SCIENTIFIC GAMES CORP
Form 10-K
February 29, 2012

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

FORM 10-K

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

For the fiscal year ended: December 31, 2011

Or

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

For the transition period from to
Commission file number: 0-13063

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

Delaware	**81-0422894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

750 Lexington Avenue, 25th Floor
New York, New York 10022
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(212) 754-2233**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

As of June 30, 2011 the market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $591,270,442(1).

Common shares outstanding as of February 24, 2012 were 92,539,907.

DOCUMENTS INCORPORATED BY REFERENCE

The following document is incorporated herein by reference:

Document	Parts Into Which Incorporated
Proxy Statement for the Company's 2012 Annual Meeting of Stockholders	Part III

(1) For this purpose only, "non-affiliates" excludes directors and executive officers.

EXHIBIT INDEX APPEARS ON PAGE 150

PART I
FORWARD-LOOKING STATEMENTS

Throughout this Annual Report on Form 10-K we make "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements describe future expectations, plans, results or strategies and can often be identified by the use of terminology such as "may," "will," "estimate," "intend," "continue," "believe," "expect," "anticipate," "could," "potential," "opportunity," or similar terminology. The forward-looking statements contained in this Annual Report on Form 10-K are generally located in the material set forth under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. These statements are based upon management's current expectations, assumptions and estimates and are not guarantees of future results or performance. Actual results may differ materially from those contemplated in these statements due to a variety of risks and uncertainties and other factors, including, among other things: competition; material adverse changes in economic and industry conditions; technological change; retention and renewal of existing contracts and entry into new or revised contracts; availability and adequacy of cash flows to satisfy obligations and indebtedness or future needs; protection of intellectual property; security and integrity of software and systems; laws and government regulation, including those relating to gaming licenses, permits and operations; inability to identify, complete and integrate future acquisitions; inability to benefit from, and risks associated with, strategic equity investments and relationships; failure of Northstar to meet the net income targets or otherwise realize the anticipated benefits under its private management agreement with the Illinois Lottery; seasonality; inability to identify and capitalize on trends and changes in the lottery and gaming industries, including the potential expansion of regulated gaming via the internet; inability to enhance and develop successful gaming concepts; dependence on suppliers and manufacturers; liability for product defects; fluctuations in foreign currency exchange rates and other factors associated with international operations; influence of certain stockholders; dependence on key personnel; failure to perform on contracts; resolution of pending or future litigation; labor matters; and stock price volatility. Additional information regarding risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated in forward-looking statements is included from time to time in our filings with the Securities and Exchange Commission ("SEC"), including under the heading "Risk Factors" in this Annual Report on Form 10-K. Forward-looking statements speak only as of the date they are made and, except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

You should also note that this Annual Report on Form 10-K contains various references to industry market data and certain industry forecasts. The industry market data and industry forecasts were obtained from publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of that information is not guaranteed. Similarly, industry forecasts, while we believe them to be accurate, are not independently verified by us and we do not make any representation as to the accuracy of that information. In general, we believe there is less publicly available information concerning the international lottery industry than the lottery industry in the U.S.

ITEM 1. BUSINESS

Unless otherwise specified or the context otherwise indicates, all references to the words "Scientific Games," "we," "us," "our," and the "Company" refer to Scientific Games Corporation and its consolidated entities. "SGI" refers to Scientific Games International, Inc., a wholly owned subsidiary of Scientific Games Corporation. "U.S. jurisdictions" refer to the 50 states in the U.S. plus the District of Columbia and Puerto Rico. "International" refers to non-U.S. jurisdictions. "Online lottery" refers to a computerized system in which lottery terminals in retail outlets are continuously connected to a central computer system for the activation, sale and validation of lottery tickets and related functions. "Wide area gaming" generally refers to a collection of video lottery and/or other gaming terminals in which the terminals are distributed across a large number of venues, with relatively few terminals per venue. "Net win" generally refers to amounts wagered less prize payouts and taxes.

Scientific Games Corporation was incorporated in the state of Delaware on July 2, 1984. We are a global leader in providing customized, end-to-end gaming solutions to lottery and gaming organizations worldwide. Our integrated products and services include instant lottery games, lottery gaming systems, terminals and related services, and internet applications, as well as server-based interactive gaming machines and associated gaming control systems. We also gain access to technology and pursue global expansion through strategic equity investments.

Industry Overview

Lottery

Lotteries are operated by domestic and international government authorities and their licensees in approximately 179 jurisdictions throughout the world. Currently, 45 U.S. jurisdictions have online draw lotteries and 44 U.S. jurisdictions have instant ticket lotteries. Governments typically authorize lotteries as a means of generating revenues without imposing additional taxes. Net lottery proceeds are frequently set aside for a particular public purpose, such as education, aid to the elderly, conservation, transportation and economic development. Many jurisdictions have come to rely on the proceeds from lottery ticket sales as a significant source of funding for these programs. Although there are many types of lottery games worldwide, the two principal categories of products offered by government authorized lotteries are instant tickets and draw games.

An instant ticket lottery is typically played by removing a scratch-off coating from a preprinted ticket to determine whether it is a winner. Draw lottery games, such as Powerball® and Mega Millions®, are based on a random selection of a series of numbers, and prizes are generally based on the number of winners who share the prize pool, although set prizes are also offered. Online draw lotteries are conducted through a computerized system in which lottery terminals in retail outlets are continuously connected to a central computer system. Online lottery systems may also be used to validate instant lottery tickets to confirm that a ticket is a winner and prevent duplicate payments. In some jurisdictions, separate instant ticket validation systems may be installed. Based on industry information, U.S. instant ticket lottery retail sales and U.S. draw lottery retail sales totaled approximately $33 billion and approximately $23 billion, respectively, during the U.S. lottery industry's 2011 fiscal year (which is generally June 30, 2011). Based on industry information, we estimate that worldwide instant ticket lottery retail sales and worldwide draw lottery retail sales totaled approximately $65 billion and approximately $181 billion, respectively, during fiscal year 2010. Recent industry data indicates that instant ticket retail sales in the U.S. have generally been growing faster than draw lottery retail sales, which we believe is due to offering a variety of price-points, increased prize payouts and more frequent game introductions.

