

Form No. DMB 234A (Rev. 1/96)
 AUTHORITY: Act 431 of 1984
 COMPLETION: Required
 PENALTY: Failure to deliver in accordance with Contract
 terms and conditions and this notice, may be considered
 in default of Contract

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 ACQUISITION SERVICES
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

December 7, 2005

CHANGE NOTICE NO. 4
TO
CONTRACT NO. 071B1001226
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR Pollard (US) Ltd. Pollard Banknote Limited 1499 Buffalo Place Winnipeg, MB R3T 1L7	TELEPHONE (204) 474-2323 Gordon Pollard
	VENDOR NUMBER/MAIL CODE
	BUYER/CA (517) 373-7374 Joan Bosheff
Contract Compliance Inspector: Margie Reh Instant Lottery Tickets – Bureau of State Lottery	
CONTRACT PERIOD: From: January 1, 2001 To: January 1, 2009	
TERMS Net 30 days	SHIPMENT N/A
F.O.B. Lansing, MI	SHIPPED FROM Ypsilanti, MI
MINIMUM DELIVERY REQUIREMENTS N/A	

NATURE OF CHANGE (S):

This contract is hereby extended until January 1, 2009. In addition effective January 1, 2006 all base prices are reduced by 10% for the extended three-year period. All other terms, conditions and specifications remain unchanged.

AUTHORITY/REASON:

Per DMB/ Acquisition Services

NET INCREASE: \$28,584,300.00

TOTAL REVISED ESTIMATED CONTRACT VALUE: \$75,572,550.00

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 ACQUISITION SERVICES
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 530 W. ALLEGAN, LANSING, MI 48933

April 15, 2004

CHANGE NOTICE NO. 3
TO
CONTRACT NO. 071B1001226
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR Pollard (US) Ltd. Pollard Banknote Limited 1499 Buffalo Place Winnipeg, MB R3T 1L7	TELEPHONE (206) 474-2323 Gordon Pollard
	VENDOR NUMBER/MAIL CODE
	BUYER/CA (517) 373-7374 Joan Bosheff
Contract Compliance Inspector: Margie Reh Instant Lottery Tickets – Bureau of State Lottery	
CONTRACT PERIOD: From: January 1, 2001 To: January 1, 2006	
TERMS Net 30 days	SHIPMENT N/A
F.O.B. Lansing, MI	SHIPPED FROM Ypsilanti, MI
MINIMUM DELIVERY REQUIREMENTS N/A	

NATURE OF CHANGE (S):

Addition of retailer recruiting by vendor for participation in the pull-tab ticket game, per the attached work statement.

All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON:

Per agency and vendor agreement.

TOTAL ESTIMATED CONTRACT VALUE REMAINS: \$46,989,250.00

March 16, 2004

**STATEMENT OF WORK for
Pollard Banknote Site Survey and Recruiting Services**

In accordance with State of Michigan Contract Number 071B1001226 and Addendum #2 dated July 16, 2003, Pollard Banknote is submitting this Statement of Work (SOW) for retailer recruiting. This SOW details provisions under Section 2.2 Marketing Services outlined in the original contract.

Retailer Recruitment

Sales Staff

PBL will hire and train a Club Games sales staff to assist the Marketing Department in recruiting retailers to sell all Club Games. The sales force will consist of four to six persons plus a supervisor, with the starting group consisting of two to three persons. Required qualifications include a high school diploma with some customer service/sales experience. Sales staff will be based in strategic locations within the state. The period of performance will be from April 1, 2004 through October 1, 2004, unless notified in writing of cancellation of this agreement with one-week notice. The Lottery reserves the right to cancel for any reason.

Sales Staff Resources

PBL will provide the sales staff with a vehicle and cell phone. The Lottery agrees to jointly develop and provide material for recruiting purposes with PBL to complete proposed services.

Recruitment Location Strategy

The Lottery and PBL will coordinate recruiting efforts between staffs, but the Lottery will not unreasonably exclude access to certain cities or counties from PBL sales staff. PBL tell-sell will generate sales appointments for the PBL sales staff. PBL will not recruit major chain locations without specific authorization from the Lottery. The sales staff will travel throughout Michigan visiting potential retailers to sell them on becoming Club Games retailers, and approximately 770 existing retailers not yet selling pull-tab tickets. The PBL sales staff will conduct site surveys at the time of completion of the application for retailers recruited for Club Keno. The purpose of the site survey is to 1) qualify the location for Club Keno, 2) determine locations for equipment installation, and 3) ensure proper electrical service is made available, 4) identify how many and size of TV monitors each site will receive, and 5) educate the prospective retailer on the events that will take place between the site survey and when Keno and Pull-tabs are sold in their establishment.

Lottery Commission Paid to PBL

The cost to the Lottery will be \$300 for conversion of an existing Club Keno-only retailer to sell Pull-tabs, or for a new Pull-tab retailer. If a PBL-recruited pull-tab retailer also agrees to sell Club Keno, an additional \$150 recruiting fee will be paid. These recruiting

fees will be paid whether the Lottery approves or rejects the application, as long as the retailer meets the licensing requirements outlined in retailer directive #9 for business type eligible to sell Club Games tickets. A completed application is defined as one with all information needed in order to complete a licensing review, plus the site survey. The conversion of an existing Club Keno retailer to sell Pull-tabs would be verified by the initial pull-tab order confirmation. The order confirmation for an existing retailer would be verified by PBL's Sure Track system and cross-referenced to PBL's tell-sell appointment records and the visiting salesperson's field report. These fees will be billed weekly to the Lottery. A weekly list of applications for new retailers and orders for existing retailers generated by PBL will be the documentation supplied for payment for retailer recruiting. A list of active retailers will be supplied to the Lottery on April 1, 2004. Recruitment fees will be paid on only those retailers recruited not appearing on this 4/1/04 list. In addition, each individual application and field report will be marked clearly as submitted by a PBL recruiter. Any additional costs for supplies and materials will be covered by PBL.

For Pollard: *Don Sausage* Date: *March 25/04*
Vice President/US Marketing

For Michigan Lottery: *Margie S. Bee* Date: *4/15/04*
Deputy Commissioner/Administration

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 DEPARTMENT OF MANAGEMENT AND BUDGET
 ACQUISITION SERVICES
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 OR
 530 W. ALLEGAN, LANSING, MI 48933

July 16, 2003

CHANGE NOTICE NO. 2
TO
CONTRACT NO. 071B1001226
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR Pollard (US) Ltd. Pollard Banknote Limited 1499 Buffalo Place Winnipeg, MB R3T 1L7	TELEPHONE (206) 474-2323 Gordon Pollard
	VENDOR NUMBER/MAIL CODE
	BUYER (517) 373-7374 Joan Bosheff
Contract Administrator: Margie Reh Instant Lottery Tickets – Bureau of State Lottery	
CONTRACT PERIOD: From: January 1, 2001 To: January 1, 2006	
TERMS Net 30 days	SHIPMENT N/A
F.O.B. Lansing, MI	SHIPPED FROM Ypsilanti, MI
MINIMUM DELIVERY REQUIREMENTS N/A	

NATURE OF CHANGE (S):

Effective immediately, **ADDITION** of printing service for pull-tab tickets, ticket warehousing, and distribution of pull-tab tickets to contract. Also, contract is **EXTENDED** until January 1, 2006.

All other terms, conditions and pricing remain the same.

NET INCREASE: \$17,165,850.00

TOTAL CONTRACT VALUE REMAINS: \$46,989,250.00

Addendum # 2 to Contract Number 071B1001226
Between the State of Michigan, Bureau of State Lottery
And
Pollard Banknote Limited

PURPOSE

The purpose of this addendum is to provide for additional printing services for pull-tab tickets, ticket warehousing and distribution of pull-tab tickets, and to extend the term of the contract.

BACKGROUND

The State of Michigan (State), Bureau of State Lottery (Lottery) and Pollard Banknote Limited (Pollard) entered into Contract No. 071B1001226 (Contract) effective January 1, 2001 for the production of instant lottery tickets for sale through Lottery retailers.

The Lottery desires to launch pull-tab tickets as a new form of pre-printed lottery product by October 1, 2003. The Lottery further desires to distribute pull-tab tickets to a new class of lottery retailer that does not currently offer other lottery products for sale.

Pollard desires to provide for both pull-tab ticket production and distribution to retailers.

PULL-TAB TICKET PRODUCTION

Pollard shall assist in the development of game themes and prize structures, and shall furnish paper stock, printing, packaging, and delivery of tickets according to the executed working papers. Tickets are to be delivered in completely finished form ready for distribution without additional numbering, finishing, or repackaging by the Lottery. Pollard shall guarantee the quantity of winning and losing tickets in dollar denominations and symbol designations as specified and approved by the Lottery. Pollard must provide control over inventory and security of tickets and materials in Pollard's possession as necessary to protect the integrity of the game. Pollard will not sell pull-tab tickets directly to any Lottery licensed retailer in Michigan during the term of the Contract including any renewal term. In the event Pollard receives an order for sale and delivery of Pollard-produced pull-tab tickets to a purchaser having a delivery address in Michigan and such purchaser is not the Lottery or one of the Lottery's licensed retailers, then Pollard undertakes not to complete such sale and delivery without first receiving confirmation from such purchaser that the pull-tab tickets will not be sold or offered for sale by such purchaser directly to consumers for consumption or use in the State of

Michigan and that such purchaser will not sell or offer for sale or otherwise transfer the pull-tab tickets to any person or entity for purposes of resale to consumers in the State of Michigan. Pollard further agrees that upon receipt of information from the Lottery that constitutes reasonable evidence that Pollard-produced tickets are being sold illegally in Michigan, Pollard will take reasonable steps with the purchaser involved to prevent a recurrence, including, if necessary, ceasing to sell pull-tab tickets to that purchaser.

1. WORKING PAPERS

Pollard will be required to develop final working papers under the direction of the Lottery for each game. The working papers will include the final mechanical art and color keys for the front and back of the tickets, detailed ticket specifications, final prize structure, flare or seal card specifications, serial numbering scheme, price, box dimensions, information sheets, the production and delivery schedule for the first shipment and ticket order quantity. The Contract Administrator must provide written approval of these specifications before ticket manufacturing begins. Pollard must manufacture the tickets according to these executed working papers. The executed working papers for each game will become part of the contract.

2. VOIDED TICKETS

Pollard shall deliver to the Lottery two boxes of voided pull-tab tickets with each shipment of tickets under the contract. The word "VOID" shall be printed in large bold letters on each ticket. These tickets must be the same size and conform in all respects to the tickets approved in the executed working papers, except that no winning patterns shall be included. The voided tickets will be in addition to the order quantity of tickets. The cost of providing voided tickets will be included in the base price for tickets. The Lottery will not pay directly for voided tickets.

3. CONTRACTOR ASSISTANCE

Pollard shall be required to assign a service representative(s) which the Lottery may contact regarding information on orders and deliveries covering this contract. The Contract Administrator will appoint a person to be the State's coordinator for this contract.

4. RANDOMIZATION

Pollard must randomly distribute tickets throughout each box without any determinable pattern. Printing plates or number scrambler programs or other devices and methods used for printing and/or packaging tickets must be organized such that winning tickets are interspersed randomly among losing tickets.

Pollard's production plans and manufacturing procedures must insure (1) that each ticket box has the precise quantity of tickets per working papers; (2) that the

proper number and ratio of winning to losing tickets exist in each box; and (3) that there is a random distribution of the winning tickets in a given box so that there is no possibility that individual tickets could be picked out by their physical appearance or location in the box.

5. TICKET ORDER QUANTITY AND OVERSHIPMENT

The minimum quantity of tickets ordered for any one game will be as specified in the working papers for that game. Pollard will be required to deliver within plus (+) or minus (-) five percent of the ordered quantity.

If tickets in excess of the above delivery tolerance are produced, the Lottery may, at its sole option, elect to accept delivery of such tickets and attempt to sell them. The Lottery will not be obligated to pay for any such excess tickets if not sold. The Lottery agrees to pay for any excess tickets that are sold at the quoted price per box specified in the contract.

6. DELIVERY AND F.O.B. TERMS

Pollard shall produce and deliver tickets within 60 days after acceptance of final working papers. In this and any similar context in this Addendum, the term "deliver" shall mean "have available for delivery", it being understood that Pollard will warehouse the tickets until orders for delivery are received by Pollard from pull-tab retailers.

7. TICKET TYPE

Computer-imaged or sheet-fed tickets shall be required.

8. TICKET COLORS

The front side (the side opposite to the openings tabs) of the ticket and the game play area (play images and captions) shall be multicolored using a four-color process. The backside of the ticket will be one color.

Pollard shall furnish to the Contract Administrator a preliminary mock-up, including ink colors, for each game prior to receiving final approval to proceed with the manufacture of tickets.

9. TICKET CONSTRUCTION

Ticket construction shall be up to 5-tab break-open type as specified by the Lottery for each game. The Lottery requires the use of a coated-board stock on the front side (the side opposite to the opening tabs) of the finished glued ticket and the back side should be mill produced .010" - .012" carbon black back opaque paper stock (LOTTERY STOCK). The basic ticket construction is 2-ply. The stock used in the construction of the ticket shall be such that the overall bulk

thickness is within the range of .022 to .026 inch. Tickets shall be of the size specified in the working papers, with a tolerance of +/- 1/8."

Concealed numbers, symbols, or winner protection shall not be viewable or determinable from the outside of the ticket using a high intensity lamp of up to and including 500 watts.

10. ARTWORK, INKS AND PRINTING QUALITY

All type and artwork reproductions shall be clear and sharp with no broken characters, contain no identifying marks, or hairlines and shall be uniform in ink coverage. There shall be a very high degree of color consistency on all tickets from box to box.

Pollard must insure color consistency in the printing of tickets so that it is impossible to identify unopened winning tickets in a lot or a box due to a difference in color, the appearance or extraneous marks on the tickets or any other distinguishing characteristics.

