CHESAPEAKE ENERGY CORP
Form 4
April 04, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
DIXON STEVEN C

(Last) (First) (Middle)

6100 N. WESTERN AVE.

(Street)

OKLAHOMA CITY, OK 73118

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CHESAPEAKE ENERGY CORP [CHK]

3. Date of Earliest Transaction (Month/Day/Year)
03/31/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP - Operations and COO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/31/2006		A		1,806	A	$ 31.41	308,469	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DIXON STEVEN C 6100 N. WESTERN AVE. OKLAHOMA CITY, OK 73118			EVP - Operations and COO	

Signatures

By: Jennifer M. Grigsby For: Steven C. Dixon	04/04/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. page-break-after:avoid;text-align:right;">

Issuance of Class A common stock, in connection with employee stock purchase plan

592

1,159

1,189

Issuance of Series B preferred stock

Issuance of Class A common stock on conversion of Series A and B preferred stock, net

1,087

Issuance of Series A preferred stock as paid-in-kind dividend

7,584

Issuance and exercise of stock options and warrants

5,496

12,035

7,234

Purchase of bond hedge

(67,198

)

Issuance of warrants

37,930

Tax benefit from employee stock options

6,600

14,606

11,394

Deferred compensation

287

179

178

Ending balance

405,957

405,755

425,750

Accumulated losses:

Beginning balance

(214,135

)

(169,649

)

(108,628

)

Net income

52,147

65,742

75,319

Convertible preferred stock dividend

(7,661

)

(4,721

)

Ending balance

(169,649

)

(108,628

)

(33,309

)

Treasury stock:

Beginning balance

(3,539

)

(6,743

)

(9,403

)

Purchases of Class A common stock

(3,204

)

(2,660

)

(153

)

Ending balance

(6,743

)

(9,403

)

(9,556

)

Accumulated other comprehensive income (loss):

Beginning balance

(326

)

5,646

11,956

Other comprehensive income (loss)

5,972

6,310

(8,907

)

Ending balance

5,646

11,956

3,049

Total stockholders equity

$

237,152

300,564

386,833

Comprehensive income (loss):

Net income

$

52,147

65,742

75,319

Other comprehensive income (loss):

Minimum pension liability adjustment (net of tax)

(781

)

(1,531

)

1,011

Foreign currency translation adjustment

7,181

6,708

(9,959

)

Cash flow hedges

(7,633

)

Reclassification adjustments for losses reclassified into operations

6,314

1,107

Unrealized gain on investments

891

26

41

Other comprehensive income (loss)

5,972

6,310

(8,907

)

Comprehensive income

$

58,119

72,052

66,412

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2004 and 2005

(in thousands)

	Years Ended December 31, 2003	2004	2005
Cash flows from operating activities:			
Net income	$ 52,147	65,742	75,319
Adjustments to reconcile net income to cash provided by Operating activities:			
Depreciation and amortization	47,685	61,277	66,794
Change in deferred income taxes, net of effects of businesses acquired	13,354	(6,947)	16,448
Tax benefit from exercise of employee stock options	6,600	14,606	11,394
Non-cash interest expense	2,415	2,107	3,733
Equity in loss of joint ventures		6,060	2,064
Supplemental executive retirement plan curtailment			12,363
Deferred finance fees-early extinguishment of debt	293	16,868	478
Changes in operating assets and liabilities, net of effects of acquisitions:			
Short-term investments	(42,175)	(10,350)	52,525
Accounts receivable	(27,802)	(2,257)	(25,011)
Inventories	(3,969)	465	(11,845)
Accounts payable	6,911	5,166	14,597
Accrued liabilities	22,159	(21,020)	(17,694)
Other	(4,792)	(8,594)	(310)
Net cash provided by operating activities	72,826	123,123	200,855
Cash flows from investing activities:			
Capital expenditures	(14,599)	(27,279)	(32,357)
Wagering systems expenditures	(21,009)	(53,154)	(110,817)
Change in other assets and liabilities	(41,454)	(37,702)	(31,335)
Investment in joint venture		(2,981)	
Business acquisitions, net of cash acquired	(167,905)	(23,370)	(24,815)
Net cash used in investing activities	(244,967)	(144,486)	(199,324)
Cash flows from financing activities:			
Borrowings (repayments) under revolving credit facility		22,000	(22,000)
Proceeds from issuance of long-term debt	463,548	580,418	4,378
Payments on long-term debt	(293,137)	(525,414)	(12,786)
Payment of financing fees	(237)	(7,376)	(478)
Dividends paid		(4,721)	
Payment for purchase of bond hedge		(67,198)	
Proceeds from issuance of warrants		37,930	
Net proceeds from issuance of common stock	2,907	10,565	8,348
Net cash provided by (used in) financing activities	173,081	46,204	(22,538)
Effect of exchange rate changes on cash and cash equivalents	1,329	4,081	(6,171)
Increase (decrease) in cash and cash equivalents	2,269	28,922	(27,178)
Cash and cash equivalents, beginning of period	34,929	37,198	66,120
Cash and cash equivalents, end of period	$ 37,198	66,120	38,942

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002, 2003 and 2004
(in thousands) (Continued)

Non-cash investing and financing activities

For the years ended December 31, 2003, 2004 and 2005

See Notes 9 and 10 for a description of the write-off of deferred financing fees and capital lease transactions.

Supplemental cash flow information

Cash paid during the period for:

	Years Ended December 31, 2003	2004	2005
Interest	$ 23,347	31,971	22,823
Income taxes, net of refunds	$ 7,693	18,079	7,075
Non-cash financing activity during the period:			
Convertible preferred stock paid-in-kind dividends	$ 7,661		

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies

(a) Description of the Business

Scientific Games Corporation (the Company) reports its operatations primarily in four business segments: Lottery Group, Pari-mutuel Group, Venue Management Group and Telecommunications Products Group.

The Lottery Group provides a full range of products and services for the lottery industry, such as instant tickets and related services and integrated lottery systems. Instant ticket and related services 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. Additionally, this division provides lotteries with over 80 licensed brand products, including NASCAR®, Mandalay Bay®, National Basketball Association®, Harley-Davidson®, Wheel-of-Fortune®, Hasbro®, Corvette®, World Poker Tour® and The World Series of Poker®. This division also includes promotional instant tickets and pull-tab tickets that we sell to both lottery and non-lottery customers. The Company also provides integrated lottery systems including the supply of transaction processing software for the accounting and validation of instant ticket and online 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 business also includes software and hardware and support services for sports betting and operation of credit card processing systems. The Company s lottery products and services are provided primarily to governmentally sanctioned lotteries worldwide.

The Pari-mutuel Group provides a broad range of products and services to pari-mutuel wagering operators such as horse and greyhound racetracks, off-track betting (OTB) facilities, casinos, jai alai frontons, telephone and internet account wagering operators and other establishments. A key offering of the group is totalisator systems the complex hardware and software systems that accept wagers, calculate odds and payouts, and process wagering pools, other offerings include simulcasting services, high-speed data communications systems, Internet-based wagering systems, player tracking, combination racing/video lottery gaming terminals, and data management tools. The Pari-mutuel group operate on a worldwide basis with customers in North America, Central and South America, Asia, Europe, and the Middle East.

The Venue Management Group owns and operates licensed pari-mutuel wagering facilities, OTB s, in Connecticut and Maine and is the exclusive licensed operator of all on-track and off-track pari-mutuel wagering operations in the Netherlands.

The Telecommunications Products Group provides highly secure, paper-based, prepaid phone cards for the international cellular telephone markets, utilizing the Company s secure instant ticket production process to ensure the integrity and reliability of the phone cards. The division s base of operations is in United Kingdom.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and subsidiaries in which the Company s ownership is greater than 50%. Investments in other entities in which the Company has the ability to exercise significant influence over the investee are also accounted for in the consolidated financial statements. All inter-company balances and transactions have been eliminated in consolidation.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity at the date of purchase of three months or less to be cash equivalents.

(d) Short-term Investments

The Company has certain investments in Auction Rate Securities totaling $52.5 million and none at December 31, 2004 and 2005, respectively. These securities are debt securities classified as trading securities in accordance with Statement of Financial Accounting Standard 115, Accounting for Investments in Debt and Equity Securities. Trading securities are recorded at fair value with changes in fair value recorded in earnings. These securities are issued by political subdivisions within the United States. At December 31, 2004, the remaining auction days for these securities were between 7-35 days.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined as follows:

Item	Cost method
Parts	First-in, first-out or weighted moving average.
Work-in-process and finished goods	First-in, first-out or weighted moving average for direct material and labor; other fixed and variable production costs are allocated as a percentage of direct labor cost.

The Company adjusts inventory accounts on a periodic basis to reflect the impact of potential obsolescence.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Item	Estimated Life in Years
Machinery and equipment	3-12
Transportation equipment	3-7
Furniture and fixtures	5-10
Buildings and leasehold improvements	5-40

(g) Deferred Installation Costs

Certain of our lottery and pari-mutuel systems contracts require us to perform installation activities. Our direct installation activities, which include costs for online terminals, facilities wiring, computers, internal labor and travel, are performed at the inception of a specific contract with a specific customer to enable us to perform under the terms of the contract. These activities begin after we enter into a contract and end

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

when the setup activities are substantially complete. Such activities do not represent a separate earnings process and are deferred and amortized over the expected life of the contract. Deferred installation costs, net of accumulated depreciation, included in property and equipment were approximately $18,700 and $44,700 at December 31, 2004 and 2005, respectively.

(h) Goodwill and Acquired Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. In June 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 Disposal of Long-Lived Assets* (SFAS 144). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001. SFAS 142 requires, commencing January 1, 2002, that all goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead, be evaluated for impairment on an annual basis or more frequently if events and circumstances indicate that assets might be impaired. SFAS 144 requires that intangible assets with finite useful lives continue to be amortized over their useful lives, but be tested for impairment whenever events or changes in circumstances indicate that the carrying value of such asset may not be recoverable.

(i) Other Assets and Investments

In accordance with the provisions of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed for Internal Use*, the Company capitalizes costs associated with internally developed and/or purchased software systems for use in its lottery and wagering service contracts. Capitalized costs are amortized on a straight-line basis over the expected useful lives. The Company also capitalizes costs associated with the procurement of long-term financing, and costs attributable to transponder leases, patents, trademarks, marketing rights, and non-competition and employment agreements arising primarily from business acquisitions. An evaluation is performed to determine if any impairment has occurred with respect to any amortized or non-amortized assets. See Note 6 for further details relating to the amortization, reclassification, and impairment testing of all intangible assets.

(j) Impairment of Long-Lived Assets and Acquired Intangible Assets

In accordance with SFAS 144, the Company assesses the recoverability of long-lived assets (excluding goodwill) and identifiable acquired intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carrying value of such an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the expected net future undiscounted cash flows to be generated by that asset, or, for identifiable intangibles with finite useful lives, by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through undiscounted future cash flows. The amount of impairment of other long-lived assets (excluding goodwill) is measured by the amount by which the carrying value of the asset exceeds the fair market value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair market value, less costs to sell.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

(k) Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, prices are fixed or determinable, services and products are provided to the customer and collectibility is probable or reasonably assured depending on the applicable revenue recognition guidance followed. In addition to the general policy discussed above, the following are the specific revenue recognition policies for our operating segments:

Lottery Group

Revenue from the sale of instant tickets that are sold on a per unit price basis is recognized when the customer accepts the product pursuant to the terms of the contract.

Revenue from the sale of instant tickets that are sold on a variable price basis is recognized when the percentage of the amount of retail sales is determined.

Revenue from cooperative service contracts is recognized based upon a percentage of the amount of the retail value of lottery tickets pursuant to the terms of the contract.

Revenue from licensing branded property coupled with a service component whereby the Company purchases and distributes merchandise prizes on behalf of the lottery authorities to identified winners is recognized on a performance based measure pursuant to the terms of the contract.

Revenue from licensing of branded property with no service component is recognized when the licensed property branded game goes on sale by the lottery.

Revenue from online lottery services is recognized as a percentage of the amount of retail sales of lottery tickets pursuant to the terms of the contract.

Revenue from the sale of a lottery system, which includes the customization of software, is recognized on the percentage of completion method of accounting.

Revenue from the perpetual licensing of customized lottery software is recognized on the percentage of completion method of accounting.

Revenue derived from software maintenance on lottery software is recognized ratably over the maintenance period.

Revenue derived from enhancements to lottery software is recognized at the time we provide such enhancements.

Revenue from the sale of lottery terminals is recognized when the customer accepts the product pursuant to the terms of the contract.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

Pari-mutuel Group

Revenue from the provision of pari-mutuel wagering services is generally recognized as a percentage of the amount wagered by the customers patrons at the time of the wager pursuant to the terms of the contract.

Revenue from the provision of simulcasting and telecommunications services is recognized as the services are performed pursuant to the terms of the contract.

Revenue from the sale of a pari-mutuel wagering system, which includes the customization of software, is recognized on the percentage of completion method of accounting.

Revenue from the sale of pari-mutuel wagering terminals is recognized when the customer accepts the product pursuant to the terms of the contract.

Revenue from the perpetual licensing of customized pari-mutuel software is recognized on the percentage of completion method of accounting.

Venue Management Group

Revenue from wagering at Company owned or operated sites is recognized as a percentage of the amount wagered by our customers at the time of the wager.

Revenue from the provision of facilities management services to non-Company owned wagering sites is recognized as a percentage of the amount wagered by our customers patrons at the time of the wager pursuant to the terms of the contract.

Telecommunications Products Group

Revenue from the sale of prepaid phone cards is recognized when the customer accepts the product pursuant to the terms of the contract.

(l) Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under SFAS 109, deferred tax assets and liabilities are determined based on the difference between the book and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. The Company establishes a valuation allowance for deferred tax assets for which realization is unlikely.

(m) Foreign Currency Translation

The U.S. dollar is the functional currency for most of our businesses. Significant operations with local currency as functional currency include operations in the United Kingdom and the European Union. Assets and liabilities of foreign operations are translated at year-end rates of exchange and operations are translated at the average rates of exchange for the year. Gains or losses resulting from translating the foreign currency financial statements are accumulated as a separate component of accumulated other

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

comprehensive income (loss) in stockholders equity. Gains or losses resulting from foreign currency transactions are included in other income (expense) in the consolidated statements of operations and have not been material to the financials statements.

(n) Stock-Based Compensation

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123* (SFAS 148). SFAS 148 amends FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. However, it allows an entity to continue to measure compensation cost for those instruments using the intrinsic-value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), provided it discloses the effect of SFAS 123, as amended by SFAS 148, in footnotes to the financial statements. The Company has chosen to continue to account for stock-based compensation using the intrinsic-value-based method. Accordingly, no stock option related compensation expense has been recognized for a substantial majority of its stock-based compensation plans. The Company was required to adopt SFAS 148 for the year ended December 31, 2002.

