



TEXAS LOTTERY

A WORLD OF POSSIBILITIES

Proposal to the Texas Lottery Commission

• FOR LOTTERY OPERATIONS AND SERVICES •

Cost Proposal for RFP No.: 362-10-0001 • June 29, 2010 • COPY

A WORLD OF POSSIBILITIES
PRINTED PRODUCTS • LOTTERY SYSTEMS
DIVERSIFIED GAMING



**TEXAS
LOTTERY**

Submitted to:

Texas Lottery Commission

611 East 6th Street
Austin, TX • 78701

Submitted by:

Scientific Games International, Inc.

1500 Bluegrass Lakes Parkway
Alpharetta, GA • 30004

Contact Person:

Steve Beason

*President & Chief Technical Officer
Lottery Systems*

Tel: 770.664.3700 • Fax: 678.624.4115

Lottery Operations and Services

RFP No. 362-10-0001 • June 29, 2010

Cost Proposal



SCIENTIFIC GAMES®



June 29, 2010

Angela Zgabay-Zgarba
Contracts Administrator
Texas Lottery Commission
P. O. Box 16630
Austin, TX 78761-6630

Dear Ms. Zgabay-Zgarba:

Scientific Games International, Inc. ("Scientific Games") is pleased to provide our Attachment H Cost Proposal in response to the Texas Lottery Commission's Request for Proposals for Lottery Operations and Services No. 362-10-0001. As required under Section 2.15 of the RFP, Scientific Games is also including Attachment A Proposer's Commitment and Attachment J Start-Up Costs in separate sealed envelopes with this correspondence.

Consistent with our objective of offering the Texas Lottery Commission ("TLC") the most comprehensive and innovative lottery solution available in the market, we are pleased to include in our Proposal a multitude of options to the TLC that will greatly enhance the value of our proposition. Specifically, Scientific Games is offering the TLC at no additional cost the following options pursuant to the Invited Options, and Offered Options sections of the RFP:

- ATM application (no charge for first 1,000 within first contract year)
- Lottery Phone Application
- a. Scientific Games' National Data Center as Back-Up Data Center
- b. National Service Center
- c. Lottery UniverCity™
- d. Lottery InSite™
- e. Boodle™
- f. ScreenPlay™
- i. SCGZ Platform for Instant Games
- j. Licensed Third Party Branded Online and Instant Games, MDI
- k. Player's Club
- l. Play it Again™
- m. Easy Entry™ Validation System
- o. Up to 500 Flair™ Terminals to Swap out WAVE™ Terminals
- p. Wireless Bar Code Reader for WAVE™ Terminal
- q. Choice of Touchscreen Technology (SAW or 5-wire) for WAVE™
- s. Integration Plate for WAVE™ Terminal Printer
- u. WAVE™ Terminal — One Language in Addition to English
- x. Upgrade WAVE™ Terminal Memory to 1GB
- cc. Wireless Feature of Self Check Terminals
- dd. 500 Additional Self Check Terminals for Busy/High-Volume Retail Locations

- gg. Upgrade to 22" Widescreen Flat Panel Display for WAVE™ Retailers
- ii. Integration Plate to Player Transaction display
- ll. Tailored Preventive Maintenance Program
- mm. Predictive Ordering System
- nn. Geo-Fencing
- pp. Wide Area Network Redundancy for Retailers Utilizing VSAT as Primary
- qq. Quicker Pix for Top 20% of Retailers
- ss. Lottery Logo Floor Mats for Top 20% of Retailers
- uu. Customized Window/Door Point of Sale for top 20% of Retailers
- ww. Counter Wraps for 100 (one hundred) Retailers
- yy. Additional Lottery Marketing Representatives (LMRs)
- bbb. Customized Vehicle Magnets
- hhh. Transitional Incentive Plan for Employees of Incumbent Vendor
- iii. Research and Development Investment Plan
- jjj. Terminal Program to Support Retail Optimization and Expansion
- kkk. Business Continuity Program — Instant Ticket Warehousing

Scientific Games is proud of its 18 year partnership with the Texas Lottery and looks forward to establishing an all-encompassing relationship that will utilize the extraordinary technology, experience, institutional knowledge and human resources inherent in each of our organizations. By leveraging our respective core competencies, Scientific Games believes that the TLC will be able to achieve its aspiration of becoming the nation's preeminent Lottery and Charitable Bingo agency.

As an officer and an individual legally authorized to negotiate for and contractually bind Scientific Games, please feel free to contact me on any additional matters concerning the accompanying Attachments to our Proposal.

