



**CONTRACT FOR
INSTANT TICKET MANUFACTURING AND SERVICES
BETWEEN
THE TEXAS LOTTERY COMMISSION
AND
SCIENTIFIC GAMES INTERNATIONAL**

RECITAL

This Contract is entered into by and between the Texas Lottery Commission, hereinafter referred to as "the Commission, TLC or the Texas Lottery," and Scientific Games International, 1500 Bluegrass Lakes Parkway, Alpharetta, Georgia 30004, hereinafter referred to as "Contractor."

WHEREAS, the TLC previously issued a Request for Proposals (RFP) for Instant Ticket Manufacturing and Services (RFP No. 362-12-0001); and

WHEREAS, Scientific Games International submitted a proposal in response to the RFP; and

WHEREAS, following review of proposals submitted in response to the RFP, the TLC has selected Contractor to provide Instant Ticket Manufacturing and Services for the TLC for the Contract term and any renewal periods.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties agree as follows:

I. TERM

This Contract shall commence on September 1, 2012, and continue through August 31, 2018, subject to the termination provisions in the RFP and subject to the TLC being continued and funded by the Texas Legislature.

The Texas Lottery reserves the right to extend this Contract, at its sole discretion, for up to two (2) additional three (3) year periods, at the Contract rate or rates as modified during the term of the Contract.

At the end of the initial term or any renewal period, and instead of exercising the renewal above, the Texas Lottery reserves the right to extend this Contract, at its sole discretion, for up to three (3) additional months, in one month intervals, at the Contract rate or rates as modified during the term of this Contract.

No later than sixty (60) days prior to the start of any renewal period(s), Contractor may be required to submit prices for the applicable renewal period. The Texas Lottery reserves the right to re-negotiate prices at any time during the Contract term or any renewal period.

At the end of the Contract term, or upon earlier termination under any provision of this Contract, Contractor shall, in good faith and with reasonable cooperation, aid in the transition to any new arrangement and provider, if requested by the Texas Lottery.

The TLC, in its sole discretion, may terminate, in whole or in part, this Contract at will and without cause upon no less than thirty (30) days' advance written notice. The TLC also may terminate this Contract immediately with written notice if the Executive Director, in his sole judgment, believes that the integrity or security of the TLC is in jeopardy and it is in the best interest of the TLC to do so.

II. PRODUCTS AND SERVICES

During the term of this Contract, Contractor, as an independent contractor and not as an employee or agent of the TLC, shall provide the following services:

Those products and services requested in and pertaining to the TLC Request for Proposals for Instant Ticket Manufacturing and Services (RFP), issued November 7, 2011 (attached hereto as Exhibit A), as may have been clarified and modified in responses to questions submitted by proposers (attached hereto as Exhibit B), Contractor's Proposal submitted January 27, 2012 (attached hereto as Exhibit C), and Contractor's revised Cost Proposal (Exhibit D). Contractor's revised Cost Proposal supersedes the cost proposal included in Contractor's Proposal and shall apply during the Contract term (including any renewal period).

Exhibits A, B, C and D are incorporated into this Contract by reference the same as if recited at length and are made a part of this Contract for all purposes. The terms of the RFP and the Proposal are controlling except as modified by the terms of this Contract, which shall control in all events. In the event of any conflict or contradiction between or among these documents, the documents shall control in the following order of precedence: Sections I-VIII of this document, together with the Contractor's revised Cost Proposal (Exhibit D); the RFP as clarified and modified by amendment and in response to questions submitted by proposers (Exhibits A and B); and Contractor's Proposal (Exhibit C). Contractor's performance shall be in accordance with the terms and conditions established in Exhibits A, B, C and D and as specified in Sections I through VIII of this document.