Had the Company, however, elected to recognize compensation cost based on fair value of the stock options at the date of grant under SFAS 123, as amended by SFAS 148, such costs would have been recognized ratably over the vesting period of the underlying instruments and the Company s net income and net income per share would have changed to the pro forma amounts indicated in the table below.

Pro forma net income and income per basic and diluted share were:

	Year Ended December 31, 2003	**2004**	**2005**
Net income available to common stockholders, as reported	$ 44,486	61,021	75,319
Add: Stock-based compensation expense included in reported net income, net of related tax effects	187	297	313
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,850)	(6,498)	(9,512)
Pro forma net income available to common Stockholders	$ 40,823	54,820	66,120
Net income available to common stockholders per basic share:			
As reported	$ 0.74	0.84	0.84
Pro forma	$ 0.72	0.75	0.74
Net income available to common stockholders per diluted share:			
As reported	$ 0.59	0.72	0.81
Pro forma	$ 0.57	0.65	0.73

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

The fair value of the options granted was estimated using the Black-Scholes option-pricing model based on the weighted average market price at date of grant of $11.21 in fiscal 2003, $20.64 in 2004, and $27.13 in 2005 and the following assumptions: risk-free interest rate of 3.3% for fiscal 2003, 3.8% for fiscal 2004 and 4.1% for fiscal 2005; expected option life of seven years for fiscal 2003 and approximately five years for 2004 and 2005; expected volatility of 72% for fiscal 2003 and 34% for fiscal 2004 and 2005; and no dividend yield in any year. The average fair values of options granted during fiscal years 2003, 2004, and 2005 were $7.68, $9.23 and $10.26, respectively. Compensation cost is also measured for the fair value of the Employee Stock Purchase Plan using the Black-Scholes option pricing model and based on the following assumptions: risk-free interest rate of 1.2%, 1.7% and 3.2% for 2003, 2004 and 2005, respectively; the expected life of six months for 2003, 2004 and 2005; expected volatility of 34.5%, 33.69% and 28.89% for 2003, 2004 and 2005, respectively. The weighted average fair values for 2003, 2004 and 2005 were $0.66, $1.52 and $1.98, respectively.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the significant estimates involve percentage of completion for contracted lottery development projects and pari-mutuel systems software development projects, capitalization of software development costs, evaluation of the recoverability of assets and assessment of litigation and contingencies, and income and other taxes. Actual results could differ from estimates.

(p) Comprehensive Income

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* (SFAS 130), establishes standards for the reporting and display of comprehensive income and its components in a full set of financial statements. SFAS 130 requires that unrealized gains and losses from the Company s foreign currency translation adjustments, interest rate derivatives designated as cash flow hedges, unrecognized minimum pension liability and unrealized gains and losses on investments be included in other comprehensive income.

(q) Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133* (SFAS 138) and Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149), require that all derivative instruments be recorded on the balance sheet at their respective fair values.

All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of the variability of cash flows to be paid or received related to its long-term debt obligation or customer contract, respectively (cash

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

flow). The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific components of its long-term obligations and contract cash receipts. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss), until operations are affected by the variability in cash flows of the designated hedge item.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer highly effective in offsetting changes in cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised. When hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the consolidated balance sheet, and recognizes any changes in its fair value in operations.

In 2003 and 2004 the Company had several derivative contracts to hedge part of the Company s foreign currency exposure with respect to cash receipts under a contract with the Ontario Lottery Commission. These derivative instruments were designated as cash flow hedges and recorded on the balance sheet at December 31, 2003, at their respective fair values as prescribed by SFAS 133, SFAS 138 and SFAS 149.

(r) Reclassification to Prior Years Consolidated Financial Statements

Certain reclassifications have been made to the prior year s consolidated financial statements to conform to the current presentation.

(s) New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (R), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) would require the Company to measure all employee stock-based compensation awards using a fair-value method and record such expense in its consolidated financial statements. SFAS No. 123(R) was originally effective for periods beginning after June 15, 2005; however, in April 2005, the Securities and Exchange Commission (SEC) changed the effective date of SFAS No. 123(R) to fiscal years beginning after June 15, 2005 for non-small business issuers. SFAS No. 123(R) provides alternative methods of adoption, which include prospective application and a modified retroactive application. The Company will adopt SFAS 123(R) on January 1, 2006 using the modified prospective transition method. Under modified prospective application, FAS 123(R) applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies (Continued)

Based on the grants issued prior to January 1, 2006 and are unvested at January 1, 2006, the Company anticipates recognizing share-based compensation expense in 2006 of approximately $16,200.

The total share based compensation expense in the 2006 financial statements cannot be predicted at this time because the Company expects to continue its policy of granting share-based payment awards in the future. Based on this policy, the 2006 approximated value should increase throughout the year based on the number of shares awarded. SFAS 123(R) also requires that the classification of tax benefits associated with exercising stock options will change from an operating cash flow activity to a financing cash flow activity. This will reduce the net operating cash flows and increase the net financing cash flows of the Company in 2006. The Company s cannot estimate the impact on the cash flow statement as it is dependent on the amount and timing of employee stock option exercises.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143* (SFAS 143). FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS 143 and requires a liability to be recorded if the fair value of the obligation can be reasonably estimated. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than fiscal years ending after December 15, 2005. The Company has applied the guidance of FIN 47, which did not have a material impact on our financial statements.

(2) Basic Income Per Common Share and Diluted Income Per Common Share

Basic income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted income per common share gives effect to all dilutive potential common shares that were outstanding during the period. At December 31, 2005, the Company had outstanding stock options, warrants, restricted stock units and convertible debentures which could potentially dilute basic earnings per share in the future (see Notes 12 and 13).

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(2) Basic Income Per Common Share and Diluted Income Per Common Share (Continued)

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted income available to common stockholders per common share for the years ended December 31, 2003, 2004 and 2005:

	Years Ended December 31, 2003	2004	2005
Income (numerator)			
Net income available to common Stockholders	$ 44,486	61,021	75,319
Add back preferred stock dividend	7,661	4,721	
Income before preferred stock dividend available to common stockholders (diluted)	$ 52,147	65,742	75,319
Shares (denominator)			
Basic weighted average common shares outstanding	60,010	73,014	89,327
Effect of diluted securities stock options and preferred shares	28,133	17,696	3,157
Diluted weighted average common shares outstanding	88,143	90,710	92,484
Basic and Diluted per share amounts			
Basic net income available to common stockholders	$ 0.74	0.84	0.84
Diluted net income available to common stockholders	$ 0.59	0.72	0.81

The aggregate number of shares that the Company could be obligated to issue upon conversion of its $275,000 Convertible Debentures is approximately 9,450. The Convertible Debentures provide for net share settlement upon exercise. Such shares were excluded from the year ended December 31, 2004 and 2005 calculations, as they were anti-dilutive. The preferred stock was converted to common stock in 2004.

(3) Acquisitions

In April 2005, the Company acquired the remaining 35% minority interest in Scientific Games Latin America S.A. (SGLA), a supplier of lottery tickets, pre-paid phone cards and promotional games in Latin America. The Company originally acquired a 65% interest in SGLA in June 2002. Pursuant to the April 2005 transactions, the Company paid approximately $19,600 for the purchase price of the minority interest and additional amounts of approximately $4,300 for the balance of the purchase price for the 2002 acquisition, repayment of a prior loan to the minority shareholders, and the minority shareholders pro-rata share of dividends.

The excess of the additional purchase price over the fair value of the net assets acquired of approximately $20,700 was recorded as goodwill. The operating results of SGLA have been included in the Company s operating income since the initial acquisition of the 65% interest in 2002, with the minority portion of such earnings included as a deduction in Other expense . In the second quarter of 2005, this deduction ceased. The goodwill of approximately $20,700 from the acquisition of SGLA is not deductible for tax purposes.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(3) Acquisitions (Continued)

On December 31, 2004, the Company acquired all of the outstanding shares of Printpool Honsel GmbH (Honsel), a German company which is the supplier of instant tickets to all of the 16 state operated lotteries in Germany and sells other lottery products, such as bet slips and paper rolls, to customers in approximately 25 countries. The purchase price was approximately $21,000 in cash and additional amounts of up to approximately $10,500 in cash upon achievement of certain performance levels over the next five years. The performance target for December 31, 2005 was achieved and the Company recorded an income charge of approximately $1,700. The operating results of Honsel have been included in the Company s consolidated operating results since January 1, 2005. Had the operating results of Honsel been included as if the transaction had been consummated on January 1, 2004, the Company s pro forma operating results for the year ended December 31, 2004 would not have been materially different from the actual reported results. The goodwill of approximately $13,000 from the acquisition of Honsel is not deductible for tax purposes.

On November 6, 2003, the Company acquired IGT OnLine Entertainment Systems, Inc. (OES) from International Game Technology (NYSE: IGT) for $143,000 in cash plus expenses and an $7,000 working capital payment, subject to closing adjustments. Upon consummation of the acquisition, the Company changed the name of IGT OnLine Entertainment Systems, Inc. to Scientific Games Online Entertainment Systems, Inc.

The following table presents unaudited pro forma results of operations as if the acquisition of OES had occurred on January 1, 2003. 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 on January 1, 2003.

	Year Ended December 31, 2003 (1) (unaudited)
Operating revenues	$ 687,961
Operating income	127,980
Income before income tax expense	92,351
Net income	56,986
Convertible preferred stock dividend	7,661
Net income available to common stockholders	$ 49,325
Basic net income per share available to common stockholders	$ 0.82
Diluted net income per share available to common stockholders	$ 0.65

1) The amounts in this column represent the pro forma results of operations of Scientific Games without OES for the year ended December 31, 2003 and OES for the twelve months ended September 27, 2003.

On January 17, 2003, the Company completed the acquisition of MDI Entertainment, Inc. (MDI). The acquisition was recorded using the purchase method of accounting. The excess of the $22,958 purchase price over the fair values of the net assets acquired is approximately $22,213 and has been

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(3) Acquisitions (Continued)

recorded as goodwill. The operating results of MDI have been included in the Company s consolidated operating results since the date of acquisition. Had the operating results of MDI been included as if the transaction had been consummated on January 1, 2003, the Company s pro forma operating results for the year ended December 31, 2003 would not have been materially different from the actual reported results. Goodwill from the acquisition of MDI is not deductible for tax purposes.

(4) Inventories

Inventories consist of the following:

	December 31, 2004	2005
Parts and work-in-process	$ 18,655	20,694
Finished goods	9,407	19,454
	$ 28,062	40,148

Point of sale terminals manufactured by the Company may be sold to customers or included as part of a long-term wagering system contract. Parts and work-in-process includes costs for equipment expected to be sold. Costs incurred for equipment associated with specific wagering system contracts not yet placed in service are classified as construction in progress in property and equipment (see Note 5).

(5) Property and Equipment

Property and equipment, including assets under capital leases, consist of the following:

	December 31, 2004	2005
Machinery, equipment and deferred installation costs	$ 387,518	501,700
Land and buildings	54,913	65,195
Transportation equipment	6,789	6,795
Furniture and fixtures	14,273	16,107
Leasehold improvements	19,738	19,992
Construction in progress	61,156	56,680
Property and equipment, at cost	544,387	666,469
Less: Accumulated depreciation	(272,961)	(300,250)
Net property and equipment	$ 271,426	366,219

Depreciation expense for the years ended December 31, 2003, 2004 and 2005 amounted to approximately $36,800, $41,500 and $43,300 respectively.

Cost for equipment associated with specific wagering systems contracts not yet placed in service are recorded as construction in progress. When the equipment is placed in service at wagering facilities, the related costs are transferred from construction in progress to machinery and equipment, and the Company commences depreciation.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(6) Goodwill and Intangible Assets, Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The following disclosure presents certain information on the Company s acquired intangible assets as of December 31, 2004 and 2005. Amortized intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual values.

Intangible Assets	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance at December 31, 2004				
Amortizable intangible assets:				
Patents	15	$ 4,221	477	3,744
Customer lists	14	20,175	7,597	12,578
Customer service contracts	15	3,781	1,331	2,450
Licenses	4	10,377	3,315	7,062
Lottery contracts	5	31,802	7,910	23,892
		70,356	20,630	49,726
Non-amortizable intangible assets:				
Tradename		32,574	2,118	30,456
Connecticut off-track betting system operating right		22,339	8,319	14,020
		54,913	10,437	44,476
Total intangible assets		$ 125,269	31,067	94,202
Balance at December 31, 2005				
Amortizable intangible assets:				
Patents	15	$ 5,201	811	4,390
Customer lists	14	18,813	8,804	10,009
Customer service contracts	15	3,793	1,392	2,401
Licenses	4	14,458	6,906	7,552
Lottery contracts	5	31,902	13,441	18,461
		74,167	31,354	42,813
Non-amortizable intangible assets:				
Tradename		32,574	2,118	30,456
Connecticut off-track betting system operating right		22,339	8,319	14,020
		54,913	10,437	44,476
Total intangible assets		$ 129,080	41,791	87,289

The aggregate intangible amortization expense for the years ended December 31, 2003, 2004 and 2005 was approximately $4,600, $10,800 and $10,700, respectively. The estimated intangible asset amortization expenses for the year ending December 31, 2006 and for each of the subsequent four years, ending December 31, 2010 are approximately $11,400, $9,800, $8,400, $1,700 and $1,600 respectively.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(6) Goodwill and Intangible Assets, Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of (Continued)

The table below reconciles the change in the carrying amount of goodwill, by reporting unit, which is the same as our operating segments, for the period from December 31, 2003 to December 31, 2005. In 2005, the Company has recorded (a) a $2,928 increase in goodwill in connection with the acquisition of certain assets and the assumption of certain liabilities from Promo-Travel International, Inc. in February 2005, (b) a $20,680 increase in goodwill related to the acquisition of the remaining 35% minority interest in SGLA in April 2005, (c) an $128 increase for the acquisition of off-track betting operations in June 2005 and November 2005 and (d) a $3,502 increase in goodwill associated with the final purchase price valuation and allocation adjustments of the Honsel acquisition. Although substantially complete the purchase price allocation for the recent acquisitions will be completed within one year of their respective acquisition dates.

The Company recorded a $1,190 increase in goodwill in 2004 in connection with an earnout payment pursuant to the SGLA purchase agreement. Goodwill relating to the OES acquisition decreased mainly due to a contract termination payment of $5,759 received by the Company from a third party. The remainder of the decrease is related to the final purchase price valuation and allocation adjustments. As noted above the Company recorded goodwill for Honsel in 2004 of $9,503 related to preliminary purchase price allocation which has been finalized as of December 31, 2005.

