1.   The Lottery responded to questions 2, 117 and 118 by deferring a response until February 4, 2002. Attachment 1 to this letter provides some information on the popularity and revenue generation capability of keno games. Attachment 2 to this letter is an analysis of keno game mapping approaches. In consideration of these facts, will the Lottery amend or clarify the RFP requirements to ensure that a system supplier who supports keno in a finite-pool only methodology will not be penalized?

A.   The Lottery has received several questions on electronic keno and has tried to respond to each of them, however, some questions raised appear to be more appropriately addressed by a VLT provider. The Lottery is requesting that vendors describe in their technical proposal how their central system will support electronic keno. Further, vendors should describe in their technical proposal any limitations in terms of supporting electronic keno. The Lottery is not asking vendors to provide any input regarding the marketability of the game and will evaluate proposals only on the technical merit.

2.   You have stated that a VLT manufacturer can participate in a joint venture with a central system provider who was awarded the RFP for the central system. Given this, are we correct in concluding that such joint venture participation would not preclude the VLT manufacturer from bidding on, and being awarded the contract to supply VLTs?

A.   Contrary to some previous answers provided, the decision has been made that the principle of separation between the central system provider and the VLT manufacturers to achieve maximum revenues across all VLTs will be compromised by allowing any strategic alliance between the central system provider and a supplier of VLTs in New York State. (see cover letter)

3.   Question 134 asked whether an architecture in which pools are authorized centrally, but created at each site would be acceptable. This question expands on this issue.

In the system architecture referenced a template describing each pool would be centrally approved for use at all VLT locations. This would assure the availability of all games at any location in the state. Iterations of that template would then be used to create the actual pools at each site. This addresses the security and availability issues addressed in Question 134. Additionally, by transferring subset usage records back to the central location a complete audit trail is available of all wager distribution.

Conversely, if all pools are created and managed centrally, the risks created by the single-location management of what will be thousands of simultaneously open pools and at the same time thousands of active subsets are extremely significant. There will also be increased costs and potential delays associated with the testing and stressing of the system necessary to give complete assurance that no central failure could negatively affect the revenue generation in the entire state.

Therefore, local replications of centrally defined pool structures are an optimal one for the Lottery because it meets the needs of the state for:

- Statewide game availability
- Maximum security
- Minimum risk of loss of revenue
- Auditability

Due to the increased operational integrity and reduced risks, will the Lottery allow consideration of architectures with centrally controlled and locally replicated pools?

A.   The Lottery cannot respond to this question without detailed research. If such architecture does not affect the definition of Lottery games as identified in the RFP, then such an approach will be acceptable. Without having a full understanding of the approach identified, we cannot give a definite yes or no to the question.

4.   Will the revenues generated from video lottery terminals be allocated to specific state budgets or agencies?

A.   The revenues will be distributed according to the language in the October 24 legislation which enabled Video Lottery gaming in licensed racetracks in New York. State proceeds will be distributed in compliance with State Finance Law. A copy of this legislation has been provided to you.

5.   Can information or data in response to parts of the technical proposal be submitted in electronic format?

A.   The Lottery requires hard copy; however, if a vendor feels that certain visual elements will enhance their proposal, electronic format is acceptable as an addition to the hard copy.

6.   Please identify the names and titles of personnel on the state technical and pricing evaluation committee(s).

A.   The Evaluation Committee will be formed prior to proposal submission. It is the intent of the Lottery to include experienced Lottery professionals in the areas of Systems, Operations, Research & Development and Finance as well as any other experienced and qualified evaluators as we deem necessary to provide a comprehensive review of the offerings. In addition, other independent qualified resources may be used as independent reviewers to maintain the integrity of the process.

7.   In reference to PARA 3.12 and question Q.10, can you give us a more specific definition of the data that needs to be passed to the Lottery in "real-time", and please define what "real-time" means? For instance, does every game play and the result need to be passed on to the Lottery, or just cash and voucher transactions?

A. All transactions to and from the central system including event recording are required. Real-time refers to "near real-time." The Lottery requires the above transactions be transmitted to the Lottery in a matter of a few minutes. Specific timing is a function of how vendors choose to bundle or "package" transactions for transmission to the Lottery.