In early 2010, U.S. lotteries began cross-selling the multi-state Powerball and Mega Millions draw lottery games, enabling players in lottery states to play big jackpot games with drawings four days a week. During 2011, U.S. lotteries authorized certain changes to the Powerball multi-state draw lottery game, including an increase in the ticket price to $2, which were effective on January 15, 2012. The increase in the Powerball ticket price potentially provides an impetus for growth in draw lottery retail sales.

Lotteries may offer a range of other games. In the U.S., some lotteries offer monitor games such as keno, which is typically played every four to five minutes in restricted social settings, such as bars, and is usually offered as an extension of the online lottery system. Domestic and international lotteries may also offer video lottery terminals ("VLTs"), which enable players to wager on games such as poker, blackjack and slot machine-like line games, with the terminals connected to a central monitoring and control system for security and accounting by the lottery. In the U.S., VLTs are typically offered at horse and greyhound racetracks, bars, truck stops, nightclubs and similar establishments. Internationally, lotteries may also offer other forms of gaming such as casino games, bingo and sports wagering.

Wide Area Gaming

Wide area gaming refers to a collection of gaming machines that are distributed across a large number of venues, with relatively few terminals per venue. This contrasts with casino-type venues, where a large number of gaming machines are housed in a single venue. Wide area gaming may involve commercial gaming operators, such as licensed betting shops in the U.K., or gaming operators affiliated with governments such as lotteries.

Wide area gaming encompasses a number of categories including server-based gaming machines and other gaming devices that are increasingly converging as networked video gaming machines. Server-based technologies provide for a quick and easy refresh of game content on gaming machines in the field from a central location. We offer operators in the wide area gaming industry an integrated product offering comprised of server-based gaming machines, systems and content.

Operational Overview

We report our operations in three business segments: Printed Products; Lottery Systems; and Gaming. Certain financial information relating to our segments, including segment revenue, operating income (loss) and total assets for the last three fiscal years, is included in Note 15 to our Consolidated Financial Statements (Business Segments), which information is incorporated herein by reference. Note 15 also includes information regarding our revenue attributed to, and our long-lived assets held in, the U.S. and the other geographic areas in which we operate or hold assets. Risks related to our international operations are described under the heading "Risk Factors" in this Annual Report on Form 10-K.

The following table summarizes the primary business activities and investments included in each segment.

Segment	Primary Business Activities	Strategic Equity Investments
Printed Products		
	Design, printing and sale of instant lottery tickets to lottery operators	Lotterie Nazionali S.r.l. ("LNS") 20% equity interest in the operator of the Gratta e Vinci instant ticket lottery in Italy
	Provision of instant ticket-related value-added services to lottery operators	Northstar Lottery Group ("Northstar") 20% equity interest in the private manager of the Illinois Lottery
	Provision of licensed properties, player loyalty programs, second chance drawings and internet-based products primarily to lottery operators	CSG Lottery Technology (Beijing) Co., Ltd. ("CSG") 49% equity interest in the instant ticket supplier to the China Sports Lottery
	Printing and sale of phone cards	
Lottery Systems		
	Provision of lottery systems, including equipment, software, data communication services and support to lottery operators	Guard Libang 50% equity interest in a provider of lottery systems and services for the China Welfare Lottery
	Provision of instant ticket validation systems to lottery operators	
	Provision of central monitoring and control systems to lottery operators and gaming regulators	
	Provision of software, hardware and support for sports wagering systems and keno to lottery operators	
Gaming		
	Provision of server-based gaming machines, systems and content to commercial gaming operators such as betting shops, bingo halls, arcades and pubs	Roberts Communication Network ("RCN") 29.4% equity interest in provider of communications services to racing and non-racing customers
	Provision of interactive gaming products and content primarily to gaming operators	Sportech Plc ("Sportech") 20% equity interest in operator and supplier of football pools and tote systems

Printed Products

Our Printed Products segment is primarily comprised of our global instant ticket lottery business. We generate revenue from the manufacturing and sale of instant tickets, as well as the provision of value-added services such as game design, sales and marketing support, specialty games and promotions, inventory management and warehousing and fulfillment services. We also provide lotteries with cooperative service programs, or CSPs, to help them efficiently and effectively manage and support their operations to achieve higher retail sales and lower operating costs. Moreover, we provide licensed games, promotional entertainment and internet-based services to the lottery industry.

In 1974, we introduced the first secure instant lottery game ticket. We believe we are the leading designer, manufacturer and distributor of instant lottery tickets in the world. We market instant lottery tickets and related services to domestic and international lotteries and commercial (non-lottery) customers. We supply instant lottery tickets to 41 of the 44 U.S. jurisdictions that sell instant lottery tickets. In addition, we have sold instant lottery tickets to customers in approximately 50 countries. Our U.S. instant ticket contracts typically have an initial term of three to five years and frequently include multiple renewal options for additional periods ranging from one to five years, which our customers have generally exercised in the past. We typically sell our instant lottery tickets for a price per thousand units ("PPK") or for a fee equal to a percentage of the retail sales of the instant lottery tickets sold ("POS"). Some international customers purchase instant lottery tickets as needed rather than through multi-game supply contracts.

We pioneered the concept of providing lotteries with customized CSPs in which we help manage a lottery's instant ticket program as a means to increase profits of the lottery. Our CSP contracts bundle the design and manufacturing of instant lottery tickets, instant game management systems, marketing services, which can include the design and installation of game management software, inventory and distribution, sales, accounting, training and advisory services, marketing and research, and retailer training and recruitment. Under our CSP contracts, we are typically paid on a POS basis.

We operate six instant ticket printing facilities across five continents (including the facility owned by CSG) with an aggregate capacity to print approximately 45 billion 2" × 4" equivalent standard instant lottery tickets annually. The instant lottery tickets we manufacture are typically printed on recyclable ticket stock by a series of computer-controlled presses and ink-jet imagers, which we believe incorporate the most advanced technology and security in the industry. Instant lottery tickets generally range in size from 2" × 3" to as large as 8" × 12". Instant lottery tickets are normally played by removing a scratch-off coating to determine if they are winning tickets.

Technology and security requirements necessary to manufacture and service instant lottery tickets continue to separate our business from conventional forms of printing. We believe we are generally recognized within the lottery industry as the leader in applying computer-based technologies to the manufacturing and sale of instant lottery tickets. In order to maintain our position as a leading innovator within the lottery industry, we intend to continue to explore and develop new technologies and their applications to instant lottery tickets and systems.