11. PLAY IMAGES AND CAPTIONS

Number patterns, plate layouts and plans for ticket cutting shall be developed by Pollard and approved in writing by the Lottery. Individual tickets must be printed with not more than the winning combination of numbers or symbols designed to be on each ticket. Individual tickets, including non-winning tickets, shall contain a unique pattern of numbers or symbols to maintain the image of randomness in the box and to prevent any valid criticism, especially for losing tickets, that the game has been "plugged" with fillers and that there are very few winners in the game. Printing plates and/or other devices and methods used for the printing and/or collating of sheets of tickets and/or the packaging of tickets shall be organized and arranged so winning tickets are always interspersed among losing tickets in a box.

12. SERIAL NUMBERING

A nine digit serial number shall be printed on each ticket within a box and shall be unique for each box of tickets with the first three digits designating the game, being specified by the Lottery. All digits within the serial number must be immediately contiguous and not separated by graphics, printing or extra space. All tickets in the next sequential deal set manufactured would bear the next sequentially higher numbered serial number. The serial number shall be printed on the front ply of the ticket which contains the concealed number of symbols. If any particular sequential deal set should not be shipped due to quality control reasons, the serial number of that deal set may be omitted from the shipment and the next available higher numbered serial number deal set will be shipped.

There shall be no duplication of serial numbers outside a box of tickets.

13. TICKET SEALING AND GLUING

Sealing or gluing the two plies of paper stock required for the construction of the ticket must occur securely on all four edges of the ticket and between the individual break-open tabs. Tickets will be deemed not acceptable if the sealing is not applied in register and causes interference or difficulty when opening tabs or, conversely, if tickets are not sealed properly and may result in ticket security problems.

14. DURABILITY

Pull-tab tickets which have been printed and sealed must maintain their original crisp appearance and remain properly sealed, under reasonable environmental conditions and in normal handling and usage, while in the physical possession of Pollard and/or the retailer, for up to two years.

15. DIE-CUT OPENINGS AND PERFORATIONS

Break-open tabs shall be of the size specified in the working papers, with a tolerance of $\pm 1/16$ ". The opening tabs shall be centered top to bottom and side to side on each ticket as nearly as possible having regard to technical constraints and to ease of opening. Die-cuts and the number of per window side perforations must be approved in advance by the Contract Administrator.

16. TICKET CUTTING

In the cutting of finished tickets, winners and losers must be cut together so that it is not possible to pick out winners from variations in cutting or from edge patterns that are caused from cutting.

17. TICKET SECURITY

Pull-tab tickets to be furnished under this contract must conform to reasonable security tests appropriate to pull-tab tickets as determined by the Contract Administrator consisting of the following:

- a. Opacity - concealed numbers, symbols or winner protection must not be able to be viewed or determined from the outside of the pull-tab ticket using a high intensity lamp of up to and including 500 watts, with or without utilizing a focusing lens.
- b. Debonding - it must not be possible to separate the top and bottom layers of the ticket without destroying the ticket validity.

- c. Color or Printing Variations - it must not be possible to detect or pick out winning tickets through variations in printing graphics or colors, especially those involving different printing plates.
- d. Cutting Variations - it must not be possible to detect or pick out winning tickets through variations in size or cutting of tickets.
- e. Randomization - it must not be possible to pick out winning tickets from boxes of tickets by virtue of the physical position occupied by tickets in the boxes.
- f. Serial Numbers - serial numbers must be printed on the outside ply of the ticket which contains the concealed printed numbers or play symbols rather than on the covering sheet.

Pollard shall select four boxes of tickets, as instructed by the Lottery, from the first shipment of a given game and have them tested by an independent testing laboratory experienced in the evaluation of pull-tab products approved by the Lottery and at Pollard's expense. Results of these tests shall be directly submitted to the Lottery by the laboratory within 15 business days of shipment. If the tested tickets or tickets tested by the Lottery fail to meet any of the above-listed security requirements, additional testing may be required and liquidated damages for failure to meet quality standards or specifications may result.

Pollard further agrees that all pull-tab products produced by it for the Lottery shall meet the security standards established from time to time for pull-tab products by the North American Gaming Regulators Association. The Lottery may, upon prior reasonable notice and consultation with Pollard, establish additional reasonable security tests appropriate to pull-tab tickets from time to time, provided that such tests are technically feasible, as determined by Pollard acting reasonably, and further provided the parties have reached an understanding and agreement as to liability for any increased pricing or costs associated with any such new security tests.

18. BOXES

Box size is dependent on game design; therefore, actual box dimensions shall be incorporated in the executed specifications for each game. Boxes are to be constructed of material of sufficient strength and quality and be securely sealed so as to be acceptable to standard ground shippers. The warning "**IF SEAL IS BROKEN CHECK CONTENTS BEFORE ACCEPTING**" shall be imprinted across the top of each box such that it is legible when the box is sealed.

The exterior of each box of pull-tab tickets shall display a bar code, interleaved 3 of 9, depicting the game and box serial number of the tickets contained therein.

19. FLARE CARDS

The vendor shall be required to enclose a series number flare card, printed on cardstock up to four-color, inside each box. Flare cards are to be printed similar to the standard within the industry, i.e. sized to fit within the box, .012" SBS stock, coated one side; four-color (to match ticket game); graphics depicting ticket game and prize pay out structure; identification of the box serial number and other identifying information.

In addition, information sheets are to be printed similar to the standard within the industry, generally 8 1/2" x 11", 16 lb. bond paper, black print; containing general information regarding the contents of the game, pay outs, profits and winning symbol identification. Such information sheets will be sent by Pollard to the Lottery for distribution to the Lottery's retailers. An additional information sheet may also be required and contain a suggested accounting method.

20. SEAL CARDS

When the game is a seal card game, the Contractor shall produce one seal card for each box of tickets. The seal card shall contain a minimum of one window that, when removed, displays the winning number or graphic.

Each seal card shall be printed using up to a 4-color process (to match the ticket game).

Gluing the two plies of paper stock required for the construction of the seal card shall occur securely on all four edges of the seal card and around each window.

For any given game, die-cut openings for all seal cards shall not vary in size, from box to box or from shipment to shipment.

The seal card will contain the ticket name, prize payout structure, and graphics related to the game. The serial number and barcode of the corresponding box shall be adhered to the seal card.

The Contractor shall implement a process to ensure the randomization of the seal card's winning number or graphic from one seal card to the next.

For the first shipment of a new seal game, the Contractor shall provide the Lottery with 100 extra seal cards.

21. GAME PRODUCTION RECORDS

With the production and shipment of each game, Pollard shall provide the Lottery with a data file containing a record of each box of tickets produced and shipped

for that game. The Lottery and Pollard shall mutually agree upon the data format and methodology for providing this data.

PULL-TAB TICKET WAREHOUSING AND DISTRIBUTION

Pollard shall provide warehousing, order taking and processing, distribution, and transaction reporting services in sufficient scope to be able to process a minimum of \$250 million (retail price) per annum in pull-tab tickets at its facility to a network estimated to reach 5,000 retail outlets located throughout the state. Pollard shall provide for next scheduled business day delivery of any order for pull-tab tickets received prior to 2 p.m. on a business day.

22. WAREHOUSE/DISTRIBUTION CENTER

Pollard shall provide a warehouse/distribution center of sufficient size to accommodate the receipt, storage, packaging, shipment, and returns processing and storage for a minimum of \$250 million (retail price) of pull-tab tickets annually.

23. INBOUND ORDERING SYSTEM

Pollard shall provide a toll-free inbound ordering system for use by pull-tab retailers. The order system shall be staffed between the hours of 8 a.m. and 5 p.m. Monday through Friday, excluding celebrated state and national holidays. Order system staff shall have the ability to create a pull-tab order via an operator order screen while in communication with a retailer. Retailers shall have the option via a voice-response system to elect to place an order without human interaction twenty-four hours a day, seven days a week.

The order system shall operate so that orders placed by a retailer by 2 p.m. on any business day shall be packed and released to the shipper that same business day.

24. EXCHANGE OF RETAILER DATA

Pollard shall have the ability to accept from the Lottery in electronic form daily or nightly updates of retailer base information including retailer id number, name, shipping address, telephone number, retailer status (e.g. active, temporarily closed, suspended) and other pertinent information as agreed to by the parties.

Pollard shall have the ability to suspend individual retailers from order privileges on an automated or manual basis at the direction of the Lottery. Such suspension must take immediate effect in the ordering system and serve to

prevent the acceptance of further orders from that retailer either through an operator or through the voice response system.

Pollard shall have the ability to transmit to the Lottery electronically daily information concerning pull-tab inventory data, retailer order activity, box returns, and any other data impacting inventory and/or retailers.

The data formats and methods of data exchange shall be mutually agreed to by Pollard and the Lottery. Pollard will provide the necessary data communication line and equipment needed for this data exchange as agreed to with the Lottery. The data communications line shall be sufficient to support the volume of data to be transmitted in this process. The Lottery may, at its option, provide the equipment and line upon determination of costs and time frame for installation. If the Lottery declines to provide the equipment and line, Pollard's costs involved with installation and monthly fees for the data communications line shall promptly be reimbursed by the Lottery without deduction or set-off.

25. DATA RETENTION AND STORAGE

Pollard shall retain on its system and accessible to Lottery staff all data relating to retailer orders, shipments, returns and other pertinent data for a minimum period of one year. Data no longer retained on its system shall be accessible as archived data throughout the term of the Contract.

26. INVENTORY MANAGEMENT AND SHIPPING

Pollard shall report to the Lottery on a weekly basis (or other reporting period as may be mutually agreed) inventory status by game, including boxes received, boxes shipped to retailers, boxes returned for any reason, and current inventory on hand. Pollard and the Lottery shall mutually agree on the format and method of reporting this data.

Orders for pull-tab tickets received before 2 p. m. on a business day shall be packed and released to the shipper on that same business day.

Orders shipped on one business day shall be delivered to the retailer on the next business day, except for those areas of the state designated by United Parcel Service as "shipping zone 2", which shall be delivered on the second business day after shipment. Included with each shipment shall be a computer-generated invoice reflecting the amount due and settlement date for that shipment.

Pollard shall have the ability to provide delivery confirmation of an order upon request of the Lottery. Delivery confirmation shall be requested on an exception basis only and shall not be required for every delivery.

Pollard shall have the ability to accept and re-ship or return to inventory as appropriate mis-delivered or refused shipments. Retailer and inventory records shall reflect such activity.

Pollard staff shall serve as the central point of contact for retailers and the Lottery regarding retailer account service activities such as order tracking, box returns, and handling of damaged, misprinted, or mis-packaged boxes.

27. INVENTORY ACCOUNTING

Quarterly or at other intervals as mutually agreed by Pollard and the Lottery, Pollard shall conduct a physical inventory of pull-tab tickets on hand. The Lottery may, at its sole discretion, elect to have its representative witness the conduct of the physical inventory.

Quarterly and at the end of each game, or at other intervals as mutually agreed by Pollard and the Lottery, Pollard shall provide to the Lottery an inventory reconciliation for each game in inventory. The reconciliation shall include, at a minimum, the beginning balance, product taken into inventory, product shipped out of inventory, product damaged, destroyed, or otherwise removed from inventory, product returned to inventory, and balance on hand.

28. OPTIONAL SERVICES

At the option of the Lottery, Pollard shall provide outbound telemarketing call services to pull-tab retailers. Outbound calls would solicit orders for pull-tab tickets, provide sales guidance, and provide new game information to retailers. If elected, the Lottery will commit to a minimum of one year's outbound call service. The Lottery and Pollard will mutually agree upon frequency of calls to retailers as well as call content. Pollard will provide the Lottery with regular reports of calls attempted, calls completed, and degree of success in achieving the desired result of the call.

DAMAGES

29. LIQUIDATED DAMAGES

The following performance measures are considered key to maximizing revenue from the sale of pull-tab tickets. Therefore, liquidated damages may be assessed by the Lottery at the rates indicated below if Pollard fails to meet these performance measures. It is expressly understood by the parties that actual damages cannot be easily determined, and that the rates set forth below shall be deemed to fairly compensate the state for its costs and/or lost revenue opportunities. It is further understood that the provisions set forth below are subject to excusable failures, as described in the Contract and that Pollard will

not be liable for errors in redemption, or for redemption of altered or counterfeit tickets.

- a. If the pull-tab distribution system is not ready and available to distribute pull-tab tickets within ninety (90) days of the date of this amendment, damages of \$10,000 per business day for the first fourteen (14) business days and \$75,000 per business day after fourteen (14) business day may be assessed.
- b. For each box of pull-tab tickets not manufactured in accordance with the quality standards specified elsewhere in this addendum or in the game specifications, the Lottery may (i) reject the non-conforming boxes and require Pollard to replace the non-conforming boxes at Pollard's sole expense; (ii) require Pollard to credit the Lottery with any amount charged to or paid by the Lottery for the tickets in the non-conforming boxes; and (iii) assess damages of \$100 for each such box which is discovered at a retailer location.
- c. For each box of pull-tab tickets lost or damaged in transit, the Lottery may assess damages equal to the replacement cost (ie. the price paid to Pollard to produce the tickets and to distribute them) of the box of tickets.
- d. For each box of pull-tab tickets containing more or a higher value of winning tickets than specified in the working papers, damages equal to the actual cost of over-redemption plus \$100 may be assessed.
- e. For each box of pull-tab tickets containing fewer or a lesser value of winning tickets than specified in the working papers, damages equal to the retail value of tickets sold from that box plus \$100 may be assessed.
- f. If the pull-tab distribution system suffers downtime or degraded performance that prevents the taking of orders and/or the shipment of orders during the hours and at the times specified elsewhere in this document, then damages of \$2,000 per hour or portion thereof (after a one-hour grace period per day), up to a maximum of \$10,000 per calendar day, may be assessed.
- g. If fewer than 98% of a day's shipments are delivered on their scheduled business day as defined elsewhere in this document, then damages of \$60 per order for each order not timely delivered may be assessed.

OTHER

30. CONTRACT TERM

The term of the contract is hereby extended by two years, to January 1, 2006. Further the State may, at its sole option and upon acceptance by Pollard, elect to extend this contract for three additional one-year periods.

31. PRICE

Prices for the services described in this amendment shall be as indicated in Attachment A hereto. Prices for pull-tab ticket print quantities or tab counts that are different than those shown in Attachment A shall be proportionate to the prices in Attachment A unless otherwise agreed to by Pollard and the State.