Goodwill	Lottery Group	Pari-Mutuel Group	Venue Management Group	Telecommunications Products Group	Totals
Balance at December 31, 2003	$ 307,868	487			308,355
SGLA earnout payment	1,190				1,190
Acquisition of OES	(7,117)				(7,117)
Acquisition of PrintPool Honsel GmbH	9,503				9,503
Balance at December 31, 2004	311,444	487			311,931
Acquisition of 35% minority interest in SGLA	20,680				20,680
Acquisition of Promo-Travel International	2,928				2,928
Acquisition of PrintPool Honsel GmbH	3,502				3,502
Other acquisitions			128		128
Balance at December 31, 2005	$ 338,554	487	128		339,169

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(7) Other Assets and Investments

Other assets and investments, (net) consist of the following:

	December 31, 2004	2005
Software systems development costs	$ 40,388	46,536
Deferred financing costs	20,307	17,650
Deferred tax asset	10,698	5,341
SERP trust	15,097	15,355
Other assets	33,679	40,401
	$ 120,169	125,283

In the years ended December 31, 2004 and 2005, the Company capitalized $13,385 and $16,980, respectively, of software systems development costs related primarily to lottery and pari-mutuel wagering systems and video gaming. Capitalized costs are amortized on a straight-line basis over a period of five to ten years.

Deferred financing costs arise in connection with the procurement of long-term financing by the Company, and are amortized over the life of the financing agreements. In fiscal 2004, the Company entered into a series of transactions, including the issuance of the 2004 Notes, the Convertible Debentures and the 2004 Facility. The proceeds from these transactions were used to repay outstanding borrowings under the 2003 Facility and the majority of the outstanding borrowings under the 2000 Notes. The Company capitalized approximately $21,400 in connection with these transactions and wrote-off, as early extinguishment of debt, approximately $9,500 of previously deferred financing costs. Amortization of deferred financing costs amounted to approximately $2,400, $2,100 and $3,700 for the years ended December 31, 2003, 2004 and 2005, respectively.

In 2003, the Company made an initial $14,700 cash payment to a rabbi trust, to provide for the payment of certain benefits under the Company s Supplemental Executive Retirement Plan (the SERP). The rabbi trust then made payments totaling $14,700 for whole-life insurance policies on the participants. These policies have been placed in the rabbi trust, which will hold the policies and death benefits as they are received. The cash value of these policies was approximately $15,168 at December 31, 2005.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(8) Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2004	2005
Compensation and benefits	$ 26,135	21,992
Customer advances	4,579	6,667
Deferred revenue	3,263	8,873
Accrued income taxes	7,149	
Taxes, other than income	6,806	4,489
Accrued licenses	5,383	5,396
Accrued contract costs	10,958	9,461
Other	32,797	23,427
	$ 97,070	80,305

(9) Long-Term Debt

Long-term debt consists of the following:

	December 31, 2004	2005
12 1/2% Series B Senior Subordinated Notes due 2010	$ 7,645	
2004 Revolving Credit Facility due 2009	22,000	
2004 Term B loan with varying interest rate due 2009	100,000	99,000
2004 6 1/4% Senior Subordinated Notes due 2012	200,000	200,000
2004 0.75% Convertible Senior Subordinated Debentures due 2024	275,000	275,000
Capital lease obligations, payable monthly through September 2009, interest as of 12/31/05 from 4.6% to 7.4%	2,072	1,853
Various loans and bank facilities, interest as of 12/31/05 from 5.5% to 7.6%.	4,161	4,882
Total long-term debt	610,878	580,735
Less current installments	4,370	6,055
Long-term debt, excluding current installments	$ 606,508	574,680

	Debt and Capital Lease Payments Due by Period Total	Within 1 Year	Within 2 Years	Within 3 Years	Within 4 Years	Within 5 Years	After 5 Years
Long term debt, 6 1/4% Notes	200,000						200,000
Long term debt, 0.75% Notes	275,000						275,000
Long-term debt, 2004 Facility							
Long-term debt, Term B loan	99,000	1,000	1,000	1,000	96,000		
Other long-term debt	6,735	5,055	637	356	226	11	450
Total	$ 580,735	6,055	1, 637	1,356	96,226	11	475,450

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(9) Long-Term Debt (Continued)

In December 2004, we entered into a series of financial transactions structured to create additional borrowing capacity, loosen certain financial covenants, extend the average maturity of our debt, lower our average cost of borrowing, and reduce our exposure to rising interest rates. We sold $275,000 of 0.75% convertible senior subordinated debentures due 2024 (the Convertible Debentures), sold $200,000 of 6.25% senior subordinated notes due 2012 (the 2004 Notes), and entered into a new senior secured credit facility (the 2004 Facility) which consists of a $250,000 revolving credit facility due December 2009 and a $100,000 Term Loan B due December 2009, (together, the Convertible Debentures, the 2004 Notes and the 2004 Facility, the 2004 Securities). The proceeds of the 2004 Securities, net of fees and expenses, were used to redeem approximately $57,900 of the 2000 Notes, to pay the related $6,900 redemption premium and consent fee related to these redemptions, and to replace our existing senior secured credit facility (the 2003 Facility).

On December 23, 2004, the Company entered into the 2004 Facility which consists of a $250,000 revolving credit facility, of which $22,000 was borrowed at closing, and a $100,000 Term B Loan. The initial drawings under the 2004 Facility were used to repay a portion of existing senior indebtedness in conjunction with the refinancings completed in December 2004. Loans under the 2004 Facility carry interest at the Base Rate plus a margin of 0.75% per annum, or at the rate of LIBOR plus a margin of 1.75% per annum, subject to quarterly adjustment of the margin, after June 23, 2005, based on the Company s prevailing Consolidated Leverage Ratio. Margins on Base Rate and LIBOR loans range from 1.00% to 0.25% and from 2.00% to 1.25%, respectively, with the lowest levels achieved when the Company s Consolidated Leverage Ratio is less than 2.00 to 1.00. The Term B Loan matures in December 2009 and requires quarterly principal payments of $250 through December 31, 2008 plus four quarterly principal payments of $24,000 in 2009. The 2004 Facility is secured by a first priority, perfected lien on:
(i) substantially all the property and assets (real and personal, tangible and intangible) of the Company and its 100%-owned domestic subsidiaries; (ii) 100% of the capital stock of all of the direct and indirect 100%-owned domestic subsidiaries and 65% of the capital stock of all of the 100%-owned first-tier foreign subsidiaries of the Company; and (iii) all inter-company indebtedness owing between the Company and its 100%-owned domestic subsidiaries. The 2004 Facility is supported by guarantees provided by all of the Company s direct and indirect 100%-owned domestic subsidiaries.

In addition, the 2004 Facility is subject to the following mandatory prepayments, with certain customary exceptions: (i) 50% of the net cash proceeds from the sale or issuance of equity if the Company s Consolidated Leverage ratio exceeds 3.00 to 1.00; (ii) 100% of the net cash proceeds from the sale or issuance of debt securities; and (iii) 100% of the net proceeds from the sale of assets and casualty insurance proceeds, subject to a reinvestment exclusion limited to $80,000 per annum.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(9) Long-Term Debt (Continued)

The Credit Agreement governing the 2004 Facility (the Credit Agreement) contains certain covenants that, among other things, limit the Company s ability, and the ability of certain of the Company s subsidiaries, to incur additional indebtedness, pay dividends or make distributions or certain other restricted payments, purchase or redeem capital stock, make investments or extend credit, engage in certain transactions with affiliates, engage in sale-leaseback transactions, consummate certain asset sales, effect a consolidation or merger, sell, transfer, lease or otherwise dispose of all or substantially all assets, or create certain liens and other encumbrances on assets. Additionally, the Credit Agreement contains the following financial covenants that are computed quarterly on a rolling four-quarter basis as applicable:

- A maximum Consolidated Leverage Ratio of 3.75, which will be reduced according to the terms of the 2004 Credit Agreement on July 1, 2006, from which date until December 2009 the ratio shall be 3.50. Consolidated Leverage Ratio means the ratio of (x) the aggregate stated balance sheet amount of the Company s indebtedness determined on a consolidated basis in accordance with GAAP as of the last day of the fiscal quarter for which such determination is being made to (y) Consolidated EBITDA for the four consecutive fiscal quarters ended on the last day of the fiscal quarter for which such determination is being made.

- A minimum Consolidated Fixed Charge Coverage Ratio of 1.00 until December 2009. Consolidated Fixed Charge Coverage Ratio means, as of any date of determination, the ratio computed for the Company s four most recent fiscal quarters of (x) Consolidated EBITDA to (y) the sum of (i) total interest expense less non-cash amortization costs included in interest expense, (ii) scheduled payments of principal on indebtedness, (iii) capital expenditures and (iv) all income taxes paid in cash.

- A maximum Consolidated Senior Debt Ratio of 2.00, which will be reduced according to the terms of the 2004 Credit Agreement on July 1, 2006, from which date until December 2009 the ratio shall be 1.75. Consolidated Senior Debt Ratio means the ratio of (x) the aggregate stated balance sheet amount of the Company s indebtedness, the 2004 Notes and the Convertible Debentures determined on a consolidated basis in accordance with GAAP as of the last day of the fiscal quarter for which such determination is being made to (y) Consolidated EBITDA for the four consecutive fiscal quarters ended on the last day of the fiscal quarter for which such determination is being made.

For purposes of the foregoing limitations, Consolidated EBITDA means the sum of (i) consolidated net income, (ii) consolidated interest expense with respect to all outstanding indebtedness, (iii) provisions for taxes based on income, (iv) total depreciation expense, (v) total amortization expense and (vi) certain adjustments, in each case for the period being measured, all of the foregoing as determined on a consolidated basis for the Company and its subsidiaries in accordance with GAAP.

The Company was in compliance with its covenants as of December 31, 2005 and for all of the quarters included in the fiscal year 2005.

At December 31, 2005, the Company had no borrowings outstanding and approximately $30,301 in letters of credit issued under the revolving credit portion of the 2004 Facility, leaving approximately $219,699 available for additional borrowing or letter of credit issuance. The revolver is available for

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(9) Long-Term Debt (Continued)

general corporate purposes, including capital expenditures and acquisitions. The average interest rate on the revolver and Term B Loan borrowings at December 31, 2005 was 6.14%.

The net cash proceeds of the 2004 Notes were used to repay a portion of existing senior indebtedness and to redeem the approximately $57,939 of the 2000 Notes which were tendered in conjunction with the refinancings completed by the Company in December 2004. The 2004 Notes bear interest at the rate of 6.25% per annum payable semi-annually on each June 15 and December 15, commencing June 15, 2005. The 2004 Notes are senior subordinated, unsecured obligations of the Company, ranking junior to all existing and future senior debt including obligations under the 2004 Facility. The 2004 Notes are fully and unconditionally guaranteed on a senior subordinated basis by all of the Company s 100%-owned U.S. subsidiaries (see Note 23). The 2004 Notes will be redeemable, at the option of the Company, at any time on or after December 15, 2008, in whole or in part, at redemption prices equal to 103.125%, 101.563%, and 100.000% of the principal amount thereof if redeemed during the 12-month periods commencing on December 15 of years 2008, 2009, and 2010 and thereafter, respectively. The 2004 Notes mature December 15, 2012. The indenture governing the 2004 Notes contains certain covenants that, among other things, limit the Company s ability, and the ability of certain of the Company s subsidiaries, to incur additional indebtedness, pay dividends or make distributions or certain other restricted payments, purchase or redeem capital stock, make investments or extend credit, engage in certain transactions with affiliates, engage in sale leaseback transactions, consummate certain assets sales, effect a consolidation or merger, or sell, transfer, lease or otherwise dispose of all or substantially all assets, or create certain liens and other encumbrances on new assets.

The net cash proceeds of the Convertible Debentures were used to repay a portion of existing senior indebtedness in conjunction with the refinancings completed by the Company in December 2004. The Convertible Debentures bear interest at the rate of 0.75% per annum until June 1, 2010 and bear interest at the rate of 0.50% thereafter. Interest on the Convertible Debentures is payable semi-annually on each June 1 and December 1, commencing June 1, 2005. The Convertible Debentures are convertible into cash and shares of the Company s Class A Common Stock at a rate of 34.3643 shares per $1,000 principal amount of Convertible Debentures, which equates to a conversion price of $29.10 per share of Common Stock. The Company has elected to deliver, upon conversion, cash equal to the lesser of the aggregate principal amount of Convertible Debentures to be converted and our total conversion obligation, and shares in the event our conversion obligation exceeds the aggregate principal amount of Convertible Debentures to be converted. Holders of the Convertible Debentures may convert the Convertible Debentures when the market price of the Company s Common Stock equals or exceeds $34.92, subject to certain conditions, if the Company calls the Convertible Debentures for redemption, or upon certain corporate transactions. The Convertible Debentures are senior subordinated, unsecured obligations of the Company, ranking junior to all existing and future senior debt including obligations under the 2004 Facility. The Convertible Debentures are fully and unconditionally guaranteed on a senior subordinated basis by all of the Company s 100%-owned U.S. subsidiaries (see Note 22). The Convertible Debentures will be redeemable, at the option of the Company, at any time on or after June 1, 2010, in whole or in part, at a redemption price equal to 100.000% of the principal amount. Holders of the Convertible Debentures have the right to require the Company to repurchase the Convertible Debentures, in whole or in part, at a redemption price equal to 100.000% of the principal amount on June 1, 2010, December 1, 2014, December 1, 2019, or in the event of a fundamental change as described in the indentures governing the

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(9) Long-Term Debt (Continued)

Convertible Debentures. The Convertible Debentures mature on December 1, 2024. The indenture governing the Convertible Debentures contains certain covenants that, among other things, limit the Company s ability, and the ability of certain of the Company s subsidiaries, to incur additional indebtedness, pay dividends or make distributions or certain other restricted payments, purchase or redeem capital stock, make investments or extend credit, engage in certain transactions with affiliates, engage in sale leaseback transactions, consummate certain assets sales, effect a consolidation or merger, or sell, transfer, lease or otherwise dispose of all or substantially all assets, or create certain liens and other encumbrances on new assets.

Concurrently with the sale of the Convertible Debentures, the Company purchased a bond hedge designed to mitigate the potential dilution from the conversion of the Convertible Debentures. Under the five year term of the bond hedge, the sellers of the option (the counterparties) will deliver to the Company upon the Company s exercise of such options after a conversion of the Convertible Debentures a number of shares of common stock based on the extent to which the then market price of the Company s Class A Common Stock exceeds $29.10 per share. The aggregate number of shares that the Company could be obligated to issue upon conversion of the Convertible Debentures is approximately 9,450 shares. The bond hedge provides for net share settlement upon exercise.

The cost of the purchased bond hedge of approximately $67,200 was partially offset by the sale of warrants (the warrants) for approximately $37,900 to acquire up to approximately 9,450 shares of the Company s Class A Common Stock to the counterparties with whom the Company entered into the bond hedge. The warrants are exercisable in year five at a price of $37.248 per share. The warrants provide for net share settlement upon exercise based on the extent to which the then market price of the Company s Class A Common Stock at exercise exceeds the underlying strike price per share. The price of the bond hedge and premium from the sale of the warrants resulted in a net charge to Stockholders equity in the amount of approximately $29,300.