We provide lotteries with access to some of the world's most popular entertainment brands on lottery products through our subsidiary MDI Entertainment LLC ("MDI"), which we believe helps increase their instant ticket sales. Our licensed entertainment brands include Harley-Davidson®, Major League Baseball®, Monopoly , National Basketball Association®, The Price is Right®, Wheel-of-Fortune® and World Poker Tour®. We also provide branded merchandise prizes, advertising, promotional support, turnkey drawing management services and prize fulfillment programs. In addition, we offer lotteries a web-based platform called Properties Plus®, which features players clubs, reward programs, second chance promotional websites, interactive games and, subject to applicable law, a subscription system that enables players to purchase lottery games securely over the internet.

LNS. We are a 20% equity owner in LNS, an entity comprised principally of us, Lottomatica Group S.p.A. ("Lottomatica") and Arianna 2001, a company owned by the Federation of Italian Tobacconists, that was awarded the concession from the Italian Monopoli di Stato to be the exclusive operator of the Italian Gratta e Vinci instant ticket lottery beginning on October 1, 2010. The concession has an initial term of nine years (subject to a performance evaluation during the fifth year) and could be extended by the Monopoli di Stato for an additional nine years. We are the primary supplier of instant lottery tickets for LNS, under which we expect to provide no less than 80% of total instant tickets through our PPK supply contract with LNS.

Northstar. We are a 20% equity owner in Northstar, an entity formed with GTECH Corporation, a subsidiary of Lottomatica, to bid for the agreement to be the private manager for the Illinois Lottery for a ten-year term. Northstar was selected as the private manager following a competitive procurement and entered into a private management agreement with the State of Illinois on January 18, 2011 (the "PMA"). Operations under the PMA commenced on July 1, 2011. As the private manager, Northstar, subject to the oversight of the Illinois Lottery, manages the day-to-day operations of the lottery including lottery game development and portfolio management, retailer recruitment and training, supply of goods and services and overall marketing strategy. Under our CSP contract with Northstar, we are the exclusive supplier of instant lottery tickets and are responsible for the instant ticket design, development, manufacturing, warehousing and distribution.

CSG. We are a 49% equity owner in CSG, which holds a 15-year contract to supply instant lottery tickets to the China Sports Lottery. In connection with the contract, CSG established an instant ticket manufacturing facility that began producing instant lottery tickets at the end of 2008. The facility has capacity to print eight billion 2" by 4" standard instant ticket units annually. We also receive a royalty fee from CSG for intellectual property rights deemed necessary to promote lottery ticket sales equal to 1% of the total gross profits distributed by CSG.

Lottery Systems

We are a leading provider of customized computer software, software support, equipment and data communication services to lotteries. In the U.S., we typically provide the necessary equipment, software and maintenance services pursuant to long-term contracts that typically have an initial term of at least five years under which we are generally paid a fee equal to a percentage of the lottery's total retail sales. Our U.S. contracts typically contain multiple renewal options that generally have been exercised by our customers in the past. Internationally, we typically sell point-of-sale terminals and/or computer software to lottery authorities and may provide ongoing fee-based systems and software support services.

Our lottery systems use proprietary technology that facilitates high-speed processing of wagers as well as validation of winning draw and instant tickets. Our lottery systems business includes the supply of transaction-processing software, draw lottery games, keno, point-of-sale terminals, central site computers and communication platforms as well as ongoing operational support and maintenance services. We have contracts to operate online lottery systems for 11 of the 45 U.S. jurisdictions that operate draw lotteries. We believe we are the second largest online lottery provider in the U.S. and a leading provider in Europe. Internationally, we have lottery systems operating in Argentina, Australia, Canada, China, France, Germany, Hungary, Iceland, Israel, Latvia, Mexico, Norway, the Philippines, Spain, Sweden and Switzerland. We are the exclusive instant ticket validation network provider to the China Sports Lottery.

In addition, we provide video lottery central monitoring and control systems and networks primarily to lotteries and gaming regulators. We currently have central monitoring and control systems contracts in Australia, Canada, Delaware, Iceland, Illinois, Maine, New Mexico South Dakota and West Virginia. We also provide software, hardware and support for sports wagering systems.

Guard Libang. We have a 50% equity ownership interest in Guard Libang, a provider of instant ticket activation and validation and inventory management systems and services to a majority of the China Welfare Lottery provincial jurisdictions.

Gaming

We are a leading provider of server-based gaming machines and systems and other products and services to operators in the wide area gaming industry. Our Gaming segment includes The Global Draw Limited ("Global Draw"), a leading supplier of server-based gaming machines and systems and game content primarily to bookmakers that operate licensed betting offices ("LBOs") in the U.K. and, increasingly, to gaming operators outside the U.K. The Gaming segment also includes Barcrest Group Limited ("Barcrest") and Games Media Limited ("Games Media"), leading suppliers of gaming machines, systems and game content to pubs, bingo halls and arcades in the U.K. and continental Europe. We provide many of our Gaming customers with a turnkey offering, which typically includes gaming machines, remote management of game content and management information, central computer systems, secure data communication and field support services. We develop our own game content and supplement our offering with content from third parties.

Our U.K. LBO contracts generally have initial terms of two to four years under which we are typically paid a fee equal to a percentage of net win. We had an installed base of approximately 23,100 LBO gaming machines in the U.K. as of December 31, 2011, which included approximately 8,000 LBO gaming machines rolled out in 2011 for Ladbrokes Betting and Gaming Ltd. ("Ladbrokes") under a contract awarded to Global Draw in 2010. In 2011, Global Draw completed the migration of its server-based gaming machines in the U.K. to a new back-end technology platform. Global Draw began migrating its server-based gaming machines outside the U.K. to this technology during the third quarter of 2011.

On September 23, 2011, we completed the acquisition of Barcrest, a leading supplier of gaming content, platforms and systems to gaming operators in the U.K. and continental Europe, including pubs, LBOs, bingo halls and arcades. The acquisition provides us with an expansive library of gaming titles and properties, as well as an existing base of business in interactive gaming in which Barcrest game content is made available through internet, mobile and other digital delivery channels.

