

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

{Mark One}

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File number: 0-13063

SCIENTIFIC GAMES CORPORATION
(FORMERLY AUTOTOTE CORPORATION)
(Exact name of registrant as specified in its charter)

Delaware 81-0422894

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

750 Lexington Avenue, New York, New York 10022

(Address of principal executive offices)
(Zip Code)

(212) 754-2233

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 9, 2001:

Class A Common Stock: 40,463,333
Class B Common Stock: None

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QUARTER ENDED SEPTEMBER 30, 2001

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

December 31, 2000	September 30, 2001	ASSETS	Current
assets: Cash and cash equivalents			
		\$ 6,488	6,614
		Accounts receivable, net of allowance for doubtful accounts	
		56,819	47,744
		Inventories	
		27,608	23,965
		Prepaid expenses, deposits and other current assets	
		16,581	16,239
		----- Total current assets	
		107,496	94,562
		Property and equipment, at cost	
		323,732	350,923
		Less accumulated depreciation	
		139,121	161,109
		----- Net property and equipment	
		184,611	189,814
		Goodwill, net	
		157,591	198,016
		Operating right, net	
		12,681	11,931
		Other intangible assets, net	
			118,598
		49,698	Other assets and investments
		53,964	48,673
		----- Total assets	
			\$ 634,941
		592,694	LIABILITIES AND STOCKHOLDERS' EQUITY
		Current liabilities: Current installments of long-term debt	
		\$ 6,636	8,709
		Accounts payable	
			27,176
		26,089	Accrued liabilities
			59,142
		52,803	Interest payable
			11,112
		3,716	Total current liabilities
		104,066	91,317
		----- Deferred income taxes	
			59,093
		27,803	Other long-term liabilities
		9,585	18,592
		Long-term debt, excluding current installments	
		434,044	430,479
		----- Total liabilities	
			606,788
		568,191	Stockholders' equity: Convertible preferred stock, par value \$1.00 per share, 2,000 shares authorized, 1,149 and 1,201 shares outstanding at December 31, 2000 and September 30, 2001, respectively
		1,149	1,201
		Class A common stock, par value \$0.01 per share, 99,300 shares authorized, 40,156 and 40,431 shares outstanding at December 31, 2000 and September 30, 2001, respectively	
		373	376
		Class B non-voting common stock, par value \$0.01 per share, 700 shares authorized, none outstanding	
		----- Additional paid-in capital	
		266,917	273,206
		Accumulated losses	
		(234,910)	(239,118)
		Treasury stock, at cost	

.....	(102)	(105)	
Accumulated other comprehensive loss			
.....	(5,274)	(11,057)	-----
----- Total stockholders' equity			
.....	28,153	24,503	-----
-- ----- Total liabilities and stockholders' equity			
.....	\$ 634,941	592,694	=====

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2000 and 2001
(Unaudited, in thousands, except per share amounts)

2000	2001	-----	-----	Operating revenues: Services		\$
.....	54,210	93,418		Sales		
9,187	13,785	-----	63,397	107,203	-----	Operating expenses
(exclusive of depreciation and amortization shown below): Services						
.....	36,411	57,603		Sales		
6,350	9,367	-----	42,761	66,970	-----	Total gross profit
..... 20,636 40,233						
Selling, general and administrative expenses						
..... 10,035 13,166 Depreciation and						
amortization						
..... 8,222 13,778 ----- ----- Operating income						
..... 2,379 13,289 -						
----- Other deductions: Interest expense						
..... 15,367						
12,322 Other income						
..... (498)						
(72)	-----	14,869	12,250	-----	-----	Income (loss) before
extraordinary items and income tax expense (benefit) (12,490)						
1,039 Income tax expense (benefit)						
..... 229 (483) -----						
----- Income (loss) before extraordinary items						
..... (12,719) 1,522 Extraordinary						
items						
..... 12,567 -- ----- Net income (loss)						
..... (25,286)						
1,522 Convertible preferred stock paid-in-kind dividend						
..... 439 1,790 ----- Net						
loss available to common stockholders						
..... \$ (25,725) (268) =====						
===== Basic and diluted net income (loss) per share: Basic net income (loss) before						
extraordinary items per share \$ (0.34) 0.04 =====						
===== Diluted net income (loss) before extraordinary items per share						
..... \$ (0.34) 0.03 ----- ----- Extraordinary items						
per share (0.34) -- --						
----- Basic net income (loss) per share						
..... \$ (0.68) 0.04 =====						
===== Diluted net income (loss) per share						
..... \$ (0.68) 0.03 =====						
===== Basic and diluted net loss per share available to common stockholders						
..... \$ (0.70) (0.01) ===== ===== Weighted average number of						
shares used in per share calculations: Basic shares						
.....						
36,931 40,383 ===== ===== Diluted shares						
..... 36,931						
46,067 ===== =====						

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Nine Months Ended September 30, 2000 and 2001
(Unaudited, in thousands, except per share amounts)

2000	2001	Operating revenues: Services		
		130,754	273,098	Sales \$
31,409	58,786	162,163	331,884	Operating expenses (exclusive of depreciation and amortization shown below): Services
		85,912	173,664	Sales
19,810	36,088	105,722	209,752	Total gross profit
		122,132		Selling, general and administrative expenses
		18,661	40,954	Depreciation and amortization
				Operating income
				Other deductions: Interest expense
		38,610		Other (income) expense
				Income (loss) before extraordinary items and income tax expense (benefit)
				Income tax expense (benefit)
				Income (loss) before extraordinary items
				Extraordinary items
				Net income (loss)
				Convertible preferred stock paid-in-kind dividend
				Net loss available to common stockholders
				\$ (22,607) (4,208)
				Basic and diluted net income (loss) per share: Basic net income (loss) before extraordinary items per share
				Diluted net income (loss) before extraordinary items per share
				Extraordinary items per share
				Basic net income (loss) per share
				Diluted net income (loss) per share
				Basic and diluted net loss per share available to common stockholders
				Weighted average number of shares used in per share calculations: Basic shares
				Diluted shares

See accompanying notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2000 and 2001
(Unaudited, in thousands)

2000	2001	Cash flows from operating activities: Net income (loss)	
			\$ (22,168)
1,025			Adjustments to reconcile net income (loss) to cash provided by operating activities: Depreciation and amortization
		18,661	40,954
			Change in deferred income taxes, net of effects of businesses acquired
		238	(2,614)
			Non-cash interest expense
		7,511	--
			Extraordinary items
			Changes in operating assets and liabilities, net of effects of acquisitions/dispositions of businesses
			(7,503) (243) Other
			Total adjustments
			32,796 40,339

-----	Net cash provided by operating activities	10,628	41,364	-----
-----	Cash flows from investing activities: Capital expenditures			
	(5,103) Wagering systems expenditures	(3,077)		
	Increase in other assets and investments	(20,994)	(25,329)	
	Business acquisitions, net of cash acquired	(3,974)	(9,635)	
	(316,242) -- Business disposals, net of cash			
	-- (669) Other			
(5,163)	528 -----	Net cash used in investing activities	(349,450)	(40,208)
-----	Cash flows from financing activities: Net borrowings under revolving credit facility	(1,070)	3,000	Proceeds from issuance of long-term debt
	441,009 -- Payments on long-term debt	(189,976)	(4,392)	
	Payment of financing fees	(16,792)	--	Net proceeds from issuance of common stock
	1,612	552	Net proceeds from issuance of convertible preferred stock	106,378
-----	Net cash provided by (used in) financing activities	341,161	(840)	-----
	Effect of exchange rate changes on cash	(411)	(190)	-----
-----	Increase in cash and cash equivalents	1,928	126	Cash and cash equivalents, beginning of period
3,662	6,488	-----	Cash and cash equivalents, end of period	
			\$ 5,590	6,614
=====	Supplemental disclosure of cash flow information: Cash paid during the period for: Interest paid			=====
			\$	
17,246	44,209	=====	Net income taxes paid	\$ 2,192
				490
=====	Non-cash financing activity during the period: Convertible preferred stock paid-in-kind dividends			\$
439	5,233	=====	Issuance of common stock warrants in payment of non-cash interest expense	\$ 7,511
			--	=====

See accompanying notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except per share amounts)

(1) Consolidated Financial Statements

Name Change

Effective April 27, 2001, the Company changed its corporate name from Autotote Corporation to Scientific Games Corporation and its stock symbol to SGM [AMEX: SGM].

Basis of Presentation

On December 20, 2000, the Company determined to change its fiscal year from an October 31 year-end to a calendar year-end, beginning with the year ending December 31, 2001. This report on Form 10-Q covers the three-month and nine-month periods ended September 30, 2001, compared to the three-month and nine-month periods ended September 30, 2000.

The consolidated balance sheets as of December 31, 2000 and September 30, 2001 and the consolidated statements of operations for the three-month and nine-month periods ended September 30, 2000 and 2001, and the consolidated statements of cash flows for the nine months then ended, have been prepared by the Company without audit. In the opinion of management, all adjustments necessary consisting of normal recurring entries to present fairly the financial position of the Company at December 31, 2000 and September 30, 2001 and the results of its operations for the three-month and nine-month periods ended September 30, 2000 and 2001 and its cash flows for the nine months ended September 30, 2000 and 2001 have been made. In the third quarter of 2001, the

Company reversed reserves of \$1.5 million in connection with litigation that was settled during the quarter.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2000 Annual Report on Form 10-K. The results of operations for the period ended September 30, 2001 are not necessarily indicative of the operating results for the full year. Certain items in prior period's consolidated financial statements have been classified to conform with the current year presentation.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except per share amounts)

(1) Consolidated Financial Statements--(Continued)

Basic And Diluted Net Income (Loss) Per Share

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net income (loss) per share for the three-month and nine-month periods ended September 30, 2000 and 2001:

	Three Months Ended September 30, 2000		Nine Months Ended September 30, 2001	
	2000	2001	2000	2001
Income (numerator) before extraordinary items	\$ (12,719)	1,522	(9,601)	1,025
Extraordinary items	12,567	--	12,567	--
Net income (loss)	(25,286)	1,522	(22,168)	1,025
Convertible preferred stock paid-in-kind dividend	439	1,790	439	5,233
Net income (loss) available to common stockholders	\$ (4,208)	\$ (25,725)	(268)	(22,607)
Shares (denominator) Basic weighted average common shares outstanding	36,931	40,383	36,761	40,252
Effect of diluted securities- stock options, warrants, and deferred shares	5,684	4,171		
Diluted weighted average common shares outstanding	46,067	36,761	44,423	
Basic and diluted per share amount				
Basic income (loss) per share before extraordinary items	\$ (0.26)	0.03	\$ (0.34)	0.04
Diluted income (loss) per share before extraordinary item	0.03	(0.26)	0.02	\$ (0.34)
Extraordinary items per share	(0.34)	--	(0.34)	--
Basic net income (loss) per share	\$ (0.68)	0.04	(0.60)	0.03
Diluted net income (loss) per share	\$ (0.68)	0.03	(0.60)	0.02
Basic and diluted net income (loss) per share available to common stockholders	\$ (0.01)	(0.62)	(0.10)	

- (a) Potential common shares are not included in the calculation of dilutive net loss per share, since the inclusion would be anti-dilutive.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited, in thousands, except per share amounts)

(1) Consolidated Financial Statements--(Continued)

At September 30, 2001, the Company had outstanding stock options, warrants, convertible preferred shares and deferred shares, which could potentially dilute basic earnings per share in the future. (See Notes 13 and 14 to the Consolidated Financial Statements for the year ended October 31, 2000 in the Company's 2000 Annual Report on Form 10-K.)

Interest Rate Agreements

Statement of Financial Accounting Standards No. 133, Accounting For Derivative Instruments and Hedging Activities ("SFAS 133"), as amended by SFAS 138, establishes accounting and reporting standards for derivative instruments and hedging activities. It requires entities to record all derivative instruments on the balance sheet at fair value. Changes in the fair value of derivatives are recorded in each period in current operations or other comprehensive income (loss), based on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized in operations.

Pursuant to the terms of the Company's credit facility, the Company is required to maintain interest rate hedges for a notional amount of not less than \$140,000 for a period of not less than two years. In satisfaction of this requirement, the Company entered into three interest rate swap agreements in November 2000 which obligate the Company to pay a fixed LIBOR rate and entitle the Company to receive a variable LIBOR rate on an aggregate \$140,000 notional amount of debt. The Company has structured these interest rate swap agreements and intends to structure all such future agreements to qualify for hedge accounting pursuant to the provisions of SFAS 133. Accumulated other comprehensive losses resulting from the changes in fair value of the interest rate hedge instruments were \$2,395 and \$8,052 at December 31, 2000 and September 30, 2001, respectively. For the nine months ended September 30, 2001, the Company recorded a \$5,657 charge to other comprehensive loss for the change in fair value of the interest rate hedge instruments.

(2) Acquisition of Scientific Games Holdings Corp.

On September 6, 2000, the Company completed the acquisition of Scientific Games Holdings Corp. ("SGHC"), a world-leading supplier of lottery products, integrated lottery systems and support services, and pre-paid telephone cards. The acquisition was completed through a merger in which SGHC became a wholly-owned subsidiary of the Company, at a cost of approximately \$308,000 in aggregate merger consideration to SGHC stockholders, plus related fees and expenses. The acquisition was recorded using the purchase method of accounting. The acquired assets and liabilities were recorded at their estimated fair value at the date of acquisition.

In the third quarter of fiscal 2001, the Company finalized the allocation of the purchase price previously allocated on a preliminary basis to the estimated fair value of the assets acquired and liabilities assumed in connection with the acquisition of SGHC, which was consummated on September 6, 2000. The finalization of the allocation of the purchase price resulted in the reclassification of \$73.9 million of previously identified intangible assets, including capitalized software, and \$29.5 million of related deferred income tax liabilities, or approximately \$44.4 million to goodwill. The reclassifications were the result of the consideration of additional information regarding available products and costs of services, and the refinement of certain assumptions used in the determination of the estimated fair values of the acquired assets.

The Company has accounted for the reclassification of the intangible assets, including capitalized software, and related deferred income taxes as a change in estimate, and accordingly has reduced capitalized software by \$9.8 million, patents by \$13.9 million and customer lists by \$50.2 million having estimated useful lives of 10, 15 and 20 years, respectively. Goodwill is being amortized over a period of 20 years. Accordingly, the accompanying consolidated

balance sheet at September 30, 2001 and the consolidated statement of operations for the three months ended September 30, 2001 have been adjusted to reflect the reclassification and the resulting affect on operations from the date of the revision. Had the reclassification been made at the beginning of the year, the positive affect on net income for the nine month period ended September 30, 2001 would not have been material.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited, in thousands, except per share amounts)

(2) Acquisition of Scientific Games Holdings Corp. --(Continued)

The following table presents unaudited pro forma results of operations as if the SGHC acquisition and related financing transactions had occurred at the beginning of the period presented after giving effect to certain adjustments, including amortization of goodwill and other identifiable intangible assets, additional depreciation expense, increased interest expense, convertible preferred stock dividends and related income tax effects. These unaudited pro forma results include amortization and deferred tax benefit computations based on the estimated identifiable intangible assets and related deferred income tax amounts recorded prior to the reclassifications made in the third quarter of 2001, described above, because such reclassifications would not have a material effect on the pro forma results. Additionally, these unaudited pro forma results were presented using current generally accepted accounting principles. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141"), and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 becomes effective immediately and SFAS 142, which will become effective for the Company in year 2002, will change the accounting and reporting for goodwill and intangible assets.

