

## **Zgarba, Angela**

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**From:** Candido, Frank [Frank.Candido@scientificgames.com]  
**Sent:** Monday, November 01, 2010 8:13 AM  
**To:** Zgarba, Angela  
**Cc:** Harrison, Simone  
**Subject:** RE: Texas Lottery Operator RFP Lottery Operations and Services #362-10-0001: Scientific Games Update Facilities Credit Balance Request  
**Attachments:** SGI TX Lottery Operator RFP Upated Facilities Credit Information 11012010 .docx

Ms. Zgarba,

Please find attached to this email, Scientific Games' most recent update concerning our Facilities Credit Balance report as promised in a previous communication last week.

If you have any questions relating to this email transmission, please contact the undersigned.

If there is any further information relating to this request, or any other items relating to our proposal submission with regards to the RFP Lottery Operations and Services #362-10-0001, please do not hesitate in contacting Simone Harrison ( 678-624-4318) or by email at [simone.harrison@scientificgames.com](mailto:simone.harrison@scientificgames.com) .

Thank you

Frank Candido  
Senior Director Business Development  
Sales and Global Marketing  
Scientific Games International  
1500 Bluegrass Lakes Parkway  
Alpharetta, GA USA 30004  
Phone: 770-664-3734  
Cell: 210-601-0146  
Fax: 770-772-7606  
Email: [frank.candido@scientificgames.com](mailto:frank.candido@scientificgames.com)

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Date: November 01, 2010

Angela Zgabay-Zgarba, CTPM  
Contracts Administrator  
Texas Lottery Commission  
Fax: (512) 344-5444  
Email: [angela.zgarba@lottery.state.tx.us](mailto:angela.zgarba@lottery.state.tx.us)

RE: Request for Proposals (RFP) For Lottery Operations and Services RFP 362-10-0001  
Facility Agreements Update

CONFIDENTIAL AND PROPRIETARY INFORMATION:

\$552.110

Should you have any questions relating to this updated information please do not hesitate to contact me directly.

Sincerely,

A handwritten signature in black ink that reads "Simone Harrison". The signature is written in a cursive, flowing style.

Simone Harrison  
VP Business Development  
Sales and Marketing Department  
Scientific Games International  
Alpharetta GA 30004  
[simone.harrison@scientificgames.com](mailto:simone.harrison@scientificgames.com)  
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**Zgarba, Angela**

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**From:** Gassin, Gary E [gassin@battelle.org]  
**Sent:** Tuesday, August 10, 2010 5:03 PM  
**To:** Zgarba, Angela  
**Subject:** Maybe something to forward to the financial review guys  
**Attachments:** Scientific Games Barely Beats - Analyst Blog.mht



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## Scientific Games Barely Beats - Analyst Blog

By *Zacks*

Created 08/09/2010 - 17:23

**Scientific Games Corp.** ([SGMS](#) <sup>[1]</sup>) reported a profit on a non GAAP basis for the second quarter of 2010, beating the Zacks Consensus Estimate by a penny.

Earnings, excluding one-time items, came in at 14 cents per share, edging past the Zacks Consensus Estimate of earnings of 13 cents per share. This compares with a profit of 21 cents per share reported in the year-ago quarter.

Although results were down year over year, the quarter benefitted from an increase in U.S. lottery retail revenues, cost containment efforts, strategic growth initiatives and improved margins.

During the quarter, Scientific Games' subsidiary, Global Draw, won a four year contract to provide approximately 7,600 terminals to Ladbrokes' U.K. terminal estate. The contract is the largest in the Global Draw's 13-year history and is expected to roll out in early 2011. Moreover, Games Media was awarded 250 pub sites by Enterprise Inns in the U.K. The company is likely benefit from its robust portfolio of existing contracts and new contract pipeline in the lottery and diversified gaming businesses, going forward.

Further, Scientific Games in conjunction with GTECH submitted a joint bid for Illinois lottery Private Management Agreement. Scientific Games acquired GameLogic, a provider of technology and marketing and development resources for Internet gaming and player loyalty programs GameLogic's assets and personnel will play a key role in Scientific Games' revenue growth.