In January 2012, following a comprehensive strategic review, we announced our exit of the Barcrest analog amusement with prize ("AWP") machine business in order to focus our game design and other resources solely on a digital server-based model in light of prevailing conditions in the pub sector and the contracting business for analog AWP products. This strategic review also resulted in a decision to reorganize the Games Media digital supply business to more effectively capitalize on the Barcrest acquisition. Games Media's content and terminals are offered as part of a turnkey digital gaming product offering to pubs. As of December 31, 2011, we had an installed base of approximately 6,100 gaming machines in our U.K. pub, bingo hall and arcade business.

We continue to seek to expand our server-based gaming machine business outside the U.K., with current deployments in the Caribbean, Czech Republic, Italy, Mexico, Lithuania, Puerto Rico, and Poland. As of December 31, 2011, the Company had an installed base of approximately 6,500 gaming machines outside of the U.K.

Sciplay. As of December 31, 2011, we owned a 50% interest in Sciplay, a joint venture with Playtech Services (Cyprus) Limited ("Playtech"), a subsidiary of Playtech Limited to deliver internet gaming solutions to government-sponsored and government-regulated lotteries and certain other gaming operators. Sciplay was formed to capitalize on the combination of Playtech's internet gaming software and content and our experience and relationships with lotteries and other gaming operators. On January 23, 2012, we entered into an agreement with Playtech that restructured this strategic relationship from a joint venture arrangement to a license arrangement. Under the agreement, Playtech will license its internet gaming software to us on a mutually non-exclusive basis for use by certain categories of our current and prospective customers, including U.S. casinos and lotteries worldwide. The Sciplay-related entities are now wholly owned subsidiaries of Scientific Games.

Roberts Communication Network. We have a 29.4% equity interest in RCN, which provides communications services to racing and non-racing customers.

Sportech. We own approximately 20% of the outstanding shares of Sportech. Sportech operates football pools and associated games through various distribution channels including direct mail and telephone, agent-based collection and via the internet. Sportech also provides wagering technology solutions to racetracks and off-track wagering networks and also operates a portfolio of online casino, poker, bingo and fixed-odds games.

Company Strategy

Our goal is to be a global leader in providing customized technology and games in the regulated lottery and gaming industries. We seek to maximize our return on invested capital by capitalizing on our competitive strengths. The primary elements of our strategy are set forth below.

Grow our Customers' Revenue. A key component of our strategy is to help our customers grow their lottery and gaming revenue in a responsible manner, and thereby grow our revenue. We operate a significant portion of our business under participatory business models, where our revenue is based on a percentage of our customer's retail sales or net win. While not as directly linked, our revenue from our non-participatory contracts also depends to some extent on the success of our customers. Therefore, we devote significant resources to developing products and services to grow the revenue of our customers. Because we believe we have a strong track record in assisting our customers enhance their performance, we work with our customers wherever possible to develop these participatory business models where their success and ours are closely aligned.

Focus on Regulated and Government-Sponsored Wide Area Gaming. We serve government-owned and commercial operators, with a common theme being that our customers operate in regulated and, in many cases, government-sponsored wide area gaming. Lotteries operate wide area gaming businesses in that the consumer interaction occurs at hundreds or thousands of points of sale. Similarly, our gaming machines are generally located in venues with a relatively small number of machines, as distinct from destination gaming centers such as casinos. We believe we are able to provide the unique blend of skills, assets and secure systems that customers in wide area lottery and gaming businesses require.

Exploit our Strength in Providing Turnkey Operations. Many of our lottery and wide area gaming customers expect us to provide turnkey operational services. We consider ourselves adept at managing field operations, optimizing performance and minimizing operational costs. Our field management experience includes technical support, field repair, spare parts management, inventory management and other capabilities that we believe confer competitive advantages relative to other gaming companies. We believe we have a particular strength in managing the entire supply chain of instant lottery tickets through CSP offerings, which we pioneered.

Position Ourselves for Internet and Mobile Gaming. Internet and mobile gaming are the ultimate extension of wide area gaming and are areas of focus for us. We believe that internet and mobile gaming has significant growth potential, particularly as many jurisdictions outside of the U.S. move to authorize and regulate these businesses. In the U.S., the recently issued U.S. Department of Justice ("DOJ") opinion to the effect that state lottery ticket sales over the internet to in-state adults do not violate the Federal Wire Act of 1961 (the "Wire Act") may lead to an expanded base of players and lottery revenue if states authorize the sale of such products over the internet. We believe that our customers are well positioned for growth in interactive gaming. Therefore, we seek to position ourselves to support this growth by leveraging and further investing in development activities focused on internet, mobile and other interactive gaming technologies.

Focus on Security and Compliance. Our government-sponsored or regulated lottery and wide area gaming customers demand a high level of security and integrity in their gaming operations. We believe we have extensive safeguards in our systems, business and compliance processes that maximize the security of our lottery and gaming offerings. We believe these safeguards provide us with a competitive advantage.

Pursue Growth Opportunities in Underpenetrated Geographies. We believe we have opportunities to expand our business by offering our lottery and gaming products and services to new customers and in underpenetrated geographies. For example:

We believe that instant lottery tickets currently comprise less than 20% of lottery sales outside of the U.S. compared to almost 60% in the U.S. We are especially focused on increasing instant ticket business in Asia, South/Latin America and Eastern/Central Europe. In Greece, we recently submitted an expression of interest to operate a new instant ticket lottery through a consortium comprised of us and three other lottery and gaming companies.

In China, we believe there is potential to continue to expand our business by increasing the lottery retailer network to provide more retail points of sale, introducing new products at higher price points, and offering additional products and services, including mobile games and video lottery.

We are increasingly focused on growing our gaming business outside the U.K. and view North America, Europe and the Caribbean as areas of potential growth. Our gaming business has expanded in recent years in Italy, Mexico and the Caribbean, including Puerto Rico, St. Kitts and Nevis. In conjunction with this effort, we are actively pursuing opportunities in North American jurisdictions that are seeking to expand into licensed video gaming or replace their existing video gaming systems.

Further Develop our Capabilities. We continually seek to expand and invest in marketing and technology capabilities, including:

Gaming Content and Brands.

We have extensive game development experience and capabilities. We believe that our gaming business, particularly subsequent to the acquisition of Barcrest, has deep knowledge of game design, a strong staff of game developers and a reputation for producing high-performing games. We seek to leverage our content resources and game development skills across multiple distribution channels including physical venues and, where permitted, internet and mobile channels.

