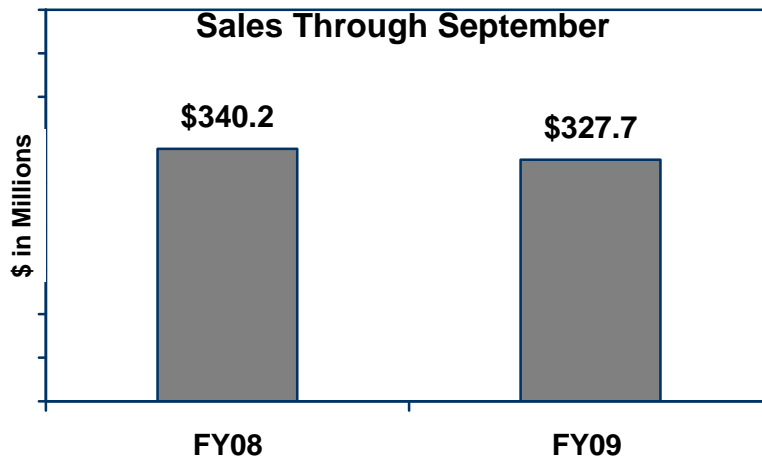
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable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

Sales

Lottery sales for the fiscal year totaled \$327.7 million through September, which was \$12.5 million (-3.7%) less than the prior year. The sales decline occurred primarily in Mega Millions, where product sales were strongly supported by a jackpot roll to over \$300 million in the first quarter of fiscal year 2008.

Scratcher sales were down \$1.0 million compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales were down \$2.8 million (-2.4 %). Daily games sales continue to be dampened by very low prize payouts. Sales of the jackpot games, Mega Millions and Win for Life, decreased \$10.1 million (-18.1%) from last year due to lower advertised jackpots. Sales of Fast Play were up \$242,000 (11.2%) compared to last year due to Dodge Ball, the newest addition to the Fast Play games. The Lottery also offered the Birthday Raffle (\$1.1 million) in conjunction with activities to highlight the Lottery's 20th birthday. The drawing results were announced on the 20th birthday, on September 20, 2008.



Expenses

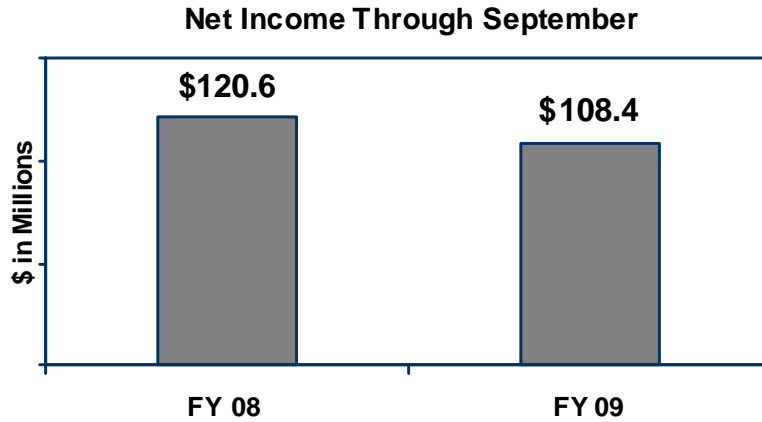
The overall prize expense rate (prizes as a percent of sales) through September was 56.0%, which was 1.1% more than compared to the same period in FY 2008. The scratcher prize rate decreased 0.3 % to 66.5%, and the daily games prize rate of 43.0% was 2.5% more than the same period last year. Jackpot prize expense was 50.3% of sales, up 0.7% from last year.

With lower sales, retailers earned \$769,000 less than last year for a total \$17.8 million in earnings. Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$3.5 million more than during the same period last year. This

increase was anticipated because of the full implementation of the new gaming system contract, initiated in 2007.

Net Income

Through September 2008, year to date profits totaled \$108.4 million, a decline of \$12.2 million (-10.2%) 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 \$345,409. Also, unclaimed prizes totaling \$2,797,664 were transferred to the Literary Fund for the first three months of fiscal year 2009.

MEETINGS

The next meeting of the Board is scheduled for Thursday November 13, 2008, in Richmond.