

MITCHELL | WILLIAMS

Derrick W. Smith
Direct Dial: 501-688-8845
Fax: 501-918-7845
E-mail: dsmith@mwlw.com

425 West Capitol Avenue, Suite 1800
Little Rock, Arkansas 72201-3525
Telephone: 501-688-8800
Fax: 501-688-8807

March 16, 2012

VIA U.S. MAIL

Mr. Bishop Woosley
Arkansas Scholarship Lottery Director
Arkansas Lottery Commission
Post Office Box 3238
Little Rock, AR 72203

Re: Statement for Legal Services Retainer for the Month of February
2012 for the Arkansas Lottery Commission in the General Advice
2012 Matter

Dear Mr. Woosley:

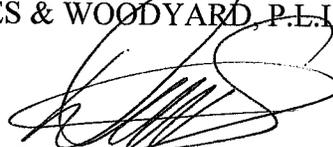
Enclosed please find our statement for legal services retainer for the month of February
2012 for the Arkansas Lottery Commission in the above referenced matter.

If you have any questions, please give me a call.

Sincerely,

MITCHELL, WILLIAMS, SELIG,
GATES & WOODYARD, P.L.L.C.

By



Derrick W. Smith

DWS:klw
Enclosure

MITCHELL || WILLIAMS

Arkansas
Texas
New York
Washington, D.C.

425 West Capitol Avenue, Suite 1800
Little Rock, AR 72201-3525
Telephone 501-688-8800
Fax 501-688-8807

ARKANSAS LOTTERY COMMISISON
ATTN: MR. BISHOP WOOSLEY
ARKANSAS SCHOLARSHIP LOTTERY, DIRECTOR
POST OFFICE BOX 3238
LITTLE ROCK, AR 72203

MARCH 14, 2012

INVOICE NO. 1040959

CLIENT NO.

027810-0001

(PLEASE DETACH THIS PORTION AND RETURN WITH YOUR PAYMENT)

A C C O U N T S U M M A R Y

RE: GENERAL ADVICE 2012

LEGAL SERVICES RETAINER	1,500.00
FEBRUARY 2012 RETAINER	
TOTAL AMOUNT DUE	<hr/> 1,500.00

MITCHELL, WILLIAMS, SELIG, GATES & WOODYARD, P.L.L.C. | ATTORNEYS AT LAW
ARKANSAS • TEXAS • NEW YORK • WASHINGTON, D.C. | MITCHELLWILLIAMS.COM

EMPLOYER IDENTIFICATION
NO. 71-0261429

BALANCE PAYABLE UPON RECEIPT UNLESS PRIOR ARRANGEMENTS HAVE BEEN MADE
PLEASE REMIT TO THE LITTLE ROCK OFFICE

MITCHELL, WILLIAMS, SELIG, GATES & WOODYARD

ARKANSAS LOTTERY COMMISISON

FILE 027810-0001

PAGE 2

RE: GENERAL ADVICE 2012

MITCHELL, WILLIAMS, SELIG, GATES & WOODYARD

ARKANSAS LOTTERY COMMISSISON

FILE 027810-0001

PAGE 2

RE: GENERAL ADVICE 2012

02/10/12	DWS	LEGAL RESEARCH REGARDING EXECUTIVE SESSIONS UNDER FREEDOM OF INFORMATION LAW; DRAFT LIST OF FREQUENTLY ASKED QUESTIONS REGARDING SAME	4.40
02/11/12	DWS	ATTEND LOTTERY COMMISSION MEETING TO DISCUSS FREEDOM OF INFORMATION ACT AND EXECUTIVE SESSIONS	.80
02/13/12	DWS	TELEPHONE CONFERENCE WITH MR. BRUCE ENGSTROM REGARDING LOTTERY COMMISSION MATTERS	.60
02/14/12	DWS	LEGAL RESEARCH REGARDING RECENT JUSTICE DEPARTMENT OPINION REGARDING NATIONAL WIRE ACT AND TELEPHONE CONFERENCE WITH MR. DON FEENEY OF THE MINNESOTA LOTTERY REGARDING RESPONSE TO WIRE ACT	1.60
02/14/12	DWS	TELEPHONE CONFERENCE WITH MR. BISHOP WOOSLEY	.30

Scientific Games is proud of its record supporting the Arkansas Lottery Commission and helping generate more than **twice** the projected lottery funding – more than \$176 million dollars generated for the benefit of Arkansas students. We take our reputation for high integrity very seriously, and compliance with all applicable laws, rules and regulations in our business operations is of the highest priority to Scientific Games.