The net effect of the purchased bond hedge and the warrants is to reduce the potential dilution from the conversion of the Convertible Debentures. There would be dilution from the conversion of the Convertible Debentures to the extent that the then market price per share of the common stock exceeds $37.248 at the time of conversion. According to EITF 90-19, Convertible Bonds with Issuer Option to Settle for Cash upon Conversion and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock , the convertible debentures are accounted for as convertible debt. The options and warrants underlying the bond hedge are accounted for according to EITF 00-19 as equity securities.

On November 6, 2003, the Company entered into the 2003 Facility by amending and restating the 2002 Facility to (a) permit the OES acquisition and related incurrence of indebtedness, (b) increase the revolving credit facility by $25,000 to $75,000, (c) enter into a $462,825 Term C Loan of which $287,825 was used to repay in full the existing Term B Loan, $143,000 was used to pay the purchase price for the OES acquisition and the balance is available for general corporate purposes, and (d) make certain other changes to the Credit Agreement. In August 2005, the Company redeemed the remaining $7,645 of the 2000 Notes and paid a redemption premium of $478.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(10) Leases

At December 31, 2005, the Company was obligated under operating leases covering office equipment, office and warehouse space, transponders and transportation equipment expiring at various dates through 2010. Future minimum lease payments required under these leasing arrangements at December 31, 2005 are as follows: $11,500 in 2006; $10,500 in 2007; $9,400 in 2008; $7,500 in 2009; $3,400 in 2010 and $9,300 thereafter. Total rental expense under these operating leases was approximately $12,200, $15,300 and $12,600 in the years ended December 31, 2003, 2004 and 2005, respectively.

(11) Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to market data and other valuation techniques as appropriate. The Company believes the fair value of its financial instruments, principally cash and cash equivalents, accounts receivable, other current assets, accounts payable, cash flow hedges and accrued liabilities approximates their recorded values.

The Company believes that the fair value of its fixed interest rate debt approximated $498,043 and $497,235 at December 31, 2004 and 2005, respectively, based on reference to dealer markets. The Company believes that the fair value of its variable interest rate debt approximated $128,173 and $104,170 at December 31, 2004 and 2005, respectively, based on reference to dealer markets (see Note 9).

(12) Stockholders Equity

Preferred Stock

The Company has a total of 2,000 shares of preferred stock, $1.00 par value, authorized for issuance, none of which is currently outstanding.

In August 2004, the holders of our then outstanding shares of preferred stock known as Series A Convertible Preferred Stock converted their stock into an aggregate 23,832 shares of Class A Common Stock at a conversion price of $5.56 per share. The Preferred Stock had originally been issued in September 2000 for gross proceeds of $110 million and required dividend payments at a rate of 6% per annum. We satisfied the dividend requirement using additional shares of preferred stock through December 2003 and thereafter in cash. For the years ended December 31, 2002 and 2003, we issued approximately 74 and 77 shares of Series A Preferred Stock, respectively, as paid-in-kind dividends and recorded dividends of $7,484 and $7,661, respectively. For the period of January 2004 through conversion in August 2004, we paid the dividends on the Preferred Stock in cash totaling $4,721. Preferred stock dividends have been deducted in determining the amount of the net income available to common stockholders in the consolidated statements of operations.

Prior to conversion, the majority of the shares of Series A Convertible Preferred Stock were held by a subsidiary of MacAndrews & Forbes Holdings Inc. (MacAndrews), a privately held diversified holding company whose sole stockholder is Ronald O. Perelman. Upon conversion, MacAndrews was issued approximately 21.9 million shares of Common Stock which currently represents approximately 24.4% of our outstanding Common Stock. Based on its level of share ownership, MacAndrews has the right to designate up to four members of our Board of Directors pursuant to the provisions under a Stockholders Agreement with the Company dated September 6, 2000, as supplemented by an agreement dated June 26, 2002 and by an agreement dated October 10, 2003. The Stockholders Agreement was originally entered

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(12) Stockholders Equity (Continued)

into with holders of the Series A Convertible Preferred Stock in connection with the initial issuance of the Preferred Stock and provides for, among other things, the right of the holders to designate up to four members of the Board based on their ownership of Preferred Stock or the common stock issued upon conversion thereof. The percentages that must be maintained in order to designate directors are as follows: (a) 20% to designate four directors; (b) 16% to designate three directors; (c) 9% to designate two directors; and (d) 4.6% to designate one director. Such percentages, in each case, are to be determined based on our fully diluted common stock subject to certain exclusions of up to 10 million shares of common stock that may be issued in the future under the Company s shelf registration statement on Form S-3 (Registration No. 333-110477), which was filed with the SEC on November 13, 2003, amended on February 3, 2004 and declared effective on February 12, 2004 or in connection with the Convertible Notes and warrants sold in December 2004. In addition, if the Company fails to comply with certain of its obligations under the Stockholders Agreement, then, as long as such failure continues, the Board of Directors would be increased by 3 members, and the holders would have a right to designate 3 additional directors to serve on the Board.

Common Stock

The Company has two classes of common stock, consisting of Class A Common Stock and Class B Non-voting Common Stock (the Class B Common Stock). All shares of Class A Common Stock and Class B Common Stock entitle holders to the same rights and privileges except that the Class B Common Stock is non-voting. Each share of Class B Common Stock is convertible into one share of Class A Common Stock.

Warrants

During 2003, the Company issued 18 shares of Class A Common Stock upon the exercise of 43 warrants at a price of $3.32 per share. These warrants were exercised pursuant to a cashless exercise provision that permitted the payment of the exercise price to be satisfied by having the Company withhold a number of shares having a market value equal to the purchase price. The Company also issued 147 shares of Class A Common Stock in connection with the exercise of certain warrants to purchase Class B Common Stock at a price of $3.833 per share which were converted into Class A Common Shares in accordance with provisions contained in the warrant agreement.

During 2004, the Company issued 203 shares of Class A Common Stock upon the exercise of 250 warrants at a price of $3.58 per share. The warrants were exercised pursuant to a cashless exercise provision that permitted the payment of the exercise price to be satisfied by having the Company withhold a number of shares having a market value equal to the purchase price.

During 2004, the Company sold warrants to acquire up to approximately 9,450 shares of the Company s Class A Common Stock for approximately $37,900 to the parties with whom the Company entered into a bond hedge in connection with the Convertible Debentures. The warrants are exercisable in year five at a price of $37.248 per share. The warrants provide for net share settlement upon exercise based on the extent to which the then market price of the Company s Class A Common Stock at conversion exceeds the underlying strike price per share. The effect of the bond hedge and warrants sale was to reduce the potential dilution from the conversion of the Convertible Debentures. There would be dilution from

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(12) Stockholders Equity (Continued)

the conversion of the Convertible Debentures to the extent that the then market price per share of the common stock exceeds $37.248 at the time of conversion. (see Note 9).

Employee Stock Purchase Plan

In 2002, the Company adopted, and its stockholders approved, an Employee Stock Purchase Plan (ESPP) under which a total of up to 1,000 shares of Class A Common Stock may be purchased by eligible employees under offerings made by the Company each January 1 and July 1. Employees participate through payroll deductions up to a maximum of 15% of eligible compensation. The term of each offering period is six months and shares are purchased on the last day of the offering period at a discount on the stock s market value. Under an amendment to the ESPP adopted in 2005, the purchase price for offering periods beginning in 2006 will represent a 15% discount on the closing price of the stock on the last day of the offering period (rather than a 15% discount on the lower of (x) the closing price of the stock on the first day of the offering period and (y) the closing price of the stock on the last day of the offering period). For offering periods held in 2003, 2004 and 2005, the Company issued a total of 89, 75 and 55 shares, respectively, of common stock at an average price of $6.63, $15.43, and $21.56 per share, respectively.

(13) Stock Compensation Plans

In May 1995, the holders of certain stock options with exercise prices above market value as of May 26, 1995 exchanged such options to purchase 1,976 shares of Class A Common Stock for 504 Performance Accelerated Restricted Stock Units (PARS), representing deferred shares of Class A Common Stock, which vested between May 2001 and May 2005. As of December 31, 2005, no PARS remain outstanding. The Company has issued restricted shares and deferred shares with a three-year vesting schedule to certain non-employee directors under the Company s equity incentive plans. A total of 37, 14 and 10 restricted shares at a fair market value of $7.26, $16.84, and $23.99 per share were granted in years 2003, 2004 and 2005, respectively. In addition, in June 2003, the Company granted 48 shares of restricted stock at a fair market value of $7.96 per share under the 2003 plan to the Chairman and Chief Executive Officer in connection with an extension of his employment agreement. The restrictions on the shares are scheduled to lapse on the third anniversary of the date of grant. The Company has recorded compensation expense of $287, $426, and $480 in the years ended December 31, 2003, 2004, and 2005, respectively, as selling, general and administrative expenses in the consolidated statements of operations.

The Company grants stock options to employees and directors under the Company s equity incentive plans at not less than the fair market value of the stock at the date of grant. Options granted over the last several years have been exercisable in four or five equal installments beginning on the first anniversary of the date of grant with a maximum term of ten years.

Beginning in December 2005, the Company began shifting its equity compensation program for employees from awards that consisted primarily of stock options to a combination of stock options and restricted stock units, representing shares of deferred stock. Both types of equity awards will generally vest in five equal annual installments beginning on the first anniversary of the date of the award.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
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(13) Stock Compensation Plans (Continued)

Information with respect to the Company s stock options is as follows:

Stock Options	**Shares**	**Average Price (1)**
Outstanding at December 31, 2002	9,227	$ 3.95
Granted	2,533	11.14
Canceled	452	7.47
Exercised	1,973	2.41
Outstanding at December 31, 2003	9,335	6.06
Granted	2,042	20.64
Canceled	63	9.70
Exercised	2,874	4.09
Outstanding at December 31, 2004	8,440	10.23
Granted	2,891	27.07
Canceled	411	15.24
Exercised	1,219	5.95
Outstanding at December 31, 2005	9,701	15.52

(1) Weighted average exercise price

Summarized information about stock options outstanding and exercisable at December 31, 2005 is as follows:

	Outstanding			**Exercisable**	
Exercisable Price Range	**Shares**	**Average Life(1)**	**Average Price(2)**	**Shares**	**Average Price(2)**
$1.00 to 6.00	2,177	3.7	$ 3.38	2,013	$ 3.42
$6.01 to 15.00	2,089	5.5	7.56	1,563	7.42
$15.01 to 23.00	1,793	8.3	17.51	413	16.25
$23.01 to 27.00	1,120	9.0	23.25	209	23.18
over $27.00	2,522	9.7	27.73		NA
	9,701	7.1	15.52	4,198	7.16

(1) Weighted average contractual life remaining in years.

(2) Weighted average exercise price.

The number of shares and weighted average exercise price per share of options exercisable at December 31, 2003 and 2004 were 5,296 shares at $3.96 and 4,094 shares at $5.23, respectively.

At December 31, 2005, 3,446 shares are available for future grants under the terms of the Company s stock option plans. Outstanding options expire prior to December 30, 2015.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(14) Service Contract Arrangements

Service contracts for North American pari-mutuel wagering systems and lottery systems generally provide for substantial related services such as software, maintenance personnel, computer operators and certain operating supplies. The service contracts generally cover five to seven year periods and frequently include renewal options that have generally been exercised by the customers. Under such contracts, the Company retains ownership of all equipment. The service contracts also provide for certain warranties covering operation of the equipment, machines, display equipment and central computing equipment. The breach of such warranties could result in significant liquidated damages. The service contracts provide for revenue based on a percentage of total amounts wagered. Certain pari-mutuel wagering systems contracts provide for specified minimum levels of revenue. The Company has historically exceeded such minimums.

Instant ticket sales contracts provide for revenue based on a fixed fee per thousand instant tickets or a percentage of instant ticket retail sales of the lottery customer. Instant ticket contracts generally run for one to five years and frequently include renewal options.

(15) Export Sales and Major Customers

Sales to foreign customers amounted to $28,555, $40,690 and $48,935 in the years ended December 31, 2003, 2004 and 2005, respectively. For the year ended December 31, 2005 the Commonwealth of Pennsylvania represented more than 10% of the Company s total revenues. The revenue recognized on the Commonwealth of Pennsylvania contracts should continue to be substantial in coming years as the current contract expiration dates are 2007 and 2008.

(16) Pension Plans

The Company has two funded defined benefit pension plans. It has a defined benefit plan for its U.S. based union employees. Retirement benefits under this plan are based upon the number of years of credited service up to a maximum of 30 years for the majority of the employees. It also has a defined benefit plan for U.K. based employees. Retirement benefits under the U.K. plan are based on an employee s average compensation over the two years preceding retirement. The Company s policy is to fund the minimum contribution permissible by the respective tax authorities. The Company estimates that the amount to be funded in year 2006 will approximate $2,500.

The Company also has an unfunded, nonqualified Supplemental Executive Retirement Plan (the SERP), which is intended to provide supplemental retirement benefits for certain senior executives of the Company. The SERP provides for retirement benefits according to a formula based on each participant s compensation and years of service with the Company. The projected benefit obligation and accumulated benefit obligation for this plan were $12,429 and $9,519 at December 31, 2004 and $15,500 and $13,035 at December 31, 2005.

In December 2005, the Company curtailed the SERP, participation and benefit accruals under the plan have ceased, however no benefits have been paid out to any participants. The Company recorded a charge of $12,363 in the December 31, 2005 income statement for the termination of the SERP. The benefit distribution amounts were agreed upon for each participant and will continue to grow at a rate of

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(16) Pension Plans (Continued)

4% annually from the plan curtailment until benefits are distributed. In 2003, to provide a source for the payment of certain benefits under the SERP, the Company made an initial $14,700 cash payment to a rabbi trust, which in turn made a $14,700 payment for whole-life insurance policies on the participants. These policies have been placed in the rabbi trust, which will hold the policies and death benefits as they are received. The cash value of these policies was approximately $15,168 at December 31, 2005.

The Company consults with its independent actuaries when selecting the discount rate assumptions used to determine benefit obligations and net periodic cost. In selecting the discount rate for the U.S. Plan and the SERP Plan, the Company considers fixed-income security yields, specifically AA-rated corporate bonds, as rated by Moody s Investor Service. The discount rate assumptions for the benefit obligations for the plans were as follows: U.S. Plan - 5.75% for 2004 and 5.5% for 2005; SERP - 5.75% for 2004 and 5.5% for 2005; and U.K. Plan - 5.25% for 2004 and 4.75% for 2005. The discount rate assumptions for the net periodic cost of the plans were as follows: U.S. Plan 6.0% for 2004 and 5.75% for 2005; SERP 6.25% for 2004 and 5.75% for 2005; and U.K. Plan 5.5% for 2004 and 5.25% for 2005. The rate of compensation increase for the benefit obligations for the plans were as follows: U.S. Plan 0.0% for 2004 and 2005; SERP 4.0% for 2004 and 2005; and U.K. Plan 2.5% for 2004 and 2.75% for 2005.