Consequently, beginning January 1, 2002, amortization of goodwill and intangibles with indefinite lives will cease. The amount of amortization of all goodwill and intangible assets with indefinite lives included in the pro forma information shown below for this business combination, as well as other purchased intangible assets previously recorded by the Company, is \$4.7 million and \$14.0 million, respectively, for the three-month and nine-month periods ended September 30, 2000. The Company has not completed its analysis, including the required impairment testing, but expects that the majority of this amortization will not continue in future periods.

These pro forma results have been prepared for comparative purposes and do not purport to be indicative of what would have occurred had the acquisition been made at the beginning of the three-month and nine-month periods ended September 30, 2000 or the results that may occur in the future.

Three Months Ended September 30, 2000	Nine Months Ended September 30, 2000
(unaudited) (unaudited) Operating revenues	
.....	\$ 99,879
319,155 Operating income	
.....	2,042
22,902 Loss before income tax benefit and extraordinary items	(10,293) (14,392)
.....	Net loss before extraordinary items
(9,379) (12,575) Extraordinary item	
.....	12,567
12,567 Net loss	
.....	(21,946) (25,142)
(21,946) (25,142) Convertible preferred stock paid-in-kind dividend	1,691 5,073
.....	Net loss available to common stockholders
.....	\$ (23,637) (30,215)
===== Basic and diluted loss per share:	
Net loss before extraordinary items per share	
.....	\$ (0.25) (0.34)
===== Extraordinary items per share	
.....	(0.34) (0.34)
----- Net loss per share	
.....	\$ (0.59)
(0.68) (0.82) Net loss per share available to common stockholders	\$ (0.64)
(0.82) =====	

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited, in thousands, except per share amounts)

(3) Business Segments

The following tables represent revenues and profits by business segments for the three-month and nine-month periods ended September 30, 2000 and 2001. Operating income reflects an allocation of corporate expenses among business segments. Interest expense and other (income) deductions are not allocated to business segments.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	2001	2000	2001
Service revenue and product sales: Lottery Group	\$ 23,694	60,559	41,491	177,838
Pari-mutuel Group	22,176	22,551	72,045	76,576
Venue Management Group	15,689	15,164	46,789	46,489
Telecommunications Group	1,838	8,929	1,838	30,981

			\$ 63,397	107,203
	331,884	=====	=====	=====
===== Gross profit: Lottery Group				
	\$ 6,445	23,621	11,457	64,895
Pari-mutuel Group	9,187	9,337	31,356	31,157
Venue Management Group				4,223
Telecommunications Group	4,441	12,847	13,618	781
	781	12,462	-----	2,834
----- Total gross profit				\$ 20,636
	40,233	56,441	122,132	=====
===== Operating income (loss):				
Lottery Group	\$ (778)	6,604	1,321	14,400
Pari-mutuel Group	916	2,552	6,519	9,786
Venue Management Group				2,105
Telecommunications Group	2,750	6,491	8,374	136
	139	6,806	=====	=====
	=====	=====	\$ 2,379	13,289
	=====	=====	=====	14,470
===== Depreciation and amortization included in				
operating income (loss): Lottery Group	\$ 3,304	9,272	4,525	26,471
Pari-mutuel Group	4,187	3,675	12,059	11,316
Venue Management Group				624
Telecommunications Group	1,970	2,003	-----	681
	107	1,164	-----	107
----- Total depreciation and amortization				150
			\$ 8,222	13,778
	40,954	=====	=====	=====
===== A reconciliation of operating income to consolidated income (loss) before income tax expense and extraordinary items is as follows:				
Segment operating income				\$
Other deductions:	2,379	13,289	14,470	39,366
Interest expense				
Other (income) expense	15,367	12,322	24,008	38,610
	(498)	(72)	(687)	109
----- Income (loss) before income				

tax expense and extraordinary items
 \$
 (12,490) 1,039 (8,851) 647 =====
 =====

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited, in thousands, except per share amounts)

(3) Business Segments--(Continued)

December 31, 2000 September
 30, 2001 -----
 ----- Assets:
 Lottery Group

 \$ 330,138 305,124 Pari-
 mutuel Group

 232,990 218,784 Venue
 Management Group
 34,055
 33,044 Telecommunications
 Group
 37,758 35,742
 =====
 ===== \$ 634,941
 592,694 =====
 =====

Nine Months Ended September
 30, -----
 ----- 2000 2001 -----

 Capital and wagering systems
 expenditures: Lottery Group

 \$ 10,205 25,405 Pari-mutuel
 Group

 12,083 3,051 Venue
 Management Group
 1,497
 759 Telecommunications Group
 286 1,217
 =====
 ===== \$ 24,071
 30,432 =====
 =====

(4) Comprehensive Income (Loss)

The following presents a reconciliation of net income (loss) to
 comprehensive income (loss) for the three months and nine months ended September
 30, 2000 and 2001:

Three Months ended Nine Months ended September
 30, September 30, -----
 ----- 2000 2001 2000 2001 -----
 ----- Net
 income (loss)

 \$ (25,286) 1,522 (22,168) 1,025 Other
 comprehensive income (loss): Foreign currency
 translation
 (299) 1,719 (1,051) 120 Unrealized gain (loss) on
 investments 611
 (461) 611 (246) Unrealized gain (loss) on
 interest rate swap contracts --
 (3,035) -- (5,657) -----
 ----- Other comprehensive income
 (loss) 312
 (1,777) (440) (5,783) -----

----- Comprehensive loss

.....
 \$ (24,974) (255) (22,608) (4,758) =====
 =====

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited, in thousands, except per share amounts)

(5) Inventories

Inventories consist of the following:

December 31, September 30,	
2000 2001 -----	
----- Parts and work-	
in-process	
..... \$ 16,193	
9,605 Finished goods	
.....	
11,415 14,360 -----	
----- \$ 27,608	
23,965 =====	
=====	

Parts and work-in-process include costs for equipment expected to be sold. Costs incurred for equipment associated with specific wagering system service contracts not yet placed in service are classified as construction in progress in property and equipment.

(6) Debt

At September 30, 2001, the Company had approximately \$36,697 available for borrowing under the Company's revolving credit facility (the "Facility"). There were approximately \$12,000 of borrowings outstanding under the Facility and approximately \$16,303 in letters of credit were issued under the Facility at September 30, 2001. At December 31, 2000, Scientific Games' available borrowing capacity under the Facility was \$46,591, subject to limitations imposed by the debt covenants.

The Company's financing arrangements impose certain limitations on the operations of the Company and its subsidiaries, including the maintenance of certain financial, liquidity and net worth ratios. As a result of both the financial performance of SGHC prior to the Company's acquisition of SGHC, principally reflecting transitional and operational matters occurring through December 31, 2000, and the timing of certain anticipated capital expenditures and associated borrowings in 2001, management and our lenders amended certain limitations to be less restrictive. Among other changes, the Facility was modified so that the planned step-downs in fixed charge coverage ratios and leverage ratios were delayed by up to nine months through September 30, 2002. The Company is in compliance with the amended covenants as of September 30, 2001 and expects to remain so during the next twelve months.

(7) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries

The Company conducts substantially all of its business through its domestic and foreign subsidiaries. The Facility and the Company's 12 1/2% Series B Senior Subordinated Notes due 2010 (the "Notes") issued in connection with the acquisition of SGHC, are jointly and severally guaranteed by substantially all of the Company's wholly owned domestic subsidiaries (the "Guarantor Subsidiaries").

Presented below is condensed consolidating financial information for (i) Scientific Games Corporation (the "Parent Company"), which includes the activities of Scientific Games Management Corporation, (ii) the Guarantor Subsidiaries and (iii) the wholly owned foreign subsidiaries and the non-wholly owned domestic and foreign subsidiaries (the "Non-Guarantor Subsidiaries") as of December 31, 2000 and September 30, 2001 and for the three months and nine months ended September 30, 2000 and 2001. The condensed consolidating financial information has been presented to show the nature of assets held, results of operations and cash flows of the Parent Company, Guarantor Subsidiaries and Non-Guarantor Subsidiaries assuming the guarantee structure of the Notes was in effect at the beginning of the periods presented. Separate financial statements

for Guarantor Subsidiaries are not presented based on management's determination that they would not provide additional information that is material to investors.

The condensed consolidating financial information reflects the investments of the Parent Company in the Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting. In addition, corporate interest and administrative expenses have not been allocated to the subsidiaries.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
 December 31, 2000
 (unaudited, in thousands)

Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated

ASSETS				
Cash and cash equivalents				
				\$ 867 (50)
5,671	--	6,488	Accounts receivable, net	-- 39,554
				20,555 (3,290) 56,819
			Inventories	
				--
			Other current assets	186
13,421	2,944	30	16,581	Property and equipment, net
				2,002 142,446
			Investment in subsidiaries	
				202,980 -- -- (202,980) --
			Goodwill	
				190 154,313 3,088 -- 157,591
			Intangible assets	
				--
			Other assets	
				109,232 22,047 -- 131,279
				19,832 75,698 1,077 (42,643) 53,964

Total assets				
				\$ 226,057 556,216 102,304 (249,636) 634,941
=====				
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current installments of long-term debt				
				\$ 6,012 8 616 -- 6,636
Current liabilities				
				25,663
51,811	22,866	(2,910)	97,430	Long-term debt, excluding current installments
433,180	19 5,492	(4,647)	434,044	Other non-current liabilities
				5,786 56,851 21,491 (15,450) 68,678
Intercompany balances				
				(272,737)
245,226	27,809	(298)	--	Stockholders' equity
				28,153
202,301	24,030	(226,331)	28,153	-----

Total liabilities and stockholders' equity				
				\$ 226,057 556,216 102,304 (249,636)
				634,941 =====
=====				

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
 September 30, 2001
 (unaudited, in thousands)

Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated

ASSETS				
Cash and cash equivalents				
				\$ 1,079 732
4,803	--	6,614	Accounts receivable, net	-- 31,344
				16,400 -- 47,744
			Inventories	

1,277	32	(12,490)	Equity in income of subsidiaries
5,262	--	--	(5,262) -- Income tax expense (benefit)
7	(33)	255	-- 229	-----
----- Net income				
(loss) before extraordinary items				
.....	(12,764)	4,253	1,022
(5,230)	(12,719)	Extraordinary items:		
Write-off of deferred finance fees and debt call premium				
.....	12,522			
45	--	--	12,567	-----
----- Net income				
(loss)				
.....				
\$	(25,286)	4,208	1,022	(5,230)
	(25,286)			
=====				

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED STATEMENT OF OPERATIONS
Three Months Ended September 30, 2001
(unaudited, in thousands)

Parent Guarantor	Non-Guarantor Company	Eliminating Subsidiaries	Subsidiaries	Entries
Consolidated	-----	-----	-----	-----
----- Operating revenues				
.....				\$ --
84,712	25,559	(3,068)	107,203	Operating expenses

52,036	17,809	(2,875)	66,970	-----
----- Gross profit				
.....				
32,676	7,750	(193)	40,233	Selling, general and administrative expenses
8,008	2,985	(219)	13,166	Depreciation and amortization
12,685	1,037	(21)	13,778	-----
----- Operating income (loss)				
11,983	3,728	47	13,289	Interest expense
12,170	80	540	(468)	12,322 Other (income) expense
203	(742)	78	389	(72)
----- Income (loss) before equity in income of subsidiaries and income taxes				
3,110	126	1,039	Equity in income of subsidiaries
--	--	--	(16,364)	-- Income tax expense (benefit)
.....				-- (1,059) 576
-	(483)			-----
----- Net income				
.....				
\$	1,522	13,704	2,534	(16,238)
	1,522			
=====				

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2000
(unaudited, in thousands)

Parent Guarantor	Non-Guarantor Company	Eliminating Subsidiaries	Subsidiaries	Entries
Consolidated	-----	-----	-----	-----
----- Operating revenues				
.....				\$
--	131,770	41,918	(11,525)	162,163
----- Operating expenses				
.....				-

-	84,735	32,746	(11,759)	105,722	-----

					Gross profit
..
--	47,035	9,172	234	56,441	Selling, general and administrative expenses
.....	7,998	11,562	3,760	(10)	
	23,310				Depreciation and amortization
.....			209	15,761	
2,768	(77)	18,661			-----
					Operating income
					(loss)
(8,207)	19,712	2,644	321	14,470	Interest expense
.....					
23,490	380	715	(577)	24,008	Other (income) expense
.....					
					(873)
(141)	(285)	612	(687)		-----
					Income
					(loss) before equity in income of subsidiaries and income taxes
.....					
					(30,824)
2,214	286	(8,851)			Equity in income of subsidiaries
.....					
21,285	--	--	(21,285)	--	Income tax expense
.....					
107	350	293	--	750	-----
					Net income
					(loss) before extraordinary items
.....					
					(9,646)
(20,999)	(9,601)				Extraordinary items::
					Write-off of deferred finance fees and debt call premium
.....					
12,522	45	--	--	12,567	-----
					Net income
					(loss)
.....					
\$	(22,168)	19,078	1,921	(20,999)	(22,168)
	=====	=====	=====	=====	=====
	=====				

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2001
(unaudited, in thousands)

	Parent Guarantor	Non-Guarantor	Eliminating	
	Company	Subsidiaries	Subsidiaries	Entries
Consolidated	-----	-----	-----	-----
				Operating revenues
.....				\$ --
	254,387	87,104	(9,607)	331,884
				Operating expenses
.....				--
158,360	60,546	(9,154)	209,752	-----
				Gross profit
.....				--
	96,027	26,558	(453)	122,132
				Selling, general and administrative expenses
.....				
	9,048	23,854	9,164	(254)
				41,812
				Depreciation and amortization
.....				
229	36,751	4,035	(61)	40,954

				Operating income (loss)
(9,277)	35,422	13,359	(138)	39,366
				Interest expense
.....				
38,363	202	1,594	(1,549)	38,610
				Other (income) expense
.....				
(335)	(1,777)	768	1,453	109

				Income (loss) before equity in income of subsidiaries and income taxes
.....				
(47,305)	36,997	10,997	(42)	647
				Equity in income of subsidiaries
.....				
				47,705
				--
(47,705)	--	--	--	--
				Income tax expense (benefit)

..... (625) (2,917)
 3,164 -- (378) -----
 ----- Net income

 \$ 1,025 39,914 7,833 (47,747) 1,025 =====
 =====

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
 SUPPLEMENTAL CONDENSED STATEMENT OF CASH FLOWS
 Nine Months Ended September 30, 2000
 (unaudited, in thousands)

Parent Guarantor	Non-Guarantor	Eliminating Company	Subsidiaries	Entries Consolidated	-----