### Revenue

Net operating revenues increased 3.6% year-over-year to \$233.0 million, driven by the strength in two of the three segments: Printed Products (+5.4%) and Diversified



Gaming Group (+5.3%), partially offset by a decline Lottery Systems Group (-2.6%). Revenues were above the Consensus Estimate of \$222.2 million.

A major contributor to the revenue increase was higher instant ticket revenues, which increased 5.0% year over year. Revenues were also positively impacted by higher Sales revenues, up 100.5% year over year. However, Service revenues fell 4.2%, negatively impacting overall revenues. Scientific Games' U.S. instant ticket and lottery systems customers' retail sales upped 1.8% and 3.5% year-over-year, respectively, in the quarter.

By segment, Printed Products Group revenues were up primarily due to a rise in instant ticket revenues as a result of higher volumes to existing customers, new contracts in Arkansas and Puerto Rico, transition to a percentage-of-sales contract with the customers in the U.K. and a favorable foreign currency translation. This was partially offset by a decline in sales of instant tickets to Italy and the loss of cooperative services contracts in Ohio and Arizona.

Lottery Systems Group revenues increased primarily due to higher sales revenues of hardware and software, partially offset by lower service revenues due to contract terminations in West Virginia and South Dakota. Moreover, lower international Lottery Systems revenues were partially offset by improved U.S. retail sales.

China Sports Lottery retail sales inched up 4%, but were below management's expectation primarily due to an increased competition from the Shanghai World Expo tickets offered by the China Welfare Lottery and slower-than-anticipated implementation of the marketing plan. However, the company expects to benefit from the introduction of higher price point instant tickets in China, the development of the retailer and validation network and the growth in mobile phones.

Diversified Gaming Group revenues fell due to lower service revenues in the Global Draw business as a result of revised contract terms in the U.K. and decreased revenues from the Austrian over-the-counter product, partially offset by an underlying terminal growth and an increase in gross win per terminal in the U.K. Management said that the closing of the sale of its racing and venue management businesses to Sportech Plc remains pending due to the ongoing regulatory approval process.

### **Operating Performance**

On a GAAP basis, the company reported a loss of \$4.3 million, or 5 cents per share, compared with a net income of \$20.3 million, or 22 cents per share in the year-ago period. This was primarily due to a loss on a foreign currency hedge, higher net interest expense, lower joint ventures equity in earnings and a higher effective tax rate. Moreover, charges related to racing and venue management business impacted the bottom line.

Scientific Games reported an operating income of \$26.5 million for the quarter, flat compared with the year-ago quarter. The operating margin of 11.4% was slightly down from 11.8% in the year-ago period due to a non-cash charge related to the held for sale racing and venue management businesses and higher selling, general and administrative expense, offset by a more profitable revenue mix and a lower depreciation and amortization expense.

Adjusted EBITDA increased slightly to \$81.5 million from \$81.0 million in the year-ago quarter. EBITDA margin was 35.0% in the quarter versus 36.0% in the prior-year period. The decrease was due to a decline in earnings from joint ventures, particularly in Italy.

### **Balance Sheet and Cash Flow**

Free cash flow in the reported quarter was \$31.4 million, down from \$46.4 million in the year-ago quarter. The reduction in free cash flow was due to an increased interest expense and the loss on settlement of a foreign currency hedge related to the Italian instant ticket tender process.

Scientific Games exited the quarter with \$151.5 million in cash and cash equivalents and \$1.38 billion in long-term debt. The company had \$164.3 million available under its revolving credit facility. The company repurchased approximately 2.6 million shares for \$26.3 million, or an average of \$10.02 per share.

Currently, Scientific Games has a short-term Zacks #3 Rank (Hold) rating.

[SCIENTIFIC GAME \(SGMS\)](#) <sup>[2]</sup>: Free Stock Analysis Report

[Zacks Investment Research](#) <sup>[3]</sup>

1

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Commissioner



## TEXAS LOTTERY COMMISSION

Gary Grief, *Executive Director*

Philip D. Sanderson, *Charitable Bingo Operations Director*

August 3, 2010

Simone Harrison  
VP, Business Development  
Scientific Games International  
1500 Bluegrass Lakes Parkway  
Alpharetta, GA 30004

Via facsimile: 678.624.4115

Via e-mail: [simone.harrison@scientificgames.com](mailto:simone.harrison@scientificgames.com)

**TIME SENSITIVE**

RE: Request for Proposals (RFP) for Lottery Operations and Services,  
RFP #362-10-0001; Start-up Costs Clarification

Dear Ms. Harrison:

The Texas Lottery Commission (TLC) is reviewing the Proposal submitted by Scientific Games International (SGI) in response to the referenced RFP, and, pursuant to RFP Section 2.20, requests clarification as set forth below.