Notwithstanding anything herein to the contrary, the parties agree the following RFP sections are replaced in their entirety as shown below and shall apply during the Contract term and any renewal period:

1. RFP Glossary of Terms, definition of "Works"

Any tangible or intangible items or things that have been or will be prepared, created, maintained, serviced, developed, incorporated, provided or obtained by a Successful Proposer (or such third parties as the Successful Proposer may be permitted to engage) at any time following the effective date of the Contract, for or on behalf of TLC under the Contract, including but not limited to any (i) works of authorship (such as literary works, musical works, dramatic works, choreographic works, pictorial, graphic and sculptural works, motion pictures and other audiovisual works, sound recordings and architectural works, which includes but is not limited to lottery games, game names, game designs, ticket format and layout, manuals, instructions, printed material, graphics, artwork, images, illustrations, photographs, computer software, scripts, object code, source code or other programming code, HTML code, data, information, multimedia files, text web pages or web sites, other written or machine readable expression of such works fixed in any tangible media, and all other copyrightable works), (ii) trademarks, service marks, trade dress, trade names, logos, or other indicia of source or origin, (iii) ideas, designs, concepts, personality rights, methods, processes, techniques, apparatuses, inventions, formulas, discoveries, or improvements, including any patents, trade secrets and know-how, (iv) domain names, (v) any copies, and similar or derivative works to any of the foregoing, (vi) all documentation and materials related to any of the foregoing, and (vii) all other goods, services or deliverables to be provided to TLC under the Contract.

2. RFP Section 3.27 (Pre-Existing and Third Party Rights)

3.27.1 To the extent that any pre-existing rights and/or third party rights or limitations are embodied, contained, reserved or reflected in the Works, the Successful Proposer shall either (a) grant to the Texas Lottery the irrevocable, perpetual, non-exclusive, worldwide, royalty-free right and license to (i) use, execute, reproduce, display, perform, distribute copies of, and prepare derivative works based upon such pre-existing rights and any derivative works thereof in connection with the sale, offering for sale, marketing, advertising, and promotion of the Texas Lottery's goods and services, and in all forms of media, media channels and/or publicity that may now exist or hereafter be created or developed, including but not limited to television, radio, print, Internet, and social media (e.g., Facebook, Twitter, YouTube, etc.) and (ii) authorize others to do any or all of the foregoing, or (b) where the obtaining of the aforementioned rights is not reasonably practical or feasible, provide written notice to the Texas Lottery of such pre-existing or third party rights or limitations, request the Texas Lottery's approval of such pre-existing or third party rights, obtain a limited right and license to use such pre-existing or third party rights on such terms as may be reasonably negotiated, and obtain the Texas Lottery's written approval of such pre-existing or third party rights and the limited use of same. The Successful Proposer shall provide the Texas Lottery with documentation indicating a third party's written approval for the Successful Proposer to use any pre-existing or third party rights that may be embodied, contained, reserved or reflected in the Works. The Successful Proposer shall indemnify, defend and hold the Texas Lottery harmless from and against any and all claims, demands, regulatory proceedings and/or causes of action, and all losses, damages, and costs (including attorneys' fees and settlement

costs) arising from or relating to, directly or indirectly, any claim or assertion by any third party that the Works infringe any third party rights. The foregoing indemnity obligation shall not apply to instances in which the Texas Lottery either (y) exceeded the scope of the limited license that was previously obtained by the Successful Proposer and agreed to by the Texas Lottery, or (z) obtained information or materials, independent of the Successful Proposer's involvement or creation, and provided such information or materials to the Successful Proposer for inclusion in the Works, and such information or materials were included by the Successful Proposer, in an unaltered and unmodified fashion, in the Works.

3.27.2 The Successful Proposer shall provide the Texas Lottery a copy of the license agreement between the Successful Proposer and the licensor for all licensed, branded and proprietary games produced by the Successful Proposer for the Texas Lottery under this Contract. The Successful Proposer must provide the license agreement to the Texas Lottery with the draft working papers. If the licensor has prohibited the Successful Proposer from providing the license agreement to the Texas Lottery, the Successful Proposer shall provide other proof of its license rights acceptable to the Texas Lottery in the agency's sole discretion.

3.27.3 The Successful Proposer agrees that it shall have and maintain, during performance of any Contract arising from this RFP, written agreements with all employees, Subcontractors, or agents engaged by the Successful Proposer in performance hereunder, granting the Successful Proposer rights sufficient to support all performance and grants of rights by the Successful Proposer. Copies of such agreements shall be provided to the Texas Lottery promptly upon request.