The plan assets for the U.S. based plan are invested in Cigna General Account Fund (the Fund), which is guaranteed as to principal. In estimating the expected return on the U.S. Plan assets, the Company considers past performance and future expectations for the Fund. At December 31, 2005, the expected return on the U.S. Plan assets was 6.0% compared to 6.5% in the prior year. The SERP Plan has not been funded. The plan assets for the U.K. based plan are primarily invested in equity securities, and the expected return on plan assets was 8% for 2004 and 7.5% for 2005.

The calculation of benefits under the U.K. Plan reflects compensation increases of 3.0% in 2004 and 2005. The calculation of benefits under the SERP reflects compensation increases of 4.0% in 2004 and 2005.

The Company uses a measurement date of December 31 for its pension plans.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
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(16) Pension Plans (Continued)

The following table sets forth the combined funded status of the plans and their reconciliation with the related amounts recognized in our consolidated financial statements at the December 31 measurement dates:

	December 31, 2004	2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 47,191	59,051
Service cost	2,955	2,660
Interest cost	2,788	2,919
Participant contributions	940	843
SERP curtailment		4,289
Actuarial loss	4,953	6,521
Benefits paid	(760)	(707)
Settlement payments	(1,705)	
Other, principally foreign exchange	2,689	(4,484)
Benefit obligation at end of year	$ 59,051	71,092
Change in plan assets		
Fair value of plan assets at beginning of year	$ 23,029	30,302
Actual gain (loss) on plan assets	2,683	5,394
Employer contributions	2,796	2,267
Plan participant contributions	940	843
Benefits paid	(760)	(707)
Other, principally foreign exchange	1,614	(2,871)
Fair value of assets at end of year	$ 30,302	35,228
Funded status	$ (28,749)	(35,864)
Unrecognized actuarial loss	19,932	15,806
Unrecognized prior service cost	4,833	226
Unrecognized net transition obligation	6	1
Net liability amount recognized	$ (3,978)	(19,831)
Amounts recognized in the Consolidated Balance Sheets:		
Accrued benefit liability	$ (16,762)	(26,059)
Intangible asset	4,732	226
Accumulated other comprehensive income (pre-tax)	6,992	6,043
Prepaid pension cost	1,060	(41)
Net amount recognized	$ (3,978)	(19,831)

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(16) Pension Plans (Continued)

	December 31, 2003	2004	2005
Components of net periodic pension benefit cost:			
Service cost	$ 2,275	2,955	2,660
Interest cost	2,048	2,788	2,919
Expected return on plan assets	(1,481)	(2,041)	(2,246)
Actuarial loss	738	1,314	1,550
Net amortization and deferral	54	64	79
SERP curtailment			12,363
Amortization of prior service costs	532	768	768
Net periodic cost	$ 4,166	5,848	18,093

The accumulated benefit obligation for all defined benefit pension plans was $47,064 and $54,037 at December 31, 2004 and 2005, respectively. As required by SFAS 87, for pension plans for which the accumulated benefit obligation exceeds the fair value of plan assets, the Company has recognized in the consolidated balance sheet at December 31, 2004 and 2005 the additional minimum liability of the unfunded accumulated benefit obligation of $11,724 and $26,059, respectively, as a long-term liability, with a partially offsetting intangible asset and equity adjustment.

In connection with its U.S. based collective bargaining agreements, the Company participates with other companies in a defined benefit pension plan covering union employees. Payments made to the multi-employer plan were approximately $240, $225 and $288 during the years ended December 31, 2003, 2004 and 2005, respectively.

The Company has a 401(k) plan covering all U.S. based employees who are not covered by a collective bargaining agreement. Company contributions to the plan are at the discretion of the Company s Board of Directors. Contribution expense for the years ended December 31, 2003, 2004 and 2005 amounted to approximately $3,456, $4,470 and $2,405, respectively. The Company has a 401(k) plan for all union employees which does not provide for Company contributions.

The asset allocation of the Scientific Games International Pension Plan (UK Plan) as of December 31, 2004 and 2005, and the target allocation for 2006, by asset category, are as follows:

	Target Allocation 2006	Percentage of Plan Assets at December 31, 2005	2004
Equity securities	75 %	77 %	78 %
Real Estate	5 %	5 %	5 %
Bonds	20 %	16 %	17 %
Cash		2 %	
	100 %	100 %	100 %

The UK Plan investment policy is to maximize long term financial return commensurate with security and minimizing risk. This is achieved by holding a portfolio of marketable investments which avoids over-concentration of investment and spreads assets both over industry and geography.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The asset allocation of the U.S. Plan as of December 31, 2004 and 2005, and the target allocation for 2006, by asset category, are as follows:

	Target Allocation 2006	Percentage of Plan Assets at December 31, 2005	2004
General Insurance Contracts	100 %	100 %	100 %
	100 %	100 %	100 %

The U.S. Plan investment policy is to maximize long term financial return commensurate with security and minimizing risk. This is achieved by holding a portfolio of marketable investments which avoids over-concentration of investment and spreads assets both over industry and geography.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	U.K. Plan	U.S. Plan
2006	379	39
2007	396	48
2008	413	58
2009	430	66
2010	447	84
2011	2,495	926

(17) Income Tax Expense

	Years Ended December 31, 2003	2004	2005
The components of income before income taxes are as follows:			
United States (U.S.)	$ 61,550	76,103	95,888
Foreign	19,916	18,489	7,716
Consolidated income before income tax expense	$ 81,466	94,592	103,604

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(17) Income Tax Expense (Continued)

The components of the provision for income taxes are as follows:

	Years Ended December 31, 2003	2004	2005
Current			
U.S. Federal	$ 8,045	1,477	18,232
U.S. State	2,177	6,281	2,812
Foreign	4,435	6,557	5,953
Total	$ 14,657	14,315	26,997
Deferred			
U.S. Federal	$ 12,217	15,882	4,182
U.S. State	1,829	(1,739)	1,341
Foreign	616	392	(4,235)
Total	$ 14,662	14,535	1,288
Total income tax expense	$ 29,319	28,850	28,285

The reconciliation of the U.S. federal statutory tax rate to the actual tax rate is as follows:

Statutory U.S. federal income tax rate	35.00 %	35.00 %	35.00 %
U.S. state income taxes, net of federal benefit	3.20	3.12	2.61
Federal benefit of R&D credits, net	0.00	0.00	(5.76)
Foreign earnings at lower rates than U.S. federal rate	(3.56)	(.84)	(.64)
Federal benefit of extraterritorial income exclusion	0.00	(4.97)	(.71)
Federal expense (benefit) of U.S. permanent differences	.44	.60	.90
Federal benefit of original issue discount amortization		(.23)	(3.72)
Change in U.S. valuation allowance	0.00	(2.37)	(.67)
Other	.91	.19	.29
Effective income tax rate	35.99 %	30.50 %	27.30 %

The effective tax rate decreased to 27.3% in 2005 from 30.5% in 2004. In 2005, the Company recorded a federal tax benefit of 5.8% related to the realization of research and development credits, of which 4.5% will not recur. In 2005, the company also recorded a federal benefit of 3.7% from the amortization of original issue discount related to the issuance of long term debt in 2004. The Company s tax rate will continue to reflect a benefit from this amortization through 2010. The effect of these tax benefits were partially offset by a 4.2% reduction in the federal tax benefit for extraterritorial income exclusion and a smaller release of the valuation allowance in 2005 of 1.7%.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(17) Income Tax Expense (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. The deferred income tax balances are established using the enacted statutory tax rates and are adjusted for changes in such rates in the period of change.

	December 31, 2004	2005
Deferred tax assets		
Inventory valuation	$ 2,432	2,311
Reserves and other accrued expenses	9,391	3,024
Compensation not currently deductible	3,802	7,698
Employee pension benefit included in other comprehensive income	2,187	1,671
Unrealized losses included in other comprehensive income		364
Net operating loss carry forwards	32,632	23,791
Tax credit carry forwards	8,819	12,145
Valuation allowance	(5,664)	(6,016)
Realizable deferred tax assets	53,599	44,988
Deferred tax liabilities		
Deferred costs and prepaid expenses	(2,245)	(1,693)
Differences in financial reporting and tax basis for:		
Identifiable intangible assets	(22,396)	(24,185)
Property, plant and equipment	(10,778)	(9,286)
Accumulated DISC income	(7,043)	
Unrealized gains included in other comprehensive income	(25)	
Total deferred tax liabilities	(42,487)	(35,164)
Net deferred tax assets on balance sheet	$ 11,112	9,824
Reported as:		
Current deferred tax assets	$414	14,242
Non-current deferred tax assets	10,698	5,341
Non-current deferred tax liabilities		(9,759)
Net deferred tax assets on the balance sheet	$11,112	9,824

At December 31, 2005, the Company had net operating loss carry forwards (tax-effected) for federal, state and foreign income tax purposes of $12,607, $718 and $10,467, respectively. If not utilized, the federal tax loss carry forward will expire through 2022. The use of our federal net operating loss carry forwards in any one year is limited due to prior year changes in ownership. The foreign tax losses can be carried forward indefinitely.

The Company has foreign tax credit carry forwards of approximately $6,123 (which if unutilized will expire through 2015), Research & Development credit carry forwards of $3,717 (which if unutilized will

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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expire through 2020), minimum tax credit carry forwards of $2,079 (which can be carried forward indefinitely), and state tax credits of $225 (which if unutilized will expire through 2009.

At December 31, 2005, the Company has established a valuation allowance of $6,016 against the deferred tax assets related to the foreign tax loss carry forwards, where based on available evidence, it is more likely than not that such assets will not be realized. The net change in the valuation allowance for 2004 and 2005 was a decrease of $3,328 and an increase of $352, respectively.

U.S. income taxes have not been provided on the cumulative earnings of foreign subsidiaries that have been reinvested indefinitely. The Company s intention is to reinvest these earnings permanently. It is not practical to estimate the amount of tax that might be payable on these permanently reinvested earnings, but the Company believes that any additional US tax would be substantially offset by foreign tax credits.

On October 22, 2004, the American Jobs Creation Act of 2004 (the AJCA) was signed into law. The AJCA enacted a provision that provides the Company with the opportunity to repatriate up to $500,000 of reinvested earnings and to claim a deduction equal to 85% of the repatriated amount. The Company did not elect the benefit of this provision in 2004 or 2005.

(18) Business and Geographic Segments

Business segments are defined by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker assessing performance and making operating and capital decisions.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(18) Business and Geographic Segments (Continued)

The following tables represent revenues, profits, depreciation and amortization and assets by business and geographic segments for the years ended December 31, 2003, 2004 and 2005. Operating revenues are allocated among geographic segments based on where the customer is located. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. Corporate expenses, including depreciation and amortization, interest expenses and other income or expenses are not allocated among business and geographic segments.

	Year Ended December 31, 2003				
	Lottery Group	**Pari-Mutuel Group**	**Venue Management Group**	**Telecommunications Products Group**	**Totals**
Service revenues	$ 307,820	80,798	63,946		452,564
Sales revenues	54,685	5,399		48,263	108,347
Total revenues	362,505	86,197	63,946	48,263	560,911
Cost of services (exclusive of depreciation and amortization)	159,447	43,476	44,807		247,730
Cost of sales (exclusive of depreciation and amortization)	40,884	2,790		32,408	76,082
Amortization of service contract software	2,947	2,365			5,312
Selling, general and administrative expenses	40,538	11,208	3,403	4,998	60,147
Depreciation and amortization	25,319	11,718	2,001	2,630	41,668
Segment operating income	$ 93,370	14,640	13,735	8,227	129,972
Unallocated corporate selling, general and administrative costs, and depreciation and amortization					20,632
Consolidated operating income					$ 109,340
Assets at December 31, 2003	$ 566,790	83,064	35,283	43,347	728,484
Unallocated assets at December 31, 2003					234,505
Consolidated assets at December 31, 2003					$ 962,989
Capital and wagering systems expenditures	$ 26,663	6,639	830	1,476	35,608

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(18) Business and Geographic Segments (Continued)

	Year Ended December 31, 2004				
	Lottery Group	Pari-Mutuel Group	Venue Management Group	Telecommunications Products Group	Totals
Service revenues	$ 451,056	78,397	61,531		590,984
Sales revenues	62,506	4,140		67,865	134,511
Total revenues	513,562	82,537	61,531	67,865	725,495
Cost of services (exclusive of depreciation and amortization)	229,502	44,780	44,707		318,989
Cost of sales (exclusive of depreciation and amortization)	40,041	2,381		49,809	92,231
Amortization of service contract software	3,338	2,461			5,799
Selling, general and administrative expenses	58,630	9,495	4,084	6,313	78,522
Depreciation and amortization	38,470	10,808	1,951	3,305	54,534
Segment operating income	$ 143,581	12,612	10,789	8,438	175,420
Unallocated corporate selling, general and administrative costs, and depreciation and amortization					27,696
Consolidated operating income					$ 147,724
Assets at December 31, 2004	$ 655,878	78,263	34,228	55,694	824,063
Unallocated assets at December 31, 2004					269,162
Consolidated assets at December 31, 2004					$ 1,093,225
Capital and wagering systems expenditures	$ 64,435	14,949	389	660	80,433

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(18) Business and Geographic Segments (Continued)

	Year Ended December 31, 2005				
	Lottery Group	Pari-Mutuel Group	Venue Management Group	Telecommunications Products Group	Totals
Service revenues	$ 506,930	71,545	60,852		639,327
Sales revenues	75,430	10,313		56,613	142,356
Total revenues	582,360	81,858	60,852	56,613	781,683
Cost of services (exclusive of depreciation and amortization)	257,387	47,255	46,788		351,430
Cost of sales (exclusive of depreciation and amortization)	53,300	7,041		40,280	100,621
Amortization of service contract software	4,778	2,229			7,007
Selling, general and administrative expenses	68,053	12,265	3,263	5,600	89,181
Depreciation and amortization	43,438	9,654	1,960	3,556	58,608
Segment operating income	$ 155,404	3,414	8,841	7,177	174,836
Unallocated corporate selling, general and administrative costs, and depreciation and amortization					43,842
Consolidated operating income					$ 130,994
Assets at December 31, 2005	$ 813,083	95,377	36,382	43,794	988,636
Unallocated assets at December 31, 2005					183,877
Consolidated assets at December 31, 2005					$ 1,172,513
Capital and wagering systems expenditures	$ 109,474	18,512	1,676	13,512	143,174

The following table provides a reconciliation of segment operating income to the consolidated income before income tax expense for each period:

	Years Ended December 31,		
	2003	2004	2005
Reportable segment operating income	$ 129,972	175,420	174,836
Unallocated corporate expense	(20,632)	(27,696)	(43,842)
Interest expense	(26,397)	(30,952)	(26,548)
Other income (expense)	(1,184)	748	1,700
Equity in loss of joint venture		(6,060)	(2,064)
Early extinguishment of debt	(293)	(16,868)	(478)
Income before income tax expense	$ 81,466	94,592	103,604

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(18) Business and Geographic Segments (Continued)

	Years Ended December 31, 2003	2004	2005
Geographic Segments			
Service and Sales Revenue:			
North America	$ 416,372	524,061	569,720
Europe, other than United Kingdom	98,429	124,033	140,195
United Kingdom	10,383	17,358	12,707
Other	35,727	60,043	59,061
	$ 560,911	725,495	781,683
Long-lived assets (excluding identifiable intangibles):			
North America	$ 176,186	211,800	278,788
Europe, other than United Kingdom	7,619	8,927	29,384
United Kingdom	32,653	37,885	36,432
Other	12,272	12,814	21,615
	$ 228,730	271,426	366,219

(19) Equity in Loss of Joint Ventures

The Company is a member of Consorzio Lotterie Nazionali, a consortium consisting principally of the Company, Lottomatica S.p.A, and Arianna 2001, a company owned by the Federation of Italian Tobacconists. The consortium has a signed contract with the Italian Monopoli di Stato to be the exclusive operator of the Italian Gratta e Vinci instant lottery. The contract has an initial term of six years with a six year-extension option. Under our contract with the consortium, the Company will be the exclusive supplier of instant lottery tickets, will participate in the profits or losses of the consortium as a 20% equity owner, and will assist Lottomatica S.p.A in the lottery operations. The consortium commenced operations in mid-2004 and incurred losses in excess of revenues from the sale of instant tickets, reflecting higher than normal expenses for start-up and advertising costs incurred to re-launch the lottery. For the year ended December 31, 2004, the Company recorded an investment of approximately $2,900 and recorded a charge of $6,060, representing its share of the operating losses of the consortium for 2004. For the year ended December 31, 2005 the consortium continued to operate at a loss incurring fewer related costs and increased ticket sales. The Company recorded a charge of $1,713 for its share of the operating losses for 2005.