----- Net income (loss)					
.....					
\$ (22,168)	19,078	1,921	(20,999)		
(22,168)			Depreciation and amortization		
	209	15,761			
2,768	(77)	18,661	Equity in income of subsidiaries		
(21,285)	-- --	21,285	-- Extraordinary items		
.....					
12,492	75 -- --	12,567	Non cash interest expense		
7,511	-- -- --	7,511	Other non-cash adjustments		
		1,014	266		
238	42 1,560	Changes in operating assets and liabilities	2,146		
(4,317)	(5,719)	387	(7,503)	-----	

Net cash provided by (used in) operating activities					
.....	(20,081)	30,863	(792)		
638	10,628	-----	-----		
----- Cash flows from investing activities: Capital and wagering systems expenditures					
.....	(118)	(19,980)	(4,035)	62	
(24,071)		Business acquisitions, net of cash acquired	(111,305)		
(205,010)	73 --	(316,242)	Other assets and investments		
		(120,519)			
110,444	995 (57)	(9,137)	-----	-----	
----- Net cash used in investing activities					
.....	(231,942)	-----	-----		
(114,546)	(2,967)	5	(349,450)	-----	

Cash flows from financing activities:					
Net borrowing (repayments) under lines of credit					
.....	(1,070)	-- -- --			
(1,070)		Proceeds from issuance of long-term debt	440,000	--	
1,009	--	441,009	Payments on long-term debt		
(155,000)	(34,277)	(971)	272	(189,976)	
Payment of finance fees					
.....					
(16,792)	-- -- --	(16,792)	Net proceeds from common stock issue		
.....	1,612	-- -- --	1,612		
Net proceeds from preferred stock issue					
.....	106,378	-- -- --			
106,378		Other, principally intercompany balances	(128,483)		
124,300	4,822	(639)	-----	-----	
----- Net cash provided by financing activities					
.....	246,645	90,023	4,860		
(367)	341,161	-----	-----		
----- Effect of					

exchange rate changes on cash
..... -- 378 (513) (276)
(411) -----
----- Increase (decrease) in
cash and cash equivalents

(5,378)	6,718	588	--	1,928	Cash and cash
					equivalents, beginning of period
				5,284	(8,294) 6,672 --
3,662					-----
					Cash and cash
					equivalents, end of period
				\$ (94)	(1,576) 7,260
--	5,590	=====	=====	=====	=====
		=====	=====		

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2001
(unaudited, in thousands)

Parent Guarantor	Non-Guarantor	Eliminating			
Company	Subsidiaries	Subsidiaries	Entries		
Consolidated	-----	-----	-----	-----	-----
					Net income

				\$ 1,025	39,914 7,833 (47,747) 1,025
					Depreciation and amortization

					229 36,751 4,035
				(61)	40,954 Equity in income of subsidiaries

					(47,705) -- -- 47,705 -
					- Changes in operating assets and liabilities

					(12,733) 11,746 (202) 946 (243)
					Other non-cash adjustments

					2,301 (3,295) 622
				--	(372) -----
					Net cash provided by (used in)
					operating activities
					(56,883) 85,116
				12,288	843 41,364 -----
					Cash flows from investing
					activities: Capital and waging systems
					expenditures
					(239) (25,215)
					(5,191) 213 (30,432) Proceeds from sale of
					business
					-- 1,550
					(2,219) -- (669) Other assets and investments

					(978) (8,069) (117)
				57	(9,107) -----
					Net cash used in investing
					activities
					(1,217)
				(31,734)	(7,527) 270 (40,208) -----
					Cash flows
					from financing activities: Net borrowing under
					lines of credit
					3,000 -- -
					-- 3,000 Payments on long-term debt

					(3,946) (7) (632)
					193 (4,392) Proceeds from stock issue

					552 -- -- -- 552
					Other, principally intercompany balances

					58,650 (52,224) (5,120) (1,306)

					Net cash provided by (used in) financing
					activities
					58,256 (52,231) (5,752)
				(1,113)	(840) -----
					Effect of exchange rate
					changes on cash
					56 (369)
				123	-- (190) -----
					Increase (decrease) in cash and
					cash equivalents
					212 782 (868) --
					126 Cash and cash equivalents, beginning of
					period
					867 (50) 5,671 -- 6,488 ---

					Cash and cash equivalents, end of period

					\$ 1,079 732 4,803 -- 6,614
					=====
					=====

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR
THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001

Background

Effective April 27, 2001, the Company changed its corporate name from Autotote Corporation to Scientific Games Corporation and its stock symbol to SGM [AMEX: SGM].

The Company changed its fiscal year from an October 31 year-end to a calendar year-end, beginning with the year ending December 31, 2001. As a result, the Company is filing this report for the third quarter and first nine months of year 2001, which ended on September 30, 2001, compared to the three-month and nine-month periods ended September 30, 2000.

The following discussion addresses the financial condition of the Company as of September 30, 2001 and the results of its operations for the three-month and nine-month periods ended September 30, 2001, compared to the same periods in the prior year. This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended October 31, 2000, included in the Company's 2000 Annual Report on Form 10-K.

We operate in four business segments: Lottery Group, Pari-mutuel Group, Venue Management Group and Telecommunications Group. Our Lottery Group consists of two product lines: Instant Tickets and Related Services ("ITRS") and Lottery Systems. ITRS includes ticket design and manufacturing as well as value-added services, including game design, sales and marketing support, inventory management and warehousing and fulfillment services. In addition, this division includes promotional instant tickets and pull-tab tickets that we sell to both lottery and non-lottery customers. Lottery Systems includes the supply of transaction processing software for the accounting and validation of both instant ticket and on-line lottery games, point-of-sale terminal hardware sales, central site computers and communication hardware sales, and ongoing support and maintenance services for these products. This product line also includes software and hardware and support service for sports betting and credit card processing systems.

Our Pari-mutuel Group is comprised of our North American and international on-track, off-track and inter-track pari-mutuel services, simulcasting and communications services, and video gaming, as well as sales of pari-mutuel systems and equipment.

Our Venue Management Group is comprised of the Connecticut off-track betting operations, and the Company's Netherlands on-track and off-track betting operations.

Our Telecommunications Group is comprised of the prepaid cellular phone cards business, which was acquired by the Company as part of the SGHC acquisition.

In the second quarter of fiscal 2000, the Company completed the sale of its SJC Video business, which had previously been reported as a separate segment.

Until the SGHC acquisition on September 6, 2000, our Lottery Group consisted solely of the Lottery Systems product line, exclusive of sports betting and credit card processing services. Thereafter, the Lottery Group includes the ITRS and the portion of the Lottery Systems business that were acquired with SGHC. In addition, the Telecommunications Group's operations are from September 6, 2000, the date of the SGHC acquisition.

The Company's revenues are derived from two principal sources: service revenues and sales revenues. Service revenues are earned pursuant to multi-year contracts to provide ITRS and wagering systems and services; or are derived from wagering by customers at facilities owned or leased by the Company. Sales revenues are derived from sales of prepaid phone cards and from contracts for the sale of wagering systems, equipment, and software licenses.

The first calendar quarter and the fourth calendar quarter of the year traditionally comprise the weakest season for the Company's pari-mutuel wagering service revenue. Wagering equipment sales and software license revenues usually reflect a limited number of large transactions that do not recur on an annual basis. Consequently, revenues and operating results can vary substantially from period to period as a result of the timing of revenue recognition for major

equipment sales and software license revenue. In addition, instant ticket and prepaid phone card sales may vary depending on the size and timing of contract awards, changes in customer budgets, inventory ticket position, lottery retail sales and general economic conditions.

Operating results may also vary significantly from period to period depending on the addition or disposition of business units in each period. The acquisition of SGHC in 2000, which was accounted for as a purchase, affects the comparability of operations from period to period (see Note 3 to the Consolidated Financial Statements for the year ended October 31, 2000 included in the Company's 2000 Annual Report on Form 10-K).

The following tables and discussion present actual data for the three-month and nine-month periods ended September 30, 2000 and 2001, and pro forma data for three-month and nine-month periods ended September 30, 2000, as if the Company had acquired SGHC on January 1, 2000.

Three Months Ended Nine
Months Ended Results of
Operations: September 30,
September 30, -----

--- Actual Pro Forma Actual
Actual Pro Forma Actual 2000
2000 2001 2000 2000 2001 ---

----- Lottery Group
Operating Revenues: Service
revenue

.....
\$ 16,982 46,601 57,201
22,888 146,679 165,952 Sales
revenue
.....
6,712 7,716 3,358 18,603
24,911 11,886 -----

Total Revenue
..... \$
23,694 54,317 60,559 41,491
171,590 177,838 =====
===== =====
===== =====
===== Gross Profit
(excluding depreciation and
amortization)

.....
\$ 6,445 14,665 23,621 11,457
52,267 64,895 =====
===== =====
===== =====

===== Pari-mutuel Group
Operating Revenues: Service
revenue

.....
\$ 21,539 21,539 21,053
61,077 61,077 60,657 Sales
revenue
.....
637 637 1,498 10,968 10,968
15,919 -----

----- Total
Revenue

..... \$
22,176 22,176 22,551 72,045
72,045 76,576 =====
===== =====
===== =====
===== Gross Profit
(excluding depreciation and
amortization)

.....
\$ 9,187 9,187 9,337 31,356

	31,356	31,157	=====
	=====	=====	
	=====	=====	
=====	Venue Management		
	Group Operating Revenues:		
	Service revenue		
.....			
	\$ 15,689	15,689	15,164
	46,789	46,789	46,489
	=====	=====	
	=====	=====	
=====	Gross		
	Profit (excluding		
	depreciation and		
	amortization)		
.....			
	\$ 4,223	4,223	4,441
	12,847	13,618	=====
	=====	=====	
	=====	=====	
	=====	=====	
	Telecommunications Group		
	Operating Revenues: Sales		
	revenue		
.....			
	\$ 1,838	7,697	8,929
	28,731	30,981	=====
	=====	=====	
	=====	=====	
	Gross Profit		
	(excluding depreciation and		
	amortization)		
.....			
	\$ 781	3,182	2,834
	12,462	=====	=====
	=====	=====	
	=====	=====	
	Company Total Operating		
	Revenues: Service revenue		
.....			
	\$ 54,210	83,829	93,418
	130,754	254,545	273,098
	Sales revenue		
.....			
	9,187	16,050	13,785
	64,610	58,786	-----
	-----	-----	
	-----	-----	
	Total Revenue		
.....			\$
	63,397	99,879	107,203
	162,163	319,155	331,884
	=====	=====	
	=====	=====	
=====	Gross		
	Profit (excluding		
	depreciation and		
	amortization)		
.....			
	\$ 20,636	31,257	40,233
	56,441	108,781	122,132
	=====	=====	
	=====	=====	
	=====	=====	

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Revenue Analysis

Lottery Group revenue of \$60.6 million in the three months ended September 30, 2001 improved \$36.9 million from the same period in 2000 due to the addition of SGHC in September 2000, and the start-up of on-line Iowa and Maine lotteries in July 2001. Partially offsetting this increase were the non-recurring EXTREMA(R) terminal sales to a foreign customer in the third quarter of 2000. On a pro forma basis, total service revenue in the three months ended September 30,

2001 of \$57.2 million, increased \$10.6 million or 23% from the same period in 2000 largely due to the addition of new on-line lotteries in Iowa and Maine and solid growth in recurring instant ticket and cooperative services revenue. On a pro forma basis, total sales revenue of \$3.4 million declined \$4.4 million as a result of the previously mentioned non-recurring equipment sales in 2000.

Pari-mutuel Group service revenue of \$21.1 million in the three months ended September 30, 2001 decreased \$0.5 million from the same period in 2000. This decrease is attributable to lower revenues in the French and German operations due to lower pari-mutuel Handle and unfavorable foreign exchange impact as a result of the strengthening of the dollar versus the European currencies. Partially offsetting this decrease are revenue improvements in the North American pari-mutuel, simulcasting and NASRIN(TM) service operations despite the lost revenue caused by the temporary closure of a number of major racetracks immediately following the September 11, 2001 terrorist attack. Sales revenue of \$1.5 million in the three months ended September 30, 2001 increased \$0.9 million from same period in 2000 due to higher systems and equipment sales to foreign customers.

Venue Management Group service revenue of \$15.2 million in the three months ended September 30, 2001 was \$0.5 million lower than in the same period in 2000, reflecting lower revenues in the Netherlands operations as a result of the strengthening of the dollar and lower Handle-related revenue in the Connecticut OTB operations due to the loss of racing programs following the September 11, 2001 attack and increased return to bettors for races held at New York Racing Association tracks.

Telecommunications Group sales revenue of \$8.9 million in the three months ended September 30, 2001 increased \$7.1 million as the result of the acquisition of SGHC on September 6, 2000. On a pro forma basis, revenues in the three months ended September 30, 2001 increased \$1.2 million over the prior year period as a 17% increase in volume was partially offset by price decreases.

Gross Profit Analysis

The total gross profit earned, exclusive of depreciation and amortization, of \$40.2 million in the three months ended September 30, 2001 increased \$19.6 million from the same period in 2000 as a result of the acquisition of SGHC on September 6, 2000. On a pro forma basis, the gross profit earned, exclusive of depreciation and amortization, increased \$9.0 million, primarily because of revenue improvements and significant cost reductions. These improvements were partially offset by lower margins on systems and equipment sales reflecting the absence of year 2000 non-recurring terminal sales and lower selling prices on phone cards.

On a pro forma basis, gross profit as a percentage of service revenues increased to 38% in the three months ended September 30, 2001 compared to 31% in the same period in 2000. This gross profit increase results primarily from revenue improvements and cost control measures in the Lottery Group and from cost reduction programs in Europe. On a pro forma basis, gross profit as a percentage of sales revenues in the three months ended September 30, 2001 was 32%, equal to the gross profit percentage earned in the same period in 2000. Improvements in gross profit from the mix of systems and equipment sold in the two periods was partially offset by lower margins on phone card sales due to lower selling prices.

The Lottery Group gross profit of \$23.6 million, or 39% of revenues, increased 61% on a pro forma basis in the three months ended September 30, 2001 from \$14.7 million, or 27% of revenues, in the same period in 2000. Gross margin improvements were realized as a result of revenue improvements coupled with cost reduction programs discussed above. These margin improvements were partially offset by non-recurring year 2000 terminal sales.

Pari-mutuel Group gross profit of \$9.3 million, or 41% of revenues in the three months ended September 30, 2001, was comparable to the \$9.2 million, or 41% of revenues, in the same period in 2000. Cost reduction savings in the European service businesses offset the decrease in Handle-related margin attributable to the lost racing programs immediately following the September 11, 2001 attack.

Venue Management Group gross profit of \$4.4 million, or 29% of revenues, in the three months ended September 30, 2001, improved \$0.2 million from \$4.2 million, or 27% of revenues, in the same period in 2000. This improvement primarily reflects reduced operating costs in the Netherlands operation under a recently renegotiated operating agreement, partially offset by the immediate effect of the September 11, 2001 attack.

The Telecommunications Group gross profit of \$2.8 million in the three months ended September 30, 2001, decreased \$0.4 million from \$3.2 million on a pro forma basis in the same period in 2000. Gross profit in the three months ended September 30, 2001 was 32% of revenues as compared to 41% of revenues on a pro forma basis in the same period in 2000 resulting from phone card sales price reductions.