32. OTHER PROVISIONS

Except as otherwise stated in this amendment all other provisions of the Contract remain in full force and effect. Where reference in the Contract is made to "instant tickets" and such Contract provision is not clearly and exclusively applicable to the manufacture of instant tickets, then for purposes of this Contract all such provisions shall apply equally to pull-tab tickets. For greater certainty, and without limiting the generality of the foregoing, the following sections are agreed to apply exclusively to the manufacture of instant tickets: Sections 1.46, 1.47, 1.48 and all of Section 2 other than 2.2(3), 2.2(4), 2.4, 2.34 and 2.36.

33. EXCUSABLE FAILURE

For purposes of Pollard's performance of this Contract as it relates to pull-tab tickets only there shall be added to the enumerated events of "force majeure" in Section 1.25, before the phrase "or any other cause beyond the reasonable control of such party," the following:

"epidemics, quarantine restrictions, strikes, work stoppages, slowdowns, lockouts or other labour-related disputes, war, terrorism, telecommunications failure, power failure, inclement weather, or unavoidable delays encountered by carriers"

Pollard undertakes to give to the Lottery prompt written notice of any threatened strikes, work stoppages, slowdowns, lockouts or other labour-related disputes affecting any of its facilities which disputes, if materialized, may reasonably be expected to adversely affect Pollard's ability to perform its obligations under this Contract.

34. SECURITY

The Contractor shall provide a security program covering all phases and aspects of the production and delivery of pull-tab tickets, which shall be subject to the approval of the Commissioner. The Contractor shall provide the Lottery with sufficient information on security policies and procedures at all sites at which any portion of ticket development, manufacturing, storage or delivery is to be done to enable the Lottery to evaluate the security at these locations. If changes are made to any part of the security program or procedures, the Commissioner shall be so notified. The Commissioner reserves the right to require at any time such further and additional security measures as deemed necessary or appropriate to ensure the integrity of the pull-tab ticket product.

The security program shall include the following procedural, administrative, and physical elements:

1. Submitting at the start of the contract, and for each new employee prior to their assignment on Michigan contract work, and every six months thereafter, to the Lottery a list of names, addresses, dates of birth, social security numbers, and fingerprint cards and/or other release forms bearing the person's signed authorization to allow law enforcement agencies to release to the Lottery any criminal history that pertains to such person, of all officers and employees of the Contractor and of any subcontractor, who are involved in the development, manufacture, or storage of pull-tab tickets. The Lottery reserves the right to review and approve or disapprove any persons prior to or during their assignment to this contract.
2. Inspection by personnel authorized by the Lottery of the premises of the Contractor or any subcontractor where development, manufacture, or storage of the pull-tab tickets produced under this contract occurs, to determine the degree of compliance with security and operational requirements. Such inspection may be unannounced.
3. Security measures and systems which preclude unauthorized persons from accessing all facilities and supplies, and equipment within the facilities. The Lottery reserves the right to prohibit physical access to operations areas by non-operations personnel.
4. Security measures which preclude the unauthorized use of equipment materials, without written authorization from the Commissioner.

5. Security measures which ensure the integrity of the preparation, storage, distribution, or use of any data or documentation relating to winner information.
6. A disaster recovery and contingency plan for maintaining the successful operation of the development and manufacturing processes. Such a plan must include a method and timeframe for recovery and continuation of these processes.
7. Other security measures to ensure the integrity and proper operation of the development, manufacture and storage of pull-tab tickets.

The Contractor must immediately notify the contract administrator by telephone and in writing of any breach of security during the term of this contract including but not limited to break-in or theft or disappearance of paper stock used in the production of tickets.

35. CONTRACT INVOICING AND PAYMENT – PULL-TABS ONLY

For pull-tab tickets only, Pollard shall invoice the Lottery for each game produced on the date that the ordered quantity is ready and available for delivery, in recognition of the fact that all or a substantial portion of the tickets may be warehoused for delivery at a later time. The State will pay Pollard the contract price per thousand for saleable tickets available for delivery upon invoicing by Pollard. The State will pay only for saleable tickets which conform to the executed working papers and are within the order tolerance. Pollard shall invoice the Lottery for the applicable distribution/warehouse fees payable in connection with each delivery to a pull-tab ticket retailer upon Pollard's receipt of confirmation of delivery to a retailer from Pollard's carrier.

Any liquidated damages assessed to Pollard will be deducted from the State's remittance. The Lottery will process its voucher for payment of all such invoices within thirty (30) days of invoicing.

This is Attachment A to Addendum #2 to Contract Number 071B1001226 between the State of Michigan, Bureau of State Lottery and Pollard Banknote Limited.

Pull-Tab Pricing Matrix

Item	Required Items	Order Quantity: (In Millions)	100k – 2mm re-order	2mm – 4mm re-order	4mm – 6mm re-order	6mm – 8mm re-order	8mm+ re-order
1	2 ^{9/16} x 1 ^{7/8} with up to 3 windows	Cost/TH:	9.02	7.45	7.01	6.78	6.68
2	3 ^{7/8} x 1 ^{7/8} with up to 5 windows	Cost/TH:	11.13	9.57	9.14	8.90	8.79
3	2 ^{9/16} x 1 ^{7/8} with up to 3 windows PLUS seal card	Cost/TH:	11.02	8.35	7.51	7.11	6.93
4	3 ^{7/8} x 1 ^{7/8} with up to 5 windows PLUS seal card	Cost/TH:	13.13	10.47	9.64	9.23	9.04

Prices to be F.O.B. destination (to distribution warehouse) via manufacturer-selected mode of transportation. Exclusive-use shipping is NOT required.

Specifications: 4/c process base graphics, 4/c symbols, 1/c ticket back, 12 pt. stock laminated to 12 pt. security stock.

Re-orders: Matrix prices are re-order prices. For initial game orders, add \$3,500 per game.

Sizes shown are nominal. Actual ticket size will be specified in the Working Papers.

DISTRIBUTION/WAREHOUSING PRICE

Unit Size @ 2,000 tickets = \$7.20 per box
Unit Size @ 2,500 tickets = \$8.50 per box
Unit Size @ 3,000 tickets = \$10.25 per box

OPTION 1 – OUTBOUND TELL-SELL PRICE

\$1.65 per outbound call. An outbound call is a telephone call placed by Pollard to a Lottery retailer for the purpose of soliciting an order for shipment of product. Any such call shall be billable so long as a person answers the call at the receiving end, regardless of whether an order is booked. Outbound calls shall be placed in accordance with a calling schedule to be agreed upon between Pollard and the Lottery. Pollard shall provide the Lottery with documentation regarding outbound calls placed and the results thereof in a form and at intervals to be agreed upon between the parties. Documentation for outbound calls will be provided to the Lottery including, but not limited to: date/time of call, retailer information, caller name, order placed (yes/no).

OPTION 2 – AUTOMATED PHONE SYSTEM

No charge.

This is an Addendum to the Pull-Tab Pricing Matrix.

DISTRIBUTION/WAREHOUSE PRICE

Unit Size @ 4,000 tickets = \$12.50 per box

Unit Size @ 1,500 tickets = \$6.60 per box

Unit Size @ 1,000 tickets = \$6.10 per box

For unit sizes between any two points in the Pricing Matrix, use straight-line interpolation to determine the price.

Form No. DMB 234A (Rev. 1/96)
 AUTHORITY: Act 431 of 1984
 COMPLETION: Required
 PENALTY: Failure to deliver in accordance with Contract
 terms and conditions and this notice, may be considered
 in default of Contract

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

December 13, 2002

CHANGE NOTICE NO. 1
TO
CONTRACT NO. 071B1001226
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR Pollard (US) Ltd. Pollard Banknote Limited 1499 Buffalo Place Winnipeg, MB R3T 1L7	TELEPHONE (206) 474-2323 Gordon Pollard
	VENDOR NUMBER/MAIL CODE (2) 22-2333711 (008)
	BUYER (517) 373-7374 Joan Bosheff
Contract Administrator: Scott Matteson Instant Lottery Tickets – Bureau of State Lottery	
CONTRACT PERIOD: From: January 1, 2001 To: January 1, 2004	
TERMS Net 30 days	SHIPMENT N/A
F.O.B. Lansing, MI	SHIPPED FROM Ypsilanti, MI
MINIMUM DELIVERY REQUIREMENTS N/A	

NATURE OF CHANGE(S):

This contract is hereby EXTENDED to January 1, 2004.

All other terms, conditions, and prices remain the same.

TOTAL CONTRACT VALUE REMAINS: \$29,823,400.00

Form No. DMB 234A (Rev. 1/96)
 AUTHORITY: Act 431 of 1984
 COMPLETION: Required
 PENALTY: Failure to deliver in accordance with Contract
 terms and conditions and this notice, may be considered
 in default of Contract

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

December 27, 2000

**NOTICE
 OF
 CONTRACT NO. 071B1001226
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR Pollard (US) Ltd. Pollard Banknote Limited 1499 Buffalo Place Winnipeg, MB R3T 1L7	TELEPHONE Gordon Pollard (206) 474-2323
	VENDOR NUMBER/MAIL CODE 2 222333711 (008)
	BUYER (517) 373-7374 Joan Bosheff
Contract Administrator: Donald Gilmer Instant Lottery Tickets – Bureau of State Lottery	
CONTRACT PERIOD: From: January 1, 2001 To: January 1, 2003	
TERMS Net 30 days	SHIPMENT N/A
F.O.B. Lansing, MI	SHIPPED FROM Ypsilanti, MI
MINIMUM DELIVERY REQUIREMENTS N/A	

The terms and conditions of this Contract are those of ITB #071I1000001, this Contract Agreement and the vendor's quote dated 10/25/00. In the event of any conflicts between the specifications, terms and conditions indicated by the State and those indicated by the vendor, those of the State take precedence.

Estimated Contract Value: \$29,823,400.00

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

**CONTRACT NO. 071B1001226
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR Pollard (US) Ltd. Pollard Banknote Limited 1499 Buffalo Place Winnipeg, MB R3T 1L7	TELEPHONE Gordon Pollard (206) 474-2323 VENDOR NUMBER/MAIL CODE 2 222333711 (008) BUYER (517) 373-7374 Joan Bosheff
Contract Administrator: Donald Gilmer <p style="text-align: center;">Instant Lottery Tickets – Bureau of State Lottery</p>	
CONTRACT PERIOD: From: January 1, 2001 To: January 1, 2003	
TERMS <p style="text-align: center;">Net 30 days</p>	SHIPMENT <p style="text-align: center;">N/A</p>
F.O.B. <p style="text-align: center;">Lansing, MI</p>	SHIPPED FROM <p style="text-align: center;">Ypsilanti, MI</p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;">N/A</p>	
MISCELLANEOUS INFORMATION: The terms and conditions of this Contract are those of ITB #071I1000001, this Contract Agreement and the vendor's quote dated 10/25/00. In the event of any conflicts between the specifications, terms and conditions indicated by the State and those indicated by the vendor, those of the State take precedence. Est. Contract Value: \$29,823,400.00	

THIS IS NOT AN ORDER: This Contract Agreement is awarded on the basis of our inquiry bearing the ITB No. 071I1000001. A Purchase Order Form will be issued only as the requirements of the State Departments are submitted to the Office of Purchasing. Orders for delivery may be issued directly by the State Departments through the issuance of a Purchase Order Form.

All terms and conditions of the invitation to bid are made a part hereof.

FOR THE VENDOR:	FOR THE STATE:
Firm Name	Signature
Authorized Agent Signature	David F. Ancell
Authorized Agent (Print or Type)	Name
	State Purchasing Director
Date	Title
	Date



STATE OF MICHIGAN

BUREAU OF STATE LOTTERY

**SERVICES TO DESIGN, DEVELOP, MANUFACTURE,
DELIVER, AND MARKET INSTANT LOTTERY TICKETS**

CONTRACT #071B1001226

JANUARY, 2001

#071B1001226



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**SECTION 1
CONTRACTUAL SERVICES TERMS AND CONDITIONS**

1.1 PURPOSE

This Contract is for services to design, development, manufacture, deliver and market computer-imaged, continuous form, fan-folded, instant (rub-off) lottery tickets. It is anticipated that the quantity of tickets to be produced under this Contract will be approximately 300 million per year in increments of approximately 3-6 million per game. However, these quantities are estimates only and represent neither minimum nor maximum guarantees.

1.2 TERM OF CONTRACT

The term of this contract shall be for a two (2) year period and commence January 1, 2001, through January 1, 2003. The State, at its sole option, may extend the term of the contract for a total of three (3) additional years in one (1) year increments.

1.3 ISSUING OFFICE

This Contract is issued by the Office of Purchasing, State of Michigan, Department of Management and Budget (DMB), hereafter known as the Office of Purchasing, for the State of Michigan, Bureau of State Lottery, hereafter known as the Lottery. Where actions are a combination of those of the Office of Purchasing and the Lottery, the authority will be known as the State.

The Office of Purchasing is the sole point of contact in the State with regard to all procurement and contractual matters relating to the services described herein. The Office of Purchasing is the only office authorized to change, modify, amend, alter, clarify, etc., the specifications, terms, and conditions of this Contract. The OFFICE OF PURCHASING will remain the SOLE POINT OF CONTACT throughout the Contract period, until such time as the Director of Purchasing shall direct otherwise in writing. See Section 1.4. All communications concerning this Contract must be addressed to:

Department of Management and Budget
Office of Purchasing
Attn: Joan Bosheff
2nd Floor, Mason Building
P. O. Box 30026
Lansing, Michigan 48909
Fax (517) 335-0046

1.4 CONTRACT ADMINISTRATOR

Upon receipt at the Office of Purchasing of the properly executed Contract Agreement, it is anticipated that the Director of Purchasing will direct that the person named below be authorized to administer the contract on a day-to-day basis during the term of the Contract. However, administration of this Contract implies no authority to change, modify, clarify, amend, or



otherwise alter the terms, conditions, and specifications of such contract. The Office of Purchasing retains that authority. The Contract Administrator for this project is:

Donald Gilmer, Commissioner
Bureau of State Lottery
101 E. Hillsdale
P.O. Box 30023
Lansing, Michigan 48909

1.5 PRICE

All rates quoted in this agreement will be firm for the duration of the Contract, including all extensions thereto. Prices quoted shall represent total compensation to the Contractor (except where otherwise specifically noted) for all services and requirements of the Contract, including the provision of product in strict accordance with the specifications contained in Section 2.