We pioneered the application of brands to lottery gaming. We believe we have an advantage over our competitors in the size and depth of our brand licenses for lottery gaming and that our brand strategy can be applied more broadly to internet and interactive gaming.

Technology. We seek to develop leading technology in lottery and video gaming. We believe our next generation lottery system that we have deployed in Europe is the most technologically advanced and feature-rich lottery system in the industry. We believe that we also have extensive interactive gaming experience, which we seek to apply as interactive gaming opportunities emerge. For instance, we have built several comprehensive internet lottery systems in Europe that were among the first of their kind. We have built hundreds of second chance websites, an internet lottery subscription system and nearly 100 interactive

games for our customers. Our close commercial relationship with Playtech provides us with access to its leading interactive technologies for non-lottery vertical gaming opportunities such as casino games.

Pursue Strategic Acquisitions. In support of the foregoing strategies, we may engage in strategic acquisitions to help us achieve our goals. Given our global footprint, we believe we have an excellent opportunity to acquire assets or businesses and leverage the acquired products and technology in other geographies where we have a presence. For example, in 2011, we acquired Barcrest, a leading supplier of gaming content and machines in Europe. The acquisition is anticipated to enhance our gaming business by adding Barcrest's expansive library of gaming titles and properties to our existing content portfolio. The acquisition also extends our U.K. presence to new betting shop and pub locations as well as complementary gaming venues, such as bingo halls and arcades, and provides us with access to new video lottery customers in Italy and the Czech Republic.

Contract Procurement

Lottery

Government authorized lotteries in the U.S. typically operate under state-mandated public procurement regulations. See "Government Regulation." Lotteries select an instant ticket or online supplier by issuing a request for proposals ("RFP"), which outlines the products and services to be delivered and related contractual obligations. An evaluation committee frequently comprised of key lottery staff evaluates responses based on various criteria. These criteria usually include quality of product and/or technical solutions, security plan and features, experience in the industry, quality of personnel and services to be delivered, and price. We believe that our product functionality and game content, the quality of our personnel, our technical expertise and our demonstrated ability to help the lotteries increase their revenues may give us an advantage relative to the competition when responding to lottery RFPs in the U.S. However, many lotteries still award the contract to the qualified vendor offering the lowest price, regardless of other factors. Contract awards by lottery authorities are sometimes challenged by unsuccessful competitors, which can result in protracted legal proceedings. Internationally, lottery authorities do not always utilize such a formal bidding process, but rather negotiate with one or more potential vendors.

U.S. Jurisdictions

The table below lists our lottery and video-related contracts in the U.S. and certain related information. We are the exclusive provider of systems in all lottery and video systems contracts and the primary supplier of instant lottery tickets unless otherwise noted. The commencement date of the contract is the date we began generating revenues under such contract, which for our lottery and video systems contracts is typically the start-up date. The table also includes instant ticket or draw game retail sales, as applicable, for each jurisdiction.

State/District	Fiscal 2011 * State Instant Ticket or Lottery Systems Retail Sales (in millions)	Type of Contract **	Commencement Date of Current Contract	Expiration Date of Current Contract (before any exercise of remaining renewal options)	Current Renewal Options Remaining
Arizona	$ 374.5	ITRS-PPK	January 2010	January 2015	5 one-year
Arkansas	390.1	ITRS-CSP	August 2009	August 2016	3 one-year
Arkansas	390.1	Properties Plus	August 2009	August 2016	3 one-year
California	2,002.1	ITRS-POS	July 2005	June 2013	None
Colorado (1)	344.9	ITRS-PPK	February 2011	June 2014	3 one-year
Colorado	174.0	Lottery Systems	April 2005	October 2014	None
Connecticut	610.6	ITRS-PPK	August 2007	August 2012	None
Connecticut	405.9	Lottery Systems	May 2008	May 2013	5 one-year
Delaware	40.9	ITRS-CSP	January 2012	January 2015	3 one-year
Delaware	83.2	Lottery Systems	February 2003	February 2015	None
Delaware	499.5	Video	February 2003	February 2015	None
District of Columbia	56.5	ITRS-CSP	August 2005	August 2012	None
Florida	2,225.7	ITRS-CSP	October 2008	September 2014	2 two-year
Georgia	2,423.8	ITRS-CSP	September 2003	September 2018	None
Idaho	97.1	ITRS-POS	August 2007	August 2012	1 three-year
Illinois (1)	1,279.6	ITRS-CSP	January 2011	January 2021	None
Illinois (1)	N/A	Video	December 2011	December 2017	4 one-year
Indiana	519.3	ITRS-POS	January 2003	December 2012	None
Indiana	272.2	Lottery Systems	August 2010	August 2016	4 one-year
Iowa	183.6	ITRS-PPK	January 2008	December 2012	None
Iowa (1)	183.6	Properties Plus	February 2011	June 2012	None
Iowa (1)	87.8	Lottery Systems	July 2011	June 2018	3 one-year
Kansas (2)	137.4	ITRS-PPK	August 2008	September 2013	3 one-year
Kentucky (1)	479.4	ITRS-POS	June 2011	June 2018	8 one-year
Louisiana	148.1	ITRS-POS	December 2010	October 2020	None
Maine (3)	156.9	ITRS-CSP	July 2001	June 2012	None
Maine (3)	59.5	Lottery Systems	July 2001	June 2012	None
Maine	N/A	Video	July 2008	June 2018	None
Maryland (2)	493.5	ITRS-PPK	July 2006	June 2013	None
Maryland	1,220.8	Lottery Systems	October 2005	June 2016	None
Massachusetts	2,998.4	ITRS-PPK	July 2009	June 2012	2 one-year
Minnesota (2)	354.8	ITRS-PPK	June 2010	May 2014	2 one-year
Missouri (1)	666.8	ITRS-POS	July 2011	June 2014	7 one-year
Missouri (1)	666.8	Properties Plus	October 2011	June 2014	None
Montana	15.0	ITRS-PPK	August 2008	August 2013	2 one-year
New Hampshire (4)	160.8	ITRS-PPK	July 2006	June 2012	None
New Jersey (2)	1,364.6	ITRS-PPK	November 2001	June 2012	None
New Mexico (2)	75.8	ITRS-PPK	March 2010	March 2014	4 one-year
New Mexico	N/A	Video	December 2005	December 2013	None
New York (1)	3,546.4	ITRS-PPK	August 2011	August 2018	None
North Carolina (5)	862.1	ITRS-POS	March 2006	March 2017	None
North Dakota	23.0	Lottery Systems	February 2004	March 2014	None
Ohio	1,460.3	ITRS-PPK	June 2007	June 2013	1 two-year
Oklahoma	103.0	ITRS-CSP	August 2005	August 2012	1 one-year
Oklahoma	95.2	Lottery Systems	August 2005	August 2012	1 one-year
Oregon	115.9	ITRS-PPK	July 2010	June 2013	4 one-year
Pennsylvania	1,922.1	ITRS-CSP	August 2007	August 2015	2 one-year
Pennsylvania	1,285.8	Lottery Systems	January 2009	December 2014	4 one-year

