

December 5, 2008

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

RE: October 2008 Lottery Results

Dear Governor Kaine:

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

Sales for the month of October totaled nearly \$105.1 million, an increase of \$765,000 compared to October 2007. For the year to date, sales totaled \$432.9 million, which was \$13.2 million (-3 %) less than the same period last year. October net income totaled \$34.9 million, for year to date earnings of \$143.3 million, down \$14.2 million (-9 %) compared to the same period last year. Last year, the advertised Mega Millions jackpots during the first four months were much higher than statistically expected, spurring very strong sales. By contrast, the jackpots during the first four months of the current year were lower than expected.

For the current fiscal year, both sales and profits are down from the prior year. The Lottery remains committed to working diligently to meet our revenue goals while operating 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

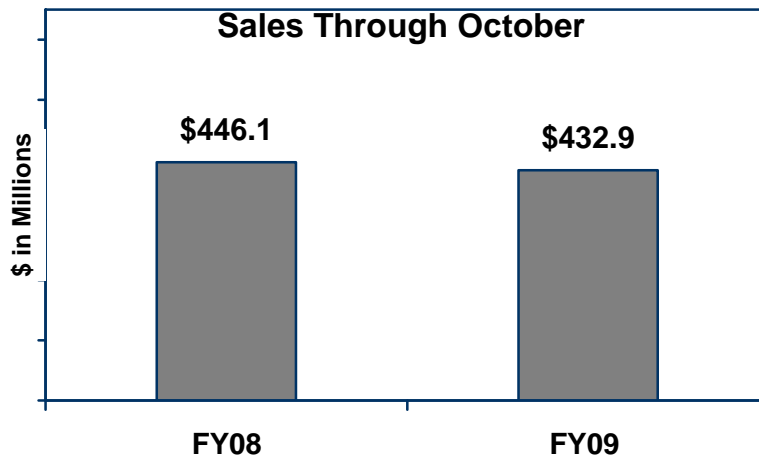
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable 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
December 5, 2008

Sales

Lottery sales for the fiscal year totaled \$432.9 million through October, which was \$13.2 million (-3.0 %) 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 four months of fiscal year 2008.

Scratcher sales were down \$528,000 compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales were down \$3.5 million (-2.3 %). Sales of the jackpot games, Mega Millions and Win for Life, decreased \$10.5 million (-15.3 %) from last year due to lower advertised jackpots. Sales of Fast Play were up \$151,000 (5.5 %) compared to last year.



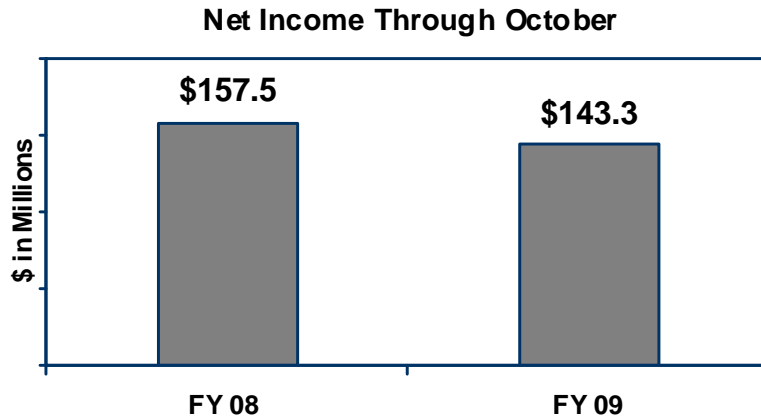
Expenses

The overall prize expense rate (prizes as a percent of sales) through October was 56.4%, which was 1.4% more than compared to the same period in FY 2008. The scratcher prize rate increased 0.2 % to 66.7%, and the daily games prize rate of 43.6% was 2.6% more than the same period last year. Jackpot prize expense was 49.9% of sales, up 0.7% from last year.

With lower sales, retailers earned \$870,000 less than last year for a total \$23.6 million in earnings. Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$3.4 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 October 2008, year to date profits totaled \$143.3 million, a decline of \$14.2 million (-9.0%) 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 \$438,842. Also, unclaimed prizes totaling \$4,759,023 were transferred to the Literary Fund for the first four months of fiscal year 2009.

MEETINGS

The State Lottery Board held a regularly scheduled business meeting on Thursday November 13, 2008, in Richmond. The Board formed a nominating committee for the selection of officers at their next meeting on January 14, 2009.