Pricing for ticket sizes, book sizes, or order quantities not specifically quoted in the Contract shall be interpolated from the prices quoted that are nearest in size or quantity to the item in question

1.6 CONTRACT INVOICING AND PAYMENT

The Contractor shall submit invoices to the Lottery upon completion of production and acceptance by the Lottery of each game of instant tickets. The State will pay the Contractor the contract price per thousand for saleable tickets delivered by the Contractor after inspection and acceptance by the Lottery and upon invoicing by the Contractor.

The State will pay only for saleable tickets that are delivered which conform to the executed game specifications and are within the order tolerance (see Section 2.19). Any liquidated damages assessed to the Contractor will be deducted from the State's remittance. Lottery will process its voucher for payment as soon as practical after inspection and acceptance of each shipment, normally within thirty (30) days of invoicing. Cash discount period, if offered, shall be computed as the actual number of days after receipt of the goods or receipt by the Agency of the Contractor's invoice whichever is later.

If tickets in excess of the order tolerance are produced, the Lottery may at its sole option elect to accept delivery of such tickets and attempt to sell them. The State will not be obligated to pay for any such tickets if not sold. The State will pay the Contract price per thousand for any excess tickets that are sold. The Contractor must invoice separately for tickets shipped in excess of the order tolerance. Lottery will process payment when the number of tickets sold is determined.

1.7 CONTRACTOR RESPONSIBILITIES

The Prime Contractor will be required to assume responsibility for all contractual activities offered in this Contract whether or not that Contractor performs them. Further, the State will consider the Prime Contractor to be the sole point of contact with regard to contractual matters, including payment of any and all charges resulting from the Contract. If any part of the work is to be subcontracted, the Contractor shall provide a list of subcontractors, including firm name and address, contact person and a complete description of the work to be subcontracted. The State reserves the right to approve subcontractors and to require the primary Contractor to replace subcontractors found to be unacceptable. The Contractor is totally responsible for adherence by



the subcontractor to all provisions of the Contract. Any change in subcontractors must be approved by the State prior to such change.

1.8 NEWS RELEASES

News releases pertaining to this Contract or project to which it relates will not be made without prior written State approval and then only in accordance with the explicit written instructions from the State. No results of the program are to be released without prior approval of the State and then only to persons designated.

1.9 DISCLOSURE

All information in the Contractor's proposal and Contract is subject to disclosure under the provisions of the "Freedom of Information Act", 1976 Public Act No. 442, as amended, MCL 15.231, et seq.

1.10 ACCOUNTING RECORDS

The Contractor and all subcontractors will be required to maintain all pertinent financial and accounting records and evidence pertaining to the Contract in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan. Financial and accounting records shall be made available, upon request, to the State of Michigan, its designees, or the Michigan Department of Auditor General at any time during the Contract period and any extension thereof, and for three (3) years from expiration date and final payment of the Contract or extension thereof.

1.11 INDEMNIFICATION**1. General Indemnification**

The Contractor shall indemnify, defend and hold harmless the State, its departments, divisions, agencies, sections, commissions, officers, employees and agents from and against all losses, liabilities, penalties, fines, damages and claims (including taxes) and all related costs and expenses (including reasonable attorney's fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties), arising from or in connection with any of the following:

- (a) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from (1) the product provided or (2) performance of the work, duties, responsibilities, actions or omissions of the Contractor or any of its subcontractors under this Contract;
- (b) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from a breach by the Contractor of any representation or warranty made by the Contractor in the Contract;
- (c) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or related to occurrences that the Contractor is required to insure against as provided for in this Contract;



- (d) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from the death or bodily injury of any person, or the damage, loss or destruction of any real or tangible personal property, in connection with the performance of services by the Contractor, by any of its subcontractors, by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable; provided, however, that this indemnification obligation shall not apply to the extent, if any, that such death, bodily injury or property damage is caused solely by the negligence or reckless or intentional wrongful conduct of the State;
- (e) any claim, demand, action, citation or legal proceeding against the State, its employees and agents which results from an act or omission of the Contractor or any of its subcontractors in its or their capacity as an employer of a person.

2. Patent/Copyright Infringement Indemnification

The Contractor shall indemnify, defend and hold harmless the State, its employees and agents from and against all losses, liabilities, damages (including taxes), and all related costs and expenses (including reasonable attorneys' fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties) incurred in connection with any action or proceeding threatened or brought against the State to the extent that such action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its subcontractors, or the operation of such equipment, software, commodity or service, or the use or reproduction of any documentation provided with such equipment, software, commodity or service infringes any United States or foreign patent, copyright, trade secret or other proprietary right of any person or entity, which right is enforceable under the laws of the United States. In addition, should the equipment, software, commodity, or service, or the operation thereof, become or in the Contractor's opinion be likely to become the subject of a claim of infringement, the Contractor shall at the Contractor's sole expense (i) procure for the State the right to continue using the equipment, software, commodity or service or, if such option is not reasonably available to the Contractor, (ii) replace or modify the same with equipment, software, commodity or service of equivalent function and performance so that it becomes non-infringing, or, if such option is not reasonably available to Contractor, (iii) accept its return by the State with appropriate credits to the State against the Contractor's charges and reimburse the State for any losses or costs incurred as a consequence of the State ceasing its use and returning it.

3. Indemnification Obligation Not Limited

In any and all claims against the State of Michigan, or any of its agents or employees, by any employee of the Contractor or any of its subcontractors, the indemnification obligation under the Contract shall not be limited in any way by the amount or type of damages, compensation or benefits payable by or for the Contractor or any of its subcontractors under worker's disability compensation acts, disability benefits acts, or other employee benefits acts. This indemnification clause is intended to be comprehensive. Any overlap in subclauses, or the fact that greater specificity is provided as to some categories of risk, is not intended to limit the scope of indemnification under any other subclause.

4. Continuation of Indemnification Obligation



The duty to indemnify will continue in full force and effect notwithstanding the expiration or early termination of the Contract with respect to any claims based on facts or conditions which occurred prior to termination.

1.12 LIMITATION OF LIABILITY

Except as set forth herein, neither the Contractor nor the State shall be liable to the other party for indirect or consequential damages, even if such party has been advised of the possibility of such damages. Such limitation as to indirect or consequential damages shall not be applicable for claims arising out of gross negligence, willful misconduct, or Contractor's indemnification responsibilities to the State as set forth in Section 1.13 with respect to third party claims, action and proceeding brought against the State.

1.13 NON-INFRINGEMENT/COMPLIANCE WITH LAWS

The Contractor warrants that in performing the services called for by this Contract it will not violate any applicable law, rule, or regulation, any contracts with third parties, or any intellectual rights of any third party, including but not limited to, any United States patent, trademark, copyright, or trade secret.

1.14 WARRANTIES AND REPRESENTATIONS

1. The Contractor warrants that all services required to be provided under this Contract shall be furnished in a professional and workmanlike manner, by the Contractor, its subcontractors and its or their employees, having the skill commensurate with the requirements of this Contract.
2. The Contractor warrants that it or its subcontractor is the lawful owner or licensee of any software programs or other material used by either in the performance of services called for in this Contract, and has all the rights necessary to convey to the State the unencumbered ownership or licensed use of any and all materials or deliverables required to be provided by the terms of this Contract.

**1.15 KEY PERSONNEL**

The State reserves the right to approve the Contractor's assignment of key personnel to this project and to recommend reassignment of personnel deemed unsatisfactory by the State.

The Contractor shall not remove or reassign, without the State's prior written approval any of the key personnel until such time as the key personnel have completed all of their planned and assigned responsibilities in connection with performance of the Contractor's obligations under this Contract. The Contractor agrees that the continuity of key personnel is critical and agrees to the continuity of key personnel. Removal of key personnel without the written consent of the State may be considered by the State to be a material breach of this Contract. The prohibition against removal or reassignment shall not apply where key personnel must be replaced for reasons beyond the reasonable control of the Contractor including but not limited to illness, disability, resignation or termination of the key personnel's employment.

The State and the Contractor agree that key personnel for this Contract consist of the account manager and account representatives responsible for the work identified in Section 2.2.

1.16 WORK PRODUCT AND OWNERSHIP

1. Work Products shall be considered works made by the Contractor for hire by the State and shall belong exclusively to the State and its designees, unless specifically provided otherwise by mutual agreement of the Contractor and the State. If by operation of law any of the Work Product, including all related intellectual property rights, is not owned in its entirety by the State automatically upon creation thereof, the Contractor agrees to assign, and hereby assigns to the State and its designees the ownership of such Work Product, including all related intellectual property rights. The Contractor agrees to provide, at no additional charge, any assistance and to execute any action reasonably required for the State to perfect its intellectual property rights with respect to the aforementioned Work Product.
2. Notwithstanding any provision of this Contract to the contrary, any preexisting work or materials including, but not limited to, any routines, libraries, tools, methodologies, processes or technologies (collectively, the "Development Tools") created, adapted or used by the Contractor in its business generally, including any and all associated intellectual property rights, shall be and remain the sole property of the Contractor, and the State shall have no interest in or claim to such preexisting work, materials or Development Tools, except as necessary to exercise its rights in the Work Product. Such rights belonging to the State shall include, but not be limited to, the right to use, execute, reproduce, display, perform and distribute copies of and prepare derivative works based upon the Work Product, and the right to authorize others to do any of the foregoing, irrespective of the existence therein of preexisting work, materials and Development Tools, except as specifically limited herein.
3. The Contractor and its subcontractors shall be free to use and employ their general skills, knowledge and expertise, and to use, disclose, and employ any generalized ideas, concepts, knowledge, methods, techniques or skills gained or learned during the course of performing the services under this Contract, so long as the Contractor or its subcontractors acquire and apply such information without disclosure of any confidential or proprietary information of



the State, and without any unauthorized use or disclosure of any Work Product resulting from this Contract.

1.17 CONFIDENTIALITY OF DATA AND INFORMATION

1. All financial, statistical, personnel, technical and other data and information relating to the State's operation which are designated confidential by the State and made available to the Contractor in order to carry out this Contract, or which become available to the Contractor in carrying out this Contract, shall be protected by the Contractor from unauthorized use and disclosure through the observance of the same or more effective procedural requirements as are applicable to the State. The identification of all such confidential data and information as well as the State's procedural requirements for protection of such data and information from unauthorized use and disclosure shall be provided by the State in writing to the Contractor. If the methods and procedures employed by the Contractor for the protection of the Contractor's data and information are deemed by the State to be adequate for the protection of the State's confidential information, such methods and procedures may be used, with the written consent of the State, to carry out the intent of this section.
2. The Contractor shall not be required under the provisions of this section to keep confidential, (1) information generally available to the public, (2) information released by the State generally, or to the Contractor without restriction, (3) information independently developed or acquired by the Contractor or its personnel without reliance in any way on otherwise protected information of the State. Notwithstanding the foregoing restrictions, the Contractor and its personnel may use and disclose any information which it is otherwise required by law to disclose, but in each case only after the State has been so notified, and has had the opportunity, if possible, to obtain reasonable protection for such information in connection with such disclosure.

1.18 REMEDIES FOR BREACH OF CONFIDENTIALITY

The Contractor acknowledges that a breach of its confidentiality obligations as set forth in Section 1.19 of this Contract, shall be considered a material breach of the Contract. Furthermore the Contractor acknowledges that in the event of such a breach the State shall be irreparably harmed. Accordingly, if a court should find that the Contractor has breached or attempted to breach any such obligations, the Contractor will not oppose the entry of an appropriate order restraining it from any further breaches or attempted or threatened breaches. This remedy shall be in addition to and not in limitation of any other remedy or damages provided by law.

**1.19 CONTRACTOR'S LIABILITY INSURANCE**

The Contractor shall purchase and maintain such insurance as will protect him/her from claims set forth below which may arise out of or result from the Contractor's operations under the Contract (Purchase Order), whether such operations be by himself/herself or by any Subcontractor or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable:

1. Claims under workers' disability compensation, disability benefit and other similar employee benefit act. A non-resident Contractor shall have insurance for benefits payable under Michigan's Workers' Disability Compensation Law for any employee resident of and hired in Michigan; and as respects any other employee protected by workers' disability compensation laws of any other state the Contractor shall have insurance or participate in a mandatory state fund to cover the benefits payable to any such employee.
2. Claims for damages because of bodily injury, occupational sickness or disease or death of his/her employees.
3. Claims for damages because of bodily injury, sickness or disease, or death of any person other than his/her employees, subject to limits of liability of not less than \$300,000 each occurrence and, when applicable \$300,000 annual aggregate, for non-automobile hazards and as required by law for automobile hazards.
4. Claims for damages because of injury to or destruction of tangible property, including loss of use resulting therefrom, subject to a limit of liability of not less than \$50,000 each occurrence for non-automobile hazards and as required by law for automobile hazards.
5. Insurance for subparagraphs (3) and (4) non-automobile hazards on a combined single limit of liability basis shall not be less than \$300,000 each occurrence and when applicable, \$300,000 annual aggregate.

The insurance shall be written for not less than any limits of liability herein specified or required by law, whichever is greater and shall include contractual liability insurance as applicable to the Contractor's obligations under the Indemnification clause of the Contract (Direct Purchase Order).

BEFORE STARTING WORK THE CONTRACTOR'S INSURANCE AGENCY MUST FURNISH TO THE DIRECTOR OF THE OFFICE OF PURCHASING, ORIGINAL CERTIFICATE(S) OF INSURANCE VERIFYING LIABILITY COVERAGE. THE CONTRACT OR PURCHASE ORDER NO. MUST BE SHOWN ON THE CERTIFICATE OF INSURANCE TO ASSURE CORRECT FILING. These Certificates shall contain a provision that coverages afforded under the policies will not be cancelled until at least fifteen days' prior written notice bearing the Contract Number or Purchase Order Number has been given to the Director of Purchasing.