Expense Analysis

Selling, general and administrative expenses of \$13.2 million in the three months ended September 30, 2001 were \$3.1 million higher than in the same period in 2000 primarily as a result of the acquisition of SGHC on September 6, 2000. On a pro forma basis, selling, general and administrative expenses were \$3.6 million lower in the three months ended September 30, 2001 than in the same period in 2000, primarily as a result of cost reduction programs, merger-related synergies and the absence of prior year acquisition-related expenses.

Depreciation and amortization expense of \$13.8 million in the three months ended September 30, 2001 increased \$5.6 million from \$8.2 million in the same period in 2000 as a result of the SGHC acquisition, coupled with the start-up of on-line Iowa and Maine lotteries in July 2001. On a pro forma basis, depreciation and amortization expenses were \$1.4 million higher in the three months ended September 30, 2001 than in the same period in 2000, primarily as a result of the expanded domestic lottery business.

Interest expense of \$12.3 million in the three months ended September 30, 2001 decreased \$3.1 million from \$15.4 million in the same period in 2000. One-time, non-cash acquisition related financing expense of \$7.5 million recorded in the prior year period was partially offset by the impact of three months of SGHC acquisition-related debt expense in the third quarter of 2001, compared to less than one month of such expense in the prior year period.

Income Tax Expense

The Company recorded an income tax benefit of \$0.5 million in the third quarter of 2001 as compare to a tax expense of \$0.2 million in the third quarter of 2000. State and foreign taxes were offset by three months of deferred tax benefit in the third quarter of 2001 and partially offset by one month of deferred tax benefit in the third quarter of 2001. Deferred tax benefit results from reversal of deferred taxes provided in connection with the acquisition of SGHC. No current tax benefit has been recognized on domestic operating losses in either period.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Revenue Analysis

Lottery Group revenue of \$177.8 million in the nine months ended September 30, 2001 improved \$136.3 million from the same period in 2000 due to the addition of SGHC on September 6, 2000, the start-up of the on-line Vermont and new Hampshire lotteries in July 2000 and the Iowa and Maine lotteries in July 2001, the sale of a pari-mutuel system and terminals to a customer in Turkey and the sale of terminals to the Jamaica Lottery. Partially offsetting these improvements was the absence of the non-recurring EXTREMA(R) terminal sales to a foreign customer in the nine months of year 2000. On a pro forma basis, lottery service revenue in the nine months ended September 30, 2001 of \$166.0 million, increased \$19.3 million from the same period in 2000 largely due to the growth in the world-wide on-line lottery business, particularly the new on-line lotteries in Vermont, New Hampshire, Iowa and Maine, and solid growth in recurring domestic instant ticket and cooperative service revenue. On a pro forma basis, total sales revenue of \$11.9 million, declined \$13.0 million reflecting the absence of the previously mentioned non-recurring, year 2000 equipment sales to a foreign customer.

Pari-mutuel Group service revenue of \$60.7 million in the nine months ended September 30, 2001 decreased \$0.4 million from the same period in 2000. This decrease is attributable to lower revenues in the French and German operations due to lower pari-mutuel Handle and the strengthening of the dollar. Partially offsetting the decrease are revenue improvements in the North American pari-mutuel, simulcasting and NASRIN(TM) service operations despite the loss of racing programs following the September 11, 2001 attack. Sales revenue of \$15.9 million in the nine months ended September 30, 2001 increased \$5.0 million from same period in 2000 due to higher systems and equipment sales to foreign customers.

Venue Management Group service revenue of \$46.5 million in the nine months

ended September 30, 2001 was \$0.3 million lower than in the same period in 2000, reflecting lower revenues in the Netherlands operations as a result of the strengthening of the dollar, and lower revenues in Connecticut OTB immediately following the September 11, 2001 attack.

Telecommunications Group sales revenue of \$31.0 million in the nine months ended September 30, 2001 is the result of the acquisition of SGHC on September 6, 2000. On a pro forma basis, revenues in the nine months ended September 30, 2001 increased \$2.3 million over the prior year period as a 21% growth in volume was partially offset by price decreases.

Gross Profit Analysis

The total gross profit earned, exclusive of depreciation and amortization, of \$122.1 million in the nine months ended September 30, 2001 increased \$65.7 million from the same period in 2000 as a result of the acquisition of SGHC on September 6, 2000. On a pro forma basis, the gross profit earned, exclusive of depreciation and amortization, increased \$13.4 million or 12%, primarily because of revenue improvements described above and significant cost reductions. These improvements were partially offset by lower margins on systems and equipment sales reflecting the absence of year 2000 non-recurring terminal sales.

On a pro forma basis, gross profit as a percentage of service revenues increased to 36% in the nine months ended September 30, 2001, compared to 33% in the same period in 2000. This gross profit increase results primarily from revenue improvements and cost control measures across all segments of the Company's service businesses. On a pro forma basis, gross profit as a percentage of sales revenues was 39% in the nine months ended September 30, 2001 compared to 38% in the same period in 2000, reflecting the change in the mix of systems and equipment sold in the two periods.

The Lottery Group gross profit of \$64.9 million, or 37% of revenues, increased \$12.6 million or 24% on a pro forma basis in the nine months ended September 30, 2001 from \$52.3 million or 31% of revenues in the same period in 2000. Gross margin improvements were largely due to the growth in the world-wide on-line lottery business, particularly the addition of the Vermont and New Hampshire lottery contracts in July 2000 and the Iowa and Maine lotteries in July 2001, and to revenue improvements in the cooperative services and the domestic instant tickets businesses. These margin improvements were partially offset by non-recurring year 2000 terminal sales.

Pari-mutuel Group gross profit of \$31.2 million or 41% of revenues in the nine months ended September 30, 2001, decreased from \$31.4 million or 44% of revenues in the same period in 2000. The decrease in gross margin percentage is primarily attributable to the mix of systems and equipment sales, mostly offset by the benefits of cost reduction programs in simulcasting and NASRIN(TM) services.

Venue Management Group gross profit of \$13.6 million or 29% of revenues in the nine months ended September 30, 2001, improved \$0.8 million from \$12.8 million or 28% of revenues in the same period in 2000. This improvement primarily reflects higher Handle and reduced operating costs in the Connecticut OTB operation and lower expenses in the Netherlands due to a revised operating agreement.

The Telecommunications Group gross profit of \$12.5 million or 40% of revenues in the nine months ended September 30, 2001, improved \$0.2 million from \$12.3 million or 43% of revenues on a pro forma basis in the same period in 2000. This improvement reflects the effect of higher volume and cost savings initiatives, offset by price pressures in the industry.

Expense Analysis

Selling, general and administrative expenses of \$41.8 million in the nine months ended September 30, 2001 were \$18.5 million higher than in the same period in 2000 primarily as a result of the acquisition of SGHC in September 2000. On a pro forma basis, selling, general and administrative expenses were \$7.8 million lower in the nine months ended September 30, 2001 than in the same period in 2000, primarily as a result of cost reduction programs and merger-related synergies.

Depreciation and amortization expense of \$41.0 million in the nine months ended September 30, 2001 increased \$22.3 million from \$18.7 million in the same period in 2000 as a result of the SGHC acquisition, coupled with the expanded domestic lottery business. On a pro forma basis, depreciation and amortization expenses were \$4.7 million higher in the nine months ended September 30, 2001 than in the same period in 2000, primarily as a result of depreciation on the year 2000 expansion of the Alpharetta, Georgia printing facility and construction of the new Leeds, United Kingdom printing facility, new computer systems and terminals for the expanded domestic lottery business.

Interest expense of \$38.6 million in the nine months ended September 30, 2001 increased \$14.6 million from \$24.1 million in the same period in 2000 due to nine months of SGHC acquisition-related debt expense in the year 2001 period, compared to less than one month of SGHC acquisition-related debt expense and the one-time, non-cash acquisition related financing expense of \$7.5 million recorded in the prior year period.

Income Tax Expense

The Company recorded an income tax benefit of \$0.4 million in the nine months ended September 30, 2001 as compare to a tax expense of \$0.8 million in the same period in 2000. State and foreign taxes were offset by nine months of deferred tax benefit in the year 2001 period, but only partially offset by one month of deferred tax benefit in the nine months of 2000. Deferred tax benefit results from reversal of deferred taxes provided in connection with the September 6, 2000 acquisition of SGHC. No current tax benefit has been recognized on domestic operating losses in either period.

Liquidity, Capital Resources and Working Capital

In order to finance the SGHC acquisition and refinance substantially all of the then existing indebtedness of the Company, we conducted a series of financings in September 2000. As a result, our capital structure changed significantly and, among other things, we are a significantly leveraged company. As a result of the acquisition and debt refinancing, we have total indebtedness outstanding of approximately \$439.2 million at September 30, 2001. We have also recorded a substantial increase in goodwill and other intangible assets in connection with the SGHC acquisition and a corresponding increase in amortization expense.

At September 30, 2001, the Company's available cash and borrowing capacity totaled \$43.3 million compared to \$53.1 million at December 31, 2000. Net cash provided by operating activities was \$41.4 million for the nine months ended September 30, 2001. In this period, we spent \$30.4 million for wagering systems and capital expenditures, \$9.6 million in software and other asset expenditures and repaid \$4.4 million on long-term debt. These cash expenditures were funded primarily by net cash provided by operating activities and increased borrowings under our revolving credit facility.

A significant portion of our cash flows from operations must be used to pay our interest expense and repay our indebtedness, which will reduce the funds that would otherwise be available to us for our operations and capital expenditures. We believe that our cash flow from operations, available cash and available borrowings under our revolving credit facility will be sufficient to meet our liquidity needs, including anticipated capital expenditures, for the foreseeable future; however, we cannot assure you that this will be the case. While we are not aware of any reason to do so, if we need to refinance all or part of our indebtedness, including the Notes, on or before their maturity, we cannot assure you that we will be able to refinance any of our indebtedness, including our Facility and the Notes, on commercially reasonable terms or at all.

The Company's financing arrangements impose certain limitations on the operations of the Company and its subsidiaries, including the maintenance of certain financial, liquidity and net worth ratios. As a result of both the financial performance of SGHC prior to the Company's acquisition of SGHC, principally reflecting transitional and operational matters occurring through December 31, 2000, and the timing of certain anticipated capital expenditures and associated borrowings in 2001, in the first quarter of 2001, management and our lenders amended certain limitations to be less restrictive. Among other changes, the Facility was modified so that the planned step-downs in fixed charge coverage ratios and leverage ratios were delayed by up to nine months through September 30, 2002. The Company is in compliance with the amended covenants as of September 30, 2001 and expects to remain so during the next twelve months.

Forward-Looking Statements

Throughout this Report on Form 10-Q we make "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include the words "may," "will," "estimate," "intend," "continue," "believe," "except" or "anticipate" and other similar words. The forward-looking statements contained

in this Report on Form 10-Q are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. These forward-looking statements generally relate to plans and objectives for future operations and are based upon management's reasonable estimates of future results or trends. Although we believe that the plans and objectives reflected in or suggested by such forward-looking statements are reasonable, such plans or objectives may not be achieved.

Actual results may differ from projected results due, but not limited, to unforeseen developments, including developments relating to the following:

- o the availability and adequacy of our cash flow to satisfy our obligations, including our debt service obligations and our need for additional funds required to support capital improvements and development;
- o economic, competitive, demographic, business and other conditions in our local and regional markets;
- o changes or developments in the laws, regulations or taxes in the gaming and lottery industries;
- o actions taken or omitted to be taken by third parties, including customers, suppliers, competitors, members and shareholders, as well as legislative, regulatory, judicial and other governmental authorities;
- o changes in business strategy, capital improvements, development plans, including those due to environmental remediation concerns, or changes in personnel or their compensation, including federal, state and local minimum wage requirements; and
- o the loss of any license or permit, including the failure to obtain an unconditional renewal of a required gaming license on a timely basis.

Actual future results may be materially different from what we expect. We will not update forward-looking statements even though our situation may change in the future.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our products and services are sold to a diverse group of customers throughout the world. As such, we are subject to certain risks and uncertainties as a result of changes in general economic conditions, sources of supply, competition, foreign exchange rates, tax reform, litigation and regulatory developments. The diversity and breadth of our products and geographic operations mitigate the risk that adverse changes in any event would materially affect our financial position. Additionally, as a result of the diversity of our customer base, we do not consider ourselves exposed to concentration of credit risks. These risks are further minimized by setting credit limits, ongoing monitoring of customer account balances, and assessment of the customers' financial strengths.

Inflation has not had an abnormal or unanticipated effect on our operations. Inflationary pressures would be significant to our business if raw materials used for instant lottery ticket production, prepaid phone card production or terminal manufacturing are significantly affected. Available supply from the paper and electronics industries tends to fluctuate and prices may be affected by supply.

For fiscal 2000, inflation was not a significant factor in our results of operations, and we were not impacted by significant pricing changes in our costs, except for personnel related expenditures. We are unable to forecast the prices or supply of substrate, component parts or other raw materials for the balance of 2001, but we currently do not anticipate any substantial changes that will materially affect our operating results.

In certain limited cases, our lottery contracts with our customers contain provisions to adjust for inflation on an annual basis, but we cannot be assured that this adjustment would cover raw material price increases or other costs of services. While we have long-term and generally satisfactory relationships with most of our suppliers, we also believe alternative sources to meet our raw material and production needs are available.

In the normal course of business, the Company is exposed to fluctuations in interest rates and equity market risks as the Company seeks debt and equity capital to sustain its operations. At September 30, 2001, approximately one-third of the Company's debt was in fixed rate instruments. We consider the fair value of all financial instruments to be not materially different from their carrying value at year-end. The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates.

The table presents principal cash flows and related weighted-average interest rates by expected maturity dates.

Principal Amount by Expected Maturity - Average Interest Rate

September 30, 2001

Expected Maturity Date (Dollars in \$000)

There- 2001 2002
2003 2004 2005 After
Total Fair Value ---

---- Long-term debt:

Fixed interest rate

debt..... \$ 150,000

150,000 147,375

Interest

rate.....

12.5% Variable

interest rate debt..

\$ 2,050 8,950 11,950

14,950 17,200

231,700 286,800

279,630 Average

interest

rate..... 7.44%

7.42% 7.37% 7.34%

7.32% 7.97% 7.85%

In November 2000, to reduce the risks associated with fluctuations in market interest rates and in response to requirements in the Facility (see Note 9 to the Consolidated Financial Statements for the year ended October 31, 2000 in the Company's 2000 Annual Report on Form 10-K) the Company entered into three interest rate swap contracts for an aggregate notional amount of \$140,000. The following table provides information about the Company's derivative financial instruments. The table presents notional amounts and weighted-average swap rates by contractual maturity dates. The Company does not hold any market risk instruments for trading purposes.

Notional Amount by Expected Maturity - Average Swap Rate

Expected Maturity Date (dollars in \$000)

There- 2001 2002 2003
2004 2005 After Total
Fair Value -----

Interest rate swaps:

Fixed to

variable..... \$ --

-- 140,000 -- -- --

140,000 131,948 Receive

fixed-3-month

LIBOR.....