1. Attachment J (Start-up Costs) required Proposers to provide the eight (8) categories of start-up costs identified therein. Please state whether these categories include all of the start-up costs that would be required through conversion, and, if not, identify and quantify any additional categories of start-up costs that would be required.
2. For each of the eight (8) categories in Attachment J, please identify each of the cost elements included in the estimated start-up costs; for example, we would want to know whether Lottery Sales Representatives costs include only labor, or whether they also include vehicle and/or laptop expenses. We are not requiring that each contributing cost element be quantified, only that each of the elements that contribute to the overall cost estimate for each category be identified.

In addition, please provide updated copies of the letter(s) confirming monthly end balances for the "Facility Agreements," identified in your response to RFP section 4.7. The updates must be submitted no later than the 15<sup>th</sup> of each month for the period July 1 – November 30, 2010.

This additional information, together with SGI's response to Attachment J, will be used in reviewing SGI's estimated initial or start-up costs to determine SGI's ability to finance performance under the Contract. Your complete response, including the additional information requested herein, must be provided to me no later than **4:00 p.m. CST on**

P.O. Box 16630 • Austin, Texas 78761-6630

Phone (512) 344-5000 • FAX (512) 478-3682 • Bingo FAX (512) 344-5142

[www.txlottery.org](http://www.txlottery.org) • [www.txbingo.org](http://www.txbingo.org)



**Friday, August 6, 2010.** Your response may be submitted via facsimile to (512) 344-5444 or e-mail to [angela.zgarba@lottery.state.tx.us](mailto:angela.zgarba@lottery.state.tx.us).

If you have any questions, you may contact me at (512) 344-5215. Thank you for your immediate attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Angela Zgabay-Zgarba". The signature is fluid and cursive, with the first name "Angela" and last name "Zgarba" being more prominent than the middle name "Zgabay".

Angela Zgabay-Zgarba, CTPM  
Contracts Administrator

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\*\*\* TX REPORT \*\*\*  
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*Commissioner*

J. Winston Krause  
*Commissioner*



## TEXAS LOTTERY COMMISSION

Gary Grief, *Executive Director*

Philip D. Sanderson, *Charitable Bingo Operations Director*

August 3, 2010

Simone Harrison  
VP, Business Development  
Scientific Games International  
1500 Bluegrass Lakes Parkway  
Alpharetta, GA 30004

Via facsimile: 678.624.4115  
Via e-mail: [simone.harrison@scientificgames.com](mailto:simone.harrison@scientificgames.com)  
**TIME SENSITIVE**

RE: Request for Proposals (RFP) for Lottery Operations and Services,  
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**Zgarba, Angela**

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**From:** Zgarba, Angela  
**Sent:** Tuesday, August 03, 2010 4:26 PM  
**To:** 'Harrison, Simone'  
**Subject:** Lottery Operations & Services RFP 362-10-0001 - Clarification on Start Up Costs  
**Attachments:** Clarification Ltr to SGI Start up costs 080310.pdf

Ms. Harrison:

Please see the attached time sensitive clarification letter. Thank you.

*Angela Zgabay-Zgarba*  
Contracts Administrator  
Texas Lottery Commission  
Ph: 512.344.5215  
Fax: 512.344.5058



August 5, 2010

Angela Zgabay-Zgarba, CTPM  
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**Re: Request For Updated Information Relating to Scientific Games' Proposal  
Submission for RFP #362-10-0001 – Start Up Costs Clarification**

Dear Ms. Zgabay-Zgarba:

**CONFIDENTIAL AND PROPRIETARY INFORMATION**

**\$552.110**

Scientific Games International, Inc.  
1500 Bluegrass Lakes Parkway, Alpharetta, GA 30004 770-664-3700 Fax: 678-624-4115  
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Sincerely,

*Simone Harrison*

Simone Harrison  
Vice President, Business Development  
Sales and Global Marketing  
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