Self-insurance to cover the above requirements will not be permitted.

**1.20 GAME INSURANCE**

The Contractor shall maintain an errors and omissions insurance policy exclusively for the State of Michigan. Said policy shall be executed by a company authorized to do business in Michigan. The policy must be in full force and effect for the duration of each instant game produced under this Contract. The policy shall cover the risks and limits as set forth below:

1. Over Redemption – Up to \$5,000,000.00 of any valid prize winnings the Lottery becomes obligated to pay in excess of 101% of the approved final prize structure.
2. Ticket Take-Back – Up to \$5,000,000.00 for the purchase price of unsold lottery tickets if an instant game is terminated because winners can be predetermined, ticket manufacturing quality is unacceptable in over 5% (five percent) of the tickets delivered or the actual number of winning tickets contained in the total saleable tickets delivered for a game varies from the number specified in the approved prize structure by more than 1% (one percent).
3. Lottery Expenses – Up to \$1,000,000 indemnifying the Lottery for out-of-pocket expenses (e.g. advertising, promotion, etc.) incurred for which full value was not received due to 2. above.

The Contractor shall provide a certificate of insurance naming the State of Michigan as third party insured to the Issuing Office and the Contract Administrator prior to the first delivery of tickets.

1.21 NOTICE AND RIGHT TO CURE

In the event of a curable breach by the Contractor, the State shall provide the Contractor written notice of the breach and a time period to cure said breach described in the notice. This section requiring notice and an opportunity to cure shall not be applicable in the event of successive or repeated breaches of the same nature or if the State determines in its sole discretion that the breach poses a serious and imminent threat to the health or safety of any person or the imminent loss, damage or destruction of any real or tangible personal property.

1.22 CANCELLATION

1. The State may cancel the Contract for default of the Contractor. Default is defined as the failure of the Contractor to fulfill the obligations of the quotation or Contract. In case of default by the Contractor, the State may immediately and/or upon 30 days prior written notice to the Contractor cancel the Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees, and procure the services from other sources, and hold the Contractor responsible for any excess costs occasioned thereby.
2. The State may cancel the Contract in the event the State no longer needs the services or products specified in the Contract, or in the event program changes, changes in laws, rules or regulations, relocation of offices occur, or the State determines that Statewide implementation of the Contract is not feasible, or if prices for additional services requested by the State are not acceptable to the State. The State may cancel the Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees by giving the Contractor written notice of such cancellation 30 days prior to the date of cancellation.



3. The State may cancel the Contract for lack of funding. The Contractor acknowledges that, if this Contract extends for several fiscal years, continuation of this Contract is subject to appropriation of funds for this project. If funds to enable the State to effect continued payment under this Contract are not appropriated or otherwise made available, the State shall have the right to terminate this Contract without penalty at the end of the last period for which funds have been appropriated or otherwise made available by giving written notice of termination to the Contractor. The State shall give the Contractor written notice of such non-appropriation within 30 days after it receives notice of such non-appropriation.
4. The State may immediately cancel the Contract without further liability to the State its departments, divisions, agencies, sections, commissions, officers, agents and employees if the Contractor, an officer of the Contractor, or an owner of a 25% or greater share of the Contractor, is convicted of a criminal offense incident to the application for or performance of a State, public or private Contract or subcontract; or convicted of a criminal offense including but not limited to any of the following: embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, attempting to influence a public employee to breach the ethical conduct standards for State of Michigan employees; convicted under State or federal antitrust statutes; or convicted of any other criminal offense which in the sole discretion of the State, reflects on the Contractor's business integrity.
5. The State may immediately cancel the Contract in whole or in part by giving notice of termination to the Contractor if any final administrative or judicial decision or adjudication disapproves a previously approved request for purchase of personal services pursuant to Constitution 1963, Article 11, Section 5, and Civil Service Rule 4-6.
6. The State may, with 30 days written notice to the Contractor, cancel the Contract in the event prices proposed for Contract modification/extension are unacceptable to the State.

1.23 RIGHTS AND OBLIGATIONS UPON CANCELLATION

1. If the Contract is canceled by the State for any reason, the Contractor shall, (a) stop all work as specified in the notice of cancellation, (b) take any action that may be necessary, or that the State may direct, for preservation and protection of Work Product or other property derived or resulting from the Contract that may be in the Contractor's possession, (c) return all materials and property provided directly or indirectly to the Contractor by any entity, agent or employee of the State, (d) transfer title and deliver to the State, unless otherwise directed by the Contract Administrator or his or her designee, all Work Product resulting from the Contract, and (e) take any action to mitigate and limit any potential damages, or requests for Contractor adjustment or cancellation settlement costs, to the maximum practical extent, including, but not limited to, canceling or limiting as otherwise applicable, those subcontracts, and outstanding orders for material and supplies resulting from the canceled Contract.
2. In the event the State cancels this Contract prior to its expiration for its own convenience, the State shall pay the Contractor for all charges due for services provided prior to the date of cancellation and if applicable as a separate item of payment pursuant to the Contract, for partially completed Work Product, on a percentage of completion basis. In the event of a cancellation for cause, or any other reason under the Contract, the State will pay, if



applicable, as a separate item of payment pursuant to the Contract, for all partially completed Work Products, to the extent that the State requires the Contractor to submit to the State any such deliverables, and for all charges due under the Contract for any cancelled services provided by the Contractor prior to the cancellation date. All completed or partially completed Work Product prepared by the Contractor pursuant to this Contract shall, at the option of the State, become the State's property, and the Contractor shall be entitled to receive just and fair compensation for such Work Product. Regardless of the basis for the cancellation, the State shall not be obligated to pay, or otherwise compensate, the Contractor for any lost expected future profits, costs or expenses incurred with respect to Services not actually performed for the State.

3. If any such cancellation by the State is for cause, the State shall have the right to set-off against any amounts due the Contractor, the amount of any damages for which the Contractor is liable to the State under this Contract or pursuant to law and equity.
4. Upon a good faith cancellation, the State shall have the right to assume, at its option, any and all subcontracts and agreements for services and materials provided under this Contract, and may further pursue completion of the Work Product under this Contract by replacement contract or otherwise as the State may in its sole judgment deem expedient.

1.24 GAME CANCELLATION

The Lottery reserves the right to cancel any game. When the game is cancelled through no fault of the Contractor, Lottery's liability will be limited to the actual costs incurred prior to cancellation, including stock, computer programming, computer typesetting, film and plate making, game design expenses, production and printing supervision and inspection when specifically assigned to the game plus salaries of personnel when specifically assigned to the game.

1.25 EXCUSABLE FAILURE

1. Neither party shall be liable for any default or delay in the performance of its obligations under the Contract if and to the extent such default or delay is caused, directly or indirectly, by: fire, flood, earthquake, elements of nature or acts of God; riots, civil disorders, rebellions or revolutions in any country; the failure of the other party to perform its material responsibilities under the Contract (either itself or through another Contractor); injunctions (provided the injunction was not issued as a result of any fault or negligence of the party seeking to have its default or delay excused); or any other cause beyond the reasonable control of such party; provided the non-performing party and its subcontractors are without fault in causing such default or delay, and such default or delay could not have been prevented by reasonable precautions and cannot reasonably be circumvented by the non-performing party through the use of alternate sources, workaround plans or other means, including disaster recovery plans. In such event, the non-performing party will be excused from any further performance or observance of the obligation(s) so affected for as long as such circumstances prevail and such party continues to use its best efforts to recommence performance or observance whenever and to whatever extent possible without delay provided such party promptly notifies the other party in writing of the inception of the excusable failure occurrence, and also of its abatement or cessation.



2. If any of the above enumerated circumstances substantially prevent, hinder, or delay performance of the services necessary for the performance of the State's functions for more than 14 consecutive days, and the State determines that performance is not likely to be resumed within a period of time that is satisfactory to the State in its reasonable discretion, then at the State's option: (a) the State may procure the affected services from an alternate source, and the State shall not be liable for payments for the unperformed services under the Contract for so long as the delay in performance shall continue; (b) the State may cancel any portions of the Contract so affected and the charges payable thereunder shall be equitably adjusted to reflect those services canceled; or (c) the Contract will be canceled without liability of the State to the Contractor as of the date specified by the State in a written notice of cancellation to the Contractor. The Contractor will not have the right to any additional payments from the State as a result of any excusable failure occurrence or to payments for services not rendered as a result of the excusable failure condition. Defaults or delays in performance by the Contractor which are caused by acts or omissions of its subcontractors will not relieve the Contractor of its obligations under the Contract except to the extent that a subcontractor is itself subject to any excusable failure condition described above and the Contractor cannot reasonably circumvent the effect of the subcontractor's default or delay in performance through the use of alternate sources, workaround plans or other means.

1.26 ASSIGNMENT

The Contractor shall not have the right to assign, sell, or otherwise transfer or dispose of this Contract or to assign or delegate any of its duties or obligations under this Contract to any other party (whether by operation of law or otherwise), without the prior written consent of the State. Any such purported action in violation of this section shall be null and void. Further, the Contractor may not assign the right to receive money due under the Contract without the prior written consent of the State Purchasing Director.

**1.27 DELEGATION**

The Contractor shall not delegate any duties or obligations under this Contract to a subcontractor other than a subcontractor named in the RFP unless the State Purchasing Director has given written consent to the delegation.

1.28 NON-DISCRIMINATION CLAUSE

In the performance of this Contract, the Contractor agrees not to discriminate against any employee or applicant for employment, with respect to their hire, tenure, terms, conditions or privileges of employment, or any matter directly or indirectly related to employment, because of race, color, religion, national origin, ancestry, age, sex, height, weight, marital status, physical or mental handicap or disability unrelated to the individual's ability to perform the duties of the particular job or position. The Contractor further agrees that every subcontract entered into for the performance of this Contract will contain a provision requiring non-discrimination in employment, as herein specified, binding upon each subcontractor. This covenant is required pursuant to the Elliot Larsen Civil Rights Act, 1976 Public Act 453, as amended, MCL 37.2101, *et seq*, and the Persons with Disabilities Civil Rights Act, 1976 Public Act 220, as amended, MCL 37.1101, *et seq*, and any breach thereof may be regarded as a material breach of the Contract.

1.29 MODIFICATION OF SERVICE

The Director of Purchasing reserves the right to modify this service during the course of the Contract. Such modification may include adding or deleting tasks which this service shall encompass and/or any other modifications deemed necessary. Any changes in pricing proposed by the Contractor resulting from possible modifications are subject to acceptance by the State. Changes may be increases or decreases.

IN THE EVENT PRICES ARE NOT ACCEPTABLE TO THE STATE, THE CONTRACT SHALL BE SUBJECT TO COMPETITIVE BIDDING BASED UPON THE NEW SPECIFICATIONS.

1.30 REVISIONS, CONSENTS AND APPROVALS

This Contract may not be revised, modified, amended, extended, or augmented, except by a writing executed by the parties hereto, and any breach or default by a party shall not be waived or released other than in writing signed by the other party.

1.31 ENTIRE AGREEMENT AND ORDER OF PRECEDENCE

The following documents constitute the complete and exclusive Contract between the parties as it relates to the transaction: In the event of any conflict among the documents making up the Contract, the following order of precedence shall apply (in descending order of precedence):

1. Any contract resulting from the State's ITB/Addenda
2. State's ITB and any Addenda thereto
3. Contractor's response(s) to the State's ITB and Addenda

In the event of any conflicts between the specifications, terms, and conditions indicated by the State and those indicated by the Contractor, those of the State take precedence.



This Contract supersedes all proposals or other prior agreements, oral or written, and all other communications between the parties relating to this subject.

1.32 NO WAIVER OF DEFAULT

The failure of a party to insist upon strict adherence to any term of this Contract shall not be considered a waiver or deprive the party of the right thereafter to insist upon strict adherence to that term, or any other term, of the Contract.

1.33 SEVERABILITY

Each provision of this Contract shall be deemed to be severable from all other provisions of the Contract and, if one or more of the provisions of the Contract shall be declared invalid, the remaining provisions of the Contract shall remain in full force and effect.

1.34 HEADINGS

Captions and headings used in this Contract are for information and organization purposes. Captions and headings, including inaccurate references, do not, in any way, define or limit the requirements or terms and conditions of this Contract.

1.35 RELATIONSHIP OF PARTIES

The relationship between the State and the Contractor is that of client and independent Contractor. No agent, employee, or servant of the Contractor or any of its subcontractors shall be deemed to be an employee, agent, or servant of the State for any reason. The Contractor will be solely and entirely responsible for its acts and the acts of its agents, employees, servants and subcontractors during the performance of this Contract.

1.36 NOTICES

Any notice given to a party under this Contract must be written and shall be deemed effective, if addressed to such party as addressed below upon (i) delivery, if hand delivered; (ii) receipt of a confirmed transmission by facsimile if a copy of the notice is sent by another means specified in this section; (iii) the third (3rd) Business Day after being sent by U.S. mail, postage pre-paid, return receipt requested; or (iv) the next Business Day after being sent by a nationally recognized overnight express courier with a reliable tracking system.

1.37 UNFAIR LABOR PRACTICE

Pursuant to 1980 Public Act 278, as amended, MCL 423.231, *et seq*, the State shall not award a Contract or subcontract to an employer whose name appears in the current register of employers failing to correct an unfair labor practice compiled pursuant to Section 2 of the Act. This information is compiled by the United States National Labor Relations Board. A Contractor of the State, in relation to the Contract, shall not enter into a Contract with a subcontractor, manufacturer, or supplier whose name appears in this register. Pursuant to Section 4 of 1980 Public Act 278, MCL 423.324, the State may void any Contract if, subsequent to award of the Contract, the name of the Contractor as an employer, or the name of the subcontractor, manufacturer or supplier of the Contractor appears in the register.

**1.38 SURVIVOR**

Any provisions of the Contract that impose continuing obligations on the parties including, but not limited to the Contractor's indemnity and other obligations shall survive the expiration or cancellation of this Contract for any reason.

1.39 GOVERNING LAW

This Contract shall in all respects be governed by, and construed in accordance with, the laws of the State of Michigan. Any dispute arising herein shall be resolved in the State of Michigan.