-- -- 6.52% -- -- --

6.52%

The Company is also exposed to fluctuations in foreign currency exchange rates as the financial results of its foreign subsidiaries are translated into U.S. dollars in consolidation. Assets and liabilities outside the United States are primarily located in the United Kingdom, Germany, Netherlands, France and Austria. The Company's investment in foreign subsidiaries with a functional currency other than the U.S. dollar are generally considered long-term investments. Accordingly, the Company does not hedge these net investments. Translation gains and losses historically have not been material. We manage our foreign currency exchange risks on a global basis by one or more of the following: (i) securing payment from our customers in U.S. dollars, when possible, (ii) utilizing borrowings denominated in foreign currency, and (iii) entering into foreign currency exchange contracts. In addition, a significant portion of the cost attributable to our foreign operations is incurred in the local currencies. We believe that a 10% adverse change in currency exchange rates would not have a significant adverse effect on the net earnings or cash flows of the Company. We may, from time to time, enter into foreign currency exchange or other contracts to hedge the risk associated with certain firm sales commitments, anticipated revenue streams and certain assets and liabilities denominated in foreign currencies. We do not engage in currency speculation.

Our cash and cash equivalents and investments are in high-quality securities placed with a wide array of financial institutions with high credit ratings. This investment policy limits our exposure to concentration of credit risks.

Impact Of Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations", ("SFAS 141") and Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") and in August 2001 the FASB issued statement No. 144, "Accounting for the Impairment or Deposal of Long-lived Assets" ("SFAS 144"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after September 30, 2001. SFAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized. Instead, they will be tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144.

The Company is required to adopt the provisions of SFAS 141 immediately, and SFAS 142 and SFAS 144 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a purchase business combination completed after September 30, 2001 will not be amortized, but will be evaluated for impairment in accordance with the appropriate pre-SFAS 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized during the period prior to January 1, 2002.

SFAS 141 requires that upon adoption of SFAS 142, the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment within the first interim period in accordance with SFAS 144. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS 142 and SFAS 144 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To the extent a reporting unit's carrying amount (as defined in SFAS 142) exceeds its fair value, the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations.

The Company expects to have unamortized goodwill in the amount of approximately \$195 million and unamortized identifiable intangible assets in the amount of \$60 million, all of which will be subject to the transition provisions of SFAS 141 and 142. Because of the extensive effort needed to comply with adopting SFAS 141, SFAS 142, and SFAS 144, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized, however, as of the date of adoption, the Company expects that a majority of the amortization of goodwill and purchased intangible assets will not continue in future periods.

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal

obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies", and it applies to all entities. The Company is required to adopt SFAS 143, effective for calendar year 2003. Management does not expect the adoption of SFAS 143 to have a material impact on the future consolidated operations or financial position of the Company, as it is now constituted.

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SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of". However, the Statement retains the fundamental provisions of Statement 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. However, this Statement retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in distribution to owners) or is classified as held for sale. This Statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a temporarily controlled subsidiary.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
Quarter Ended September 30, 2001

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

No significant changes have occurred with respect to legal proceedings as disclosed in Part I, Item 3, of the Company's 2000 Annual Report on Form 10-K.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Stockholders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.29 Employment Agreement effective November 1, 2000 between A. Iorne Weil and Scientific Games Corporation

Reports On Form 8-K

On October 2, 2001, the Company filed a Current Report on Form 8-K for purposes of Regulation FD disclosures. Because the Company changed its fiscal year-end to a calendar year-end, beginning with the year ending December 31, 2001, and acquired a significant subsidiary on September 6, 2000, management believed it would be informative to disclose the calendar year operating results, calendar year pro forma operating results and calendar year pro forma segment operating results so that appropriate comparisons may be made to calendar year 2001 actual operating results.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
Quarter Ended September 30, 2001

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCIENTIFIC GAMES CORPORATION

(Registrant)

By: /s/ DeWayne E. Laird

Name: DeWayne E. Laird

Title: Vice President & Chief Financial Officer
(principal financial and accounting officer)

Dated: November 14, 2001

A. LORNE WEIL EMPLOYMENT AGREEMENT

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EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made as of the 1st day of November, 2000 (the "Effective Date"), by and between SCIENTIFIC GAMES CORPORATION, a Delaware corporation formerly known as Autotote Corporation (the "Company"), and A. Lorne Weil ("Executive").

W I T N E S S E T H :

WHEREAS, Executive has been employed by the Company pursuant to an Employment Agreement dated as of November 1, 1997, as amended by the letter agreement dated September 10, 1998 and the Amendment to Employment Agreement dated as of September 1, 2000 (the "Old Agreement"); and

WHEREAS, the Company desires to continue to employ Executive with the Company, and Executive wishes to continue to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement; and

WHEREAS, the Company and Executive desire that this Agreement replace and supersede the Old Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual benefits to be derived herefrom and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Termination of Existing Employment Agreements. As of the Effective Date, all existing employment agreements between the parties, whether oral or written, including the Old Agreement, are hereby terminated, except as provided in Section 12.

2. Employment; Term. The Company hereby agrees to employ Executive, and Executive hereby accepts continued employment with the Company, in accordance

with and subject to the terms and conditions set forth herein. The term of employment of Executive under this Agreement (the "Term") shall be the period commencing on the Effective Date and ending on December 31, 2004, and any period of extension thereof in accordance with this Section 2, subject to earlier termination in accordance with Section 6. The Term shall be extended automatically without further action by either party by one additional year (added to the end of the Term) first on December 31, 2004 (extending the Term to December 31, 2005) and then on each succeeding December 31 thereafter, unless either party shall have given written notice to the other party prior to the June 30 preceding the date upon which such extension would become effective electing not to further extend the Term, in which case Executive's employment shall terminate on the date upon which such extension would otherwise have become effective, unless earlier terminated in accordance with Section 6; provided, however, that any termination pursuant to this Section 2 shall be subject to and without limitation of or prejudice to Executive's rights with respect to (i) a termination for Good Reason pursuant to Section 6(e)(viii), or (ii) a termination without Cause pursuant to Section 6(g), as applicable.

3. Offices and Duties.

(a) During the Term, Executive shall serve as Chairman of the Board, President and Chief Executive Officer of the Company and shall report solely to the Board of Directors of the Company (the "Board"). Executive agrees to serve during the Term as a member of the Board, and of any Board committee to which the Board may elect him.

(b) Executive shall perform such duties and responsibilities and have such authority as are customary for the chairman of the board, president and chief executive officer of a publicly held corporation of the size, type, and nature of the Company as they may exist from time to time, but in no event shall such duties, responsibilities and authority be reduced from those of Executive at the Effective Date.

(c) Executive shall devote his full business time and attention and best efforts to his positions with the Company without commitment to other business endeavors, except that so long as such activities do not preclude or render unlawful Executive's employment by the Company or otherwise materially inhibit the performance of his duties under this Agreement or materially impair the business of the Company or its subsidiaries, Executive (i) may make personal investments which are not in conflict with his duties to the Company and manage personal and family financial and legal affairs, (ii) may continue to serve on any board of directors on which he is known by the Board to be serving on the Effective Date, as specified in Schedule A hereto, (iii) may undertake public speaking engagements, and (iv) may serve as a director of (or hold a similar position with) any other organization.

(d) Executive shall be the highest-ranking executive of the Company.

4. Compensation.

(a) Base Salary. During the Term the Company shall pay Executive a base salary (the "Base Salary") at the initial rate of \$750,000 per annum, payable biweekly (except to the extent deferred under a deferred compensation plan) and subject to all withholdings that are legally required or are agreed to by Executive. The Base Salary shall be increased annually on each January 1 during the Term by a percentage of the Base Salary then in effect equal to the percentage increase, if any, during the preceding twelve months in the Consumer Price Index for the Greater New York area. In no event shall the Base Salary be reduced.

(b) Incentive Compensation. Executive shall have the opportunity annually to earn incentive compensation in amounts determined by the Compensation Committee of the Board (the "Committee") in accordance with the applicable plan(s) of the Company as in effect from time to time; provided, however, that (i) Executive shall have the opportunity to earn annually up to 100% of the Base Salary as incentive compensation pursuant to, and subject to the terms and conditions of, the Company's Management Incentive Compensation Plan as in effect from time to time (provided, however, that if no Management Incentive Compensation Plan is in effect at any relevant time, or if such plan, as in effect at any relevant time, does not provide a reasonable opportunity for Executive to earn annually up to 100% of the Base Salary as incentive compensation, then the Company shall provide such

reasonable opportunity to Executive independently of such plan, and provided further that Executive may in the discretion of the Committee or the Board receive additional incentive compensation); and (ii) Executive's annual opportunity for incentive compensation shall, for each year, be on terms and conditions at least as favorable to Executive as the most favorable terms and conditions for incentive compensation offered to any other employee of the Company for such year. Any incentive compensation payable to Executive shall be paid in accordance with the Company's usual practices with respect to payment of incentive compensation to its other senior executives (except to the extent deferred under a deferred compensation plan). To accommodate the change in the Company's fiscal year end from October 31 to December 31, the first annual period during the Term for purposes of Executive's incentive compensation shall be the fourteen-month period from the Effective Date through December 31, 2001, and Executive's annual opportunity for incentive compensation based on Base Salary for such first annual period of the Term, ending December 31, 2001, shall be determined with reference to the Base Salary (as determined in accordance with the terms hereof) payable in respect of such fourteen-month period. Notwithstanding anything to the contrary herein or in any plan, policy or program of the Company, any other compensation or benefit to which Executive is entitled that is based on a fiscal year of the Company shall be computed for fiscal year 2001 so that the months of November and December 2000 are included in such computation for the benefit of Executive, except to the extent (if any) that (i) such months previously had been reflected in a computation of such compensation or benefit, or (ii) inclusion of such months would otherwise result in a duplication or overlap of such compensation or benefit or the computation thereof; provided, however, that if, in the case of clause (i) or (ii) above, the amount or value of such compensation or benefit in respect of such months (or portion thereof) as so computed is less than what the amount or value of such compensation or benefit would be for such months (or portion thereof) if such months (or portion thereof) had been included in the computation of such compensation or benefit for fiscal year 2001, then the amount or value of such compensation or benefit for fiscal year 2001 shall be increased by the amount of such difference (it being understood that, for the computation of any compensation or benefit which is based on a comparison between amounts with respect to a given reference period, including, without limitation, for purposes of Section 5(h) of this Agreement, the amounts to be compared shall each be computed for the same reference period).

(c) Executive Compensation Plans. Executive shall be entitled during the Term to participate, without discrimination or duplication, in the Company's supplemental executive retirement plan and all other executive compensation plans and programs which are made generally available by the Company to its other senior executives (including, without limitation, any stock option plans, performance share plans, management incentive plans, deferred compensation plans, and supplemental retirement plans) in accordance with the terms of such plans and programs and subject to the Company's right to at any time amend or terminate any such plan or program; provided, however, that Executive shall be eligible to participate in such executive compensation plans and programs on terms and conditions at least as favorable to Executive as the most favorable terms and conditions offered to any other employee of the Company. In the event of a Change in Control, all outstanding stock options then held by Executive shall become fully vested and non-forfeitable. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred if: the stockholders of the Company approve a merger, consolidation, recapitalization, or reorganization of the Company, or a reverse stock split of any class of voting securities of the Company, or the consummation of any such

transaction if stockholder approval is not obtained (in each case excluding any transaction with Olivetti, S.p.A., Cirmatica Gaming, S.A., Lottomatica S.p.A., or their respective affiliates), other than any such transaction which would result in at least 60% of the total voting power represented by the voting securities of the Company or the surviving entity outstanding immediately after such transaction being beneficially owned by persons who together beneficially owned at least 80% of the combined voting power of the voting securities of the Company outstanding immediately prior to such transaction; provided that, for purposes of this paragraph (c), such continuity of ownership (and preservation of relative voting power) shall be deemed to be satisfied if the failure to meet such 60% threshold is due solely to the acquisition of voting securities by an employee benefit plan of the Company or such surviving entity or of any subsidiary of the Company or such surviving entity.

5. Benefits.

(a) The Company shall reimburse Executive for all reasonable and necessary travel, business entertainment and other business expenses incurred by Executive in connection with the performance of his duties under this Agreement, on a timely basis upon submission by Executive of vouchers therefor in accordance with the Company's standard procedures.

(b) Executive shall be entitled to participate, without discrimination or duplication, in any and all medical insurance, group health, disability, life, accidental death, dismemberment insurance, pension, retirement, profit sharing, stock ownership and other insurance, benefit, fringe benefits and perquisite plans and programs which are made generally available by the Company to its other senior executives; provided, however, that Executive shall be eligible to participate in such insurance, benefit, fringe benefit and perquisite plans and programs on terms and conditions at least as favorable to Executive as the most favorable terms and conditions offered to any other employee of the Company. The Company, in its sole discretion, may at any time amend or terminate any such plans or programs; provided, however, that:

(i) At all times during the Term, such plans and programs in effect, in the aggregate, shall provide Executive with benefits and compensation substantially no less favorable than is provided by the Company to Executive under such plans and programs as of the Effective Date;

(ii) The Company shall provide Executive with long-term disability insurance and benefits substantially no less favorable (including any required contributions by Executive) than such insurance and benefits in effect on the Effective Date; and

(iii) The Company shall provide Executive with Company-paid group and individual term life insurance providing a death benefit no less than that provided under Company-paid insurance in effect on the Effective Date.

(c) If the Company adopts an equity investment program permitting executives to elect to forego salary, annual incentive, other bonuses, annual option opportunities under long-term incentive plans, or other specified compensation or benefits in exchange for a

grant of stock options, restricted stock or other equity or non-equity awards or benefits, Executive will be eligible to participate in such program on terms no less favorable than the terms of participation of any other employee of the Company.

(d) Executive shall be entitled to participate in the Company's deferred compensation plan in accordance with the terms of such plan and subject to the Company's right to at any time amend or terminate any such plan.

(e) Executive shall be entitled to paid vacation, holidays, and any other time off in accordance with the Company's policies in effect from time to time.

(f) The Company will use its best efforts to file with the Securities and Exchange Commission and thereafter maintain the effectiveness of one or more registration statements registering under the Securities Act of 1933, as amended, the offer and sale of shares by the Company to Executive pursuant to stock options or other equity-based awards granted to Executive under Company plans.

(g) Executive shall be deemed to have commenced employment with the Company on August 1, 1990, for purposes of calculating Executive's period of service under this Agreement except to the extent, if any, that any provision of this Agreement specifically credits Executive with a longer period of service for purposes of such provision.

(h) For purposes of computing the "Retirement Benefit" or equivalent payment or benefit due to Executive under any SERP (as defined in Section 7(a) below) in which Executive participates during the Term, or any payment or benefit under Section 7 of this Agreement in lieu of any SERP benefit or payment, the "Final Average Compensation" or equivalent reference compensation amount, in the case of Executive, shall, notwithstanding the terms of such SERP, be the higher of (x) such amount as otherwise determined pursuant to the terms of the SERP or (y) an amount equal to the sum of (i) Executive's then-current Base Salary immediately prior to termination plus (ii) such then-current Base Salary multiplied by (A) the sum of the Incentive Compensation Percentages for each of the Reference Years divided by (B) 3; where (X) "Incentive Compensation Percentage" for a Reference Year means the percentage expressed by dividing the aggregate incentive compensation and bonuses paid to Executive in such Reference Year by Executive's Base Salary in such Reference Year, and (Y) "Reference Year" means each of the three consecutive calendar years with the highest Incentive Compensation Percentages during the period of ten calendar years immediately preceding termination.