8. Will the central system provider be responsible for the on-going training of racetrack staff after the system is installed and turned over to the track operator?

A. The central system provider will not be responsible for ongoing training; however, it will be responsible for startup training. In the event of a major upgrade to the Central System, on-site retraining may be required for the validator system.

9. Will the central system provider be required to maintain a HOTLINE staff function for support of the racetrack and site controller maintenance staff?

A. The central system will be functional 24 hours daily; therefore, Hotline staffing is expected on off hours in order to respond to specific track maintenance inquiries.

10. If the facility build out costs are stated separately, how will the contractor get reimbursed for these costs?

A. The purpose of the Lottery's original answer to question 21, page 5, was to remove a perceived unfair advantage to the Lottery's incumbent central system vendor. The Lottery will not include facility build-out costs in the evaluation of pricing proposals; however, the winning central system vendor will be expected to comply with the New York State Finance Law in providing documentation on the reasonableness of the facility's build-out cost. Build-out costs will require competitive bidding documentation. The actual reimbursement will be part of the weekly sweep process as a total dollar fee, not a percentage of sales.

11. In reference PARA 3.18 part E, the central system vendor cannot specify meter requirements of the VLT. Therefore, we cannot comment on how the VLT meters will handle progressive jackpots. What do we need to specify in order to provide the Lottery with the information required in this section?

A. The vendor should indicate how its system records the specific financial information relating to the progressive jackpot. That is, on each play how much of the wager is allocated to the progressive jackpot.

12. In Section 2.10 – Indemnification - Will the Lottery please insert "negligent or more culpable" between "alleged" and "act"? As currently written, we would potentially have to indemnify the Lottery for acts performed with the authorization of the Lottery or at the Lottery's request.

A. No. This is part of the standard New York State contract law requirements.

13. In Section 2.17 – Liquidated Damages - Will the Lottery please clarify the intent of the first sentence of this paragraph? Does this mean that unless stated, the amount of liquidated damages will be $1000 per event?

A. Yes. Unless otherwise stated in one of the following paragraphs, any liquidated damages assessed will be $1,000 per event.

14. In Section 2.24 – Ownership of Materials and Right of Use – Will the Lottery please clarify the meaning of "successor contractor" in the third and fourth lines of this paragraph? Is it intended to mean "contractor" or its successor?

A. "Successor contractor" would refer to any entity that may take over ownership of the contract. This would include a merger between two firms or a firm buying out another company and acquiring the contract through that method.

15. Section 5.5 Scoring – Technical - Since 15 of the 100 points for the Technical Evaluation will be based on "implementation, VLT protocols and EPROMS", please indicate the relative rating of these items and which RGP sections will be scored for these points?

A. This portion of the evaluation will be based on a combination of a number of factors. It will include the vendors proposed staffing, i.e., number and types of personnel at primary and secondary sites, both for operational and support purposes; how the vendor implements the functions described in Paras. 3.2: General, A, B, and C and 3.15, and any limitation identified in those areas.

16. A VLT manufacturer who happens to be a subsidiary or a parent of the central system provider could sell substantially completed terminals to a third party for minor assembly and ultimate sale to the Lottery for the sole purpose of avoiding the central system/VLT provider prohibition. Will the Lottery require the VLT provider to be the manufacturer of substantially all of the VLT or will the Lottery at least prohibit transparent sales transactions as described above?

A. See cover letter and answer to Question 2.

17. Will the respondents to the Video Lottery Terminal RFP be required to be in the business of manufacturing, producing, making or fabricating Video Lottery Terminals?

A. Respondents to the Video Lottery terminal RFP will be required to be responsible for providing such terminals and associated games. It is immaterial to the Lottery whether they physically produce the terminals themselves or whether this operation is subcontracted to another firm as long as any subcontractor is not the central system provider.