Simply put, Scientific Games complied with all Arkansas legal and regulatory requirements applicable to it when negotiating and executing our contract with the Arkansas Lottery Commission. We entered into a valid and binding agreement, negotiated directly with persons authorized to represent the Lottery, and we continue to fully perform all our obligations under that agreement in reliance on their authority and the Lottery's continued performance of its obligations under the agreement.

Likewise, we've been fully cooperative and responsive whenever we've been called upon to provide information in connection with the many, seemingly redundant reviews of this contract, including whatever information was requested by the internal auditor. We've met with the Lottery in good faith in an attempt to resolve this matter, which is entirely related to the Lottery's internal procedures and is diverting time, resources and attention from the Lottery's principal mission of producing funds for the benefit of Arkansas' students. We find it incredible that our reputation and our contract are repeatedly and unjustifiably being called into question in a very public manner, and respectfully call upon the Lottery Commission to take the corrective action by formally reaffirming our contract.

The issues raised by the internal auditor of the Lottery were not created by Scientific Games. In August 2009, Scientific Games submitted the best bid at the best price for Arkansas's instant ticket program. Our bid was properly reviewed by the Oversight Committee and the Lottery Commission. The procurement rules in effect for the Lottery at that time unquestionably gave the Director the authority to negotiate and bind the Commission to a final contract. Scientific Games relied on his stated authority to do so, and a final contract was signed by Scientific Games and the Director after good faith negotiations. The Recital of Selected Options, which was negotiated and signed by the Director, called for Scientific Games to provide additional services at the request of the Lottery. While these services were not included in our original proposal, the contract with the Lottery specifically anticipated the parties' including additional, related services by amendment negotiated directly with the Lottery, such as telemarketing services.

There is nothing new in what the Commission heard today from its internal auditor. Scientific Games has been providing the full complement of services called for in the Contract and Recital since the internal auditor took his position in 2009. It is worth noting that Scientific Games actually began work – taking the risk of producing millions of tickets for the Lottery's benefit – before having a signed agreement, in order to satisfy the Lottery's desire to begin operations ahead of schedule.

In fact, this exact same issue has been raised and resolved at least twice since the agreement was executed by the parties. In October, 2010, the Division of Legislative Audit issued its audit of the lottery for the year ending June 30, 2010, in which it made the following finding:

2010-2 Ark. Code Ann. § 23-115-205(a)(20) states that the Commission may enter into contracts with the terms and conditions as necessary. In addition, Ark. Code Ann. § 23-115-701 (e)(1) states that each major procurement contract shall be filed with the Arkansas Lottery Commission Legislative Oversight Committee (Oversight Committee) for review before the execution date of the contract. The Commission approved and Oversight Committee reviewed the instant ticket lottery game service contract with a stated cost of 1.75% of net sales. Subsequent to this review, Management entered into a *Recital of Selected Options* with a cost of 1.92% of net sales plus an additional cost of 1.5% of the prize fund. The estimated cost of the *Recital of Selected Options* compared to the original reviewed price proposal is an estimated additional \$3.9 million per year. In addition to the *Recital of Selected Options*, Management entered into three licensing agreements with the vendor with a total estimated cost of \$671,861. The subsequent *Recital of Selected Options* and three licensing agreements were not approved by the Commission or reviewed by Oversight Committee. Lack of appropriate review of contracts and modifications of contracts could lead to a lack of transparency to the Oversight Committee and public.

We recommend the Agency ensure compliance with State law by submitting appropriate documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.

Notably, the legislative auditors neither questioned whether the Lottery was bound to the Contract, including the Recital, nor did they recommend any corrective action related to the Recital of Selected Options. However, as a result of the finding, the Lottery Commission consulted the Oversight Committee and agreed on a plan for contract review on a go-forward basis and gave the internal auditor the responsibility of certifying the findings by the legislative auditors were cured before the 2011 legislative audit. Based on implementation of the review process, on February 16, 2011, the legislative auditors reported to the Oversight Committee that finding 2010-2 "is considered resolved." Again, at the May 11, 2011 Oversight Committee meeting, the legislative auditors likewise reported that the matter had been resolved and that Scientific Games' contract was in compliance. The legislative auditors did not make any other negative finding related to the validity or approval Scientific Games contract in their audit for the year ending June 30, 2011.