6. Termination. Executive's employment hereunder may be terminated prior to the end of the Term under the following circumstances:

(a) Death; Total Disability. Executive's employment hereunder shall terminate upon Executive's death, and the Company may terminate Executive's employment hereunder in the event of Executive's "Total Disability." For purposes of this Agreement, "Total Disability" shall mean Executive's failure to perform the duties and responsibilities contemplated under this Agreement for a period of more than 180 days during any consecutive 12-month period, due to physical or mental incapacity or impairment as determined by a

physician or physicians selected by the Company and reasonably acceptable to Executive unless, within 30 days after Executive has received written notice from the Company of a proposed termination due to such failure (as determined in accordance with the foregoing provisions of this sentence) which notice shall include a copy of the findings of such physician or physicians and shall refer to this Section 6(a), Executive shall have returned to the full performance of his duties hereunder and shall have presented to the Company a written certificate of Executive's good health by a physician selected by Executive and reasonably acceptable to the Company.

(b) Retirement. Executive may terminate his employment hereunder upon retirement at or after age 65 or at or after age 55 following at least 10 years of full-time employment with the Company ("Normal Retirement") or prior to such age upon approval by the Committee ("Approved Early Retirement"), in each case upon forty-five (45) days' prior written notice to the Company referring to this Section 6(b).

(c) Termination by the Company for Cause. The Company may terminate Executive's employment hereunder for Cause at any time upon written notice to Executive referring to this Section 6(c). For purposes of this Agreement, the term "Cause" shall mean Executive's gross misconduct (as defined herein) or willful and material breach of Section 10.1(a) (other than the first sentence thereof), 10.1(b), 10.2 (other than the first and penultimate sentences thereof), 10.3, 10.4, or 10.8. For purposes of this definition, "gross misconduct" shall mean (i) Executive's conviction in a court of law of a felony under applicable federal or state law that was committed while Executive was employed by the Company, or (ii) Executive's willful and continued failure substantially to perform his material duties under this Agreement or any act or omission on the part of Executive not requested or approved by the Board constituting willful malfeasance or gross negligence in the performance of Executive's material duties under this Agreement. For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith and shall not include any act or failure to act resulting from any physical or mental incapacity or impairment of Executive. Executive may not be terminated for Cause unless and until there shall have been delivered to him, within ninety (90) days after the Board (A) had actual knowledge of conduct or an event allegedly constituting Cause and (B) had reason to believe that such conduct or event could be grounds for termination for Cause, a copy of a resolution duly adopted by the Board by a vote of Directors constituting a majority of the Board (excluding Executive) at a meeting of the Board which a quorum is present and which is called and held for such purpose (after giving Executive reasonable notice of the specific grounds for such termination and, except if a felony conviction is the grounds for termination, 30 days to correct such grounds, and affording Executive and his counsel the opportunity to be heard before the Board) finding that, in the good faith opinion of the Board, Executive was guilty of conduct constituting Cause (the "Cause Resolution").

If, within 30 days of Executive's receipt of notice of his termination for Cause, Executive in good faith files a claim in arbitration disputing the termination for Cause, Executive shall, during the pendency of the arbitration, be considered a suspended employee of the Company and be entitled to receive compensation and benefits under this Agreement as if he had not been terminated. If the arbitration panel finds that the Company had Cause to terminate Executive's employment, Executive shall, within 5 days of the arbitration award, repay any amounts provided to him by the Company in respect of periods commencing after his

termination, including but not limited to salary continuation and the value of all benefits provided to Executive in respect of periods commencing after his termination, in excess of any amounts to which he was entitled under this Agreement upon a termination for Cause. If the arbitration panel finds that the Company did not have Cause to terminate Executive's employment: (x) Executive's employment shall be deemed to have been terminated without Cause as of the date which is 90 days after the date of notice of his termination for Cause; and (y) any amounts paid to Executive by the Company in respect of periods commencing after 90 days following the date of the notice of his termination for Cause, including but not limited to salary continuation and the value of all benefits provided to Executive, shall be credited against amounts owed to Executive under Section 7(c) of this Agreement.

(d) Termination by the Company Without Cause. The Company may terminate Executive's employment hereunder at any time, without Cause, for any reason or no reason.

(e) Termination by Executive for Good Reason. Executive may terminate his employment hereunder for Good Reason. For purposes of this Agreement, "Good Reason" shall mean: without Executive's prior written consent, (i) a material change, adverse to Executive, in Executive's positions, titles or offices as set forth in Section 3, or status rank, nature of responsibilities, or authority within the Company, or removal of Executive from, or failure to nominate, reappoint or reelect Executive as the Chairman of the Board, or as a member of any Board committee on which he has served during the Term (except if required by a change in law, accounting rule, or the rules of any national securities exchange or automated quotation system on which the Company's securities may be listed or quoted), including a failure of the Board or stockholders to take such actions (notwithstanding their legal right to do so), except, in such case, in connection with the termination of Executive's employment for Cause, Total Disability, Normal Retirement or Approved Early Retirement, or death, (ii) an assignment of any significant duties to Executive which are inconsistent with his positions or offices held under Section 3, (iii) a decrease in Base Salary or other compensation or in any compensation opportunities or a material decrease in the aggregate benefits provided under this Agreement, (iv) any other failure by the Company to perform any material obligation under, or breach by the Company of any material provision of, this Agreement, (v) a relocation of the Corporate Offices of the Company more than 35 miles from the latest location of such offices prior to such relocation, (vi) any failure to secure the agreement of any successor corporation or other entity to the Company to fully assume the Company's obligations under this Agreement in a form reasonably acceptable to Executive, (vii) any attempt by the Company to terminate Executive for Cause which does not result in a valid termination for Cause, except where (x) valid grounds for Cause exist but are corrected as permitted under Section 6(c) or (y) the Company, prior to 35 days after Executive's receipt of a copy of the Cause Resolution, revokes the Cause Resolution, takes any and all other steps reasonably necessary to retract its allegations of Cause and fully restore Executive to active employment in accordance with the terms of this Agreement, effective immediately prior to the adoption of the Cause Resolution, and pays (or reimburses Executive for) any costs and expenses reasonably incurred by Executive in connection with such attempted termination, and (viii) the failure of the parties to agree in writing at the end of the Term (or any extension thereof) to the terms of Executive's continued employment where only Executive, and not the Company, has given notice electing not to further extend the Term pursuant to the last sentence of Section 2; provided, however, that in the case of termination

pursuant to this clause (viii), the payment provided for in Section 7(c)(i) shall be in a total amount equal to two times, rather than three times, the sum of items (x) and (y) specified therein, but Section 7(c) shall apply in all other respects to termination pursuant to this clause (viii). Executive shall not be considered to have terminated for Good Reason unless Executive shall have provided the Company with written notice of the specific reasons for such termination within ninety (90) days after he has actual knowledge of the event that is the basis for such termination and (except in the case of a termination pursuant to clause (vii) or (viii) of the preceding sentence) affords the Company at least thirty (30) days to cure the alleged conduct.

(f) Termination by Executive for Other than Good Reason. Executive may terminate his employment hereunder for any reason or no reason upon thirty (30) days' prior written notice to the Company referring to this Section 6(f); provided, however, that a termination of Executive's employment by reason of death, Total Disability, Normal or Early Retirement, or Good Reason shall not constitute a termination by Executive for other than Good Reason pursuant to this Section 6(f).

(g) Termination Upon the Company's Failure to Extend the Term. An election by the Company not to extend the Term pursuant to Section 2 hereof shall be deemed for all purposes of this Agreement (including, without limitation, for purposes of Sections 7(c) and 10.1(a) hereof) to be a termination of Executive's employment hereunder by the Company without Cause as of the date of expiration of the Term.

7. Compensation Following Termination Prior to the End of the Term. In the event that Executive's employment hereunder is terminated prior to the end of the Term, Executive shall be entitled only to the following compensation and benefits:

(a) Termination by Reason of Death, Normal Retirement, or Approved Early Retirement. In the event that Executive's employment is terminated prior to the expiration of the Term by reason of Executive's death, pursuant to Section 6(a), or by reason of his Normal Retirement or Approved Early Retirement pursuant to Section 6(b), the Company shall pay the following amounts, and make the following other benefits available, to Executive (or Executive's spouse or estate, as the case may be):

(i) Any accrued but unpaid Base Salary (as determined pursuant to Section 4(a)) for services rendered to the date of termination;

(ii) All vested, nonforfeitable amounts owing or accrued at the date of termination under any compensation and benefit plans, programs, and arrangements set forth or referred to in Sections 4(b), 4(c), and 5 (including any earned and vested annual incentive compensation and long term incentive award but excluding any incentive compensation under Section 4(b) for the year of termination) in which Executive theretofore participated, to be paid in accordance with the terms and conditions of such plans, programs, and arrangements (and agreements and documents thereunder);

(iii) In lieu of any incentive compensation under Section 4(b) for the year of termination, an amount equal to the amount of annual incentive compensation payable to Executive assuming achievement of the maximum performance targets for such year,

multiplied by a fraction the numerator of which is the number of days Executive was employed in the year of termination and the denominator of which is the total number of days in the year of termination;

(iv) Stock options held by Executive at termination, if not then vested and exercisable, will become fully vested and exercisable at the date of such termination, and any such options which were granted on or after November 1, 1997 (that is, the Effective Date of the Old Agreement) shall remain exercisable until the earlier of three years after the date of such termination or the scheduled expiration date, and, in other respects, all such options shall be governed by the plans and programs and the agreements and other documents pursuant to which such options were granted;

(v) All deferred stock awards, and all deferral arrangements under any deferred compensation plan, will be settled in accordance with the plans and programs under which the awards were granted or governing the deferral including, if so permitted by the plans or programs, Executive's duly executed deferral election forms or the terms of any mandatory deferral;

(vi) Reasonable business expenses and disbursements incurred by Executive prior to such termination will be reimbursed in accordance with Section 5(a);

(vii) If Executive's employment terminates due to his Normal Retirement or Approved Early Retirement, Executive may elect continued participation after termination in the Company's health and medical coverage for himself and his spouse and dependent children after such coverage would otherwise end until such time as Executive becomes eligible for Medicare; provided, however, that in the event of such election, Executive shall pay the Company each year an amount equal to the then-current annual COBRA premium being paid (or payable) by any other former employee of the Company;

(viii) Executive shall be entitled to designate (and change, to the extent permitted under applicable law) a beneficiary or beneficiaries to receive any compensation or benefits payable hereunder following Executive's death;

(ix) In lieu of any payments and benefits under any supplemental executive retirement plan or substantially similar plan (a "SERP") in which Executive participated during the Term, Executive shall be entitled to receive the greater of: (y) all payments and benefits to which Executive otherwise would have been entitled under the SERP (computed in accordance with Section 5(h) hereof); and (z) all payments and benefits to which Executive otherwise would have been entitled under the SERP (computed in accordance with Section 5(h) hereof) if Executive had 15 years of service with the Company. Such payments and benefits shall be payable in a lump sum or in equal installments, as determined by Executive in his discretion, in accordance with the terms and conditions of the SERP; provided, however, that Executive shall not be entitled to receive payments in installments unless at least 12 months prior to the date of the termination of his employment, he elected to receive payments in installment form under the SERP. If Executive receives such payment(s) under this Section 7(a)(ix), Executive shall forfeit all rights under the SERP, and the SERP shall have no force and effect with respect to Executive;

Provided, however, that Executive will be entitled to the benefit of any terms of plans or agreements applicable to Executive which are more favorable than those specified in this Section 7(a).

Amounts payable under (i), (ii), (iii), and (vi) above will be paid as promptly as practicable after termination of Executive's employment; provided, however, that, to the extent that the Company would not be entitled to deduct any such payments (other than those under (i) above) under Internal Revenue Code Section 162(m), such payments shall be made at the earliest time that the payments would be deductible by the Company without limitation under Section 162 (m) (unless this provision is waived by the Company).

(b) Termination by the Company for Cause; Termination by Executive for Other than Good Reason. In the event that Executive's employment is terminated by the Company for Cause pursuant to Section 6(c) or by Executive for other than Good Reason pursuant to Section 6(f), the Company shall pay the following amounts, and make the following other benefits available, to Executive:

(i) Any accrued but unpaid Base Salary (as determined pursuant to Section 4(a)) for services rendered to the date of termination;

(ii) All vested nonforfeitable amounts owing or accrued at the date of termination under any compensation and benefit plans, programs, and arrangements set forth or referred to in Sections 4(b), 4(c), and 5 hereof (including any earned and vested annual incentive compensation) in which Executive theretofore participated will be paid under the terms and conditions of such plans, programs, and arrangements (and agreements and documents thereunder);

(iii) Except as provided in Section 10.6, all stock options and deferred stock awards will be governed by the terms of the plans and programs under which the options or awards were granted;

(iv) Non-forfeitable amounts credited to any deferral account of Executive under deferral arrangements referred to in Section 5(d) hereof at the date of termination will be settled in accordance with the plans and programs under which the awards were granted or governing the deferral including, if so permitted by the plans or programs, Executive's duly executed deferral election forms or the terms of any mandatory deferral; and

(v) Reasonable business expenses and disbursements incurred by Executive prior to such termination will be reimbursed, in accordance with Section 5(a).

Amounts payable under (i), (ii), and (v) above will be paid as promptly as practicable after termination of Executive's employment; provided, however, that, to the extent that the Company would not be entitled to deduct any such payments under Internal Revenue Code Section 162(m), such payments shall be made at the earliest time that the payments would be deductible by the Company without limitation under Section 162(m) (unless this provision is waived by the Company).