3. RFP Section 3.35.2 (Performance Bond)

3.35.2 The bond must be maintained in full force and effect for the initial term and any renewal term of the Contract. The bond shall be forfeited to the Texas Lottery if the Successful Proposer fails to perform as required by the Contract, pay sanctions or liquidated damages, or indemnify the Texas Lottery. Any alterations to the bond language as shown in Attachment F must be approved in advance by the Texas Lottery.

4. RFP Section 7.3 (Individual Instant Game Development Schedule)

For those games within the fiscal year instant ticket Game Plan, it is the expectation of the Texas Lottery that each Successful Proposer designated to produce their games will prepare draft artwork and prize structures well in advance of the scheduled launch date for each game or each Successful Proposer shall provide draft artwork and prize structure to the Texas Lottery within five (5) Working Days upon request from the Texas Lottery.

7.3.1 Upon receiving approval of artwork and prize structure from the Texas Lottery, the Successful Proposer must provide draft working papers to the Texas Lottery within five (5) business days.

- 7.3.2 The Successful Proposer shall provide to the Texas Lottery Instant Product Coordinator two (2) color proofs of the ticket image for each game for approval. One proof shall be provided with the draft working papers and the second prior to production.
- 7.3.3 Upon review of the draft working papers, the Texas Lottery will provide requested changes to the Successful Proposer. The Successful Proposer must provide final working papers to the Texas Lottery within two (2) business days of receipt of the requested changes.
- 7.3.4 The Successful Proposer must deliver tickets to the Texas Lottery's warehouse no later than the delivery date specified in the final executed working papers.
- 7.3.5 Post Executed Changes. Any changes to the final executed working papers must be in writing and approved by the Executive Director or his designee before production of the instant game begins.

For those games that the Texas Lottery determines to add to the fiscal year instant ticket Game Plan, it is the expectation of the Texas Lottery that each Successful Proposer shall provide draft artwork and prize structure to the Texas Lottery within five (5) business days upon request from the Texas Lottery.

- 7.3.6 Upon receiving approval of artwork and prize structure from the Texas Lottery, the Successful Proposer must provide draft working papers to the Texas Lottery within five (5) business days.
- 7.3.7 The Successful Proposer shall provide to the Texas Lottery Instant Product Coordinator two (2) color proofs of the ticket image for each game for approval. One proof shall be provided with the draft working papers and the second prior to production.
- 7.3.8 Upon review of the draft working papers, the Texas Lottery will provide requested changes to the Successful Proposer. The Successful Proposer must provide final working papers to the Texas Lottery within two (2) business days of receipt of the requested changes.
- 7.3.9 The Successful Proposer must deliver tickets to the Texas Lottery's warehouse no later than the delivery date specified in the final executed working papers.
- 7.3.10 Post Executed Changes. Any changes to the final executed working papers must be in writing and approved by the Executive Director or his designee before production of the instant game begins.

5. **RFP Section 7.8 (Working Papers)**

- 7.8.1 Working papers for each instant game will be generated by the Successful Proposer in a format designated by the Texas Lottery. Executed working papers must be complete and free of any errors. Production of any instant game will not proceed until the Texas Lottery Executive Director or designee gives written authorization. Any changes made after the execution of working papers must be approved through the execution of a post executed change and signed by the Texas Lottery Executive Director or designee. Instant game development schedules will be established by the Texas Lottery and working papers executed

in order to facilitate an orderly process for the production and delivery of instant games. The TLC reserves the right to cease production of any executed game that has not been printed yet. The Successful Proposer may invoice the Texas Lottery for actual costs incurred up to the cancellation date; the Texas Lottery agrees to pay such costs up to a maximum of \$4,000 per game.

7.8.2 For licensed property instant games, the terms of the working papers for the particular game will control in the event of a conflict with any provisions of this RFP.

