



STATE OF ARKANSAS
**Department of Finance
 and Administration**

OFFICE OF THE ARKANSAS LOTTERY

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October 14, 2015

The Honorable Jimmy Hickey, Co-Chair
 The Honorable Chris Richey, Co-Chair
 Arkansas Legislative Council Lottery Oversight Subcommittee
 One Capitol Mall, Room R-501
 Little Rock, AR 72201

RE: Request for Review of Third Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Game Services

Gentlemen:

The Department of Finance and Administration Office of the Arkansas Lottery ("Lottery") requests that the Arkansas Legislative Council Lottery Oversight Subcommittee ("ALC LOS") review the Third Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Game Services between the Lottery and Scientific Games International ("SGI"). I respectfully request that this matter be included on the agenda of the October 15, 2015 ALC LOS meeting. The following information provides background on this matter:

1. The Lottery issued a Request for Proposal for Instant Ticket Lottery Game Services (RFP) on June 9, 2009, with a proposal opening date of July 23, 2009 and subsequent addendums dated June 30, 2009, and July 15, 2009, for the implementation, operation and maintenance of an Instant Ticket Games System (*See Exhibit A*).
2. Upon evaluation of the proposals submitted in response to the RFP, the Lottery determined that the SGI proposal dated July 27, 2009 met or exceeded each of the requirements of the RFP and was the Successful Vendor pursuant to the Lottery's competitive proposal process (*See Exhibit B*).
3. On August 18, 2009, the Lottery and SGI entered into an Agreement for Contractual Services for Instant Ticket Lottery Game Services ("Original Agreement") for SGI to provide a comprehensive solution to instant ticket operations, including the manufacture of instant tickets, warehousing, ordering, and distribution of instant tickets and marketing support services (*See Exhibit C*).
4. Term of Initial Agreement: The Original Agreement between the Lottery and SGI was for seven (7) years from the date of award, with an option for renewal up to three (3) additional times in one (1) year increments or a portion thereof (Term) (*See Exhibit C*).
5. First Amendment: The Lottery and SGI entered into a First Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Games Services on August 18, 2012 (*See Exhibit D*).

6. Second Amendment: The Lottery and SGI entered into Second Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Game Services on December 9, 2014 (See Exhibit E).
7. Vendor or other parties to the proposed Third Amendment to the Agreement: Arkansas Department of Finance and Administration Office of the Lottery and Scientific Games International. The proposed Third Amendment is enclosed as Exhibit F.
8. Term of Proposed Third Amendment:
 - a. The Lottery exercises the remaining extensions under the Original Agreement such that the Term of the Agreement now expires on August 18, 2019.
 - b. Both parties agree to amend Section 2 of the Agreement to provide that the Term shall expire seven (7) years following the completion of the current Term, as extended herein, with said expiration date on August 18, 2026.
9. Value (cost or cost savings) projected for the proposed Third Amendment to the Agreement:
 - a. SGI agrees to reduce the aggregate percentage of sales from 1.81% to 1.30% of Net Sales (as this term is defined in the RFP) upon execution of the Agreement. The parties agree that the Properties Plus™ program and the use of Failsafe® by the Lottery shall continue throughout the extended term, except to the extent reasonably agreed upon by the parties in writing.
 - b. The parties agree that should the Net Sales of Lottery instant ticket sales exceed \$360,000,000 in a contract year of the Agreement, SGI shall receive a one-time bonus payment in an amount equivalent to 4.5% of all such incremental sales exceeding \$360,000,000. During the contract year running from August 18, 2015, through August 17, 2016, such bonus payment, if any, shall be calculated based on the total Net Sales of instant tickets for such contract year, then multiplied by the percentage of the contract year comprised of the period running from the effective date of this Third Amendment through August 17, 2016.
 - c. The new rate shall be effective for all sales of Lottery instant tickets as of the effective date of the Third Amendment.
 - d. SGI agrees to continue to provide, at no additional cost to the Lottery, an annual SOC 2 Type 2 audit of the Player's Club pursuant to all applicable AICPA Trust Service principles during the extension term.
 - e. SGI agrees to provide the Lottery with an Arkansas-specific Player Segmentation Study in accordance with the schedule and scope agreed upon by the parties at no additional cost to the Lottery.

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10. Other Terms and Conditions: Except as amended by this Third Amendment, all other terms and conditions of the Agreement, including but not limited to the Recital, shall remain in effect as set forth therein.

Please call me if you have any questions or need additional information.



Bishop Woostey
Director

Enclosures

cc: The Honorable Asa Hutchinson, Governor of Arkansas
Mr. Larry Walther, Director, Arkansas Department of Finance and Administration