(c) Termination by Reason of Total Disability; Termination by the Company Without Cause; Termination by Executive For Good Reason. In the event that Executive's employment is terminated by reason of Total Disability pursuant to Section 6(a), or by the Company without Cause pursuant to Section 6(d) or 6(g), or by Executive for Good Reason pursuant to Section 6(e), the Company shall pay the following amounts, and make the following other benefits available, to Executive:

(i) A lump sum cash payment in an amount equal (except as provided in clause (viii) of Section 6(e)) to three times the sum of (x) Executive's then-current Base Salary at the rate payable in accordance with Section 4(a) hereof, at the date of termination plus (y) the Severance Annual Incentive Amount (as defined below), will be paid to Executive; provided, however, that Executive may elect to receive the amount payable under this Section 7(c)(i) in equal monthly installments over the 36 months following termination, without interest, in lieu of receiving a lump sum cash payment. For purposes of this Section 7(c)(i) and Section 7(c)(iv), the "Severance Annual Incentive Amount" shall be the greater of (1) the average annual incentive compensation paid to Executive for the three years immediately preceding the year of termination or (2) the annual incentive compensation payable to Executive upon achievement of the maximum performance targets for the year of termination;

(ii) The unpaid portion of Base Salary at the rate payable, in accordance with Section 4(a) hereof, at the date of termination, pro rated through such date of termination, will be paid;

(iii) All vested, nonforfeitable amounts owing or accrued at the date of termination under any compensation and benefit plans, programs, and arrangements set forth or referred to in Sections 4(b) and 5(a) and 5(c) hereof (including any earned and vested annual incentive compensation) in which Executive theretofore participated will be paid under the terms and conditions of such plans, programs, and arrangements (and agreements and documents thereunder);

(iv) In lieu of any annual incentive compensation under Section 4(b) for the year in which Executive's employment terminated (unless otherwise payable under (iii) above), Executive will be paid an amount equal to (X) the Severance Annual Incentive Amount as defined in Section 7(c)(i), multiplied by (Y) a fraction the numerator of which is the number of days Executive was employed in the year of termination and the denominator of which is the total number of days in the year of termination;

(v) Stock options held by Executive at termination, if not then vested and exercisable, will become fully vested and exercisable at the date of such termination, and any such options which were granted on or after November 1, 1997 or, if previously granted, were not "in the money" as of November 1, 1997 shall remain exercisable until the scheduled expiration date, and, in other respects, all such options shall be governed by the plans and programs and the agreements and other documents pursuant to which such options were granted;

(vi) Deferred stock held by Executive at termination will become fully vested and non-forfeitable, and shall be settled upon such termination, without regard to any stated period of deferral otherwise remaining in respect of such amounts;

(vii) Executive shall be entitled to receive an amount equal to the amount accrued under any deferred compensation plan or agreement in effect at the date of termination in which Executive is a participant or party, less required withholding taxes under Section 9, as promptly as practicable following such date of termination; the amount paid under this Section 7(c)(vii) shall be equal to Executive's account balance on the date of the termination of Executive's employment if the deferred compensation amount is in the form of an account balance or, if the deferred compensation amount is not in the form of an account balance, the present value of the deferred compensation on the date of the termination of Executive's employment, calculated using a discount rate (the "Discount Rate") equal to the yield, at the time of determination, for U.S. Treasury securities having a maturity of thirty years; if Executive elects to receive payment under this Section 7(c)(vii), Executive shall forfeit all rights under any such deferred compensation plan or agreement, and such deferred compensation plan or agreement shall have no force and effect with respect to Executive;

(viii) Reasonable business expenses and disbursements incurred by Executive prior to such termination will be reimbursed, in accordance with Section 5(a);

(ix) For (A) a period of 3 years after such termination other than due to Total Disability or (B) the period from termination due to Total Disability until Executive attains age 65, Executive shall continue to participate in all employee and executive benefit plans, programs, and arrangements under Section 5 providing health, medical, disability and life insurance benefits in which Executive was participating immediately prior to termination, the terms of which allow Executive's continued participation, as if Executive had continued in employment with the Company during such period or, if such plans, programs, or arrangements do not allow Executive's continued participation, Executive shall receive a cash payment equivalent on an after-tax basis to the value of the additional benefits Executive would have received under such plans, programs, and arrangements in which Executive was participating immediately prior to termination, as if Executive had received credit under such plans, programs, and arrangements for service and age with the Company during such period following Executive's termination as provided in clause (A) or (B) above (as applicable), with such benefits payable by the Company at the same times and in the same manner as such benefits would have been received by Executive under such plans (it being understood that the value of any insurance-provided benefits will be based on the premium cost to Executive, which shall not exceed the highest risk premium charged by a carrier having an investment grade or better credit rating);

(x) In lieu of any payments and benefits under any SERP in which Executive participated during the Term, Executive shall be entitled to receive the greater of: (y) all payments and benefits to which Executive otherwise would have been entitled under the SERP (computed in accordance with Section 5(h) hereof); and (z) all payments and benefits to which Executive otherwise would have been entitled under the SERP if Executive had 15 years of service with the Company (computed in accordance with Section 5(h) hereof). Such payments and benefits shall be payable in a lump sum or in equal installments, as determined by Executive in his discretion, in accordance with the terms and conditions of the SERP; provided, however, that Executive shall not be entitled to receive payments in installments unless at least 12 months prior to the date of the termination of his employment, he elected to receive payments in installment form under the SERP; if Executive receives such payment(s) under this Section

7(c)(x), Executive shall forfeit all rights under the SERP, and the SERP shall have no force and effect with respect to Executive;

Provided, however, that if the Company terminates Executive's employment without Cause and does not provide Executive with at least 90 days' prior written notice of such termination, the date of Executive's termination for all purposes of this Agreement except Section 7(c)(viii) shall be the 90th day after Executive received written notice from the Company of the termination; and

Provided further that Executive will be entitled to the benefit of any terms of plans or agreements applicable to Executive which are more favorable than those specified in this Section 7(c). Except as otherwise expressly provided above, amounts payable under this Section 7(c), will be paid as promptly as practicable after termination of Executive's employment, and in no event more than 30 days after such termination.

Notwithstanding the foregoing, if a reduction in Base Salary or other level of compensation or benefit was a basis for Executive's termination for Good Reason, the Base Salary or other level of compensation in effect before such reduction shall be used to calculate payments or benefits under this Section 7(c).

(d) No Obligation to Mitigate. Executive shall not be required to seek other employment or otherwise to mitigate Executive's damages upon any termination of employment; provided, however, that, to the extent Executive receives from a subsequent employer health or other insurance benefits substantially similar to the benefits referred to in Section 5, any such benefits to be provided by the Company to Executive following the Term shall be correspondingly reduced.

(e) No Other Benefits or Compensation. Except as may be provided under this Agreement, under any other written agreement between Executive and the Company, or under the terms of any plan or policy applicable to Executive, Executive shall have no right to receive any other compensation from the Company, or to participate in any other plan, arrangement or benefit provided by the Company, with respect to any future period after such termination or resignation.

(f) Release of Employment Claims. Executive agrees, as a condition to receipt of any termination payments and benefits provided for in Section 7 (other than compensation and benefits earned through the date of termination), that he will execute a general release agreement, in a form reasonably satisfactory to the Company, releasing any and all claims arising out of Executive's employment (other than enforcement of this Agreement)

8. Excise Tax Restoration Payment. Notwithstanding anything to the contrary in this Agreement, in the event that any payment or distribution of any type to or for the benefit of Executive made by the Company, by any of its affiliates, by any person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of section 280G of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the "Code")) or by any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of an employment agreement or otherwise (the

"Total Payments"), would be subject to the excise tax imposed by section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest or penalties, are collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (an "Excise Tax Restoration Payment") in an amount that shall fund the payment by Executive of any Excise Tax on the Total Payments as well as all income taxes imposed on the Excise Tax Restoration Payment, any Excise Tax imposed on the Excise Tax Restoration Payment and any interest or penalties imposed with respect to taxes on the Excise Tax Restoration or any Excise Tax.

9. Offsets; Withholding. Amounts required to be paid by the Company to Executive pursuant to this Agreement shall not be subject to offset except for any amounts that are owed to the Company by Executive due to his receipt of funds as a result of his fraudulent activity. The foregoing and other provisions of this Agreement notwithstanding (but without limiting the terms of Section 8), all payments to be made to Executive under this Agreement, including under Section 7, or otherwise by the Company will be subject to required withholding taxes and other legally required deductions.

10. Noncompetition; Nonsolicitation; Nondisclosure; etc.

10.1 Noncompetition; Nonsolicitation.

(a) Executive acknowledges the highly competitive nature of the Company's business and that access to the Company's confidential records and proprietary information renders him special and unique within the Company's industry. In consideration of the amounts that may hereafter be paid to Executive pursuant to this Agreement (including, without limitation, Sections 4 and 7), Executive agrees that during the Term (and any extensions thereof) and during the Covered Time (as defined in Section 10.1(e)), Executive, alone or with others, will not, directly or indirectly, engage (as owner, investor, partner, stockholder, employer, employee, consultant, advisor, director or otherwise) in any business in which he has been directly engaged on behalf of the Company, or which he has supervised as an executive thereof, during the last two years prior to such termination, or was engaged in by the Company with Executive's actual knowledge or planned by the Company with Executive's actual knowledge at the time of such termination, in any geographic area in which such business was conducted or planned to be conducted (a "Competing Business"); provided, however, that this Section 10.1(a) shall not restrict Executive from engaging in (and the term "Competing Business" shall not include) any business in which the Company no longer engages or plans to engage; provided further that this Section 10.1(a) shall not apply if Executive terminates his employment for Good Reason pursuant to clause (i), (ii), (iii), (iv), (v), (vi), or (vii) of Section 6(e) or if Executive's employment is terminated by the Company without Cause; and provided further that activities of the Company, or activities engaged in by Executive for or on behalf of the Company, are not restricted by this Section 10.1(a) and shall not constitute a "Competing Business." Ownership of (i) the securities of any entity for which a Competing Business represents less than 10% of net sales or net income (as determined in accordance with generally accepted accounting principles) for the most recent fiscal year (or if such entity has not completed a fiscal year, net sales or net income projected for its first fiscal year) or (ii) not more than two percent of the equity securities of any company having securities listed on an exchange or regularly traded in the over-the-counter market shall not, of itself, be deemed inconsistent with this Section 10.1(a).

Nothing herein shall require Executive to sell or otherwise dispose of any securities of any entity if the acquisition of such securities did not violate the terms of this Section 10.1(a) at the time of such acquisition.

(b) In further consideration of the amounts that may hereafter be paid to Executive pursuant to this Agreement (including, without limitation, Sections 4, 5, and 7), Executive agrees that during the Term (including any extensions thereof) and during the Covered Time he shall not, directly or indirectly, (i) solicit or attempt to induce any of the employees, agents, consultants or representatives of the Company to terminate his, her, or its relationship with the Company; (ii) solicit or attempt to induce any of the employees, agents, consultants or representatives of the Company to become employees, agents, consultants or representatives of any other person or entity; (iii) solicit or attempt to induce any customer, vendor or distributor of the Company to curtail or cancel any business with the Company; or (iv) hire any person who, to Executive's actual knowledge, is, or was within 180 days prior to such hiring, an employee of the Company.

(c) During the Term (including any extensions thereof) and during the Covered Time, Executive agrees that upon the earlier of Executive's (i) negotiating with any Competitor (as defined below) concerning the possible employment of Executive by the Competitor, (ii) responding to (other than for the purpose of declining) an offer of employment from a Competitor, or (iii) becoming employed by a Competitor, (x) Executive will provide copies of Section 10 of this Agreement to the Competitor, and (y) in the case of any circumstance described in (i) or (ii) above occurring during the Covered Time, and in the case of any circumstance described in (iii) above occurring during the Term or during the Covered Time, Executive will promptly provide notice to the Company of such circumstances. Executive further agrees that the Company may provide notice to a Competitor of Executive's obligations under this Agreement. For purposes of this Agreement, "Competitor" shall mean any entity (other than the Company) that engages, directly or indirectly, in the United States in any Competing Business.

(d) Executive understands that the restrictions in this Section 10.1 may limit his ability to earn a livelihood in a business similar to the business of the Company but nevertheless agrees and acknowledges that the consideration provided under this Agreement (including, without limitation, Sections 4, 5, and 7) is sufficient to justify such restrictions. In consideration thereof and in light of Executive's education, skills and abilities, Executive agrees that he will not assert in any forum that such restrictions prevent him from earning a living or otherwise should be held void or unenforceable.

(e) For purposes of this Section 10.1, "Covered Time" shall mean the period beginning on the date of termination of Executive's employment (the "Date of Termination") and ending twenty-four months after the Date of Termination; provided, however, that if Executive terminates his employment for Good Reason pursuant to clause (viii) of Section 6(e), "Covered Time" shall mean for purposes of Section 10.1(a) the period beginning on the Date of Termination and ending six months after the Date of Termination.

10.2 Proprietary Information. Executive acknowledges that during the course of his employment with the Company he will necessarily have access to and make use of

proprietary information and confidential records of the Company. Executive covenants that he shall not during the Term or at any time thereafter, directly or indirectly, use for his own purpose or for the benefit of any person or entity other than the Company, nor otherwise disclose to any individual or entity, any such proprietary information, unless such disclosure has been authorized in writing by the Company or is otherwise required by law. The term "proprietary information" means: (a) the software products, programs, applications, and processes utilized by the Company; (b) the name and/or address of any customer or vendor of the Company or any information concerning the transactions or relations of any customer or vendor of the Company with the Company; (c) any information concerning any product, technology, or procedure employed by the Company but not generally known to its customers or vendors or competitors, or under development by or being tested by the Company but not at the time offered generally to customers or vendors; (d) any information relating to the Company's computer software, computer systems, pricing or marketing methods, sales margins, cost of goods, cost of material, capital structure, operating results, borrowing arrangements or business plans; (e) any information identified as confidential or proprietary in any line of business engaged in by the Company; (f) any information that, to Executive's actual knowledge, the Company ordinarily maintains as confidential or proprietary; (g) any business plans, budgets, advertising or marketing plans; (h) any information contained in any of the Company's written or oral policies and procedures or manuals; (i) any information belonging to customers, vendors or any other person or entity which the Company, to Executive's actual knowledge, has agreed to hold in confidence; (j) any inventions, innovations or improvements covered by this Agreement; and (k) all written, graphic, electronic data and other material containing any of the foregoing. Executive acknowledges that information that is not novel or copyrighted or patented may nonetheless be proprietary information. The term "proprietary information" shall not include information generally known or available to the public or generally known or available to the industry or information that becomes available to Executive on a non-confidential basis from a source other than the Company or its directors, officers, employees, or agents (without breach of any obligation of confidentiality of which Executive has actual knowledge at the time of the relevant disclosure by Executive.)

10.3 Confidentiality and Surrender of Records. Executive shall not during the Term or at any time thereafter (irrespective of the circumstances under which Executive's employment by the Company terminates), except as required by law, directly or indirectly publish, make known or in any fashion disclose any confidential records to, or permit any inspection or copying of confidential records by, any individual or entity other than in the course of such individual's or entity's employment or retention by the Company, nor shall he retain, and will deliver promptly to the Company, any of the same following termination of his employment hereunder for any reason or upon request by the Company. For purposes hereof, "confidential records" means those portions of correspondence, memoranda, files, manuals, books, lists, financial, operating or marketing records, magnetic tape, or electronic or other media or equipment of any kind in Executive's possession or under his control or accessible to him which contain any proprietary information. All confidential records shall be and remain the sole property of the Company during the Term and thereafter.

10.4 Nondisparagement. Executive shall not, during the Term and thereafter, disparage in any material respect the Company, any affiliate of the Company, any of their respective businesses, any of their respective officers, directors or employees, or the reputation

of any of the foregoing persons or entities. Notwithstanding the foregoing, nothing in this Agreement shall preclude Executive from making truthful statements that are required by applicable law, regulation or legal process or are reasonably required to describe the conduct, decisions, or policies of the Company or any of its affiliates, or their respective businesses, officers, directors or employees.

10.5 No Other Obligations. Executive represents that he is not precluded or limited in his ability to undertake or perform the duties described herein by any contract, agreement or restrictive covenant. Executive covenants that he shall not employ the trade secrets or proprietary information of any other person in connection with his employment by the Company without such person's authorization.