The Company is a 50% owner of a joint venture with Electronic Game Card, Inc. (EGC). EGC is a business to business company whose purpose is to distribute EGC s reward based digital games to consumers by use of various electronic platforms. These include television, the internet, cell phones, pocket Game Cards and other forms of distribution. In 2005, the Company s share of the EGC joint venture s losses totaled approximately $400 compared to $0 in 2004.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(20) Accumulated Other Comprehensive Income

The accumulated balances for each classification of comprehensive income are as follows:

	Foreign Currency Items	Unrealized Gains (Losses) On Securities	Minimum Pension Liability	Cash Flow Hedges	Accumulated Other Comprehensive Income
Balance at December 31, 2002	$ 3,147	(855)	(2,830)	212	(326)
Change during period (1)	7,181	891	(781)	(7,633)	(342)
Reclassification adjustments for Losses reclassified into operations				6,314	6,314
Balance at December 31, 2003	$ 10,328	36	(3,611)	(1,107)	5,646
Change during period (1)	6,708	26	(1,531)		5,203
Reclassification adjustments for Losses reclassified into operations				1,107	1,107
Balance at December 31, 2004	$ 17,036	62	(5,142)		11,956
Change during period (1)	(9,959)	41	1,011		(8,907)
Balance at December 31, 2005	$ 7,077	103	(4,131)		3,049

(1) Amounts are net of income taxes, excluding foreign currency items.

(21) Litigation

Although the Company is a party to various claims and legal actions arising in the ordinary course of business, the Company believes, on the basis of information presently available to us, that the ultimate disposition of these matters will not likely have a material adverse effect on its consolidated financial position or results of operations.

The Company s subsidiary, Scientific Games International, Inc. (SGI), owned a minority interest in Wintech de Colombia S.A., or Wintech (now liquidated), which formerly operated the Colombian national lottery under contract with Empresa Colombiana de Recursos para la Salud, S.A. (Ecosalud), an agency of the Colombian government. The contract projected that certain levels of lottery ticket sales would be attained and provided a penalty against Wintech, SGI and the other shareholders of Wintech of up to $5.0 million if such performance levels were not achieved. In addition, with respect to a further guarantee of performance under the contract with Ecosalud, SGI delivered to Ecosalud a $4.0 million bond issued by a Colombian surety, Seguros del Estado (Seguros). Wintech started the instant lottery in Colombia, but, due to difficulties beyond its control, including, among other factors, social and political unrest in Colombia, frequently interrupted telephone service and power outages, and competition from another lottery being operated in a province of Colombia which the Company believes was in violation of Wintech s exclusive license from Ecosalud, the projected sales level was not met for the year ended June 30, 1993. On July 1, 1993, Ecosalud adopted resolutions declaring, among other things, that the contract was in default and asserted various claims for compensation and penalties against Wintech, SGI and other shareholders of Wintech. Litigation is pending and/or threatened in Colombia concerning various claims among Ecosalud, Wintech and SGI, relating to the termination of the contracts with Ecosalud. Ecosalud s claims are for, among other things, realization of the full amount of the penalty, plus interest and costs of the bond. In 2002 the Colombian Government enacted new gaming and lottery legislation which included the

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(21) Litigation (Continued)

dissolution of Ecosalud. A new company, Empresa Territorial para la Salud (Etesa), was incorporated replacing Ecosalud. Etesa is the legal successor to Ecosalud with respect to the pending litigation.

The Colombian surety, Seguros, paid $2.4 million to Ecosalud under its $4.0 million bond, and made demand upon SGI for that amount under the indemnity agreement between the surety and SGI. SGI declined to make or authorize any such payment and notified the surety that any payment in response to Ecosalud s demand on the bond was at the surety s risk. In a case brought in U.S. District Court for the Northern District of Georgia, the Colombian surety sought to recover from SGI sums paid (in SGI s view, improperly) under its surety bond, plus interest. In September 1999, the District Court granted summary judgment for the surety in the amount of approximately $7 million (which included pre-judgment interest at a rate of 38.76% per annum). On appeal, the United States Court of Appeals for the Eleventh Circuit, on August 20, 2001, affirmed the judgment for the principal amount of $2.4 million, but vacated that part of the judgment awarding approximately $4.6 million based on a pre-judgment interest rate of 38.76% with instructions to the District Court to recalculate pre-judgment interest. On February 22, 2002, SGI agreed to settle this matter upon payment of $3.7 million to the Colombian surety. On February 26, 2002, SGI drew upon a $1.5 million letter of credit posted by a former Colombian partner in order to partially fund this payment. This settlement resolves the U.S. litigation with the surety, but the claims in Colombia remain unresolved.

On June 4, 1999, Ecosalud filed a collection proceeding against SGI before the Third Section of the Tribunal Contencioso of Cundinamarca in Colombia, which served notice on SGI in May 2002. In July 2002, the Tribunal Contencioso of Cundinamarca denied SGI s preliminary motion to dismiss the lawsuit and the decision was upheld by the Council of State, the highest appellate court with jurisdiction over this matter, in August 2003, of which SGI received notice in January 2004. As a result of these decisions, this lawsuit, which is in its early stages, will be heard in due course on its merits by the Tribunal Contencioso of Cundinamarca. Likewise, an appeal stage will be available before the Council of State of Colombia, the highest authority for these types of disputes.

SGI has various defenses on the merits as well as procedural defenses, which were timely filed against Ecosalud s claims. The Company intends to vigorously pursue these defenses as appropriate. On August 31, 2005, the procedural defense motion filed against this lawsuit was denied by the Tribunal Contencioso of Cundinamarca, while the appeal motion before the Council of State remains pending. Following final decision of the procedural motions, defenses on the merits will be heard. SGI also has certain cross indemnities and undertakings from the two other privately held shareholders of Wintech for their respective shares of any liability to Ecosalud. No assurance can be given that the other shareholders of Wintech will, or have sufficient assets to, honor their indemnity undertakings to SGI when the claims by Ecosalud against SGI and Wintech are finally resolved, in the event such claims result in any final liability. Although the Company believes that any potential losses arising from these claims will not result in a material adverse effect on our consolidated financial position or results of operations, it is not feasible to predict the final outcome, and there can be no assurance that these claims might not be finally resolved adversely to us or result in material liability.

On March 4, 2004, Gtech Corporation filed a lawsuit against the Company and several of its subsidiaries, Scientific Games International, Inc., Scientific Games Holdings Corporation and Scientific Games Finance Corporation, in the U.S. District Court for the District of Delaware. The lawsuit alleges

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(21) Litigation (Continued)

that the Company has infringed upon two patents owned by Gtech concerning instant lottery ticket vending and dispensing machines and methods. A judgment of non-infringement was entered in the Company s favor by the court on March 8, 2006. Gtech indicated intends to appeal, this judgment. If such consent order is entered and such an appeal is filed, the Company expects to vigorously contest the matter.

On May 9, 2005, the Company s subsidiary, Scientific Games Royalty Corporation, filed suit against Gtech Corporation in U.S. District Court for the District of Delaware alleging patent infringement of the Company s group participation multiplier patents, U.S. Patent Nos. 6,648,753 and 6,692,354. These patents apply to online lottery games that have an optional bonus wager as a feature of the game. In the event that a player wins a prize in the base game and has chosen to make the bonus wager, all of the player s prizes in the base game, with the exception of the jackpot amount, may be multiplied by a randomly selected multiplier. The Company believes that Gtech currently provides such games that infringe the Company s applicable patents in various jurisdictions in the United States. The lawsuit seeks damages and other relief for such infringement. Discovery is pending.

On December 30, 2004, Gtech Corporation and Gtech Holdings Corporation filed a complaint against the Company and others in a state court in Texas (Travis County, Texas, 98th Judicial District) alleging among other things dissemination of false and defamatory statements concerning Gtech and its business in Mexico and elsewhere, and that the Company was disqualified from Mexican bid procurements for online lottery services. The Company was served with the complaint in this matter on or about April 6, 2005, and the suit is in the early stages of discovery. The Company believes the claims in this suit lack merit and will contest them vigorously.

In early November 2005, the Company was advised that the North Carolina Secretary of State referred to the North Carolina Attorney General for investigation alleged misdemeanor violations of the North Carolina Lobbying Act by the Company s subsidiary Scientific Games International, Inc. and one of its now former employees for alleged failure to timely register as a lobbyist. The Company is cooperating with the investigation and, while no assurance can be given, the Company believes that the inquiry will conclude that the Company did not engage in any wrongdoing.

On November 27, 2002, the Company s subsidiary, Scientific Games International, Inc. filed a lawsuit against Oberthur Gaming Technologies Corp., in the District Court for the Northern District of Georgia. The Company seeks a declaratory judgment that the defendant s U.S. Patent Nos. 5,704,647 and 5,803,504, are invalid and unenforceable. The patents apply to Multi-Color Overprinting of Scratch-Off Lottery Tickets using screened half tone images of two, four, six or seven different colors, are invalid and unenforceable. The defendant filed a counterclaim seeking damages and injunctive relief for the Company s alleged infringement of certain of the claims of these patents. Following a hearing by the court on claim construction, the court issued a ruling on December 5, 2005 with respect to the scope of the patent claims asserted by the defendant against the Company. The court s ruling served to broaden the scope of relevant prior art in the matter. Although the Company believes that the prior art possessed by the Company should invalidate the patents asserted against us, there can be no assurance that the court will accept the Company s position. Failure to invalidate the patents could have a material effect on the Company s ability to utilize the claimed technology, including four-color process overprinting, absent a

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(21) Litigation (Continued)

license agreement from the defendant. Discovery in support of a planned motion for summary judgment is pending.

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

The Company conducts substantially all of its business through its domestic and foreign subsidiaries. The 2004 Notes, the Convertible Debentures and the 2004 Facility, are fully, unconditionally and jointly and severally guaranteed by substantially all of the Company s 100%-owned domestic subsidiaries (the Guarantor Subsidiaries).

Presented below is condensed consolidating financial information for (i) Scientific Games Corporation (the Parent Company), (ii) the 100% owned Guarantor Subsidiaries and (iii) the 100% owned foreign subsidiaries and the non-100% owned domestic and foreign subsidiaries (the Non-Guarantor Subsidiaries) as of December 31, 2004 and December 31, 2005 and for the years ended December 31, 2003, 2004 and 2005. 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, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries assuming the guarantee structure of the 2004 Facility, the Convertible Debentures and the 2004 Notes were in effect at the beginning of the periods presented. Separate financial statements for the 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.

Scientific Games Management Corporation has been reclassified from the Parent Company to the Guarantor Subsidiaries for 2004 and 2003.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

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

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2004

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
ASSETS					
Cash and cash equivalents	$	49,966	16,154		66,120
Short-term investments		52,525			52,525
Accounts receivable, net		74,438	32,592	(39)	106,991
Inventories		18,245	10,425	(608)	28,062
Other current assets	7,501	21,587	12,681	30	41,799
Property and equipment, net		211,424	60,633	(631)	271,426
Investment in subsidiaries	771,987	187,019	(36,563)	(922,443)	
Goodwill	183	297,000	14,748		311,931
Intangible assets		79,303	14,899		94,202
Other assets	24,499	88,118	15,777	(8,225)	120,169
Total assets	$ 804,170	1,079,625	141,346	(931,916)	1,093,225
LIABILITIES AND STOCKHOLDERS EQUITY					
Current installments of long-term debt	$ 1,000		3,370		4,370
Current liabilities	1,747	98,499	37,426	1,200	138,872
Long-term debt, excluding current installments	603,645		2,863		606,508
Other non-current liabilities	(22,681)	48,829	16,699	64	42,911
Intercompany balances	(390,560)	374,656	17,948	(2,044)	
Stockholders equity	611,019	557,641	63,040	(931,136)	300,564
Total liabilities and stockholders equity	$ 804,170	1,079,625	141,346	(931,916)	1,093,225

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

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

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
ASSETS					
Cash and cash equivalents	$	15,575	23,367		38,942
Short-term investments					
Accounts receivable, net		98,704	30,585	(39)	129,250
Inventories		29,653	10,920	(425)	40,148
Other current assets	4,938	22,102	19,173		46,213
Property and equipment, net		261,027	105,759	(567)	366,219
Investment in subsidiaries	417,182	187,577	(26,482)	(578,277)	
Goodwill	183	300,015	38,971		339,169
Intangible assets		74,638	12,651		87,289
Other assets	11,446	91,140	28,798	(6,101)	125,283
Total assets	$ 433,749	1,080,431	243,742	(585,409)	1,172,513
LIABILITIES AND STOCKHOLDERS EQUITY					
Current installments of long-term debt	$ 1,000		5,055		6,055
Current liabilities	(7,465)	96,259	46,398	115	135,307
Long-term debt, excluding current installments	573,000		1,680		574,680
Other non-current liabilities	(13,673)	61,143	22,162	6	69,638
Intercompany balances	(698,987)	658,194	40,793		
Stockholders equity	579,874	264,835	127,654	(585,530)	386,833
Total liabilities and stockholders equity	$ 433,749	1,080,431	243,742	(585,409)	1,172,513