Puerto Rico	372.2	Lottery Systems	March 2005	June 2012	2 two-year
Puerto Rico	59.4	ITRS-CSP	July 2009	June 2012	2 two-year
Rhode Island	77.3	ITRS-PPK	July 2007	June 2012	1 one-year
South Carolina	698.3	ITRS-CSP	October 2006	September 2013	None
South Dakota	22.1	ITRS-PPK	August 2010	August 2016	None
South Dakota	583.4	Video	December 2009	December 2019	5 one-year
Tennessee	948.7	ITRS-CSP	January 2004	April 2015	None
Tennessee (1)	948.7	Properties Plus	September 2011	April 2015	None
Texas (4)	2,826.6	ITRS-PPK	September 2004	August 2012	None
Vermont	71.3	ITRS-PPK	January 2010	January 2013	1 one-year
Virginia	756.8	ITRS-CSP	June 2004	June 2014	None
Washington	309.0	ITRS-POS	March 2006	March 2014	None
West Virginia	1,128.6	Video	February 2006	January 2013	3 one-year
Wisconsin	302.4	ITRS-PPK	November 2009	October 2012	2 one-year

(1) The contracts that commenced in 2011 or 2012 include the PPK contracts in Colorado and New York, the POS contracts in Missouri and Kentucky, the CSP and video systems contracts in Illinois, the lottery systems contract in Iowa and the Properties Plus contracts in Tennessee, Iowa and Missouri.

(2) Secondary instant ticket supplier.

(3) During 2010, the lottery authority in Maine awarded a new lottery systems contract to one of our competitors, which award was subsequently invalidated as a result of our protest. The competitor's appeal of the protest ruling was denied on October 21, 2011. Our contract with Maine was extended for one year until June 30, 2012 pending further action by the Maine lottery authority.

(4) An RFP has been issued by the lottery and is pending as of the date hereof.

(5) Subcontract through GTECH, a subsidiary of Lottomatica.

* U.S. lottery industry's 2011 fiscal year generally ended June 30, 2011.

** "ITRS" refers to a contract for the supply of instant tickets (and related services). "Lottery Systems" refers to a lottery system (and related services) contract. "PPK" refers to an ITRS contract under which we are paid for instant tickets on a price-per-thousand-units basis. "POS" refers to an ITRS contract under which we are paid based on a percentage of retail sales. "CSP" refers to an ITRS contract that includes CSP services under which we are paid on a POS basis. "Properties Plus" refers to a contract under which we provide our Properties Plus platform and are paid on a POS basis. "Video" refers to a video lottery central monitoring and control systems contract.

International Jurisdictions Printed Products

Certain of our more significant international instant ticket contracts and related information are included in the table below.

Lottery/Operator	Type of Contract	Commencement Date of Current Contract	Expiration Date of Current Contract (before any exercise of remaining renewal options)	Current Renewal Options Remaining
Atlantic Lottery Corp (Canada) (1)	ITRS-PPK	August 2005	July 2012	None
Loto-Québec (Canada)	ITRS-PPK	February 2007	January 2014	None
Loto-Québec (Canada) (2)	ITRS-PPK	February 2010	February 2015	2 one-year
La Francaise des Jeux (France) (3)	ITRS-PPK	January 2008	December 2012	1 one-year
LNS (Italy) (4)	ITRS-PPK	July 2010	June 2019	1 one-year
De Lotto (Netherlands)	ITRS-CSP	December 2010	March 2015	1 four-year/4 one-year
Camelot Group plc (U.K.) (5)	ITRS-POS	February 2009	January 2019	None

(1) RFP has been issued by the lottery and is pending as of the date hereof.

(2) Contract for the supply of a special type of tickets.

(3) Non-exclusive contract under which the lottery selects the instant ticket printer on a game-by-game basis.

(4) LNS, in which we have a 20% equity interest, is the lottery operator of the Gratta e Vinci instant ticket lottery in Italy.

(5) Camelot Group plc is the lottery operator of the U.K. National Lottery.

International jurisdictions Lottery Systems

Internationally, we typically sell point-of-sale terminals, host hardware and/or computer software to lottery authorities and provide ongoing fee-based systems and software support services under long-term contracts. Our international lottery service contracts typically include automatic renewal provisions and/or do not have specified expiration dates. These service contracts can generally be terminated at any time upon notification by either the customer or us subject to the applicable notice periods. We hold lottery system service contracts with customers in Argentina, Australia, Canada, China, France, Germany, Hungary, Iceland, Israel, Italy, Latvia, Mexico, Norway, the Philippines, Spain, Sweden and Switzerland. Our exclusive instant ticket validation contract with the China Sports Lottery ("CSL") is scheduled to expire in January 2016.

Gaming

Our U.K. gaming machine contracts typically have a four-year term. U.K. pub contracts are generally one to three years in length and machines supplied are based on product performance and pub company approvals.?

In the U.K., four large bookmakers operate approximately 80% of the LBOs. For the year ended December 31, 2011, our contracts with these bookmakers represented approximately 63% of our total Gaming service revenue. William Hill PLC, one of these four large bookmakers, recently awarded a contract to one of our principal competitors (currently the supplier for a majority of gaming machines for William Hill) for the sole supply of gaming machines to William Hill's LBOs following the expiration of our gaming machine supply contract with William Hill in March 2012.

Our gaming machine contracts with the large bookmakers (excluding the expiring contract with William Hill) and certain related information are set forth in the table below.

Customer	Commencement Date of Current Contract	Expiration Date of Current Contract (before any exercise of remaining renewal options)
Ladbrokes plc	8/5/2010	3/31/2015
Gala Coral Group Ltd.	1/1/2010	12/31/2013
Tote (Retail division of Betfred)	12/21/2009	12/31/2013

Outside the U.K., our gaming machine contracts typically have a term of four or five years.