1.40 CONTRACT DISTRIBUTION

The Office of Purchasing shall retain the sole right of Contract distribution to Lottery unless other arrangements are authorized by the Office of Purchasing.

1.41 DISCLOSURE OF LITIGATION

1. The Contractor shall notify the State in its bid proposal, if it, or any of its subcontractors, or their officers, directors, or key personnel under this Contract, have ever been convicted of a felony, or any crime involving moral turpitude, including, but not limited to fraud, misappropriation or deception. Contractor shall promptly notify the State of any criminal litigation, investigations or proceeding which may have arisen or may arise involving the Contractor or any of the Contractor's subcontractors, or any of the foregoing entities' then current officers or directors during the term of this Contract and three years thereafter.
2. The Contractor shall notify the State in its bid proposal, and promptly thereafter as otherwise applicable, of any civil litigation, arbitration, proceeding, or judgments that may have arisen against it or its subcontractors during the five years preceding its bid proposal, or which may occur during the term of this Contract or three years thereafter, which involve (1) products or services similar to those provided to the State under this Contract and which either involve a claim in excess of \$250,000 or which otherwise may affect the viability or financial stability of the Contractor, or (2) a claim or written allegation of fraud by the Contractor or any subcontractor hereunder, arising out of their business activities, or (3) a claim or written allegation that the Contractor or any subcontractor hereunder violated any federal, state or local statute, regulation or ordinance. Multiple lawsuits and or judgments against the Contractor or subcontractor, in any an amount less than \$250,000 shall be disclosed to the State to the extent they affect the financial solvency and integrity of the Contractor or subcontractor.
3. All notices under subsection 1 and 2 herein shall be provided in writing to the State within fifteen business days after the Contractor learns about any such criminal or civil investigations and within fifteen days after the commencement of any proceeding, litigation, or arbitration, as otherwise applicable. Details of settlements which are prevented from disclosure by the terms of the settlement shall be annotated as such. Semi-annually, during the term of the Contract, and thereafter for three years, Contractor shall certify that it is in compliance with this Section. Contractor may rely on similar good faith certifications of its subcontractors, which certifications shall be available for inspection at the option of the State.



4. Assurances -- In the event that such investigation, litigation, arbitration or other proceedings disclosed to the State pursuant to this Section, or of which the State otherwise becomes aware, during the term of this Contract, causes the State to be reasonably concerned about:
 - (a) The ability of the Contractor or its subcontractor to continue to perform this Contract in accordance with its terms and conditions, or
 - (b) Whether the Contractor or its subcontractor in performing services is engaged in conduct which is similar in nature to conduct alleged in such investigation, litigation, arbitration or other proceedings, which conduct would constitute a breach of this Contract or violation of Michigan or Federal law, regulation or public policy, then the Contractor shall be required to provide the State all reasonable assurances requested by the State to demonstrate that: (1) the Contractor or its subcontractors hereunder will be able to continue to perform this Contract in accordance with its terms and conditions, (2) the Contractor or its subcontractors will not engage in conduct in performing services under this Contract which is similar in nature to the conduct alleged in any such litigation, arbitration or other proceedings.
5. The Contractor's failure to fully and timely comply with the terms of this section, including providing reasonable assurances satisfactory to the State, may constitute a material breach of this Contract.

1.42 STOP WORK

1. The State may, at any time, by written stop work order to the Contractor, require that the Contractor to stop all, or any part, of the work called for by this Contract for a period of up to 90 days after the stop work order is delivered to the Contractor, and for any further period to which the parties may agree. The stop work order shall be specifically identified as such and shall indicate that it is issued under this section. Upon receipt of the stop work order, the Contractor shall immediately comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the stop work order during the period of work stoppage. Within the period of the stop work order, the State shall either:
 - (a) Cancel the stop work order; or
 - (b) Cancel the work covered by the stop work order as provided in the cancellation section of this Contract.
2. If a stop work order issued under this section is canceled or the period of the stop work order or any extension thereof expires, the Contractor shall resume work. The State shall make an equitable adjustment in the delivery schedule, the contract price, or both, and the Contract shall be modified, in writing, accordingly, if:
 - (a) The stop work order results in an increase in the time required for, or in the Contractor's costs properly allocable to the performance of any part of this Contract; and



- (b) The Contractor asserts its right to an equitable adjustment within 30 days after the end of the period of work stoppage; provided, that if the State decides the facts justify the action, the State may receive and act upon a proposal submitted at any time before final payment under this Contract.
- 3. If the stop work order is not canceled and the work covered by the stop work order is canceled for reasons other than material breach, the State shall allow reasonable costs resulting from the stop work order in arriving at the cancellation settlement.
- 4. If a stop work order is not canceled and the work covered by the stop work order is canceled for material breach, the State shall not allow, by equitable adjustment or otherwise, reasonable costs resulting from the stop work order.
- 5. An appropriate equitable adjustment may be made in any related contract of the Contractor that provides for adjustment and is affected by any stop work order under this section. The State shall not be liable to the Contractor for loss of profits because of a stop work order issued under this section.

1.43 TAXES

The State of Michigan is exempt from federal excise and state and local sales and use taxes on goods and services acquired pursuant to this Contract where the Contractor is considered to be the retailer of said goods and services. A federal excise tax exemption certificate will be provided if requested. Where the State is the second-line purchaser of goods and services via pass-through from the Contractor, the State is subject to and will reimburse the Contractor for state and local taxes incurred and paid by the Contractor.

1.44 CHANGE IN FINANCIAL CONDITION

If the Contractor experiences a substantial change in its financial condition during the period from bid opening to the award of this contract, or if the Contractor experiences substantial changes in its financial condition during the term of the contract, the State must be notified of the change in writing within twenty-four (24) hours of public notification of such change. Failure to notify the State of such a substantial change in financial condition will be sufficient grounds for rejecting the Contractor's proposal or terminating the Contract.

**1.45 TESTIMONY IN LEGAL ACTIONS**

If the testimony of the Contractor is required in any criminal, civil or administrative action involving the Lottery's instant ticket games, the Contractor shall provide, at no expense to the Lottery, the State of Michigan, or the prosecuting authority, all persons and materials necessary to present such testimony or evidence.

1.46 CONTRACTOR LIABILITY

The Contractor will be liable for all winning tickets manufactured under this contract, delivered to the Lottery and presented for redemption which are not identified as valid, winning, saleable tickets on the validation tapes furnished to the Lottery by the Contractor and for which the Lottery becomes liable for payment.

The Contractor will be liable and shall reimburse the Lottery for any prize payment for any ticket manufactured and delivered by the Contractor when such ticket, under the scheme of the game, constitutes a winning ticket on its face, notwithstanding that the Contractor did not intend such ticket to be a winning ticket or did not intend to deliver such ticket to the Lottery. Lottery will consult with independent experts and will carefully evaluate any claim against the Lottery and the Contractor pursuant to this section and no misprinted ticket claim will be paid unless legal counsel for the Lottery has advised that a legal obligation to pay exists.

The Contractor shall not be liable for any ticket which has been altered, forged, counterfeited or otherwise changed after delivery to the Lottery by the Contractor nor shall the Contractor be liable for any payment by an independent sales agent for an altered or counterfeit ticket or for errors in payment by sales agents.

1.47 MISPRINTED TICKETS DEFINED

A "misprinted ticket" is defined as a ticket that is not altered, counterfeit or forged and meets any of the following conditions:

1. Any ticket produced by the Contractor, delivered to Lottery and presented for redemption which, as a result of misprinted display printing or computer imaged game data, under the scheme of the game, constitutes a winning ticket on its face although the Contractor did not intend such ticket to be a winning ticket and the Lottery becomes liable for payment of a prize. Provided the ticket has not been altered, counterfeited, forged or otherwise changed after delivery to the Lottery, the Contractor shall reimburse the prize amount to the Lottery.
2. Any ticket on which the game data does not exactly agree with the data regenerated for that ticket from the Contractor's files.
3. Any ticket with a caption different than those specified in the executed game specifications.
4. Any ticket that has fewer, more or different play symbols than what is defined in the executed game specifications.
5. Any ticket which is not playable as defined by the executed game specifications due to manufacturer's defects.

**1.48 LIQUIDATED DAMAGES**

It must be understood and agreed that quality, accuracy, security, accountability and timeliness are of the essence with respect to this Contract. In the event that ticket delivery(ies), for any game(s) covered under the Contract do not meet the delivery requirements of Section 2.33 hereof, then liquidated damages of up to \$2,500 per game may be assessed for each calendar day for which delivery is late for up to 20 calendar days. Commencing on the 21st calendar day following the institution of up to \$2,500 per day damages, liquidated damages may be assessed at a rate of up to \$10,000 per game for each calendar day for which delivery is late. In no event shall liquidated damages accrue for more than 60 calendar days, or total more than \$450,000 per game. In addition, late delivery may be considered a material breach of the contract.

Liquidated damages may also be assessed for the following:

1. Liquidated damages may be assessed at a rate of \$1,000 per calendar day for each game tape (game production, omitted books, winners, winner omits, full and partial book returns) and test tapes not received as specified in Section 2.8 or if received with erroneous or incomplete data.
2. The Contractor shall produce and deliver instant tickets in strict accordance with the quality standards of the contract and the requirements of the executed game specifications.

If the Contractor delivers tickets not in strict accordance with the quality standards of the contract and the requirements of the executed game specifications, the Lottery may, at its sole option:

- (a) Assess liquidated damages of an amount equal to fifty percent (50%) of the retail sale value per book which contain such tickets, or
 - (b) Reject all or a portion of the tickets and require the Contractor to re-manufacture an equal number of tickets for the game.
3. Liquidated damages may be assessed at the rate of \$500 for each instance where cartons or pallets are not packed in accordance with the requirements in Section II (i.e. tickets or cartons out of sequence, cartons or books of tickets that are missing, or cartons or books of tickets which are in the wrong carton or on the wrong pallet).
4. The Contractor shall preclude unauthorized persons, that is, persons who are not authorized by the commissioner, from accessing facilities, equipment and information utilized in the production of tickets.

If the Contractor fails to preclude access by unauthorized persons, the commissioner may impose liquidated damages in the amount of up to \$10,000 for each person, for each incident in violation.

5. The Contractor shall not modify any materials, inks, thicknesses, processes, and/or equipment used in manufacturing tickets without the prior, written approval of the commissioner.



If the Contractor modifies any materials, inks, thicknesses, processes, and/or equipment used in manufacturing tickets without the prior, written approval of the commissioner, the commissioner may impose liquidated damages in an amount up to \$25,000 per unauthorized modification. Additional liquidated damages of up to \$5,000 per day may be assessed until the unauthorized modification is discontinued and the process is restored to its previous operating state at the Contractor's expense.

6. The Contractor shall preclude the unauthorized regeneration of ticket data.

If the Contractor fails to preclude the unauthorized regeneration of ticket data, the commissioner may impose liquidated damages in the amount of \$10,000 for each incident.

7. The Contractor shall furnish an "End of Production" prize structure to the commissioner which meets the requirements of Section 2.8.

If the Contractor fails to furnish an "End of Production" prize structure to the commissioner which meets the requirements of Section 2.8, then liquidated damages of \$1,000 may be assessed for each calendar day for which delivery is late.

8. Failure to respond to requests for ticket regeneration within the time limits specified in Section 2.22 will be assessed at the rate of \$500 for each working day for each ticket or series of tickets requested.

9. The Contractor shall take all necessary steps to insure that books containing misprinted tickets or books reported as omitted are not shipped to the Lottery for distribution to retailers.

Should such books or tickets be distributed to retailers, the Contractor will be liable for 50% of the retail value of omitted books, plus the value of any winning tickets the Lottery becomes obligated to pay as a result of misprinting or distribution of omitted books.

1.49 COPYRIGHT, TRADEMARK OR PATENT

The Contractor shall hold and save harmless the State of Michigan, the Bureau of State Lottery, its officers, agents and employees from liability of any nature arising out of a claim or suit because of the use of any patented, copyrighted, uncopyrighted or trademarked composition, secured process, potential invention, article, appliance, ticket design or game name used in the performance of this contract. The Contractor will assume the defense of any and all suits and pay all costs and expenses incidental thereto, subject to the right of the State of Michigan to provide additional legal counsel at the expense of the State.

The Contractor will obtain at its expense a federal and a state trademark search and a written opinion on the advisability of Lottery's using the selected names, symbols and themes in the instant Lottery games. The Contractor will provide Lottery with such opinion for review and approval prior to the Lottery's signing of the final executed game specifications.

If the Lottery desires to use a game name, theme, play style or other feature, the rights to which are owned by a third party, then the Contractor on behalf of the Lottery and subject to its final approval will acquire a right-to-use license before producing tickets incorporating such name,



theme, play style or other feature. The Contractor will be reimbursed, in addition to the base price for ticket production, the actual cost of such license without mark-up.

1.50 RIGHT OF INSPECTION

The Lottery shall have the right to make announced or unannounced inspections of any phase of the production of the games either on a continuing or a spot-check basis.

1.51 TICKET PURCHASE AND PRIZE PAYMENT RESTRICTIONS

No officer or employee of the Contractor or of any subcontractor, or their spouse, child, brother, sister, or parent residing in the household of such officer or employee shall purchase an instant lottery ticket or be paid a prize in any Michigan Lottery instant game produced under this contract. The Contractor shall insure that this requirement is made known to each officer and employee of the Contractor and any subcontractor.

1.52 NON-DISCLOSURE OF THE LOTTERY'S PLANS

Until Lottery announces a game, the Contractor is prohibited from disclosing the details of the games planned by the Lottery or the fact that the Lottery intends to offer such games to persons or organizations other than the Contractor's personnel, agents and subcontractors whose assistance in the production of the games is necessary.

1.53 NON-EXCLUSIVE RIGHTS

It is understood and agreed by the Contractor that the State does not grant the Contractor exclusive rights to all Lottery instant games. That is, in event the State decides that the development, manufacture and delivery of an instant game by another Contractor is in the State's best interest, the State reserves the right to contract and purchase said instant game; and said action does not infringe upon nor terminate the contractual requirements.