Sincerely,



Mike Chambrello
President & Chief Executive Officer

Enclosures:

- Attachment A of Request for Proposal 362-10-0001
- Attachment H of Request for Proposal 362-10-0001
- Attachment J of Request for Proposal 362-10-0001



ATTACHMENT H

PRICING

Base System and Services Pricing

Scientific Games understands the successful proposer's payment will be based on the specified percentage of sales processed by the successful proposer's Lottery Gaming System.

Scientific Games understands proposers are required to include the following items as a percentage of sales. Sales are defined as sold tickets processed by the Lottery Gaming System, less any tickets that have been canceled or returned, less any promotional tickets or promotional coupons and less any retailer adjustments. Percentages are carried to four (4) decimal places (to the ten-thousandth decimal place) for the Base System and Services.

Scientific Games understands it will receive no compensation prior to successful conversion. The conversion period is expected to last approximately twelve (12) months. Price quoted is firm for the initial contract term and will be mutually agreed for any extension periods.

Price Quoted as a Percentage of Sales:

Base System and Services

2.3900%

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Annual Credit

Scientific Games understands The Texas Lottery relies on marketing advice and expertise from the successful proposer in making business decisions about lottery products. As Scientific Games will be compensated under the contract based on a percentage of sales, it is important to the Texas Lottery that the interests of Scientific Games and the Texas Lottery are generally aligned to ensure the greatest return to the State of Texas, consistent with the Lottery's objectives in Section 1.3 of the RFP. The prize payout percentage from the sale of lottery products is a significant factor in determining net revenue and must be considered by Scientific Games when providing advice and expertise to the Texas Lottery. Scientific Games shall provide credits to the Texas Lottery based on lottery sales and increases in the overall prize payout percentage for Texas Lottery games as follows:

Annual Credit Based on Increase in Overall Prize Payout Percentage – Effective upon successful conversion, and continuing through the remainder of the contract term (and any renewals thereof), Scientific Games shall provide a yearly credit to the Texas Lottery equal to 12% of the Scientific Games' annual incremental revenue from sales above those revenues from sales over the previous state fiscal year (September 1 through August 31) for every .1% increase (rounded to the nearest tenth) in the overall prize payout percentage for Texas Lottery instant and online games, using the prize payout percentage for the previous state fiscal year as the basis. Sales are defined as sold tickets processed by the Lottery Gaming System, less any tickets that have been canceled or returned, less any promotional tickets or promotional coupons and less any retailer adjustments. State Fiscal Year 2011 revenue and prize payout percentage will be the basis for the calculation for the state fiscal year beginning September 1, 2011. This credit calculation shall be conducted quarterly (in December, March, June and September) each state fiscal year (with a final adjustment at the end of each fiscal year, if necessary) and the Texas Lottery will withhold the credit, if any, from payments to Scientific Games. Such credit will not exceed 50% of Scientific Games' incremental annual revenue in any state fiscal year. If the credit calculation final adjustment at state fiscal year end results in a credit payment owed to Scientific Games, such credit payment will be added to payments due to Scientific Games and paid by the Texas Lottery to Scientific Games within 60 days after the state fiscal year end.

Annual Credit Based on Declining or Flat Lottery Sales and Increase in Overall Prize Payout Percentage –

Effective upon successful conversion, and continuing through the remainder of the contract term (and any renewals thereof), Scientific Games shall provide a yearly credit to the Texas Lottery equal to 4.5% of the year-to-year decline (comparing current year dollar returns to the state to returns in the immediately preceding year), calculated on a modified accrual basis, in Texas Lottery monthly transfers to the state under Tex. Gov't Code § 466.355 (or as may be amended), excluding Texas Lottery transfers of any unspent administrative funds—provided, during the applicable period, (i) overall lottery sales are flat or decline and (ii) the overall prize payout percentage for Texas Lottery instant and online games increases by at least .1% (rounded to the nearest tenth). This credit calculation shall be conducted quarterly (in December, March, June and September) each state fiscal year (with a final adjustment at the end of each state fiscal year, if necessary) and the Texas Lottery will withhold the credit, if any, from payments to Scientific Games. If the credit calculation final adjustment at state fiscal year end results in a credit payment owed to Scientific Games, such credit payment will be added to payments due to Scientific Games and paid by the Texas

ATTACHMENT H

Lottery to Scientific Games within 60 days after the state fiscal year end. This section will be rendered null and void and no additional credits will be due if Texas law mandates a reduction to the prize payout percentage.