7.8.3 Working papers for each Texas Lottery instant game will at a minimum include, but not be limited to, specifications for the following:

- (a) Game name, number, date and version.
- (b) Color version of ticket, covered and uncovered, at 100% and 200%.
- (c) Back of ticket at 100% and 200%.
- (d) Ticket size and paper stock to be used.
- (e) Uniform Product Code (UPC) number, which is unique to each game.
- (f) Placement of Bar code on uncovered ticket.
- (g) Front display colors, overprint colors, and security tint colors.
- (h) Description of play style.
- (i) Quantity ordered.
- (j) Orientation of ticket front and back, and press layout configuration.
- (k) Pack size and configuration.
- (l) Prize structure including: game name, number, date and version, ticket price point, production quantity, percent of prize payout, net revenue generated, each tier level for prizes and play action indicating how each tier is won, odds per prize level, overall odds of winning any prize in the game and consolidated odds if there is more than one way to win a prize, winners per pack and per pool, prize cost and percent of prize fund dedicated to each prize level, and percent of prize fund dedicated to low, mid and high tier prize levels, designation of low, mid and high tier prizes, Guaranteed Low-End Prize Structure (GLEPS) for each pack of tickets - broken out into different GLEPS patterns (up to six (6)) and number of winners per pack. Prize structure may be required to show a statement that all top prizes and combination of prizes totaling the top prize are guaranteed.
- (m) Ticket layout for front and back imaging.
- (n) Description of validation number, bar code and UPC code.
- (o) Detail of all actual size of legends, play spots, captions, numbers/symbols, and prize spots
- (p) Description of validation media, inventory files and end of production reports. Description should include file characteristics and record layout.
- (q) Programming parameters or constraints as directed by the Texas Lottery.
- (r) Deliverables schedule.
- (s) Order and price confirmation page for sign-off approval by the Texas Lottery.
- (t) Color ink draw downs, including proposed options such as varnish, tints, metallic inks, fluorescent inks, etc.

6. RFP Section 8.7 (Guaranteed Low End Prize Structure (GLEPS))

Each pack of tickets must contain a guaranteed dollar value of low-tier prizes as specified by the Texas Lottery in the executed working papers. Up to six (6) different configurations of low-tier prizes must be equally and randomly incorporated in each pool and throughout all pools in the game. The different ways to win a low-tier prize within a GLEPS configuration will be randomly placed within a pack of tickets. Each configuration must have the same total dollar value of low-tier winners, but each will have varying numbers of winners of various denominations. Low-tier is currently defined as a prize value of \$24.99 or less. For higher price point games that do not contain low-tier or adequate low-tier prizes, a comparable structure for lower value prizes will be required as specified by the Texas Lottery in the executed working papers and/or the Customer Specifications Document. The low-tier values will be defined in the Customer Specifications document and working papers.

7. RFP Section 8.16 (Pre-Production Certification and Color Proof Approval)

- 8.16.1 The Texas Lottery incorporates the highest standards of security and integrity and reserves the right to inspect all tickets produced under any Contract to ensure compliance with the RFP specifications.
- 8.16.2 The Successful Proposers(s) shall certify the accuracy of the game prize structure, and that all Texas Lottery requirements including any parameters and/or constraints have been met, via email to specified Texas Lottery staff, prior to game production.
- 8.16.3 Upon written request by the Texas Lottery Operations Director, the Successful Proposer shall furnish all of the actual game computer and related program reports to the Texas Lottery prior to production.
- 8.16.4 Upon written request by the Texas Lottery Operations Director, the Successful Proposer also must provide, for each game, an image of the computer-generated printout from the test pools illustrating each of the GLEP patterns (up to six (6)) and the reconstruction reports of these packs. Also upon request, the Successful Proposer shall also provide all information pertinent to the test pools, including any summary reports.
- 8.16.5 The Successful Proposer shall provide to the Texas Lottery Instant Product Coordinator two (2) color proofs of the ticket image for each game for approval. One proof shall be provided with the draft working papers and the second prior to production.
- 8.16.6 The Successful Proposer shall not produce any game until the Texas Lottery receives the preproduction certification email, approves the ticket color proof, and authorizes game production.

