

September 17, 2008

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

Dear Governor Kaine:

I am pleased to provide our report of monthly activities and financial update for the month of July 2008, as well as a recap of FY 2008 activities, as required in Section 58.1-4006 of the *Code of Virginia*.

In Fiscal Year 2008, the Lottery had record sales of \$1.386 billion and finished the year \$24.1 million ahead of last year's sales levels. However, total sales were less than forecast by \$12.6 million (-1%). Fiscal Year 2009 began with sales totaling \$111.5 million in July, up \$1.7 million (+2%) compared to last year.

Fiscal Year 2008 net income of \$455.3 million was \$18.1 million (4%) more than the prior year's earnings, however \$3.7 million (-1%) below the revised forecast. Fiscal Year 2009 began with profits totaling \$36.2 million through July, up less than \$0.1 million (0%) from last year.

We are very proud of the year just ended and our contributions toward funding K-12 public education in Virginia. We look forward to celebrating the Lottery's 20th birthday this month, on September 20th. As for Fiscal Year 2009, we continue to monitor and assess Virginia sales and profits. It should be anticipated that the Virginia Lottery will continue to creatively address the challenges ahead. As always, we will participate in the upcoming statewide revenue re-forecasting process, coordinated through the Department of Taxation.

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

Very truly yours,

Paula I. Otto

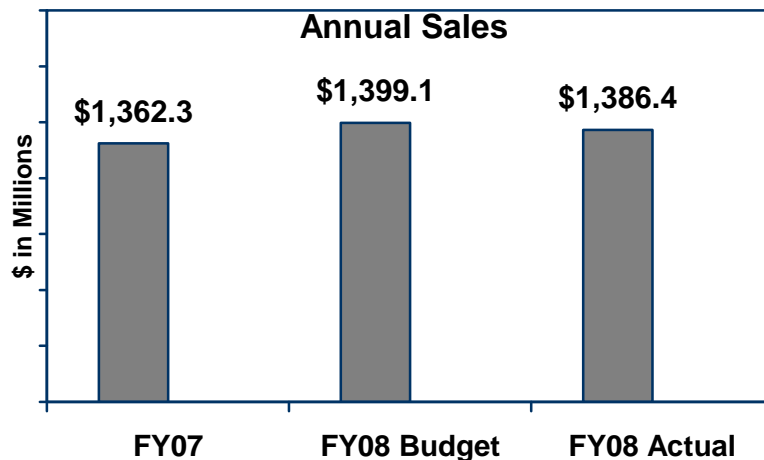
c: The Honorable Charles J. Colgan, Chairman – Senate Finance Committee
The Honorable Lacey E. Putney, Chairman – House Appropriations Committee
The Honorable Harry R. Purkey, Chairman – House Finance Committee
The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
The Honorable Richard 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
September 17, 2008

Fiscal Year 2008 Sales

Lottery sales for the 2008 fiscal year totaled \$1.386.4 billion, which was \$24.1 million (+2%) more than the prior year, however \$12.6 million (-1%) less than the forecast.

Scratcher sales were down \$3.4 million compared to last year, and \$3.7 million (-1%) below budget. Daily games (Pick 3, Pick 4, and Cash 5) sales finished down slightly, \$3.2 million (-1%) less than last year. Compared to budget, daily game sales of \$469.6 million were \$18.7 million (-4 %) below forecast. Sales of the jackpot games, Mega Millions and Win for Life, increased \$32.2 million (+19%) from last year, and \$23.9 million (+13%) ahead of forecast. Sales of Raffle (\$8.8 million) and Fast Play (\$9.2 million) were \$1.6 million (-8%) less than last year.



July 2008 Sales

Fiscal year 2008 began with sales of \$111.5 million, an increase of \$1.7 million (+2%) compared to FY2008. The increases occurred in Mega Millions and Fast Play.

Fiscal Year 2008 Expenses

The overall prize expense rate (prize expense as a percent of sales) finished the year at 57.2%, which was 0.9% less than FY2007 but 0.5% more than budget. The scratcher prize rate increased 0.4% to 67.0%, and the daily games prize rate of 45.9% was 3.8% less than FY2007 but 0.4% more than the expected rate. Jackpot prize expense was 50.1% of sales, up 1.9% from last year.

With the overall sales increase, retailers earned \$1.3 million more than last year for a total record \$77.7 million in earnings. Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$5.6 million more than during the same period last year.

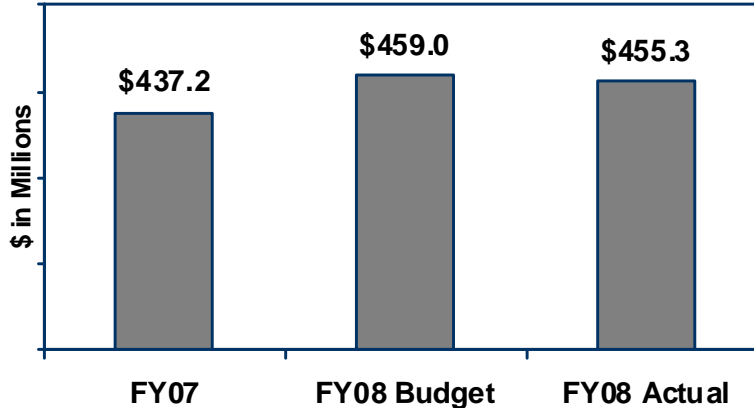
July 2008 Expenses

Overall, prizes comprised 56.2% of total sales, compared to 56.5% of sales for the same period in FY2008. Retailer compensation increased slightly due to the increase in sales, with the retailer compensation rate steady at 5.4%. Operating expenses totaled \$6.8 million, up \$1.0 million compared to FY2008.

Fiscal Year 2008 Net Income

Fiscal Year 2008 ended with profits totaling \$455.3 million, \$18.1 (4%) million ahead of FY2007 but \$3.7 million (-1%) below forecast.

Annual Net Income



July 2008 Net Income

The slightly lower overall prize expense rate combined with sales increases resulted in earnings of \$36.2 million, up \$0.1 million (+0%) compared to last year.

CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Pursuant to the Setoff Debt Collection Act, the Lottery made payments to the Department of Taxation totaling \$1,069,378 for Fiscal Year 2008. Also, the Lottery transferred unclaimed prizes totaling \$10,477,829 to the Literary Fund.

For the 2009 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$116,353. Unclaimed prizes totaling \$730,814 were also transferred to the Literary Fund for the month of July 2008.

MEETINGS

The State Lottery Board held a regularly scheduled business meeting on Tuesday September 9, 2008, in Norfolk. The Board reviewed financial results and upcoming games as part of their regular business. The next Board meeting is scheduled for October 29, 2008, in Richmond.

On Tuesday September 9, 2008, I spoke to the Senate Finance and House Appropriations Committees about our FY2008 results, and plans for the 2009 fiscal year.