Texas Lottery-Specified Options

Proposers are **required** to submit specifications and pricing for the following Specified Options. The unit cost is a one-time fee that is for the use of the equipment or services for the remainder of the contract.

a. In-lane Solutions (Section 7.12). The proposer must offer an in-lane solution designed for use in multi-lane stores such as supermarkets. The proposer shall thoroughly describe the design, installation, maintenance and functionality of the solution. If the Texas Lottery exercises this option, the successful proposer must install and maintain the solution.

| | |
|------------------------------|------------------------------------|
| Price for up to 500 Units: | <u>\$150.00 per lane per month</u> |
| Price for 501-1,000 Units: | <u>\$145.00 per lane per month</u> |
| Price for 1,001-1,500 Units: | <u>\$140.00 per lane per month</u> |
| Price for 1,501-2,000 Units: | <u>\$135.00 per lane per month</u> |
| Greater than 2,000 Units: | <u>\$125.00 per lane per month</u> |

Texas Lottery-Invited Options

Proposers are **not required** to submit specifications and pricing for Invited Options. The unit cost is a one-time fee that is for the use of the equipment or services for the remainder of the contract.

a. Single Instant Ticket Accounting (Section 7.3). As an Invited Option, the proposer must describe if its Lottery Gaming System will support single instant ticket accounting. This includes the functionality to track all transactions (e.g., location, status, sales, validation, etc.) and activities at the ticket level.

| | |
|--------|------------------|
| Price: | <u>\$900,000</u> |
|--------|------------------|

b. Specialty Terminals and Equipment (Section 7.12) As an Invited Option, the proposer may offer specialty terminals and equipment, to include new and emerging technology, for future deployment.

| | |
|----------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Price Per Unit: ConvenienceCentral™ (16-bin): | <u>\$14,500</u> |
| Price Per Unit: ConvenienceCentral (sizes other than 16-bin): | <u>Negotiable</u> |
| Price Per Unit: Bet Jet™ Terminal: | <u>\$12,000</u> |
| Price Per Unit: ATM application: | <u>No charge for first 1,000 within first contract year</u> |
| Price Per Unit: ATM application - additional above 1,000 or after first contract year: | <u>Negotiable</u> |
| Price Per Unit: Lottery Phone Application: | <u>No charge</u> |

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Offered Options

The proposer should respond to this section on sheets attached hereto the price for proposer offered optional items. Clearly identify the items offered and the terms under which they are offered. Proposers are **not required** to submit any Offered Options.

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|----|---------------------------------------------------------------|-------------------|
| a. | Scientific Games' National Data Center as Back-Up Data Center | <u>No Charge</u> |
| b. | National Service Center | <u>No Charge</u> |
| c. | Lottery UniverCity™ | <u>No Charge</u> |
| d. | Lottery InSite™ | <u>No Charge</u> |
| e. | Boodle™ | <u>No charge</u> |
| f. | ScreenPlay™ | <u>No Charge</u> |
| g. | Second Chance Promotional Games | <u>Negotiable</u> |
| h. | Third Party Transaction Fees | <u>Negotiable</u> |
| i. | SCGZ Platform for Instant Games | <u>No Charge</u> |
| j. | Licensed Third Party Branded Online and Instant Games, MDI | <u>No Charge</u> |
| k. | Player's Club | <u>No Charge</u> |
| l. | Play it Again™ | <u>No Charge</u> |
| m. | Easy Entry™ Validation System | <u>No Charge</u> |
| n. | "Points for Prizes"™ | <u>Negotiable</u> |
| o. | Up to 500 Flair™ Terminals to Swap out WAVE™ Terminals | <u>No Charge</u> |
| p. | Wireless Bar Code Reader for WAVE™ Terminal | <u>No Charge</u> |
| q. | Choice of Touchscreen Technology (SAW or 5-wire) for WAVE™ | <u>No Charge</u> |
| r. | Color Printer for WAVE™ Terminal | <u>Negotiable</u> |
| s. | Integration Plate for WAVE™ Terminal Printer | <u>No Charge</u> |
| t. | APR Touchscreen for WAVE™ Terminal | <u>Negotiable</u> |
| u. | WAVE™ Terminal – One Language in Addition to English | <u>No Charge</u> |
| v. | WAVE™ Terminal – Third or More Language(s) | <u>Negotiable</u> |
| w. | Auxiliary Speakers for WAVE™ Terminal | <u>Negotiable</u> |