The internal auditor subsequently certified that all the findings of the legislative auditor as to Scientific Games' contract had been resolved by the Lottery. On March 8, 2011, the internal auditor reported to the Oversight Committee that finding 2010-2 was "cleared." The internal auditor, as part of his continuing certification and review responsibility, also reported

this matter had been "cleared" at the regularly scheduled Oversight Committee meetings on May 11, August 24, and September 29, 2011, as well as to the Lottery Commission on March 9, May 11, August 15, and September 19, 2011. It was not until February 2012 that Scientific Games became aware that the internal auditor was again raising this issue, which we consider direct threat to both our reputation and our contract, after publicly certifying the matter as "cleared" over half a dozen times.

At no time has the Oversight Committee or the Lottery Commission taken any action to invalidate Scientific Games' Contract, including the Recital. In fact, in light of the repeated clearances of this Contract by both the legislative auditors and the internal auditor himself, both Scientific Games and the Lottery continued to perform fully under the Contract. It is therefore clear that, through this consistent course of conduct (that has been relied upon by Scientific Games when performing its obligations under the Contract), the Oversight Committee, the Lottery Commission and Lottery staff, including the internal auditor himself, have ratified the Contract, including the Recital of Selected Options.

While we understand the role of the internal auditor and welcome and support transparency in government, we cannot continue to stand by as our reputation suffers damage by these repeated and unjustified attacks. As a result, Scientific Games encourages the Lottery Commission to act today to formally reaffirm its Contract with Scientific Games.

Bishop Woosley

From: Bauer, Phil [Phil.Bauer@scientificgames.com]
Sent: Friday, March 16, 2012 3:48 PM
To: Bishop Woosley
Subject: Scientific Games

CONFIDENTIAL

Bishop,

Thank you for the opportunity to meet with you, Mike, Patty and Commissioner Pickard and to answer the Arkansas Scholarship Lottery's questions. We appreciate the frank discussion regarding the circumstances concerning the former Lottery administration's failure to obtain the LOC's review of the Recital of Selected Options, among other things. Although this situation was noted and reviewed a number of times in both internal and Legislative audits and cleared, we wish to finally resolve any ambiguities. As we discussed, we relied on the former administration's authority to negotiate and enter into the amendment and we've both been operating under its terms ever since. However, we wish to work with you and your staff to remedy the situation and put this issue behind us for good. We as a company take legal compliance very seriously and want to ensure that our business with the State of Arkansas complies with the rules in force. To that end, in order to avoid an unnecessary and unproductive dispute, SGI, as a gesture of good will and accommodation to the Lottery, and not in the performance of any obligation or as an admission of any kind of liability, offers the following proposal to assist the Lottery in this matter.

In consideration of and as a condition precedent for the following, the Lottery shall agree to and obtain all necessary reviews, if any, and approvals for an amendment to our CSP contract recording the pricing in the August 25, 2009 Recital of Selected Options (the "Recital") for the remainder of the contract term.

1. As an incentive to the Lottery for maintaining the terms of the Recital, SGI will grant a credit of \$2 million, to be amortized over the remaining term of the contract paid in cash. This will address any issue related to the printing of the first four (4) games from the date of contract;
2. Amendment of the exclusivity clause for which we will suggest language;
3. Additionally, a credit of approximately \$200,000 applicable to the purchase of additional merchandise usable as in-game prizes; or for merchandise used in the Points for Prizes store and
4. Amendment to the contract authorizing the Lottery, in its discretion, to purchase additional merchandise as second chance prizes in conjunction with licensed games (ie; out of game merchandise).
5. Our rate for Linked Games will be discounted by the rate paid to SGI by the Lottery for Properties Plus.

If this is acceptable let me know and we will prepare a draft contract amendment or other writing to record the understanding.

Philip J. Bauer
Vice-President, Corporate Counsel
Phone: 770-663-6783
Cell Phone: 404-242-7232
Fax: 678-297-5118

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Bishop Woosley

From: Bauer, Phil [Phil.Bauer@scientificgames.com]
Sent: Friday, March 16, 2012 5:10 PM
To: Bishop Woosley
Subject: Re: Scientific Games

Thanks, Bishop.

----- Original Message -----

From: Bishop Woosley <Bishop.Woosley@arkansas.gov>
To: Bauer, Phil
Sent: Fri Mar 16 17:36:53 2012
Subject: RE: Scientific Games

Thank you Phil. I will take to this to Commission on Monday. I will advise you of the response. It may take another meeting for full consideration given the limited amount of time between now and then.