18. The following two questions assume that "Affiliate" means a person (i) that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with the Successful Vendor; or (ii) that beneficially owns or holds 50% or more of any class of the outstanding voting stock or equity interests of the Successful Bidder; or (iii) 50% or more of any class of the outstanding voting stock or equity interests of which is beneficially owned or held by the Successful Vendor. As used in this definition, the term "control" means the possession, directly or indirectly, of the

power to direct or cause the direction of the management and policies of a person, whether through ownership of voting stock or equity interests, by contract or otherwise.

a) Given that it is the intent of the Lottery to procure a central system that is independent of and not an integral part of a VLT manufacturer's standard offering as set forth in Section 1.0 of the RFP, will an Affiliate be prohibited from submitting a proposal to the VLT RFP, being designated as an apparent winning VLT vendor, or being awarded a contract to supply VLTs to the Lottery?

A.   Yes.

b) Given that it is the intent of the Lottery to procure a central system that is independent of and not an integral part of a VLT manufacturer's standard offering as set forth in Section 1.0 of the RFP, will a VLT vendor be prohibited from submitting a proposal to the VLT RFP, being designated as an apparent winning VLT vendor, or being awarded a contract to supply VLTs to the Lottery if the VLT vendor has a joint venture, teaming, licensing, subcontract or other contractual relationship relating to this procurement with the Successful Central System Bidder or an Affiliate?

A.   Yes. If any such relationship includes providing any portion of the central system.

19.   Since potential vendors could have existing operations at the tracks, would the Lottery amend the RFP to require all vendors to outline separately in their price proposal (but not be evaluated on) the cost to build out, including wiring, any requirements at each track and include a separate staffing plan for each track?

A.   No. The tracks are responsible for wiring and for structure build out, not the central system provider.

20.   Section 2.25 subjects the contractor, without qualification, to forfeiture of the entire performance bond in the event of "[F]ailure of the contractor to pass these [acceptance] tests." While it is understandable that the Lottery should expect the central system to operate in accordance with the specifications of the RFP and the winning proposal, we believe that this provision exposes the successful bidder to excessive risk of loss. This requirement does not define what would be considered "failure" and does not provide the contractor a period to cure any central system problems associated with the test failure. Further, this Section does not provide for the terms and conditions of such acceptance test parameters, or whether the parties will jointly develop the test parameters.

a) Would the Lottery define the conditions under which it would consider the central system to have failed the acceptance tests?

A.   If the central system is not able to perform all functions specified in the RFP in the manner described in the vendor's proposal.

b) Would the Lottery also permit the parties to jointly develop the acceptance test parameters?

A.   No. The Lottery will work with the central system provider in conducting lottery internal testing. However, parameters for the independent laboratory testing are the responsibility of the independent testing institution and cannot be compromised.

21.   How does the fixed cost of the player tracking interface get factored into the overall price evaluation?

A.   It will not be included in the overall price evaluation. It is a separate one-time fixed cost.

22.   In Section 3.19 – Is the intent of Paragraph B to place a five second limitation on real time transactions? If not, would the Lottery please clarify the intent of the paragraph?

A.   Five seconds is the maximum amount of time allowed between communications between the central system and the site controller.

23.   Section 3.24 requires the successful vendor to make modifications to the central system "to keep pace with the industry, comply with statutory requirements, meet new policy determinations and to implement desired improvements in the central system's capabilities and performance." This requirement does not include provisions for the allocation of expenses incurred by the successful vendor to make such modifications, and may force vendors to propose a higher price to compensate for the uncertainty associated with the requirements of this Section.

Will the Lottery agree that the cost for such modifications contemplated in Section 3.24 of the RFP will be borne by the Lottery, by means of (for example) a separate software maintenance and development agreement or on a time and materials basis?

A.   No. However, the Lottery will work with the central system provider to establish a mutually acceptable software schedule that will meet the needs of the Lottery to continue to innovate with new games that appeal to VLT customers and prospects.

24.   As an amendment to the RFP, the Lottery is requiring vendors to outline separately in their price proposals the cost to build out for both the primary and backup locations. These costs will not be included in the Lottery's evaluation of pricing proposals. By doing so, all vendors will be treated equally in terms of cost proposals. However, this new scenario encourages vendors to transfer their development and/or start up costs into the separate, non-evaluated "build out" prices in their proposal, therefore, increasing the total costs to the state.

        a) Will the Lottery reconsider the decision to ignore any economies, which may be available to increase net revenue to the state?