1.54 UNITED STATES PRODUCTION FACILITY

If the Contractor possesses and/or utilizes a printing and production facility in the United States, the tickets produced under this Contract will be produced in the United States facility unless otherwise specifically approved by the Contract Administrator and the Office of Purchasing.

**1.55 ASSIGNMENT OF ANTITRUST CAUSE OF ACTION**

The Contractor hereby assigns, sells, and transfers to the State of Michigan all rights, title, and interest in and to all causes of action it may have under the antitrust laws of the United States of this State for price fixing, which causes of action it may have accrued prior to the date of payment and which relate solely to the particular goods, commodities, or services purchases or procured by this State pursuant to this transaction.

1.56 RECYCLED CONTAINERS

The Contractor is encouraged to offer products in containers using recovered materials suitable for the intended use. “Recovered material” is defined as post-consumer waste (any products generated by a business or consumer which have served their intended end use and which have been separated or diverted from solid waste for the purpose of collection, recycling, and disposition) and “secondary waste” (industrial by-products and wastes generated after completion of a manufacturing process that would normally not be reused).

1.57 USAGE REPORTING

The Contractor may be required to report contract usage by Lotteries. Such usage shall be reported when requested by the buyer in the Office of Purchasing, Department of Management and Budget.



**SECTION 2
WORK STATEMENT**

2.1 GENERAL REQUIREMENTS

The Contractor shall:

1. Provide various marketing support;
2. Design, develop, manufacture and deliver computer-imaged, continuous form fan folded lottery tickets for “rub-off” instant lottery games;
3. Interface with existing computerized accounting, allocation and validation sub-systems; and
4. Provide control over inventory and security as necessary to protect the integrity of the game.

The contract will be for approximately 300 million lottery tickets per year. Typical game size is 3-6 million tickets; the number of tickets ordered for each game will be at the discretion of the contract administrator. Quantities are estimates only and the State is neither committed to nor limited to purchasing in the exact quantities shown.

2.2 MARKETING SERVICES

The Contractor shall provide dedicated marketing staff to interface with Lottery Marketing. The Contractor shall provide, at a minimum, the following marketing services at no additional costs to the State:

1. Game specification coordination;
2. Game design coordination;
3. Game concept and design coordination for Lottery focus group research;
4. Analysis of new instant strategies or techniques employed in the industry;
5. Production schedule oversight from design to delivery; and
6. Production oversight on press when the Lottery elects not to attend press approvals.

2.3 SPECIFICATIONS

The Contractor will be required to develop game specifications under the direction of the Lottery for each game. The game specifications will include the final mechanical art and color keys for the front and back of the ticket; detailed ticket specifications; prize structure; packaging and shipping information; production and delivery schedule for tickets, magnetic tapes and other required data; ticket order quantity; and any optional products, features, or services requested by Lottery. The contract administrator must approve these specifications before ticket



manufacturing begins. The Contractor must manufacture and deliver the ticket according to these executed game specifications. The executed game specifications for each game will become part of the contract. The Contractor shall also be required to furnish computer disks of approved game art to the Lottery for promotional use.

2.4 MANUFACTURING CHANGES

Once the Contractor's product has been approved in writing by the Lottery, the Contractor is prohibited from changing the materials, inks, thicknesses, processes and/or equipment used in manufacturing the tickets unless prior written approval is received from the contract administrator. Tickets delivered under the contract that vary from approved specifications shall constitute grounds to reject all tickets delivered to the Lottery and may result in the assessment of liquidated damages.

The Contractor shall notify the Lottery in writing of any proposed change in location of the manufacturing process or any portion thereof. No such change shall be made without prior written approval from the Office of Purchasing.

2.5 SAMPLE TICKETS

The Contractor shall deliver to the contract administrator, with the first delivery of tickets for a game but no later than three weeks prior to the beginning of sales, 10,000-15,000 (dependent on book size) samples of the tickets for each respective game for distribution by Lottery to sales agents. Each of the standard size samples shall have "VOID" printed on the ticket. The location of the word VOID shall be defined in the executed game specifications. The cost of sample tickets shall be included in the price per thousand saleable tickets. The Contractor will not invoice, and the State will not pay, for sample tickets.

2.6 PRIZE STRUCTURE

The Contractor shall furnish to the contract administrator a preliminary prize structure for each game prior to receiving final approval to proceed with the manufacture of tickets. One week after production is complete, the Contractor shall furnish to the contract administrator an "End of Production" prize structure for each game taking into consideration omitted tickets, missing tickets, damaged tickets, under-printing of tickets, over-printing of tickets, etc. The "End of Production" prize structure must include the actual number of saleable winning tickets of each prize.

2.7 RANDOMIZATION

The Contractor must randomly distribute winning tickets throughout the game and throughout each control unit without any determinable pattern. Each control unit (pool) must be produced using a scrambler program unique from all other control units produced for a single game. The number of tickets per control unit will be specified in the Executed Game Specifications for each game. Each game must be produced using scrambler programs unique from another game. Number scrambler programs used for printing tickets should be organized such that winning tickets are interspersed among losing tickets.



Games shall be produced using the guaranteed low-end prize structure (GLEPS) method of winning ticket dispersion and randomization, such that each book of instant tickets produced for a game shall contain the same total value of low-tier winning tickets.

The Contractor will not be permitted to produce winning and losing tickets or achieve randomization of winning and losing tickets through separate production or manual or mechanical assembly of tickets into books.

2.8 DATA PROCESSING REQUIREMENTS

The minimum data processing requirements which the vendor must furnish to the Lottery for each individual instant game at no additional cost include, but are not limited to, the items listed below. Appendix 1 contains tape format and file layout specifications.

1. Serialized inventory tape

A magnetic tape containing data required for the instant game tracking and distribution activities of the Lottery and its designated vendors. Each data record will contain information pertaining to a single “book” of instant tickets including, but not limited to, the book number, the carton number, and the disposition of the book at the end of the printing process. The Lottery requires this tape three weeks prior to the beginning of public sales for an instant game.

2. High tier winner validation tape

A magnetic tape containing validation data for all winning tickets in a game with prize amounts greater than \$25. Each individual data record contains, but is not limited to, the winning validation number and prize level for a single high tier ticket. The data records will be sorted in validation number order. The Lottery requires this tape three weeks prior to the beginning of public sales for an instant game.

3. Low tier winner validation tape

A magnetic tape containing validation data for all winning tickets within a game naming prize amounts of \$25 and below. Each individual record contains, but is not limited to, the low tier winning validation numbers and prizes for a single book of tickets. The data records are sorted in book number order. The Lottery requires this tape three weeks prior to the beginning of public sales for an instant game.

4. End-of-game prize structure

A document containing the breakdown of winning tickets, by prize amount, which is used by the Lottery to verify the validation data on both winning validation tapes. The prize structure will list the number of winners for every possible combination of an individual prize (i.e. when a \$4 prize could be won as \$1 X 4, \$2 X 2, or \$4 X 1, each of the three combinations would have a line in the breakdown) by pool and game, along with dollar totals and percentages of the total prize pay out. Should the Lottery choose to receive additional shipments of a game, the vendor will supply two versions of the EOG Prize Structure: the first document will show the breakdown of the new shipment while the



second prize structure will detail the entire game. This document should accompany, if possible, or closely follow the winner validation tapes.

5. End-of-distribution void validation tape

A magnetic tape containing all winning validation numbers (both high and low tier) from instant ticket books which the Lottery has deemed to be void and no longer available for sale. The Lottery or its designee will supply a magnetic tape file of voided book numbers from a single game to the vendor. Each record on the resulting tape will contain only the game number and the validation number for a single void ticket – no connection should be made to the book number. The file will be sorted in validation number order.

6. Test tapes

Should the need arise – for application changes, tape format changes, QA, etc. – the Lottery may request any or all of the above items for the purposes of testing. Lottery may request a specific production game to be used or request the vendor to provide a “test game” using parameters set forth by the Lottery. Test materials will be delivered by the vendor within 14 calendar days of receipt of the request.

All magnetic tapes should be delivered on IBM 3480 cartridge tapes in ASCII format, readable by the Lottery’s Digital Unix mainframe/server and should not exceed one (1) tape volume per file whenever possible.

2.9 TICKET FORMS

The Contractor will be required to provide computer imaged, continuous form, fan folded tickets.

Ticket forms will be printed on card stock of “.010” thickness that is coated on one side which will face out as the back of the ticket and with aluminum foil laminated to the uncoated side which will face out as the front of the ticket.

2.10 TICKET SIZES

The Lottery uses a variety of ticket sizes ranging from 2.0” x 3.8” standard-size tickets, up to 4.0” x 7.33” over-size tickets, with many variations in between. The Contractor shall have the ability to produce a variety of ticket sizes within this approximate range. The exact size of tickets to be produced for each game will be specified in the executed game specifications.

**2.11 PRINTING METHODS**

Display printing graphics will be printed front and back by gravure, lithograph processes, or alternate printing process approved by the State. Contractor must notify Lottery at least forty-eight (48) hours prior to start up of display printing. A Lottery representative must approve press proofs, in writing, before production printing of forms is started. When the Lottery elects not to attend press approval (see Section 2.34), the contractor may proceed with production based on previous Lottery approval of ink draw downs and other representative color facsimiles of final tickets.

Play images (symbols and captions), book/ticket numbers, validation numbers, check digit/prize number, bar coding and all other computer imaged characters must be applied with a non-impact imager. The play images under the rub-off surface will be secure from tampering or counterfeiting and must be easily read. Each play symbol must be accompanied by a caption to be defined in the Executed Game Specifications. The game data area is to contain a standard code approved by the contract administrator for use by sales agents in verifying low tier winners. The play images must be covered and secured with a rub-off material that is easily removed and successfully resists all known intrusion methods. The rub-off material shall not be chemically or dermatologically irritating to the skin or to the organs of the body and shall not cause harm to clothing. A two-color overprint design must be applied over the rub-off material. The game number, book number, sequence number, and any other required numbers must be readily identifiable. The calculated symbol grade of the bar coding must be of grade “B” or higher, as specified in the American National Standard, Guideline for Bar code Print Quality, X3 Project #477-D, Section 4.3.

For games produced with a stub option, the detachable stub will contain computer imaged game data, rub-off material AND, WHEN SPECIFIED, a game number, book number, ticket sequence number, validation number, and check digit/prize number, corresponding to the numbers on the main portion of the ticket.

2.12 TICKET COLORS

The front side of the ticket will be multicolor. The Contractor must be capable of producing a minimum of five (5) distinct display colors and two distinct overprint colors on each ticket. Base or undercoats required to create a distinct display or overprint color do not count as a “color”. The backside of the ticket will be one color and will contain rules as approved by the contract administrator.

2.13 TICKET FINISHING

All tickets shall be finished with an overcoat of glossy clear varnish to provide a crisp shiny finished appearance.

2.14 PLAY IMAGES

Individual tickets must be printed such that there is never more than one winning combination of numbers or symbols within a single game play area unless specifically designated to win more than one prize. Individual tickets including non-winning tickets should contain unique patterns of numbers or symbols to maintain the image of randomness in each game.



2.15 GAME, BOOK, TICKET, VALIDATION, CHECK DIGIT AND BAR CODE NUMBERS

Each book of instant game tickets will contain a game and book number which is to appear on each ticket and each detachable stub when applicable. The three digit game number will be provided by Lottery. The six digit book number will be consecutive and begin with 000001. Each ticket will also contain a three digit ticket sequence number. The first ticket sequence number in a book will be 000 and the last ticket sequence number will be determined by the book size ordered.

Each ticket must contain a unique validation number applied by a non-impact imager. The eight digit validation number will be located under the “rub-off” material with the exact location specified in the Executed Game Specifications for each game.

Each ticket must contain a bar code containing 18 numeric characters consisting of the format code, game number, book number, ticket number, the first three digits of the validation number, and the two-digit MOD 100 check formula.

The numbers described above will be displayed on the tickets in the following manner:

1. Bar coded information -- printed on the back of the ticket

FGGGBBBBBBTTTVVMM

where, in bar code,

- F = One (1) digit format code, always zero.
- GGG = Three (3) digit game number.
- BBBBBB = Six (6) digit book number beginning with 000001.
- TTT = Three (3) digit ticket number.
- VVV = First three (3) digits of validation number.
- MM = Two (2) digit mod 100 check formula.

2. Numerically displayed below the bar code on the back of the ticket, and as indicated in the executed game specifications on the front of the ticket

F-GGG-BBBBBB-TTT

3. Printed under the “rub-off” material as VVV-VVVVV (Last 5 digits underlined)

2.16 BAR CODING

The back of each ticket will have an eighteen (18) digit bar code imaged on it, which will have a minimum quiet zone of .25” plus or minus (+/-) .125”. The bar code will be an interleaved two of five (I 2 of 5) printed .30” from the perforation at the bottom of the ticket, with a height of .30”.

A scanable universal product code (UPC) shall be printed on the back of each instant ticket. The UPC code, unique to each instant game, will be provided by the Lottery to the Contractor.

2.17 PERFORATIONS



Each ticket must be separated by perforations. The perforations must allow tickets to be separated from each other after one prefold, but should not separate in normal handling of the book. Lottery may require tickets with a detachable stub as a selected option for one or more of the games under this contract. Such tickets must have a perforation running at a right angle to the perforation dividing one ticket from another. This perforation must allow the stub to be separated from the main portion of the ticket after one prefold but should not separate in normal handling of the ticket book. The perforations proposed by the Contractor must be submitted to the contract administrator for written approval.

2.18 BOOK SIZE

The number of tickets to be included in each book will be as specified in the executed game specifications and will remain constant within each game. Standard \$1 games generally specify 250 tickets per book, with fewer tickets per book in games with higher price points. Tickets are to be fan-folded (up to 5 per page). Such that the first and last tickets in a book are visible.

2.19 TICKET ORDER QUANTITY AND OVERSHIPMENT

The Contractor will deliver the order quantity with an allowance of plus or minus 5 percent of the order quantity, of instant tickets ordered for each game.

If tickets in excess of the above delivery tolerance are produced, the Lottery may, at its sole option, elect to accept delivery of such tickets and attempt to sell them. The Lottery will not be obligated to pay for any such excess tickets if not sold.