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

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

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2003

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Operating revenues	$	436,777	133,168	(9,034)	560,911
Cost of services and cost of sales (exclusive of depreciation and amortization)		244,255	88,560	(9,003)	323,812
Amortization of service contract software		4,913	399		5,312
Selling, general and administrative expenses	8,718	58,733	12,635	(12)	80,074
Depreciation and amortization	(2)	32,873	9,502		42,373
Operating income (loss)	(8,716)	96,003	22,072	(19)	109,340
Interest expense	25,553	880	4,085	(4,121)	26,397
Other (income) deductions	658	(6,154)	2,598	4,082	1,184
Early extinguishment of debt	293				293
Income (loss) before equity in income of subsidiaries, and income taxes	(35,220)	101,277	15,389	20	81,466
Equity in income of subsidiaries	111,683			(111,683)	
Income tax expense	24,316	917	4,086		29,319
Net income	$ 52,147	100,360	11,303	(111,663)	52,147

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2004

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Operating revenues	$	576,266	171,221	(21,992)	725,495
Cost of services and cost of sales (exclusive of depreciation and amortization)		314,895	118,383	(22,058)	411,220
Amortization of service contract software		5,525	274		5,799
Selling, general and administrative expenses	1,189	85,887	18,210	(12)	105,274
Depreciation and amortization	1	43,168	12,309		55,478
Operating income (loss)	(1,190)	126,791	22,045	78	147,724
Interest expense	29,604	1,152	3,702	(3,506)	30,952
Other (income) deductions	(2,916)	(534)	5,292	3,470	5,312
Early extinguishment of debt	16,868				16,868
Income (loss) before equity in income of subsidiaries, and income taxes	(44,746)	126,173	13,051	114	94,592
Equity in income of subsidiaries	127,488			(127,488)	
Income tax expense	17,000	5,509	6,341		28,850
Net income	$ 65,742	120,664	6,710	(127,374)	65,742

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(22) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries (Continued)

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Operating revenues	$	602,820	204,251	(25,388)	781,683
Cost of services and cost of sales (exclusive of depreciation and amortization)		327,927	149,508	(25,384)	452,051
Amortization of service contract software		6,894	113		7,007
Selling, general and administrative expenses	2,592	106,455	22,792	5	131,844
Depreciation and amortization	109	44,930	14,748		59,787
Operating income (loss)	(2,701)	116,614	17,090	(9)	130,994
Interest expense	25,337	498	713		26,548
Other (income) deductions	(28,315)	21,452	7,232	(5)	364
Early extinguishment of debt	478				478
Income (loss) before equity in income of subsidiaries, and income taxes	(201)	94,664	9,145	(4)	103,604
Equity in income of subsidiaries	98,296			(98,296)	
Income tax expense	22,776	5,044	465		28,285
Net income	$ 75,319	89,620	8,680	(98,300)	75,319

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(22) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries (Continued)

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2003

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net income	$ 52,147	100,360	11,303	(111,663)	52,147
Depreciation and amortization	(2)	37,786	9,901		47,685
Equity in income of subsidiaries	(111,683)			111,683	
Non-cash interest expense	2,415				2,415
Early extinguishment of debt	293				293
Other non-cash adjustments	18,840	(4,741)	(52)		14,047
Tax benefit from employee stock options	6,600				6,600
Short-term investments	(42,175)				(42,175)
Changes in working capital	(7,672)	(1,101)	(3,812)	4,399	(8,186)
Net cash provided by (used in) operating activities	(81,237)	132,304	17,340	4,419	72,826
Cash flows from investing activities:					
Capital and wagering systems expenditures		(22,084)	(13,524)		(35,608)
Business acquisition, net of cash acquired		(167,889)	(16)		(167,905)
Other assets and investments	(7,500)	(39,267)	(298)	5,611	(41,454)
Net cash provided by (used in) investing activities	(7,500)	(229,240)	(13,838)	5,611	(244,967)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	462,641	907			463,548
Payments on long-term debt	(292,568)	(279)	(290)		(293,137)
Payment of financing fees	(237)				(237)
Net proceeds from stock issue	2,907		5,703	(5,703)	2,907
Other, principally intercompany balances	(101,338)	109,524	(3,859)	(4,327)	
Net cash provided by (used in) financing activities	71,405	110,152	1,554	(10,030)	173,081
Effect of exchange rate changes on cash		(416)	1,745		1,329
Increase (decrease) in cash and cash equivalents	(17,332)	12,800	6,801		2,269
Cash and cash equivalents, beginning of year	20,095	5,408	9,426		34,929
Cash and cash equivalents, end of year	$ 2,763	18,208	16,227		37,198

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(22) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries (Continued)

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2004

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net income	$ 65,742	120,664	6,710	(127,374)	65,742
Depreciation and amortization	1	48,693	12,583		61,277
Equity in income of subsidiaries	(127,488)			127,488	
Non-cash interest expense	2,107				2,107
Early extinguishment of debt	16,868				16,868
Other non-cash adjustments	(8,353)	366	86		(7,901)
Equity loss of joint ventures		6,060			6,060
Tax benefit from employee stock options	14,606				14,606
Short-term investments	42,175	(52,525)			(10,350)
Changes in working capital	(5,005)	(18,557)	(1,510)	(214)	(25,286)
Net cash provided by (used in) operating activities	653	104,701	17,869	(100)	123,123
Cash flows from investing activities:					
Capital and wagering systems expenditures	(952)	(71,697)	(6,991)	(793)	(80,433)
Investment in joint venture		(2,981)			(2,981)
Business acquisition, net of cash acquired		(1,709)	(21,661)		(23,370)
Other assets and investments	(34,299)	(8,211)	22,288	(17,480)	(37,702)
Net cash provided by (used in) investing activities	(35,251)	(84,598)	(6,364)	(18,273)	(144,486)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	597,000		5,418		602,418
Payments on long-term debt	(520,624)	(2,923)	(1,867)		(525,414)
Payment of financing fees	(7,376)				(7,376)
Net proceeds from stock issue	(23,718)	1,963	(19,828)	18,159	(23,424)
Other, principally intercompany balances	(15,722)	13,082	2,426	214	
Net cash provided by (used in) financing activities	29,560	12,122	(13,851)	18,373	46,204
Effect of exchange rate changes on cash	2,275	(466)	2,272		4,081
Increase (decrease) in cash and cash equivalents	(2,763)	31,759	(74)		28,922
Cash and cash equivalents, beginning of year	2,763	18,207	16,228		37,198
Cash and cash equivalents, end of year	$	49,966	16,154		66,120

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(22) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries (Continued)

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net income	$ 75,319	89,620	8,680	(98,300)	75,319
Depreciation and amortization	109	51,824	14,861		66,794
Equity in income of subsidiaries	(98,296)			98,296	
Non-cash interest expense	3,733				3,733
Early extinguishment of debt	478				478
Other non-cash adjustments	33,973	(1,773)	2,608		34,808
Equity loss of joint ventures		2,064			2,064
Tax benefit from employee stock options	11,394				11,394
Short-term investments		52,525			52,525
Changes in working capital	(6,792)	(40,837)	1,269	100	(46,260)
Net cash provided by (used in) operating activities	19,918	153,423	27,418	96	200,855
Cash flows from investing activities:					
Capital and wagering systems expenditures		(78,954)	(64,220)		(143,174)
Investment in joint venture					
Business acquisition, net of cash acquired		(4,094)	(20,721)		(24,815)
Other assets and investments	(16,100)	(9,009)	(17,876)	11,650	(31,335)
Net cash provided by (used in) investing activities	(16,100)	(92,057)	(102,817)	11,650	(199,324)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt			4,378		4,378
Payments on long-term debt	(30,645)		(4,141)		(34,786)
Payment of financing fees	(478)				(478)
Net proceeds from stock issue	8,348	38	11,683	(11,721)	8,348
Other, principally intercompany balances	19,250	(87,748)	100,106	(31,608)	
Net cash provided by (used in) financing activities	(3,525)	(87,710)	112,026	(43,329)	(22,538)
Effect of exchange rate changes on cash	(293)	404	(37,865)	31,583	(6,171)
Increase (decrease) in cash and cash equivalents		(25,940)	(1,238)		(27,178)
Cash and cash equivalents, beginning of year		41,515	24,605		66,120
Cash and cash equivalents, end of year	$	15,575	23,367		38,942

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(23) Selected Quarterly Financial Data (Unaudited)

	Quarter Ended March 31, 2004	Quarter Ended June 30, 2004	Quarter Ended September 30, 2004	Quarter Ended December 31, 2004 (a)
Total operating revenues	$ 185,465	178,112	179,309	182,609
Operating income	37,810	35,883	38,466	35,565
Net income	20,421	19,508	21,461	4,352
Convertible preferred stock paid-in-kind dividend	1,982	1,982	757	
Net income available to Common stockholders	$ 18,439	17,526	20,704	4,352
Basic and diluted earnings per share:				
Basic net income available to Common stockholders	$ 0.30	0.28	0.26	0.05
Diluted net income available to Common stockholders	$ 0.22	0.21	0.24	0.05
Weighted average number of shares used in per share calculations:				
Basic shares	61,942	63,153	78,661	88,071
Diluted shares	91,825	90,757	90,777	91,463

(a) In the fourth quarter the following charges to income, $3,100 of unusual charges in the pari-mutuel segment, a $6,060 charge for our share of the startup costs for the Italian joint venture that began selling tickets and a $16,868 charge for the early extinguishment of debt cost incurred in connection with the write-off of deferred financing fees related to our refinancing of the 2003 Facility and the payment of $6,862 of redemption premium for the purchase of most of our 12 ½% Senior Subordinated Notes.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share amounts)

(23) Selected Quarterly Financial Data (Unaudited) (Continued)

	Quarter Ended March 31, 2005	Quarter Ended June 30, 2005	Quarter Ended September 30, 2005	Quarter Ended December 31, 2005 (a)
Total operating revenues	$ 184,556	197,424	196,824	202,879
Operating income	36,830	41,645	31,185	21,334
Net income available to Common stockholders	$ 21,015	24,764	19,185	10,355
Basic and diluted earnings per share:				
Basic net income available to Common stockholders	$ 0.24	0.28	0.21	0.12
Diluted net income available to Common stockholders	$ 0.23	0.27	0.21	0.11
Weighted average number of shares used in per share calculations:				
Basic shares	88,616	89,207	89,689	89,780
Diluted shares	91,968	92,141	92,890	92,869

(a) In the fourth quarter the Company incurred charges for the curtailment of the SERP for $12,363, a non tax-deductible charge of $1,658 in connection with the earn-out on the Honsel acquisition and unanticipated legal and related consulting and severance expenses of $3,001 in connection with unusual matters in North Carolina, Chile, New Jersey and Louisiana.

(24) Subsequent Event

On January 23, 2006 the Company announced that it had signed a non-binding letter of intent to purchase The Global Draw LTD and certain related companies (Global Draw). In the United Kingdom, Global Draw is a leading supplier of fixed odds betting terminals and systems, and interactive sports betting systems. Global Draw is beginning to extend its central determination, fixed odds system to meet the needs of European video lottery markets. The nonbinding letter of intent specifies an upfront purchase price of approximately $183 million, plus an earn-out which will be paid to the selling shareholder and existing management team depending on the future financial performance of the business. The acquisition is expected to close within the first six months of 2006. The Company expects to finance the acquisition through a combination of borrowings under its existing revolving credit facility and new debt. The potential transaction is subject to the execution of a binding definitive agreement, and other conditions.

On January 20, 2006, the Company signed an agreement to acquire substantially all of the online lottery assets and all technology and intellectual property pertaining to the online lottery business of the Swedish firm EssNet AB (EssNet) for $60 million. EssNet specializes in online lottery systems and terminals to run numbers games, sports betting, instant tickets and mobile games on a national level. EssNet s lottery customers include seven states in Germany, the national lotteries of Hungary and Norway, Golden Casket and Tattersall s Lottery in Australia, and other national lotteries. The sale is subject to certain closing conditions including regulatory and customer approvals, purchase price adjustments, and other specified conditions. The Company will finance the purchase under its existing $250 million revolving credit facility.

SCHEDULE II

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
Valuation and Qualifying Accounts
Years Ended December 31, 2003, 2004 and 2005
(in thousands)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Other	Deductions(1)	Balance at End of Period
Year ended December 31, 2003					
Allowance for doubtful accounts	$ 3,772	2,262		1,445	4,589
Year ended December 31, 2004					
Allowance for doubtful accounts	$ 4,589	3,938	944	4,653	4,818
Year ended December 31, 2005					
Allowance for doubtful accounts	$ 4,818	5,948		4,617	6,149

(1) Amounts written off.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No disclosure required pursuant to this Item.

ITEM 9A. DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them in a timely fashion to all material information required to be included in our periodic filings with the SEC.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2005 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

The report called for by Item 308(a) of Regulation S-K is included herein as Management s Report on Internal Control Over Financial Reporting, included in Item 8 in this Form 10-K.

The attestation report called for by Item 308(b) of Registration S-K is included herein as Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, included in Item 8 in the Form 10-K.

ITEM 9B. OTHER INFORMATION.

No disclosure required pursuant to this Item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees (including our Chief Executive Officer, Chief Financial Officer and Corporate Controller) and have posted the Code on our website at www.scientificgames.com. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K relating to amendments to or waivers from any provision of the Code applicable to our Chief Executive Officer, Chief Financial Officer and Corporate Controller by posting such information on our website.

Information relating to our executive officers is included in Part I of this From 10-K, as permitted by General Instruction G(3). The other information called for by this item is incorporated by reference to our definitive proxy statement relating to our 2006 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before May 1, 2006, the information called for by this item will be filed as part of an amendment to this Form 10-K on or before such date, in accordance with General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2006 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before May 1, 2006, the information called for by this item will be filed as part of an amendment to this Form 10-K on or before such date, in accordance with General Instruction G(3).

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2006 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before May 1, 2006, the information called for by this item will be filed as part of an amendment to this Form 10-K on or before such date, in accordance with General Instruction G(3).

Equity Compensation Plan Information

The following table provides information about the shares of our Common Stock that may be issued upon the exercise of stock options, warrants and other stock rights under all of our equity compensation plans as of December 31, 2005.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted average exercise price of outstandin options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by security holders (1)	8,279,606	$ 13.51	3,376,266
Equity compensation plans not approved by security holders (2)	1,719,600	$ 21.60	70,107
Total	9,999,206	$ 14.90	3,446,373

(1) The Equity compensation plans approved by security holders consist of the 1992 Equity Incentive Plan; the 1997 Incentive Compensation Plan; the 2002 Employee Stock Purchase Plan; and the 2003 Incentive Compensation Plan.

(2) The Equity compensation plans not approved by security holders consist of employment inducement stock options awarded during 2002, 2003 and 2005; and the 1995 Equity Incentive Plan.