10.6 Forfeiture of Outstanding Options. The provisions of Section 7 notwithstanding, if Executive willfully and materially fails to comply with any restrictive covenant under Section 10.1(a) (other than the first sentence thereof), 10.1(b), 10.2 (other than the first and penultimate sentences thereof), 10.3, 10.4, or 10.8, all options to purchase Common Stock granted by the Company and then held by Executive or a transferee of Executive shall be immediately forfeited and thereupon such options shall be cancelled. Notwithstanding the foregoing, Executive shall not forfeit any option (i) unless there shall have been delivered to him, within ninety (90) days after the Board (A) had knowledge of conduct or an event allegedly constituting grounds for such forfeiture and (B) had reason to believe that such conduct or event could be grounds for such forfeiture, a copy of a resolution duly adopted by the Board by a vote of Directors constituting a majority of the Board (excluding Executive) at a meeting of the Board in which a quorum is present and which is called and held for such purpose (after giving Executive reasonable notice specifying the nature of the grounds for such forfeiture and not less than 30 days to correct such grounds and affording Executive and his counsel the opportunity to be heard before the Board) finding that, in the good faith opinion of the Board, Executive has engaged and continues to engage in conduct set forth in this Section 10.6 which constitutes grounds for forfeiture of Executive's options; and (ii) if, within 30 days following his receipt of such resolution, Executive commences an arbitration proceeding in accordance with Section 18.2 disputing such grounds, in which case such forfeiture shall be tolled pending the resolution of Executive's claim and shall not occur if the arbitration panel finds that the Company is not entitled to cause the forfeiture.

If the arbitration panel finds that the Company is entitled to cause the forfeiture of Executive's options, Executive shall be required to forfeit such options immediately. If any option is exercised after delivery of the Board's notice of forfeiture and if such forfeiture subsequently occurs pursuant to the foregoing terms of this Section 10.6, Executive shall be required to return to the Company all shares acquired upon such exercise; provided further that if Executive has sold any shares he acquired upon such exercise, Executive shall pay to the Company an amount equal to the difference between the aggregate sale price of the shares sold and the aggregate exercise price paid by Executive for such shares. Any such forfeiture shall apply to such options notwithstanding any term or provision of any option agreement. If the Board or the arbitration panel finds that the Company is not entitled to cause a forfeiture for which a notice is given to Executive, the Company shall pay (or reimburse, if already paid by Executive) all expenses actually incurred by Executive in connection with such attempted forfeiture.

10.7 Enforcement. Executive acknowledges and agrees that, by virtue of his position, services and access to and use of confidential records and proprietary information, any violation by him of any of the undertakings contained in this Section 10 would cause the Company immediate, substantial and irreparable injury for which it has no adequate remedy at law. Accordingly, Executive agrees and consents to the entry of an injunction or other equitable relief by a court of competent jurisdiction restraining any violation or threatened violation of any undertaking contained in this Section 10. The Company agrees and consents to the entry of an injunction or other equitable relief by a court of competent jurisdiction restraining the Company from making any defamatory statements, whether orally or in writing, relating to alleged violations or threatened violations by Executive of any undertaking contained in this Section 10. Executive and the Company each waive posting of any bond otherwise necessary to secure such injunction or other equitable relief. Rights and remedies provided for in this Section 10 are cumulative and shall be in addition to rights and remedies otherwise available to the parties hereunder or under any other agreement or applicable law. Subject to Section 18.3, the Company shall bear all costs and expenses arising in connection with any enforcement pursuant to this Section 10.7.

10.8 Cooperation with Regard to Litigation. Except to the extent that Executive has or intends to assert in good faith an interest or position adverse to or inconsistent with the interest or position of the Company, Executive agrees to cooperate reasonably with the Company, during the Term and thereafter (including following Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and reasonably to assist the Company in any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company, in each case, as reasonably requested by the Company. The Company agrees to pay (or reimburse, if already paid by Executive) all expenses actually incurred in connection with Executive's cooperation and assistance including, without limitation, reasonable fees and disbursements of counsel, if any, chosen by Executive if Executive reasonably determines in good faith, on the advice of counsel, that it is appropriate that Executive be separately represented by his own counsel in such proceeding. Without limiting the foregoing, after the expiration of this Agreement or the termination of Executive's employment by the Company for any reason, such cooperation and assistance shall not require Executive to forgo or significantly interrupt any professional or personal commitment that he reasonably deems significant or to take any action (including, without limitation, travel to, attendance at or preparation for any meeting, deposition or other proceeding or event of any type) that, in his reasonable judgment, could impair his ability to perform the responsibilities of, or could jeopardize the continuation of, his then current employment, or would otherwise impose any undue burden on Executive.

10.9 Survival. The provisions of this Section 10 shall survive the termination of the Term and any termination or expiration of this Agreement.

10.10 Company. For purposes of this Section 10, references to the "Company" shall include both the Company and each subsidiary of the Company.

11. Insurance for the Company's Benefit. The Company may at any time and for the Company's own benefit (or for the benefit of a lender to the Company) apply for and take out life, health, accident or other insurance covering Executive, either independently or together with others, in any amount which the Company may deem to be in its best interests. The Company shall own all rights in such insurance and proceeds thereof and Executive shall not have any right, title or interest therein. Executive shall assist the Company at the Company's expense in obtaining and maintaining any such insurance by submitting to reasonable and customary medical examinations and preparing, signing and delivering such applications and other documents as reasonably may be required.

12. Indemnification. During the Term of this Agreement and all periods after the expiration of this Agreement or termination of Executive's employment for any reason, the Company shall indemnify Executive to the full extent permitted under the Company's Certificate of Incorporation or By-Laws and pursuant to any other agreements or policies in effect from time to time; provided, however, that Executive shall at all times have at least all rights to indemnification by the Company as are provided in the Company's Certificate of Incorporation or By-Laws or pursuant to other agreements in effect on or immediately prior to the Effective Date, and the Company shall also advance expenses for which indemnification may be ultimately claimed as such expenses are incurred to the fullest extent permitted under applicable law, subject to any requirement that Executive provide an undertaking to repay such advances if it is ultimately determined that Executive is not entitled to indemnification; provided, however, that any determination required to be made with respect to whether Executive's conduct complies with the standards required to be met as a condition of indemnification or advancement of expenses under applicable law and the Company's Certificate of Incorporation, By-Laws, or other agreement, shall be made by independent counsel mutually acceptable to Executive and the Company (except to the extent otherwise required by law). After the Effective Date, the Company shall not amend its Certificate of Incorporation or By-Laws or any agreement in any manner which adversely affects the rights of Executive to indemnification thereunder. Any provision contained herein notwithstanding, this Agreement shall not limit or reduce, and the Company hereby agrees to provide to Executive, any and all rights to indemnification to the full extent permitted under applicable law. In addition, the Company will maintain directors' and officers' liability insurance in effect and covering acts and omissions of Executive during the Term and for a period of six years thereafter on terms substantially no less favorable than those in effect on the Effective Date. The indemnification rights made available to Executive pursuant to this Section 12 shall at all times be at least as favorable to Executive as the indemnification rights made available at such times to any other employee of the Company. For purposes of this Section 12, references to the "Company" shall include both the Company and each of its subsidiaries for which Executive has acted, acts or will in the future act in any capacity. The provisions of this Section 12 shall survive the termination of the Term and any termination or expiration of this Agreement.

13. Notices. Whenever under this Agreement it becomes necessary to give notice, such notice shall be in writing, signed by the party or parties giving or making the same, and shall be served on the person or persons for whom it is intended or who should be advised or notified, by Federal Express or other similar overnight service or by certified or registered mail, return receipt requested, postage prepaid and addressed to such party at the address set forth below or at such other address as may be designated by such party by like notice:

To the Company:

Scientific Games Corporation
750 Lexington Avenue
25th Floor
New York, New York 10022
Attention: General Counsel

With a copy to:

Kramer Levin Naftalis & Frankel LLP
919 Third Avenue
New York, NY 10022
(212) 715-9100
Attention: Peter G. Smith, Esq.

To Executive:

A. Lorne Weil
51 East 90th Street
Penthouse B
New York, New York 10128

With a copy to:

Hogan & Hartson L.L.P.
885 Third Avenue
New York, New York 10022
Attention: Andrew J. Trubin, Esq.

If the parties by mutual written agreement supply each other with telecopier numbers for the purposes of providing notice by facsimile, such notice shall also be proper notice under this Agreement and shall be deemed given on the next business day after the date on which successful and complete transmission is confirmed by the receiving facsimile machine or otherwise confirmed in writing on behalf of the recipient. In the case of Federal Express or other similar overnight service, such notice or advice shall be effective on the next business day after it is sent, and, in the cases of certified or registered mail, shall be effective 5 days after deposit into the mails by delivery to the U.S. Postal Service.

14. Assignability; Binding Effect. Neither this Agreement nor the rights or obligations hereunder of the parties hereto shall be transferable or assignable by Executive, except in accordance with the laws of descent and distribution and as specified below. The Company may assign this Agreement and the Company's rights and obligations hereunder, and shall assign this Agreement and such rights and obligations, to any Successor (as hereinafter defined) which, by operation of law or otherwise, continues to carry on substantially the business of the Company prior to the event of succession, and the Company shall, as a condition of the

succession, require such Successor to agree in writing to assume the Company's obligations and be bound by this Agreement. For purposes of this Agreement, "Successor" shall mean any person that succeeds to, or has the practical ability to control, the Company's business directly or indirectly, by merger or consolidation, by purchase or ownership of voting securities of the Company or all or substantially all of its assets, or otherwise. This Agreement shall be binding upon and inure to the benefit of Executive, his heirs, executors, administrators, and beneficiaries, and shall be binding upon and inure to the benefit of the Company and its successors and assigns.

15. Complete Understanding; Amendment; Waiver. This Agreement constitutes the complete understanding between the parties with respect to the employment of Executive and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof (including the Old Agreement), except as provided in Section 12, and no statement, representation, warranty or covenant has been made by either party with respect thereto except as expressly set forth herein. This Agreement shall not be modified, amended or terminated except by a written instrument signed by each of the parties. Any waiver of any term or provision hereof, or of the application of any such term or provision to any circumstances, shall be in writing signed by the party charged with giving such waiver. Waiver by either party of any breach hereunder by the other party shall not operate as a waiver of any other breach, whether similar to or different from the breach waived. No delay by either party in the exercise of any rights or remedies shall operate as a waiver thereof, and no single or partial exercise by either party of any such right or remedy shall preclude other or further exercise thereof.

16. Severability. If any provision of this Agreement or the application of any such provision to any person or circumstances shall be determined by any court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of this Agreement, or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be enforced to the fullest extent permitted by law. If any provision of this Agreement, or any part thereof, is held to be invalid or unenforceable because of the scope or duration of or the area covered by such provision, the parties hereto agree that the court making such determination shall reduce the scope, duration and/or area of such provision (and shall substitute appropriate provisions for any such invalid or unenforceable provisions) in order to make such provision enforceable to the fullest extent permitted by law and/or shall delete specific words and phrases, and such modified provision shall then be enforceable and shall be enforced. The parties hereto recognize that if, in any judicial proceeding, a court shall refuse to enforce any of the separate covenants contained in this Agreement, then that invalid or unenforceable covenant contained in this Agreement shall be deemed eliminated from these provisions to the extent necessary to permit the remaining separate covenants to be enforced. In the event that any court determines that the time period or the area, or both, are unreasonable and that any of the covenants is to that extent invalid or unenforceable, the parties hereto agree that such covenants will remain in full force and effect, first, for the greatest time period, and second, in the greatest geographical area that would not render them unenforceable. To the extent that a court of competent jurisdiction determines that Executive willfully and materially breached Section 10.1(a) (other than the first sentence thereof), 10.1(b), 10.2 (other than the first and penultimate sentences thereof), 10.3, 10.4, or 10.8, the Company's obligations to make payments hereunder shall immediately be limited to the amounts, if any, remaining to be paid pursuant to

Section 7(b) to the extent not theretofore paid, provided that the Company's obligations to make such greater payments shall immediately be reinstated in the event that the determination of such court is overturned or reversed by any higher court.

17. Survivability. The provisions of this Agreement which by their terms call for performance subsequent to termination of Executive's employment hereunder, or of this Agreement, shall so survive such termination, whether or not such provisions expressly state that they shall so survive.

18. Governing Law; Arbitration; Expenses; Interest.

18.1 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be wholly performed within that State, without regard to its conflict of laws provisions.

18.2 Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New York, New York by three arbitrators in accordance with the rules of the American Arbitration Association in effect at the time of submission to arbitration; provided, however, that the Company shall be entitled to commence an action in any court of competent jurisdiction to enforce Section 10, in part or in its entirety. Judgment may be entered on the arbitrators' award in any court having jurisdiction. For purposes of entering such judgment or seeking enforcement of Section 10, the Company and Executive hereby consent to the jurisdiction of any or all of the following courts: (i) the United States District Court for the Southern District of New York; (ii) any of the courts of the State of New York or the State of Delaware; or (iii) any other court having jurisdiction. The Company and Executive further agree that any service of process or notice requirements in any such proceedings shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and Executive hereby waive, to the fullest extent permitted by applicable law, any objection which either may now or hereafter have to such jurisdiction and any defense of inconvenient forum. The Company and Executive hereby agree that a judgment upon an award rendered by the arbitrators may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Subject to Section 18.3, the Company shall bear all costs and expenses arising in connection with any arbitration proceeding pursuant to this Section 18.2. Notwithstanding any provision in this Section 18, Executive shall be entitled to seek in any court of competent jurisdiction specific performance of Executive's right (which is hereby acknowledged and agreed to by the Company) to be paid all compensation, benefits and other amounts required to be paid during the pendency of any dispute or controversy arising under or in connection with this Agreement, which, to the extent such amounts are paid by the Company (or, in the case of a termination of Executive's employment by the Company without Cause, are so paid in respect of periods commencing after 90 days following the date of such termination) shall be credited against the total amounts otherwise finally determined to be owed to Executive pursuant to this Agreement.

18.3 Reimbursement of Expenses in Enforcing Rights. All reasonable costs and expenses (including, without limitation, reasonable fees and disbursements of counsel) incurred by Executive in seeking to interpret this Agreement or enforce rights pursuant to this Agreement shall be paid by the Company on behalf of Executive (or, if already paid by

Executive, reimbursed to Executive by the Company) as such costs and expenses are incurred. If any claim of Executive is found to be frivolous by a final, nonappealable determination of the arbitration panel or court hearing the claim, Executive shall reimburse the Company within 30 days of such determination for all amounts paid by the Company under this Section 18.3 in connection with the claim.

18.4 Interest on Unpaid Amounts. Any amounts that have become payable pursuant to the terms of this Agreement or any decision by arbitrators or judgment by a court of law pursuant to this Agreement but which are not timely paid shall bear interest at the prime rate in effect at the time such payment first becomes payable, as quoted by the Company's principal bank.

19. Reimbursement of Expenses of Executive in Negotiating Agreement. All reasonable costs and expenses (including, without limitation, reasonable fees and disbursements of counsel) incurred by Executive in connection with the negotiation, preparation, execution, or delivery of this Agreement shall be paid on behalf of Executive (or, if already paid by Executive, reimbursed to Executive) promptly by the Company.

20. Titles and Captions. All paragraph titles or captions in this Agreement are for convenience only and in no way define, limit, extend or describe the scope or intent of any provision hereof.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first above written.

SCIENTIFIC GAMES CORPORATION

By: _____
Name:
Title:

A. Lorne Weil