2.20 OMITTED BOOKS

Omitted books are those which are not printed or are rejected by the Contractor or by Lottery and have been removed from the Contractor's shipment due to poor quality. Omitted books may not be "made-up" without the express written approval of the contract administrator.

All tickets which are rejected and removed from production due to poor quality will be immediately removed from the production line area, placed in sealed cartons and stored in a locked area within the Contractor's premises.

The Contractor will destroy all rejected tickets and ticket stock by shredding such rejected tickets.

Such tickets will be destroyed at the end of each day's ticket production provided the finished saleable books of tickets, carton labels and all related production documents affected by the rejected books have been reconciled to accurately account for each omitted or rejected book of tickets. In the event such reconciliation cannot be completed during the production day the rejected tickets are removed from production, such rejected tickets must remain in a secure locked area, accessible only to the Contractor's plant supervisor, and destroyed immediately upon the completion of the necessary reconciliation.

The Contractor will prepare a list of omitted books for each ticket shipment to Lottery. This list shall be delivered with the shipment from which the omitted books occurred.



A list of destroyed tickets shall also accompany the ticket shipment. This list will describe the method of destruction and will contain the signatures of the persons performing the destruction, the dates of destruction and the signature of the plant supervisor attesting to the destruction.

2.21 CERTIFICATION

For each game the Contractor shall engage the services of a certified public accounting firm (auditor) to certify to the randomization of winning tickets as specified in Section 2.7, Randomization, and to the odds of winning in each prize category as specified in the executed game specifications for each game. The auditor's report of observations and findings shall be delivered to the Lottery within seven (7) days after completion of ticket production.

The auditor shall also audit a sufficient sampling of game production tapes along with a representative sample of books of actual finished tickets selected at random to insure compliance with the contract and executed game specifications. The auditor's report of observations and findings shall be delivered to the Lottery within seven (7) days after final shipment but not later than seven (7) days prior to start of sales.

Appendix 2 shows sample formats of the required reports.

2.22 VALIDATION INFORMATION AND RECORDS

The Contractor shall provide Lottery with magnetic computer tapes containing winning ticket validation data as specified in Section 2.8.

The Contractor will maintain complete records of the contents of every book of tickets, page-by-page, ticket-by-ticket, and spot-by-spot for 15 months from the announced end of sale to retailers or will have computer programs capable of regenerating such records.

The Contractor shall only regenerate tickets manufactured for the State which have been requested on forms BSL-0-654 and 655 by the Commissioner or the Director of Security. A sample of these forms and Lottery's procedure are included in this contract as Appendix 3.

The Contractor's capability to regenerate tickets shall be kept secure. The State will review the Contractor's regeneration security to determine acceptability to the State.

The Contractor shall deliver to the Lottery a written response to all requests for ticket regeneration no later than three working days from receipt of such request. The Lottery may require expedited responses in certain cases and such responses shall be answered no later than the next working day.

The Contractor shall maintain a log of all requests for ticket or book regeneration indicating, at minimum, the date of request, the requestor's name, and a reference number that will identify the specific data requested.

2.23 DISPOSITION OF INSTANT GAME DATA FILES AND TAPES

All computer data files and tapes created by the contractor containing game information must be held by the contractor in a secure storage area for a period of three years or until notified in writing by the Lottery that these data files and tapes may be destroyed sooner. The Contractor



must certify that the method of storing active game files and the process used to destroy obsolete game files will prevent the accidental or malicious release of any game information during and after the life cycle of a game.

2.24 SECURITY

In the interest of maximum security, Lottery prefers that all ticket forms printing, imaging of game data, latex rub-off application and overprint be done at a single site. The Lottery further prefers that imaging of game data and application of rub-off material be performed in-line.

The Contractor shall provide a security program covering all phases and aspects of the production and delivery of instant tickets, which shall be subject to the approval of the Commissioner. The Contractor shall provide the Lottery with sufficient information on security policies and procedures at all sites at which any portion of ticket development, manufacturing, storage or delivery is to be done to enable the Lottery to evaluate the security at these locations. If changes are made to any part of the security program or procedures, the Commissioner shall be so notified. The commissioner reserves the right to require at any time such further and additional security measures as deemed necessary or appropriate to ensure the integrity of the instant ticket product.

The security program shall include the following procedural, administrative, and physical elements:

1. Submitting initially, and for each new employee, prior to their assignment on Michigan Contract work, a list of names, addresses, dates of birth, social security numbers, and fingerprint cards and/or other release forms bearing the person's signed authorization to allow law enforcement agencies to release to the Lottery any criminal history that pertains to such person, of all officers and employees of the Contractor and of any subcontractor, who are involved in the development, manufacture, or storage of instant tickets. Each six months, the Contractor shall submit a current roster of employees assigned to the Contract work. The Lottery reserves the right to review and approve or disapprove any persons prior to or during their assignment to this Contract.
2. Inspection by personnel authorized by the Lottery of the premises of the Contractor or any subcontractor where development, manufacture, or storage of the instant tickets produced under this contract occurs, to determine the degree of compliance with security and operational requirements. Such inspection may be unannounced.
3. Security measures and systems which preclude unauthorized persons from accessing all facilities and supplies, data media, and equipment within the facilities. If a breach of security interrupts normal production any resultant damage will be covered under appropriate liquidated damages. The Lottery reserves the right to prohibit physical access to operations areas by non-operations personnel.
4. Security measures which preclude the unauthorized use of equipment materials, or data without written authorization from the Commissioner.
5. Security measures which ensure the integrity of the preparation, storage, distribution, or use of game data, ticket data, winner files, or any other data or documentation relating to winner information.



6. A disaster recovery and contingency plan for maintaining the successful operation of the development and manufacturing processes. Such a plan must include a method and timeframe for recovery and continuation of these processes. Secure offsite storage of backup files, data, and materials shall be part of the disaster recovery and contingency plan.
7. Other security measures to ensure the integrity and proper operation of the development, manufacture and storage of instant tickets.

The Contractor must immediately notify the contract administrator by telephone and in writing of any breach of security during the term of this contract including but not limited to break-in or theft or disappearance of paper stock, tickets, data, programs, or files used in the production of tickets.

2.25 PLANT STORAGE

The Contractor must provide secure, exclusive storage space, in the printing plant or other facility for the storage of finished tickets, for up to 90 days, prior to delivery to the Lottery. Space must also be provided for the storage of paper stock and other supplies needed to produce the games. The Contractor is responsible for monitoring the availability of all materials to insure that sufficient supplies are on hand to meet the delivery schedule in the executed game specifications.

2.26 CONTRACTOR'S QUALITY CONTROL

In order to maintain public confidence in the integrity and security of the instant game, and to provide maximum marketability of the instant game tickets, Lottery requires that tickets be printed with the highest quality standards. A book of tickets with any of the following characteristics shall not be considered acceptable by the Lottery, and the books shall be rejected as part of the Contractor's quality control and listed as an omitted book.

1. Perforations between tickets that are so deep as to cause tickets to separate while handling.
2. Tickets out of sequential order within a book.
3. An incorrect number of tickets within a book.
4. Tickets that are not trimmed straight.
5. Display print designs that are not clearly and crisply printed.
6. Scratches across or holes in latex coverings which expose portions of hidden play symbols or game play area.
7. Rough, uneven latex coverings.
8. Latex coverings that drip onto display printing, smear, fail to come off cleanly and completely when rubbed with a coin or are off-register.
9. Overprint designs that are off register or that are not clear and crisply printed.



10. Offsetting of inks on latex coverings from one ticket to another.
11. Play symbols that peek out or can be seen from under the latex covering.
12. Play symbols that are unclear, clipped or incomplete.
13. Play symbols that smear with slight moisture or normal handling.
14. Captions that are not clear or do not correctly describe the Lottery play symbol.
15. Foil that rips away when the ticket is rubbed, delaminates from the paper stock or that contains tears.
16. Bar code contrast and clarity not in accordance with specified standards.
17. Any other degradation of quality not specified above but which constitutes unacceptable quality.

2.27 SHRINK WRAP

Each instant game book must be wrapped by a heat shrink process in a clear poly wrap material of at least 80 gauge to prevent bursting while being handled or while in shipment or storage. The first and last page of each book of tickets must be folded and shrink wrapped in a manner that will allow reading the game, book, ticket and bar coding of the first and last tickets in the book. The shrink wrap will be sufficiently tight around the book of tickets to permit the bar code to be easily scanned through the shrink wrap and to prevent the shrink wrap from catching or pinching in conveyors, rollers, pointed edges as might be encountered in the packaging, warehousing, and distribution processes.

**2.28 PACKING; CARTON SIZE**

Instant game books will be packed 48 per carton for games with standard size tickets and books. Instant game books will be packed in numerical order in each carton as illustrated in Appendix 4. Books will stand on end with ticket sequence number '000' at the bottom of the box and facing the carton label on the box. Each carton label will contain a unique (to that game) carton number clearly printed and visible. A colored sticker will be applied to each carton next to the carton label. A different color will be used for each game and will be identified in the executed specifications.

Packing size of books of non-standard ticket or book size will be as mutually agreed upon for the specific game.

Carton size will be as required to hold the number of books required to be packed in the carton with minimal horizontal or vertical play.

2.29 CARTON CONSTRUCTION

All shipping cartons must be 275 lb. test. The top and bottom of the carton must be sealed with a fabric or fiber reinforced tape. No staples or glue will be used. The tape must not obscure labels or other markings on the carton. There will be no printing on the carton or sealing tape other than as specified in the contract.

2.30 CARTON LABEL

A computer-generated label must be affixed to each carton. The label must display, in clearly readable type, the game name, carton number, the 'from-through' book numbers contained therein, and the total number of books in the carton. The statement 'This carton contains registered materials which will be voided if stolen' or similar approved language must appear on the bottom of each label. A sample label is included as Appendix 5.

2.31 PALLETS

The size of tickets and therefore books and cartons will determine pallet size. Pallet size will be indicated in the executed specifications for each instant game. Standard four-way pallet construction is required with three (3) main runners of at least 1.25 inches thickness. The top cross board and three bottom support cross boards must be at least 5/8 inch in thickness. Pallets will be furnished by the Contractor and will be returned to the Contractor at the Contractor's expense if so desired. Preformed, extruded, or alternately constructed pallets may be proposed by the Contractor, however, their acceptability will be solely determined by the Lottery.

The cartons of tickets will be stacked on pallets in descending carton number order with carton number labels facing out. The highest numbered carton is to be placed at the corner of the pallet with following numbered cartons placed to the left of each preceding carton until a complete layer of cartons has been placed on the pallet. This same pattern is to be repeated for each layer of cartons. A sheet of heavy paper or chipboard must be placed on top of each layer of cartons except the top layer. This sheet will not extend beyond the outer edges of the cartons in each layer. The four corners of the stack of cartons shall be protected by cardboard or equivalent corner covers, and the stack securely bound with plastic strapping to prevent shifting or tipping.



Each pallet load of cartons will then be securely covered and attached to the pallet with clear plastic spin-wrapping. Appendix 6 illustrates a typical pallet.

2.32 PALLET LABELS

A pallet label must be affixed to each pallet load of cartons. The label must show the game name, the from-through carton numbers loaded on the pallet, and the pallet number for the game. Pallets will be consecutively numbered for each game, beginning with the number one. Appendix 7 shows a sample pallet label.

2.33 TICKET DELIVERY

The Contractor shall have tickets available to the Lottery by the date defined in the Executed Game Specifications which will be not later than 60 days from execution of the game specifications unless requested or agreed to by the Lottery. Tickets are to be delivered to GTech Corporation, 5850 Enterprise Drive, Lansing, Michigan 48911. Ticket delivery will be on a per call basis. Tickets are not to be shipped by the Contractor unless prior authorization to ship is given by the Lottery or its representative. Delivery shall be by prepaid “exclusive use” motor freight vehicles unless otherwise specified by the contract administrator.

The Lottery requires exclusive use of the delivering vehicle. Pallets of finished tickets will be loaded with the lowest numbered pallet at the “nose” or forward end of the cargo portion of the vehicle with the highest numbered pallet at the rear. A minimum of five feet clearance must be left between the last pallet loaded and the cargo doors at the rear of the delivering vehicle to facilitate unloading.

The Contractor must place security seals and padlocks on all cargo doors of the delivery vehicle. Each seal must bear a unique number which will be recorded on the Bill of Lading and Shipping Report for that shipment.

Key(s) to the padlock(s) on cargo doors will be placed in a sealed envelope by the Contractor and delivered unopened to the receiver at the distribution center.

The following items must be included with each delivery of Instant Game tickets:

1. Shipping Report: Lists gross number of tickets, number of omitted tickets, net number of tickets in the shipment and number of pallets and cartons. See Appendix 8.
2. Carton Contents List: Lists, by carton number, the game and book numbers included in each carton. See Appendix 9.
3. Omitted Book List: Lists, in numerical order, the game and book numbers of all omitted books. The carton contents list may incorporate the omitted books list. See Appendix 9.
4. Magnetic Tape of Omitted Books: Contains the game and book numbers in numerical sequence for all books which were omitted from the shipment. See Appendix 1.
5. Manufacturer’s Control Log: Lists, in numerical order, all possible book numbers used during manufacturing, with omitted book numbers denoted.

**2.34 LOTTERY'S QUALITY CONTROL**

The Lottery may elect, at its discretion, to send representatives to attend press approvals at the Contractor's printing plant for purposes of review and inspection of game production. When the Lottery elects not to attend press approvals, the Contractor may proceed with production based on previous Lottery approval of ink draw downs and other representative color facsimiles of final tickets.

2.35 TICKET TESTING

The Lottery shall arrange for security and bar code clarity testing of tickets by an independent laboratory selected by the Lottery at the time of the initial production of tickets and as deemed necessary by the Lottery thereafter. The Contractor shall be responsible for all costs of the initial testing of each game and for any additional testing necessary as the result of deficiencies identified through the initial test.

2.36 TECHNICAL SUPPORT, CONSULTATION & ASSISTANCE

For the life of the contract and any extensions, the Contractor shall provide technical support in the form of consultation, answering questions, assistance in diagnosis problems, and developing new features requested by the Lottery. The Contractor shall describe its plan for providing this support including staff resources.