A.   See the response to Question 10. Build-out costs must be documented in detail and verifiable by the Lottery to ensure that no other costs are included.

        b) If not, will the Lottery allow the evaluation committee the flexibility to consider a final evaluation based upon total price including "build out" of facilities?

A.   No.

25. Please consider the following hypothesis:

- Vendor A bids 3.0% of net machine revenue and describes build out costs as $250,000. This vendor's technical proposal is rated highest at 91.
- Vendor B bids 3.1950% of net machine revenue and describes build out costs as $8,000,000. This vendor's technical proposal is rated second at 89.
- Under your proposed price evaluation as recently amended Vendor A's costs are evaluated at 47.5 points.
- Under the same amended criteria assuming Vendor B is lowest so they are awarded 50 points.
- Under the combined scoring and pricing Vendor B is the apparent overall preferred proposal with a score of 139 versus 138.5 for Vendor A.
- This scenario would have the state selecting a lower rated proposal and paying an overall cost of $73,772,230 versus a cost of $69,269,700.
- Using this amended criteria the Lottery is forced to select an inferior proposal and pay $4.5 million more.

Most of the cost of developing and installing the central system described in this RFP are fixed and not materially influenced by the expansion the Lottery may undertake. Revenue, on the other hand, may be substantially dependent upon the number and timing of terminal installations. These installations are subject to player demand, Lottery approvals, capital improvements of unknown scope and schedule at tracks, and the supply of VLTs in the marketplace (not a given based on increasing worldwide demand). A vendor who bases pricing on the assumption of maximum expansion early in the contract period is at substantial financial risk if the expansions don't take place on time or at all.

The price evaluation methodology encourages a vendor to lower the price that will be evaluated (9750 terminals) by assuming significant revenue through expansion beyond 9750. Aggressive revenue estimating by a vendor may benefit the Lottery with lower pricing only to the extent that the vendor is prepared to absorb all losses associated with the failure to expand and not reduce service. A supplier with an established reputation in this business would probably be likely to "eat" the losses. The Lottery should consider if all potential suppliers have the same at stake or would they give in to the financial pressure to scale back, try to sell the business, or even walk away.

Given the above will the Lottery consider requiring vendors to submit pricing at the 9750 figure as described and also in increments of 2,000 machines up to 20,000? Would the Lottery consider awarding some price evaluation points based on the cost at 15,000 and 20,000 terminals (or some figure which represents potential terminal growth)? In this scenario the Lottery will be able to evaluate the extent to which a vendor is "betting" on growth since the percentage of revenue being derived from the base installation verses expansion will be readily apparent. The Lottery can then evaluate this risk and act accordingly.

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A.   We have required each vendor to list separately with appropriate documentation the build-out cost estimates. This cost will not be included in the cost evaluation, however, we want to know the appropriateness of these build-out estimates. While we understand the author's concerns, these factors will be taken into consideration during the technical review of the appropriate categories and will be scored accordingly.

26.   Clarification to Question #20 from Vendors' Conference - Q: In Washington they have a similar system for finite pool for wager amount. The Lottery's RFP indicates 9 reel, 5-line game. Is that 45 bets per wager amount? A: Yes

If the above question and response are interpreted as meaning that each line bet is considered a separate wager and therefore a separate ticket, several concerns arise.

We feel that this interpretation adds unnecessary complexity and will negatively alter the playability of games. The following examples illustrate our concern:
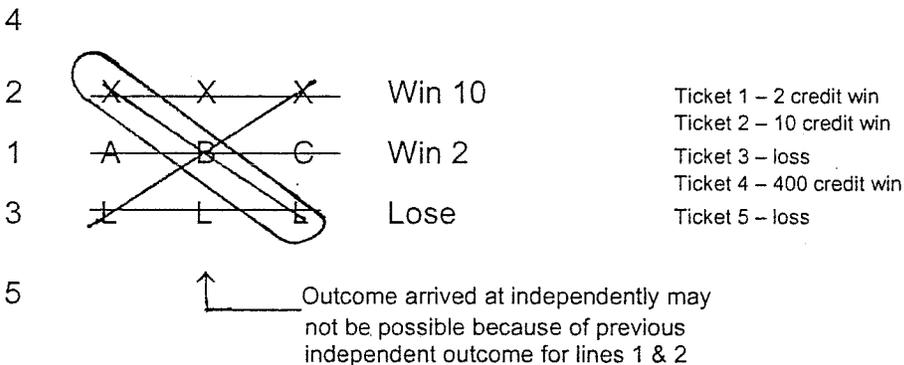
Case #1

A three-line game is played and the outcomes received from central indicate a 2 credit win, a 10 credit win, and a loss for a total of a 12 credit outcome. The VLT produces the graphic representation of these wins.