8. RFP Section 8.19 (End of Production Prize Structure)

Prior to the arrival of a printed game at the Texas Lottery warehouse facility, the Successful Proposer must submit an end of production prize structure report for the game which shall be verified in the standard audit letter by a certified public accounting firm

under Section 8.17. This report is a listing of the summary of the prize value in the game by prize level. The end of production prize structure report must be e-mailed as specified by the Texas Lottery with the low and mid/high tier electronic validation files, and all must be received by the Texas Lottery prior to actual delivery of tickets to the warehouse. The Texas Lottery will review the Successful Proposer's end of game prize structure for each game and if any errors are detected, the Successful Proposer must correct the errors as soon as identified. However, in no event shall the deadline for instant ticket delivery specified in the executed working papers be extended. Should the End of Production variance cause the odds or other statements on the printed tickets to be incorrect, the Texas Lottery may determine the game to be non-conforming and, in accordance with Section 3.54.15, withhold any amounts due to the Successful Proposer under the Contract.

III. PAYMENT

All payments will be made in accordance with this Section III and the Texas Government Code ANN. § 2251 et seq. ("Payments for Goods and Services"). Contractor shall submit invoices monthly for the previous month's services. Each invoice shall note the contract number, services rendered, and date of services. Contractor shall submit invoices for each game, noting the Contract number and detailing services rendered, including game name, game number, quantity of tickets shipped, cost per thousand per executed working papers and/or any costs associated with the game. Invoices must also include the individual purchase order number provided by the Texas Lottery for that particular game.

Invoices may be submitted by mail to the Texas Lottery Commission, P. O. Box 16630, Austin, Texas 78761-6630, Attn: Accounts Payable or by e-mail to AccountsPayable@lottery.state.tx.us. Payments will be made only upon the completion of services or after the delivery of goods authorized in an approved invoice.

Pursuant to Texas Government Code Ann. Section 2251.025, interest is not due on a payment until it becomes "overdue." A payment is not "overdue" until the 31st day after the latter of: (1) the date the Texas Lottery receives the goods covered by the contract; (2) the date the performance of service under the contract is completed; or (3) the date the Texas Lottery receives an invoice for the goods or services. *See* Tex. Gov't Code Ann. Section 2251.021. Services are "completed" when accepted by the Texas Lottery.

Contractor agrees that if the Texas Comptroller of Public Accounts is prohibited from issuing a warrant to Contractor under section 403.055 of the Texas Government Code, any payments owed to Contractor will be applied towards the debt or delinquent taxes that Contractor owes the State of Texas until the debt or delinquent taxes are paid in full.

IV. MODIFICATION

The TLC and Contractor may by mutual agreement modify the scope, personnel and prices set forth in this Contract. This modification must be in writing, recite that it is a modification pursuant to Section IV of the Contract, and be signed by individuals having the authority to bind the parties.

In no event shall Contractor be paid for work not authorized by the Contract or any of its written modifications.

V. GENERAL PROVISIONS

The following general provisions are specifically applicable to Contractor during the term of this Contract and any extension thereof, and shall survive the Contract where necessary:

A. Marketing and Advertising. No marketing or advertising related to this Contract may be conducted by Contractor without the prior written consent of the TLC.

B. Contractor Employees. In addition and subject to the requirements set forth in the RFP, Contractor shall assign the work required by this Contract only to those persons identified in Contractor's Proposal by name, together with staff category, and who are reasonably satisfactory to the TLC. Contractor shall report on a quarterly basis, with deadlines to be supplied by the TLC, the number of full-time equivalent (FTE) employees used by Contractor or any subcontractors to provide goods and services under this Contract.

C. Improper Influence. Contractor hereby agrees that Contractor shall not knowingly make a gift, loan or political contribution, either directly or indirectly, to any Texas State Officer or a member of the Texas State Legislature, during the term of this Contract. For purposes of this Contract, "Texas State Officer" means those whose duties concern the State of Texas at large or the general public, or who are authorized to exercise their official functions throughout the entire State, without limitation to any political subdivision of the State. Contractor further agrees that it shall direct its officers, directors, employees, agents, lobbyists and representatives not to make any such gift, loan or political contribution on Contractor's behalf; provided, that any gifts, loans or political contributions that these individuals or entities may make on their own behalf or on behalf of someone other than Contractor shall not be a violation of this provision. Any violation of this provision may, at the sole discretion of the TLC, result in either the immediate termination of this Contract or liquidated damages in the amount of \$10,000 for each occurrence.