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| x. | Upgrade WAVE™ Terminal Memory to 1GB | <u>No Charge</u> |
| y. | WAVE™ Terminal Solid State Storage Upgrade to 32GB | <u>Negotiable</u> |
| z. | Magnetic Stripe Reader | <u>Negotiable</u> |
| aa. | Additional Four Dispenser (Bin) Drawers — PlayCentral® | <u>Negotiable</u> |
| bb. | PlayCentral — 22" High Resolution LCD Monitor in Place of Back-Lit Panel | <u>Negotiable</u> |
| cc. | Wireless Feature of Self Check Terminals | <u>No Charge</u> |
| dd. | 500 Additional Self Check Terminals for Busy/High-Volume Retail Locations | <u>No Charge</u> |
| ee. | Additional Self Check Terminals for Retailer Expansion beyond 17,500 | <u>Negotiable</u> |
| ff. | Auxiliary Speakers for Customer Display | <u>Negotiable</u> |
| gg. | Upgrade to 22" Widescreen Flat Panel Display for WAVE™ Retailers | <u>No Charge</u> |
| hh. | Separate, Discreet Player Transaction Display | <u>Negotiable</u> |
| ii. | Integration Plate to Player Transaction display | <u>No Charge</u> |
| jj. | 2 or 4-game ConvenienceCentral Dispenser | <u>Negotiable</u> |
| kk. | Lottery Merchandise Tokens | <u>Negotiable</u> |
| ll. | Tailored Preventive Maintenance Program | <u>No Charge</u> |
| mm. | Predictive Ordering System | <u>No Charge</u> |
| nn. | Geo-Fencing | <u>No Charge</u> |
| oo. | VSAT Satellite Reflectors | <u>Negotiable</u> |
| pp. | Wide Area Network Redundancy for Retailers Utilizing VSAT as Primary | <u>No Charge</u> |
| qq. | Quicker Pix for Top 20% of Retailers | <u>No Charge</u> |
| rr. | Quicker Pix for Additional Retailers | <u>Negotiable</u> |
| ss. | Lottery Logo Floor Mats for Top 20% of Retailers | <u>No Charge</u> |
| tt. | Lottery Logo Floor Mats For Additional Retailers | <u>Negotiable</u> |
| uu. | Customized Window/Door Point of Sale for top 20% of Retailers | <u>No Charge</u> |
| vv. | Customized Window/Door Point of Sale for Additional Retailers | <u>Negotiable</u> |
| ww. | Counter Wraps for 100 (one hundred) Retailers | <u>No Charge</u> |
| xx. | Counter Wraps for Additional Retailers | <u>Negotiable</u> |

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| yy. | Additional Lottery Marketing Representatives (LMRs) | <u>No Charge</u> |
| zz. | Third Party Mystery Shopper | <u>Negotiable</u> |
| aaa | Vehicle Wraps | <u>Negotiable</u> |
| bbb | Customized Vehicle Magnets | <u>No Charge</u> |
| ccc | Linked Games | <u>Negotiable</u> |
| ddd | Sale of Event Tickets | <u>Negotiable</u> |
| eee | Cell Phone Accounts | <u>Negotiable</u> |
| fff | Credit or Debit Card Payments | <u>Negotiable</u> |
| ggg | Marketing Research Projects | <u>Negotiable</u> |
| hhh | Transitional Incentive Plan for Employees of Incumbent Vendor | <u>No Charge</u> |
| iii | Research and Development Investment Plan | <u>No Charge</u> |
| jjj | Terminal Program to Support Retail Optimization and Expansion | <u>No Charge</u> |
| kkk | Business Continuity Program – Instant Ticket Warehousing | <u>No Charge</u> |

Inter-Relationship of Options – Most of the options presented here may be selected independently of one another. However, some of the options are inter-related because of equipment limitations or technical reasons. For example, for printed instant games, the total number of coatings which consist of the front display colors, back display colors, lily pad coat, seal coats, release coats, scratch-off coat and overprints is limited by the total number of printing stations on the printing press in use at a given time.

Dates – We strongly advise against placing of dates of any kind onto instant lottery game tickets. Note that dating tickets converts instant game tickets into a “perishable” commodity. If ticket delivery is delayed due to force majeure, a condition of such dating is that the Lottery agrees to assume the risk of such force majeure and to accept such delayed tickets (regardless of the dating thereon).

Taxes – The price quoted is based on the assumption that no sales or use tax, no gambling-related tax, or no customs, duties, or importation taxes will be levied on the goods and services involved herein, and if they are, our price should be considered to be increased to the extent of such taxes.

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NASPL Best Practice Pricing Methodology – Scientific Games subscribes and supports the following NASPL RFP Best Practice Pricing Methodology for Deliverables and Services Not Originally Defined (NASPL Guide to the Standard Request For Proposal (RFP) Template, Section 3.23.2):

"Changes and enhancements that exceed RFP and contractually specified requirements (and which are not otherwise accommodated for in this RFP or by the pricing method in the RFP) will have the terms and price negotiated and approved by both parties, or be subject to a separate agreement. These include, but are not limited to, categorically different service obligations, and new technology enhancements."



Signature of Person Authorized to Contractually Bind the Proposer

Steve Beason

Printed Name

President & Chief Technical Officer Lottery Systems

Title

June 29, 2010

Date