



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

CHARLES B. ZOGBY
SECRETARY
OFFICE OF THE BUDGET

February 21, 2012

Mr. Robert K. Collins
Managing Director
Greenhill & Co., LLC
155 North Wacker Drive, Suite 4550
Chicago, IL 60606

Subject: Contract for Financial Advisory Services (Contract # OB-2011-05, Funds Commitment 4000016471); Notice to Proceed with Statement of Work Number 1

Dear Mr. Collins:

The Commonwealth of Pennsylvania, Office of the Budget, and Greenhill entered into a contract for financial advisory services (Contract) with an effective date of December 6, 2011.

Attached to this letter is a copy of Statement of Work Number 1 issued under the Contract, which statement of work has been agreed to by the parties. This letter is the Office of the Budget's notice to Greenhill to proceed as of the date of this letter with its performance of the services set out in the attached statement of work.

If you have any questions regarding this letter or the attached statement of work, please contact Peter J. Tartline, Executive Deputy Secretary of the Budget, Office of the Budget, via telephone at 717-787-2542, or via email at petartline@pa.gov.

Sincerely,

Charles B. Zogby

Attachment (Statement of Work #1)

cc: Peter J. Tartline
James D. Neilson, Esquire
Brian D. Zweiacher, Esquire

STATEMENT OF WORK

This Statement of Work (SOW) relates to the Contract for Financial Advisory Services (the "Contract"), Contract # 4000016471, with the Effective Date of 12/6/2011, between Greenhill & Co., LLC and the Commonwealth of Pennsylvania, acting by and through the Office of Budget. Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Contract.

This SOW will be attached to a Notice to Proceed that will constitute OB's notice to the Contractor to proceed under the Contract with the Implementation Phase of the following Project: Privatization of the Management of the Pennsylvania Lottery (the "Project").

The Contractor will assist Commonwealth agencies in determining both a recommended public strategy and procurement strategy to plan for the successful negotiation and implementation of the Project. The public strategy will include educating stakeholders on the benefits of the Project and assisting Commonwealth agencies in communicating with other constituents as directed. The procurement strategy will include financial modeling, marketing to potential bidders and identifying an actionable process timeline. Once potential bidders submit their qualifications through a Request for Qualifications or Request for Expressions of Interest issued by the relevant Commonwealth agency or agencies, the Contractor will assist the Commonwealth in evaluating which potential bidders are qualified to respond to a RFP. Through the RFP process, the Contractor will assist Commonwealth agencies in negotiating with qualified bidders and in defining the critical factors that will guide the qualitative and quantitative aspects of the Project. The Contractor shall assist in the preparations and issuance of all procurement documents and in negotiating the final transaction documentation. The parties agree that the target date for completion of the Project through Phase 4 (as described in this Statement of Work) is November 30, 2012, and the Parties further agree that they shall both make their good faith efforts through the application of their time and staffing to complete the Project through Phase 4 on or before November 30, 2012.

A. **Phases of Work; Deliverables; Milestone Payments.** The Contractor shall provide the following deliverables to the Commonwealth for the Project in four phases:

1. Request for Qualifications or Request for Expressions of Interest

The Contractor shall assist the relevant Commonwealth agencies in the preparation and evaluation of either a Request for Qualifications (RFQ) or a Request for Expressions of Interest (RFEI) which shall then be publicly issued by the relevant agencies. The RFQ or RFEI shall contain at least the following items:

- A discussion of the commonwealth's objectives in pursuing the private management of the Pennsylvania Lottery;
- A request for technical and financial qualifications from potential purchasers or management partners interested in bidding for this Asset Monetization Project;

- A description of the key economic and financial factors that make the Pennsylvania Lottery an attractive asset to manage; and,
- A summary of process mechanics and timing.

The Commonwealth shall accrue an obligation to pay a Milestone Fee of \$125,000 from either the proceeds of the Lottery management contract, if such a management contract is fully executed, or from such other sources as the Commonwealth shall identify if such a management contract is not fully executed, upon written certification by the Commonwealth's project manager that the RFQ/RFEI phase has been completed to the Commonwealth's satisfaction (which certification shall not be unreasonably withheld or delayed in the event an RFQ or RFEI has been issued).

2. Request for Proposals

Following the completion of Phase 1 (RFQ/RFEI), if the Commonwealth determines to proceed further with the Project, the Contractor shall next assist the relevant Commonwealth agencies in the preparation and evaluation of a Request for Proposals (RFP) which shall then be issued by the relevant agencies to the entities that were qualified under Phase 1 of this SOW (RFQ/RFEI). The RFP shall contain at least the following items:

- A request for non-binding bids on a range of potential transaction structures for various lengths of duration;
- A draft management agreement; and,
- Additional process information as determined by the relevant agencies in consultation with the Contractor.