2   X——X——X   Win 10

1   A——B——C   Win 2

3   L——L——L   Lose
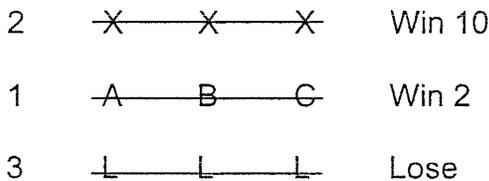
In this three-line reel game each line is independent of the others and the treatment of each line as a separate ticket is valid.

Case #2

A five-line game is played and the outcomes received from central indicate:

4

2   X——X——X   Win 10   Ticket 1 – 2 credit win
                                                  Ticket 2 – 10 credit win

1   A——B——C   Win 2   Ticket 3 – loss
                                                  Ticket 4 – 400 credit win

3   L——L——L   Lose   Ticket 5 – loss

5   ↑____Outcome arrived at independently may not be possible because of previous independent outcome for lines 1 & 2

The VLT may or may not be able to construct a graphic representation of these wins since there is a dependency developed with the intersection of wagering lines. The symbol(s) required to complete a ten credit win on line 2 located on Reel 1 must also

combine with the symbol on line 1, reel two and line three, reel three. If the outcomes are randomized and delivered in ordinal sequence a conflict can and will occur in virtually all of the game paytables that exist today for multi-line games.

We believe the proper interpretation should be that each time the spin button is activated at the start of play, an overall outcome is delivered to the VLT that represents the total outcome of all lines played (including 2nd screen bonusing) and is treated as a single ticket with a single serial number.

This interpretation is fully supported by the Instant Ticket Concept on which the RFP is based as many scratch products offer multiple play areas that can contain varied win amounts that total to the validation amount associated with the serial number on the ticket. Often these extended play tickets cost more to purchase as playing additional lines on the VLT increases the wager amount.

Refer again to:

Case #1

A three-line game is played and the outcome received from central indicates a 12 credit overall win. Under the new assumption the VLT produces one of various graphic representations that total 12 credits.

2	X	X	X	Win 10
1	A	B	C	Win 2
3	L	L	L	Lose
2	A	B	CX	Win 2
1	X	X	X	Win 10
3	L	L	L	Lose
2	X	X	O	Win 5
1	A	B	C	Win 2
3	X	X	O	Win 5

Case #2

A five-line game is played and the central system delivers a total win outcome of 412 credits. The VLT, without restriction to decision on the first can assemble graphic representing the overall 412 credits calculating the existing interdependencies between intersecting play lines. The credits won could appear as result of the icons on the five play lines, scatter pays, bonus rounds, etc.

```
4                              Win 400

2    X      X      Ø          Win 5

1    A      Ø      L          Win 2

3    Ø      X      X          Win 5

5                              Lose
```

Is the interpretation that each play activated by the touch of the spin button constitutes a single ticket and all wins occurring from that spin are associated with a single ticket and serial number valid?

A.   Posing this question is premature at this time since it does not appear relevant to the Central System RFP. If this question is posed during the VLT RFP process, the New York Lottery will address it at that point.

27.   We are in the process of obtaining performance bonds as required for the lottery proposal. Do you have a standard bond form to be used?

