

February 5, 2009

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

RE: December 2008 Lottery Results

Dear Governor Kaine:

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

Sales for the month of December totaled \$134.4 million, an increase of \$7.0 million compared to December 2007. For the year to date, sales totaled \$674.5 million, which was \$4.7 million (-0.7 %) less than the same period last year. December net income totaled \$38.8 million, for year to date earnings of \$214.7 million, down \$20.3 million (-9 %) compared to the same period last year. Higher prize rates have contributed to the lower than expected net income. The prize expense rate (prizes as a percentage of sales) was 57.7% for the current year to date, compared to 55.9% last year. The forecast prize rate for the current fiscal year to date was 57.6%, so the current year's prizes are very near expectations; last year's very low rate was not typical or expected.

For the current fiscal year, both sales and profits are down from the prior year. However, declining profits were forecast for the current fiscal year, and through December are \$214.7 million, very near the \$216.3 million forecast earnings (-0.7%) for the first six months of the fiscal 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

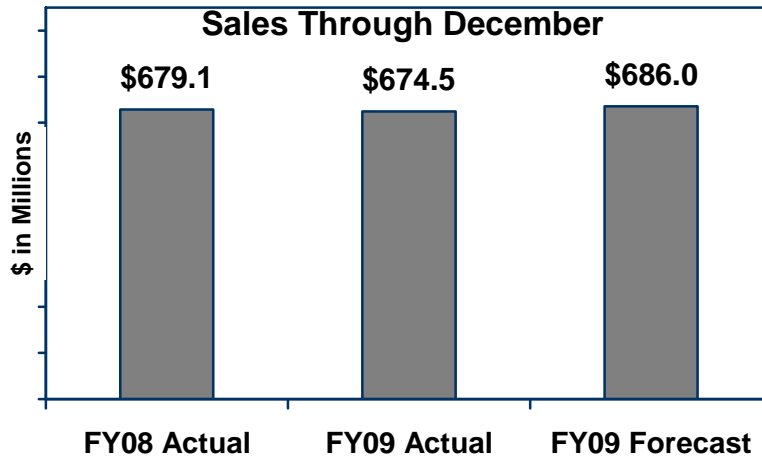
- c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable 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
February 5, 2009

Sales

Lottery sales for the fiscal year totaled \$674.5 million through December, which was \$4.7 million (-0.7 %) less than the prior year and \$11.6 million (-1.7%) less than forecast. The sales decline occurred primarily in the jackpot game category, where sales vary with the luck of the draw and the size of the jackpot.

Scratcher sales of \$338.9 million were nearly identical to last year's levels, down only \$92,000 compared to last year and down \$2.8 million (-0.8%) compared to forecast. Daily games (Pick 3, Pick 4, and Cash 5) sales declined slightly, down \$760,000 (-0.3 %) from last year but \$9.1 million (-3.8%) less than forecast. Sales of the jackpot games, Mega Millions and Win for Life, decreased \$3.8 million (-3.9 %) from last year due to lower advertised jackpots, but were \$5.6 million (+6.4%) more than expected. Sales of Fast Play were down slightly \$158,000 (-4.1 %) compared to last year and \$3.6 million (-49%) compared to forecast; total Raffle sales were up \$107,000 or 1.2% from last year but \$1.7 million (-16%) less than forecast.



Expenses

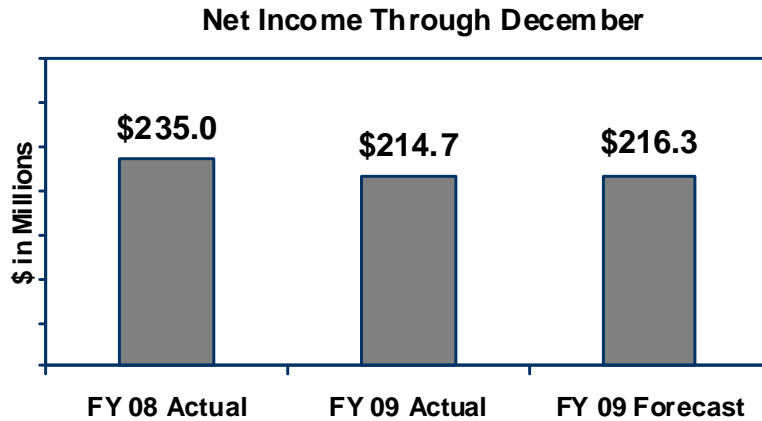
The overall prize expense rate (prizes as a percent of sales) through December was 57.7%, which was 1.8% more than compared to the same period in FY 2008. The scratcher prize rate decreased 0.2 % to 66.8%, however the daily games prize rate of 47.7% was 5.2% more than the same period last year, and slightly higher than forecast at this point in the year. Jackpot prize expense was 49.4% of sales, the same as the prior year.

Retailers have earned \$258,000 more than last year, for a total \$37.5 million in earnings. Administrative operating costs, including online gaming, ticket printing and distribution

expenses, were \$4.3 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 December 2008, year to date profits totaled \$214.7 million, a decline of \$20.3 million (-9.0%) compared to last year. Declining profits were forecast for the current fiscal year, and are near the \$216.3 million forecast earnings (-0.7%) for the first half.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2009 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$610,784. Also, unclaimed prizes totaling \$6,908,744 were transferred to the Literary Fund for the first six months of fiscal year 2009.

MEETINGS

The State Lottery Board held a regular business meeting in Richmond on January 14, 2009. At that meeting, the Board elected Mr. James M. Wofford as Chairman and Ms. Cynthia D. Lawrence Vice Chairman for the year. The State Lottery Board's next scheduled meeting will be held on March 11, 2009, in Richmond. This is a routine business meeting.