D. Conflict of Interest. Contractor shall promptly disclose to the Texas Lottery in writing any actual, potential or perceived conflict of interest, relative to the performance of the requirements of this Contract. Contractor must disclose any personal or business relationship of (a) itself; (b) any of its principals, officers, directors, investors, owners, partners, and employees (collectively, Contractor Personnel); (c) any spouse, child, brother, sister, or parent residing as a member of the same household in the principal place of residence of any Contractor Personnel; (d) any affiliate; or (e) any Subcontractor, with any employee or representative of the Texas Lottery (including the Texas Lottery Executive Director and its commissioners) or its prime vendors.

E. Change in Financial Condition. Contractor shall notify the Texas Lottery of a material adverse change in its financial condition during the Contract term and any renewal thereof. If the Contractor experiences a material adverse change during the term of the Contract or any extension thereof, Contractor shall notify the Texas Lottery in writing of such change at the time the change occurs or is identified. Failure to notify the Texas Lottery of such material adverse change will be sufficient grounds for terminating the Contract. The term "material adverse change" shall mean any change or changes that individually or in the aggregate are materially

adverse to (i) the assets, properties, business, results of operations or financial condition, taken as a whole, of Contractor or other applicable obligor, (ii) the ability of Contractor or such other obligor to perform its or their obligations under the Contract, or (iii) the legality or enforceability against Contractor or such obligor of the Contract.

F. Contractor Standards. Contractor shall perform its responsibilities by following and applying at all times the highest professional and technical guidelines and standards.

G. Contingencies. This Contract is subject to the following contingencies:

(1) Contractor's presentment of all bonds and insurance certificates in the form and amount required by the TLC in accordance with the requirements set forth in the RFP.

(2) Satisfactory criminal history and background investigation report in accordance with the requirements of the State Lottery Act (Chapter 466 of the Texas Government Code), including Sections 466.103 and 466.155.

H. Multiple Originals. This Contract is executed in three (3) identical copies, each of which shall be deemed an original.

VI. NOTICES

Unless otherwise directed, all invoices, notices, reports and correspondence required by this Contract shall be in writing and delivered to the following representatives of the TLC and Contractor, or their successors in function:

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

Contractor
James Trask
President, Printed Products Group
Scientific Games International
1500 Bluegrass Lakes Parkway
Alpharetta, Georgia 30004

VII. APPLICABLE LAW


This Contract [Sections I-VIII of this document, the RFP (Exhibit A), as may have been clarified and modified in responses to questions submitted by proposers (Exhibit B), Contractor's Proposal (Exhibit C), and Contractor's revised Cost Proposal (Exhibit D)] shall be governed by and construed in accordance with the laws of the State of Texas, and venue for any dispute arising from this Contract shall be in state district court, Travis County, Texas. This Contract constitutes the entire agreement between the TLC and Contractor, and may be amended only by formal written agreement properly executed by both the TLC and Contractor.

VIII. EQUAL OPPORTUNITY

Contractor agrees that all employees shall be recruited, hired, trained, assigned, promoted, transferred, downgraded, laid off, recalled and terminated based upon their own abilities, achievements and experience, and in compliance with the provisions of the Civil Rights Act of 1964 (42 USCA 2000e, *et. seq.*) and other applicable federal and state laws.

EXECUTED on this 19th day of July, 2012, by a person having the authority to contractually bind Scientific Games International.

SCIENTIFIC GAMES INTERNATIONAL

By: 
JAMES TRASK
PRESIDENT, PRINTED PRODUCTS GROUP

EXECUTED on this 21st day of July 2012, by a person having the authority to contractually bind the Texas Lottery Commission.

TEXAS LOTTERY COMMISSION

By: 
GARY GRIEF
EXECUTIVE DIRECTOR