The Commonwealth shall accrue an obligation to pay a Milestone Fee of \$425,000 from either the proceeds of the Lottery management contract, if such a management contract is fully executed, or from such other sources as the Commonwealth shall identify if such a management contract is not fully executed, upon written certification by the Commonwealth's project manager that the RFP phase has been completed to the Commonwealth's satisfaction (which certification shall not be unreasonably withheld or delayed in the event an RFP has been issued).

3. Receipt of Binding Bids and Contracts Signed by Proposers

Following the completion of Phase 2 (RFP), if the Commonwealth determines to proceed further with the Project, then the Contractor shall next assist the relevant Commonwealth agencies in soliciting, receiving, and evaluating binding bids from each proposer. Each binding bid shall include a Lottery Management Contract signed by the proposer. The Commonwealth shall accrue an obligation

to pay a Milestone Fee of \$300,000 from either the proceeds of the Lottery management contract, if such a management contract is fully executed, or from such other sources as the Commonwealth shall identify if such a management contract is not fully executed, upon the Commonwealth's receipt of one or more binding bids that meet the conditions for binding bids set out in the RFP.

4. Fully executed Management Contract.

Following the completion of Phase 3 (Receipt of Bids and Signed Contracts), if the Commonwealth determines to proceed further with the Project, then the Commonwealth shall accept one or more of the binding bids received under Phase 3 of this SOW, and the Contractor shall then work with the relevant Commonwealth agencies to complete the negotiation of a final contract(s) for the management of the Pennsylvania Lottery with the proposer(s) whose bids were accepted by the Commonwealth. The Commonwealth shall accrue an obligation to pay a Success Fee to the Contractor as defined and described in Appendix B of the Contract on the date that a fully executed Lottery Management contract exists between the Commonwealth and one or more of the proposers who submitted a binding bid during Phase 3 of this Statement of Work. The base of payments upon which the Transaction Value will be calculated, and the schedule of payments for the Transaction Value, shall be negotiated in good faith by the Commonwealth and the Contractor within 60 days after the date on which a Lottery Management contract or contracts for the Project has been fully executed.

B. General Provisions. The following provisions apply generally to this Statement of Work.

1. No Milestone Fees or Success Fees that accrue after a termination by the Commonwealth for Greenhill's default as set forth in Subparagraph 14.c of the Contract shall be payable.
2. Any Milestone Fees accrued in Section A.1-3 of this Statement of Work shall be paid by the Commonwealth to the Contractor as follows:
 - i. If the Commonwealth enters into a fully executed contract for the management of the Pennsylvania Lottery, then the Milestone Fee payments accrued under Section A.1—3 of this Statement of Work shall be paid by the Commonwealth from the proceeds of that contract and per the terms set out in that contract for the payment of those Milestone Fees.
 - ii. If the Commonwealth, for any reason, either decides to terminate or must terminate all work on the Project at any point before a fully executed Lottery management contract exists between the

Commonwealth and one of the proposers who submitted a binding bid during Phase A.3 of this Statement of Work, then the Commonwealth shall pay to the Contractor any Milestone Fees accrued by the Contractor under Sections A.1-3 of this Statement of Work within 60 days of the date on which the Commonwealth's project manager issues written certification that work on the Project has been terminated (such certification not to be unreasonably withheld or delayed).

- iii. If the Commonwealth, for any reason, does not complete a fully executed Lottery Management Contract by November 30, 2012 (as described in this Statement of Work), then the Commonwealth shall pay any accrued Milestone Fees from such sources as the Commonwealth may identify. Such accrued Milestone Fees, if any, shall be paid by January 31, 2013, and any Milestone Fees that accrue after January 31, 2013 shall be paid within two months of such accrual date.

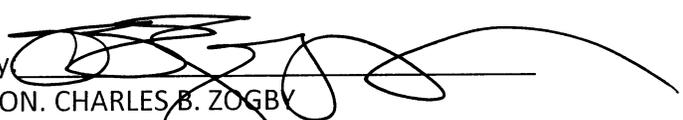
Except as explicitly set forth herein, this Statement of Work does not otherwise amend or supersede the Contract, which shall continue in full force and effect.

Accepted and Agreed to by the Parties as of the last date set out below:

FOR GREENHILL & CO., LLC:

FOR OFFICE OF THE BUDGET:

By: 
ROBERT K. COLLINS
MANAGING DIRECTOR

By: 
HON. CHARLES B. ZOGBY
SECRETARY OF THE BUDGET

Date: 2/16/12

Date: 2.21.12