From: Bauer, Phil [<mailto:Phil.Bauer@scientificgames.com>]
Sent: Friday, March 16, 2012 3:48 PM
To: Bishop Woosley
Subject: Scientific Games

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Bishop Woosley

From: Bauer, Phil [Phil.Bauer@scientificgames.com]
Sent: Thursday, March 22, 2012 3:47 PM
To: Bishop Woosley
Subject: RE: Scientific Games

Yes, we'll get that to you, Bishop, hopefully tomorrow. I apologize that this has slipped a bit.

Philip J. Bauer
Vice-President, Corporate Counsel
Phone: 770-663-6783
Cell Phone: 404-242-7232
Fax: 678-297-5118

From: Bishop Woosley [<mailto:Bishop.Woosley@arkansas.gov>]
Sent: Thursday, March 22, 2012 4:30 PM
To: Bauer, Phil
Subject: RE: Scientific Games

Phil, a meeting is scheduled for next Tuesday for further consideration of this matter. Is there any language that you can provide me with to present at that meeting with regard to #2, #3, #4 & #5?

From: Bauer, Phil [<mailto:Phil.Bauer@scientificgames.com>]
Sent: Friday, March 16, 2012 3:48 PM
To: Bishop Woosley
Subject: Scientific Games

CONFIDENTIAL

Bishop,

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If this is acceptable let me know and we will prepare a draft contract amendment or other writing to record the understanding.

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Bishop Woosley

From: Bauer, Phil [Phil.Bauer@scientificgames.com]
Sent: Sunday, March 25, 2012 2:00 PM
To: Bishop Woosley
Cc: Kennedy, Jim; Saferin, Steve
Subject: RE: Scientific Games

Bishop,

The following language is suggested for item #2 below. I will forward the language for the others tomorrow.

Let me know if you have any comments or questions.

"The Lottery shall have the right to obtain printing services from any third party for a game to the extent SGI is unable to print such game due to SGI's lack of printing capacity or inability to obtain the rights to any third party intellectual property that prevents the production of the applicable tickets."

>

-----Original Message-----

From: Bishop Woosley [mailto:Bishop.Woosley@arkansas.gov]
Sent: Thu 3/22/2012 4:29 PM
To: Bauer, Phil
Subject: RE: Scientific Games

Phil, a meeting is scheduled for next Tuesday for further consideration of this matter. Is there any language that you can provide me with to present at that meeting with regard to #2, #3, #4 & #5?

From: Bauer, Phil [mailto:Phil.Bauer@scientificgames.com]
Sent: Friday, March 16, 2012 3:48 PM
To: Bishop Woosley
Subject: Scientific Games

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Philip J. Bauer

Vice-President, Corporate Counsel

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Bishop Woosley

From: Bauer, Phil [Phil.Bauer@scientificgames.com]
Sent: Monday, March 26, 2012 10:39 AM
To: Bishop Woosley
Cc: Mberry@ELHLAW.COM
Subject: AR - Proposed Amending Language

Bishop,

Further to our correspondence, the following is the proposed amending language for the remaining three points we discussed. The bracketed reference in item 3 will need to be conformed to the final amending document. Please let me know if you have any comments or questions:

3. The parties agree to amend the pricing proposal related to Properties Plus™ as follows in order to clarify the original intent and agreement of the parties regarding the purchase of merchandise by the Lottery that is in addition to the merchandise prizes purchased for a particular game.

“As a Properties Plus customer, the Lottery shall pay no license or royalty fees except as noted in [item 5 below], nor, except as otherwise stated in the Agreement, will the Lottery be required to purchase merchandise related to a specific brand as a part of the Lottery’s obligation to utilize that particular brand. The Lottery may elect to purchase merchandise prizes to be awarded either instantly or as pursuant to a second chance drawing for a game.”

4. Scientific Games agrees to issue to the Lottery a credit in the amount of \$200,000 specifically attributable to additional merchandise purchased by the Lottery for the ‘Monopoly®’, ‘Harley-Davidson®’ and ‘®World Poker Tour’. Such credit may be used to purchase merchandise either for use as in-game prizes or as merchandise for the Points for Prizes program.”

5. Scientific Games agrees that in the event the Lottery elects to participate in one or more Linked Games offered by Scientific Games, the Lottery shall pay a rate for any such Linked Games that is discounted by the rate paid to SGI by the Lottery for Properties Plus. That rate shall consist of a combination of license fee and prizing. Linked Games are games in which multiple lotteries utilize the same licensed brand and contribute a specified amount of money to a common prize fund that is shared by all participating lotteries.

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