Inducement Stock Options. During 2002 and 2003, we granted stock options covering a total of 170,000 shares under employment inducement award agreements to four newly hired employees. These options, 93,800 of which remained outstanding at December 31, 2005, were granted at exercise prices ranging from $5.88 to $7.60 per share and each such option has a ten-year term and becomes exercisable in four equal annual installments, one-quarter of the total on each of the first four anniversaries of the date of grant. During 2005, we granted stock options covering a total of 1,275,000 shares under employment inducement award agreements to two newly hired employees, including a grant to Michael R. Chambrello, our President and Chief Operating Officer. Subsequent to December 31, 2005, the options, which have exercise prices ranging from $27.01 to $29.18, were partially cancelled such that one-half of shares subject to the options were cancelled. Each recipient received an award of restricted stock units under the Company s shareholder approved 2003 Incentive Compensation Plan based on a three-to-one formula (one restricted stock unit was issued for every three surrendered options). The options, 637,500 of which are currently outstanding, become exercisable in five equal annual installments, one-fifth of the total on each of the first five anniversaries of the date of grant, and expire on the tenth anniversary of the date of grant.

The 1995 Equity Incentive Plan. The 1995 Equity Incentive Plan, which was originally adopted by our Board of Directors in May 1995, authorizes grants of non-qualified stock options, deferred stock and other stock-related awards to employees who are not executive officers or directors. As of December 31, 2005, 350,800 shares were subject to outstanding awards under the 1995 Plan and 70,107 shares remained available for grant under the 1995 Plan. The 1995 Plan is administered by the Compensation Committee,

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which is authorized to select the participants, determine the type and number of awards to be granted and the number of shares of common stock to which awards will relate, specify times at which awards will be exercisable, set other terms and conditions of such awards, interpret and specify rules and regulations relating to the 1995 Plan, and make all other determinations that may be necessary or advisable for the administration of the 1995 Plan. The Committee s practice has been to award stock options which vest in four or five equal annual installments (with the first installment vesting on the first anniversary of the grant date), have an exercise price equal to the fair market value of the common stock on the grant date, and expire on the tenth anniversary of the date of grant. The Committee may, in its discretion, accelerate the exercisability, the lapsing of restrictions, or the expiration of deferral or vesting periods of any award, and such accelerated exercisability, lapse, expiration and vesting shall occur automatically in the event of a consolidation or merger of the Company or a sale of substantially all of the Company s assets. The Board may amend, suspend, discontinue, or terminate the 1995 Plan or the Committee s authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under the Nasdaq rules which would require stockholder approval for material modifications of the 1995 Plan. Unless earlier terminated, the 1995 Plan will terminate at such time that no shares reserved under the 1995 Plan remain available and the Company has no further obligation with respect to any outstanding award.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2006 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before May 1, 2006, the information called for by this item will be filed as part of an amendment to this Form 10-K on or before such date, in accordance with General Instruction G(3).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2006 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before May 1, 2006, the information called for by this item will be filed as part of an amendment to this Form 10-K on or before such date, in accordance with General Instruction G(3).

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2). Financial Statements and Financial Statements Schedule.

See Index to Consolidated Financial Statements under Item 8 in Part II hereof where these documents are listed.

(a) (3). Exhibits.

The following is a list of exhibits:

Exhibit Number	**Description**
3.1	Restated Certificate of Incorporation of the Company, filed with the Secretary of State of the State of Delaware on March 20, 2003 (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2000).
4.1	Indenture, dated as of December 23, 2004, among the Company, the Subsidiary Guarantors, and Wells Fargo, National Association, as trustee, relating to the 61/4% Senior Subordinated Notes Due 2012 (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on December 30, 2004).
4.2	Registration Rights Agreement, dated December 23, 2004, among the Company, the Subsidiary Guarantors, and J.P. Morgan Securities Inc., Bear Stearns & Co. Inc., Jefferies & Company, Inc., Ramius Securities, LLC, ABN AMRO Incorporated, BNY Capital Markets, Inc. and Commerzbank Capital Markets Corp. relating to the 61/4% Senior Subordinated Notes Due 2012 (incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-4 (No. 333-124106) filed on April 15, 2005 (the 2005 S-4)).
4.3	Form of 61/4% Senior Subordinated Note (incorporated by reference to Exhibits 4.3.(a) and 4.3(b) to the 2005 S-4).
4.4	Indenture, dated as of December 23, 2004, among the Company, the Subsidiary Guarantors, and Wells Fargo, National Association, as trustee, relating to the 0.75% Convertible Senior Subordinated Notes Due 2024 (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on December 30, 2004).
4.5	Registration Rights Agreement, dated December 23, 2004 by and among the Company, the Subsidiary Guarantors, and J.P. Morgan Securities Inc. and Bear, Stearns & Co. Inc. as representatives of the Initial Purchasers and Jefferies & Company, Inc., Ramius Securities, LLC, BNY Capital Markets, Inc., Commerzbank Capital Markets Corp. and LaSalle Debt Capital Markets, a division of ABN AMRO Financial Services, Inc. relating to the 0.75% Convertible Senior Subordinated Notes Due 2024 (incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-3 (No. 333-124107) filed on April 15, 2005 (the 2005 S-3)).
4.6	Form of 0.75% Convertible Senior Subordinated Debenture (incorporated by reference to Exhibits 4.3(a) and 4.3(b) to the 2005 S-3).
4.7	International Swaps and Derivative Association, Inc. Confirmation, dated December 23, 2004, between JPMorgan Chase Bank, National Association, and the Company with respect to Warrants (the JPMorgan Confirmation) (incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on December 30, 2004).

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4.8 International Swaps and Derivative Association, Inc. Confirmation, dated December 23, 2004, between Bear Stearns International Limited and the Company with respect to Warrants (the Bear Confirmation) (incorporated by reference to Exhibit 4.4 to the Company s Current Report on Form 8-K filed on December 30, 2004).

4.9 Amendment dated December 23, 2004 to the JPMorgan Confirmation (incorporated by reference to Exhibit 4.5 to the Company s Current Report on Form 8-K filed on December 30, 2004).

4.10 Amendment dated December 23, 2004 to the Bear Confirmation (incorporated by reference to Exhibit 4.6 to the Company s Current Report on Form 8-K filed on December 30, 2004).

10.1 Credit Agreement, dated as of December 23, 2004, among the Company, the several lenders from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities Inc. and Bear Stearns & Co., Inc., as joint lead arrangers and joint bookrunners, and Bear Stearns Corporate Lending Inc., as syndication agent (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 30, 2004).

10.2 Guarantee and Collateral Agreement, dated as of December 23, 2004, among the Company and each of the Company s subsidiaries listed on the signature page thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on December 30, 2004).

10.3 Stockholders Agreement, dated September 6, 2000, by and among the Company, MacAndrews & Forbes Holdings Inc. (formerly known as Mafco Holdings Inc.) (MacAndrews) (as successor in interest under the agreement to Cirmatica Gaming S.A.) and Ramius Securities, LLC (incorporated by reference to Exhibit 10.38 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 31, 2000).

10.4 Supplemental Stockholders Agreement, dated June 26, 2002, by and among the Company and MacAndrews (as successor in interest to Cirmatica Gaming S.A.) (incorporated by reference to Exhibit 4.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).

10.5 Letter Agreement, dated as of October 10, 2003, by and between the Company and MacAndrews further supplementing the Stockholders Agreement (incorporated by reference to Exhibit 3 to the Schedule 13D jointly filed by MacAndrews and SGMS Acquisition Corporation on November 26, 2003).

10.6 Share Purchase and Sale Agreement, dated April 4, 2005, by and among Scientific Games Chile Limitada, Epicentro S.A. and Inversiones Y Aesorias Iculpe Limitada (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on April 8, 2005).

10.7 1992 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.33 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 1998).*

10.8 1995 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.14 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 1997).*

10.9 1997 Incentive Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.14 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001).*

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10.10	2003 Incentive Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).*
10.11	Key Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.23 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2000).*
10.12	Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.17 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001).*
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10.20	Form of Letter Agreement dated December 18, 2002 between Scientific Games International, Inc. and certain executives (including William J. Huntley and Cliff O. Bickell), which amended their respective Employment and Severance Benefits Agreements (incorporated by reference to Exhibit 10.25 to Amendment No. 1 on Form 10-K/A to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002).*
10.21	Employment and Severance Benefits Agreement dated November 19, 2002 by and between Scientific Games International, Inc. and Steven M. Saferin (with an effective date of January 17, 2003) (incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).*
10.22	Employment and Severance Benefits Agreement dated December 15, 2005 between the Company and Ira H. Raphaelson. ( )*
10.23	Form of Change in Control Agreement effective November 1, 1997 between the Company and certain executives (including DeWayne E. Laird, Martin E. Schloss, William J. Huntley and Robert C. Becker) (incorporated by reference to Exhibit 10.27 to the Company s Quarterly Report on Form 10-Q for the quarter ended April 30, 1998).*

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10.24	Employment Inducement Stock Option Grant Agreement dated July 1, 2005 between the Company and Michael Chambrello (incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).*
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12	Computation of Ratio of Earnings to Fixed Charges ( )
21.1	List of Subsidiaries. ( )
23	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm. ( )
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. ( )
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. ( )
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ( )
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ( )

* Management contracts and compensation plans and arrangements.

( ) Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Dated: March 16, 2006

By: /s/ A. LORNE WEIL
A. Lorne Weil, Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 16, 2006.

Signature	Title
/s/ A. LORNE WEIL **A. Lorne Weil**	Chairman of the Board and Chief Executive Officer, and Director (principal executive officer)
/s/ DEWAYNE E. LAIRD **DeWayne E. Laird**	Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ PETER A. COHEN **Peter A. Cohen**	Director
/s/ GERALD J. FORD **Gerald J. Ford**	Director
/s/ JOSEPH R. WRIGHT,JR. **Joseph R. Wright,Jr.**	Director
/s/ SIR BRIAN G. WOLFSON **Sir Brian G. Wolfson**	Director
/s/ ERIC M. TURNER **Eric M. Turner**	Director
/s/ RONALD O. PERELMAN **Ronald O. Perelman**	Director
/s/ HOWARD GITTIS **Howard Gittis**	Director
/s/ BARRY F. SCHWARTZ **Barry F. Schwartz**	Director
/s/ MICHAEL J. REGAN **Michael J. Regan**	Director

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EXHIBIT INDEX

Exhibit Number	**Description**
3.1	Restated Certificate of Incorporation of the Company, filed with the Secretary of State of the State of Delaware on March 20, 2003 (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2000).
4.1	Indenture, dated as of December 23, 2004, among the Company, the Subsidiary Guarantors, and Wells Fargo, National Association, as trustee, relating to the 61/4% Senior Subordinated Notes Due 2012 (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on December 30, 2004).
4.2	Registration Rights Agreement, dated December 23, 2004, among the Company, the Subsidiary Guarantors, and J.P. Morgan Securities Inc., Bear Stearns & Co. Inc., Jefferies & Company, Inc., Ramius Securities, LLC, ABN AMRO Incorporated, BNY Capital Markets, Inc. and Commerzbank Capital Markets Corp. relating to the 61/4% Senior Subordinated Notes Due 2012 (incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-4 (No. 333-124106) filed on April 15, 2005 (the 2005 S-4)).
4.3	Form of 61/4% Senior Subordinated Note (incorporated by reference to Exhibits 4.3.(a) and 4.3(b) to the 2005 S-4).
4.4	Indenture, dated as of December 23, 2004, among the Company, the Subsidiary Guarantors, and Wells Fargo, National Association, as trustee, relating to the 0.75% Convertible Senior Subordinated Notes Due 2024 (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on December 30, 2004).
4.5	Registration Rights Agreement, dated December 23, 2004 by and among the Company, the Subsidiary Guarantors, and J.P. Morgan Securities Inc. and Bear, Stearns & Co. Inc. as representatives of the Initial Purchasers and Jefferies & Company, Inc., Ramius Securities, LLC, BNY Capital Markets, Inc., Commerzbank Capital Markets Corp. and LaSalle Debt Capital Markets, a division of ABN AMRO Financial Services, Inc. relating to the 0.75% Convertible Senior Subordinated Notes Due 2024 (incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-3 (No. 333-124107) filed on April 15, 2005 (the 2005 S-3)).
4.6	Form of 0.75% Convertible Senior Subordinated Debenture (incorporated by reference to Exhibits 4.3(a) and 4.3(b) to the 2005 S-3).
4.7	International Swaps and Derivative Association, Inc. Confirmation, dated December 23, 2004, between JPMorgan Chase Bank, National Association, and the Company with respect to Warrants (the JPMorgan Confirmation) (incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on December 30, 2004).
4.8	International Swaps and Derivative Association, Inc. Confirmation, dated December 23, 2004, between Bear Stearns International Limited and the Company with respect to Warrants (the Bear Confirmation) (incorporated by reference to Exhibit 4.4 to the Company s Current Report on Form 8-K filed on December 30, 2004).

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4.9	Amendment dated December 23, 2004 to the JPMorgan Confirmation (incorporated by reference to Exhibit 4.5 to the Company s Current Report on Form 8-K filed on December 30, 2004).
4.10	Amendment dated December 23, 2004 to the Bear Confirmation (incorporated by reference to Exhibit 4.6 to the Company s Current Report on Form 8-K filed on December 30, 2004).
10.1	Credit Agreement, dated as of December 23, 2004, among the Company, the several lenders from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities Inc. and Bear Stearns & Co., Inc., as joint lead arrangers and joint bookrunners, and Bear Stearns Corporate Lending Inc., as syndication agent (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 30, 2004).
10.2	Guarantee and Collateral Agreement, dated as of December 23, 2004, among the Company and each of the Company s subsidiaries listed on the signature page thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on December 30, 2004).
10.3	Stockholders Agreement, dated September 6, 2000, by and among the Company, MacAndrews & Forbes Holdings Inc. (formerly known as Mafco Holdings Inc.) (MacAndrews) (as successor in interest under the agreement to Cirmatica Gaming S.A.) and Ramius Securities, LLC (incorporated by reference to Exhibit 10.38 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 31, 2000).
10.4	Supplemental Stockholders Agreement, dated June 26, 2002, by and among the Company and MacAndrews (as successor in interest to Cirmatica Gaming S.A.) (incorporated by reference to Exhibit 4.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.5	Letter Agreement, dated as of October 10, 2003, by and between the Company and MacAndrews further supplementing the Stockholders Agreement (incorporated by reference to Exhibit 3 to the Schedule 13D jointly filed by MacAndrews and SGMS Acquisition Corporation on November 26, 2003).
10.6	Share Purchase and Sale Agreement, dated April 4, 2005, by and among Scientific Games Chile Limitada, Epicentro S.A. and Inversiones Y Aesorias Iculpe Limitada (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on April 8, 2005).
10.7	1992 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.33 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 1998).*
10.8	1995 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.14 to the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 1997).*
10.9	1997 Incentive Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.14 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001).*
10.10	2003 Incentive Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).*
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