A.   No.

Available keno games in finite pool implementation: 5 (see below), each available in 93, 95, or 97% payout versions configurable for multiple denominations

Keno Versions:

Standard Keno
Super Keno (way version)
4-8 Keno (way version)
3-6-9 Keno (way version)
8-7-6-5 Keno (way version)
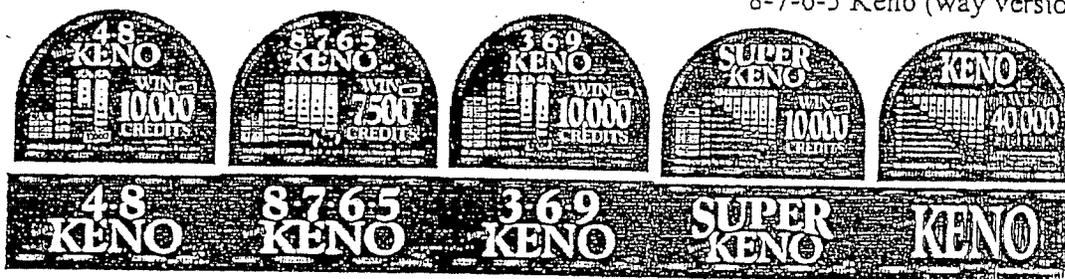
Estimated keno game revenue as a percentage of
Floor average: 33%

Discussion:

The Washington numbers are typical of experiences in many jurisdictions. The basic keno game liked by some players is one that does not encourage players to make more than the minimum bet. With other games players typically bet more because increased bets provide additional ways to win. The typical keno game is configured for a $.10 or $.25 denomination and the typical player will play a single credit. Experience with most operators is that the average wager for a keno game is only slightly over the minimum bet. Therefore, even if a keno game is played constantly, it is not possible for the game to generate high revenue. With a $.10 denomination and continuous single credit play for 20 hours, with one play every six seconds and a 93% payout, the maximum expected revenue for the game would be $84. This compares to statewide averages for all games of about $250.

"Way" versions of keno games are designed to encourage multiple credit play by providing an incentive to wager multiple credits by providing multiple possible win combinations with increased wager amounts. While the theory behind these games is sound, experience shows that the increased complexity of the wagers makes the game popular with a very small population of experienced keno players, so the revenue generated by these games is also well below floor average.

In the racetrack environment the best return on investment for every game machine will be to ensure that every game on the floor is a potential high-earning game. This is an opportunity for the Lottery to present a creative approach. To promote the environment of an "entertainment complex" where players can experience multiple forms of gaming and entertainment, the Lottery may consider the use of the high speed on-line keno games supplied by the current on-line game provider in food and beverage areas of every track. This would provide an attraction for the keno devotee which would have a good return for the State and not effect VLT revenue negatively.

Attachment 2
Generic Keno Game Implementations

The "Pala Compact" which defined legal gaming in California prior to the altering of the state constitution, permitted a "Video Lottery Scratcher Game" and a "Video Lottery Match Game". The "Video Lottery Scratcher Game" (finite pool of electronic instant tickets) defined a mechanism in which "draws" of predetermined results were randomly selected from "pools". This operated in a logical manner similar to the current New York Electronic Instant Lottery Ticket structure. At the same time a "Video lottery Match Game" was defined. This game allowed players to select "number or spots" which were compared to periodic results from a central draw of "up to twenty-five (25) numbers from a field of eighty (80) numbers. During game concept development and testing it was discovered that there all popular game types could be represented using the "Scratcher" (instant ticket) technique. This system was successfully developed and field tested. The "Match Game" technique was never implemented because it proved to be unnecessary.

A similar situation occurred in the state of Washington. Appendix "X", which defined legal gaming in the state, permitted an "Electronic Scratch Ticket Lottery Game System" and an "On-Line Lottery Game System", in which the player "selects numbers, symbols or other data to be matched". "Players win if their selections match a required number of drawn numbers or symbols" from a drawing conducted in a central computer. This is analogous to the "keno" system referenced in the New York RFP. Similarly to California, it was discovered that all high revenue generation games could be implemented in a superior fashion by using the instant ticket (finite pool) methodology. There are four licensed system/game suppliers in Washington and there are NO implementations of the on-line match game.

The only implemented system of a networked number selection system that we are aware of is in the Oneida Nation, where the compact permitted no choice. While operationally successful, that system has a relatively limited selection of games that are all easily implemented using a finite pool methodology.

Therefore this requirement adds no additional revenue generating value to the New York Lottery VLT Operation.