Research and Product Development

We believe our ability to attract new lottery and wide area gaming customers and retain existing customers depends in part on our ability to continue to incorporate technological advances into, and to improve, our products, systems and related equipment. Our development efforts are focused on new systems and products, as well as the improvement and refinement of our existing products including the expansion of their uses and applications. We are also focused on expanding utilization of the internet and other interactive technologies to grow lottery playership and pursue regulated gaming opportunities. Many of our product developments and innovations have quickly become industry standards, including games for Printed Products and multiplier games for Lottery Systems.

Intellectual Property

We have a number of U.S. and international patents that we consider, in the aggregate, to be of material importance to our business. Terms of patents vary based on the date of patent filing or grant and the law of the various countries where patent protection is obtained. In the U.S., the term of a patent generally expires 20 years from the date of filing. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the applicable country.

Certain technology material to our lottery processes and systems is the subject of patents issued and patent applications currently pending in the U.S. and certain other countries. In our lottery business, we utilize our patented and patent-pending technology for the production, secure printing, validation and distribution of instant lottery tickets. In addition, MDI, Global Draw, Games Media and Barcrest patent and license game content as part of their businesses. Our patents have various expiration dates through 2031. We also have a number of U.S. and international registered trademarks and other common law trademark rights for certain of our products and services, including BOODLE®, FailSafe®, Properties Plus®, Points for Prizes®, Winner's Choice , PlayCentral®, SciScan Technology , Aegis®, Wave , EXTREMA® and SGI-NET . Trademark protection continues in some countries, including the U.S., for as long as the mark is used and in other countries for as long as it is registered. Registrations generally are for fixed, but renewable, terms.

From time to time we become aware of potential infringement of our intellectual property by competitors and other third parties and consider what action, if any, to take in that regard, including litigation where appropriate. Historically, others have threatened or brought litigation against us.

Production Processes, Sources and Availability of Components

Our dedicated computer-controlled printing process is specifically designed to produce secure instant lottery game tickets for government-sanctioned lotteries. Our facilities are designed for the efficient and secure production of instant lottery tickets and support high-speed variable image printing, packaging and storage of instant game tickets. Instant ticket games are delivered finished and ready for distribution by the lottery authority (or by us in the jurisdictions where we have CSP contracts). Paper and ink are the principal raw materials consumed in our ticket manufacturing operations.

Production of our lottery terminals and gaming machines (and related component products) primarily involves the assembly of electronic components into more complex systems and products. Third-party vendors manufacture and assemble for us most of our lottery terminals and gaming machines.

We normally have sufficient lead time between reaching an agreement and the commencement of operations so that we are able to provide the customer with a fully functioning system that is customized to meet its requirements. In the event that current suppliers of central processing units were no longer available, we believe we would be able to adapt our application software to run on the then-available hardware in time to meet new contractual obligations, although the price competitiveness of our products might change. The lead time for obtaining most of the electronic components that we use is approximately 90 days. We believe that this is consistent with our competitors' lead times and is also consistent with the needs of our customers.

Competition

Printed Products

The instant lottery ticket business is highly competitive and we operate in a period of intense price-based competition. Our principal instant lottery ticket competitors in the U.S. are Pollard Banknote Limited ("Pollard") and GTECH. Except as permitted by the applicable provisions of the North American Free Trade Agreement with respect to Canada, it is currently illegal to import lottery tickets into the U.S. from a foreign country. Our business could be adversely affected should additional international competitors in Canada export lottery products to the U.S. or should other international competitors establish printing facilities in the U.S. or Canada to supply the U.S. Internationally, a number of lottery instant ticket vendors compete with us including the competitors noted above as well as diversified printers in India, China and Latin America. Our principal competitors in our provision of licensed games, promotional entertainment and loyalty or rewards programs to the lottery industry include BI Worldwide Ltd., Alchemy3, LLC, ePrize, LLC, GTECH, Pollard and Intralot Technologies, Inc., a subsidiary of Intralot, S.A. ("Intralot").

Lottery Systems

The lottery and video systems businesses are highly competitive and continue to be subject to intense price-based competition.

Our principal competitors in these businesses are GTECH and Intralot. GTECH and Intralot are also our major competitors in the international lottery systems business, along with International Lottery and Totalizator Systems, Inc. and others. We also compete with various suppliers of lottery system components, such as terminals and computer systems, and lottery operators themselves that chose to internally develop their systems.

As countries liberalize gaming, lotteries may expand their scope by offering sports wagering, gaming machines, internet gaming or other forms of gaming, which may introduce new suppliers to lotteries resulting in new forms of competition to us. In some jurisdictions, liberalization includes privatization or the outsourcing of lottery operations to bidders. We believe companies such as Camelot Group, Plc, the Tattersalls Group, Lottomatica and Intralot to be among those who may bid on such opportunities.

Gaming

Our wide area gaming business competes with a variety of suppliers in the U.K. and internationally. Our principal direct competitor in the U.K. LBO business is Inspired Gaming Group Limited ("Inspired"). In the U.K. AWP and skill with prize ("SWP") machine business, we compete directly with other suppliers of gaming machines and gaming operators, including the Bell-Fruit and Gamestec divisions of Danoptra Ltd, Sceptre Leisure plc and Games Warehouse Limited, a division of Merit Industries, Inc. In other wide area gaming jurisdictions, we compete with video lottery and other gaming terminal and systems suppliers. Our competitors in these industries include International Game Technology ("IGT"), Lottomatica, Bally Technologies, Inc., Inspired, Aristocrat Leisure Ltd, Novomatic AG, Multimedia Games, Inc., WMS Industries Inc. and Konami Digital Entertainment, Inc. Our primary competitors in the provision of game content include Amaya Gaming Group, Inc., Cryptologic Ltd., IGT, Microgaming Software Systems Ltd., Net Entertainment NE AB, NYX Gaming Group, OpenBet Technology Ltd. and Playtech Limited.

Employees

As of December 31, 2011, we employed approximately 3,500 persons. Most of our employees are not represented by labor unions. However, unions represent some employees at our printing facilities in Australia, Canada, Chile and the U.K.

Government Regulation

General

Lotteries and other forms of gaming are generally subject to extensive and evolving regulation that customarily includes some form of licensing or regulatory screening of operators and suppliers and their applicable subsidiaries, as well as their officers and directors. Regulators in those jurisdictions review many facets of an applicant or holder of a license, including its financial stability, integrity and business experience. Any failure to receive a material license or the loss of a material license that we currently hold could have a material adverse effect on us or on our operations or financial condition.

While we believe that we are in substantial compliance with all material gaming laws and regulatory requirements applicable to us, there can be no assurance that our activities or the activities of our customers will not become the subject of any regulatory or law enforcement proceeding or that any such proceeding would not have a material adverse impact on us or our operations or financial condition.

We have developed and implemented a rigorous internal compliance program in an effort to ensure that we comply with legal requirements imposed in connection with our gaming-related activities, as well as legal requirements generally applicable to all publicly traded companies. The compliance program is run on a day-to-day basis by our Chief Compliance Officer with legal advice provided by our legal department and outside experts. The compliance program is overseen by the Compliance Committee of our Board of Directors, comprised entirely of outside directors. While we are firmly committed to full compliance with all applicable laws, there can be no assurance that such steps will prevent the violation of one or more laws or regulations, or that a violation by us or an employee will not result in the imposition of a monetary fine or suspension or revocation of one or more of our licenses.

In the United States, the Unlawful Internet Gambling Enforcement Act of 2006 ("UIGEA") among other things, prohibits the transmission of any wager, at least in part, by means of the Internet where such wager is prohibited by any applicable law where initiated, received or otherwise made. It imposes potentially severe criminal and civil sanctions on the owners and operators of such systems and on financial institutions that process wagering transactions. The law contains a safe harbor for wagers placed within a single state (disregarding intermediate routing of the transmission) where the method of placing the bet and receiving the bet is authorized by that state's law, provided the underlying regulations establish appropriate age and location verification. The Wire Act generally prohibits anyone engaged in the business of betting or wagering from knowingly using a wire communication facility for the transmission in interstate or foreign commerce of wagers or information assisting in the placing of wagers on any "sporting event or contest." Until recently, there was uncertainty, in light of prior interpretations and pronouncements of representatives of the DOJ, as to whether the Wire Act may prohibit states from conducting in-state lottery transactions via the internet if the transmissions over the internet during the transaction cross state lines, notwithstanding that UIGEA appears to permit out-of-state routing of data associated with in-state lottery transactions authorized by that state's law. In late 2011, the Office of Legal Counsel of the DOJ issued an opinion to the effect that state lottery ticket sales over the internet to in-state adults do not violate the Wire Act since lotteries do not involve "sporting event[s] or contest[s]" within the meaning of the Wire Act.

In the European Union, various judgments by the Court of Justice of the European Union have addressed the ability of member states to grant, or to maintain, monopolies for lottery and other gaming providers in the situations addressed by those judgments. Certain of these judgments have also addressed the power of a member state to limit access by lottery and/or gaming providers established elsewhere in the European Union.

To varying degrees, a number of the governments in Europe have taken steps to change the regulation of internet wagering through the implementation of new or revised licensing and taxation regimes, including the possible imposition of sanctions on unlicensed providers.

While we believe that we have developed the proper procedures and policies to comply with the requirements of these evolving laws and legal pronouncements, there can be no assurance that our activities or the activities of our customers will not become the subject of law enforcement proceedings or that any such proceedings would not have a material adverse impact on us or our business plans.

From time to time we retain government affairs representatives in various U.S. and international jurisdictions to advise elected and appointed officials and the public concerning our views on lottery-and gaming-related legislation, to monitor such legislation and to advise us in our relations with lottery authorities.

Lottery Operations

Currently, 45 U.S. jurisdictions, all the Canadian provinces, Mexico, China and many other countries outside the U.S., including countries in Europe, authorize lotteries. The operations of lotteries in the U.S. and internationally are subject to extensive regulation. Although certain features of a lottery, such as the percentage of gross revenues that must be paid back to players in prize money, are usually set by legislation, the various lottery regulatory authorities generally exercise significant discretion, including with respect to the determination of the types of games played, the price of each wager, the manner in which the lottery is marketed and the selection of suppliers of equipment, technology and services and retailers of lottery products. Furthermore, laws and regulations applicable to lotteries in U.S. and international jurisdictions are subject to change, and the effect of such changes on our ongoing and potential operations cannot be predicted with certainty.

To ensure the integrity of the contract award and lottery operations, most jurisdictions require detailed background disclosure on a continuous basis from, and conduct background investigations of, the supplier and its officers, directors, subsidiaries, affiliates and principal stockholders. Background investigations of the supplier's employees who will be directly responsible for the operation of the system are also generally conducted, and most states reserve the right to require the removal of employees who they deem to be unsuitable or whose presence they believe may adversely affect the operational security or integrity of the lottery. Certain jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage (typically five percent or more) of a supplier's securities. The failure of such beneficial owners of our securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to us or provide grounds for termination of an existing lottery contract.

The award of lottery contracts and ongoing operations of lotteries in international jurisdictions are also extensively regulated, although this regulation usually varies from that prevailing in the U.S. Restrictions are frequently imposed on international corporations seeking to do business in such jurisdictions and, as a consequence, we have in a number of instances allied ourselves with local companies when seeking international lottery contracts.

Wide Area Gaming

The existing and emerging wide area gaming industry is governed by gaming regulations. Coin or voucher operated gambling devices offering electronic, video versions of spinning reels, poker, blackjack and similar games include VLTs, server-based gaming machines, AWPs and SWPs.

Companies that manufacture, sell or distribute VLTs or other gaming machines or provide the central computer systems that monitor these devices are subject to various provincial, state, county and municipal laws and regulations. The primary purposes of these rules are to (1) ensure the responsibility, financial stability and character of companies involved and their officers and directors and stockholders through licensing requirements, (2) ensure the integrity and randomness of the machines and (3) prohibit the use of machines at unauthorized locations or for the benefit of undesirable individuals or entities.

Sixteen U.S. states authorize wagering on VLTs at state regulated and licensed facilities. Although some states currently restrict VLTs to already existing wagering facilities (e.g., racetracks), others permit these devices to be placed at venues such as bars, restaurants, truck stops and other specifically licensed gaming facilities. In addition, all of the Canadian provinces and various other international jurisdictions have authorized VLTs.

In the U.K., the Gambling Act of 2005 regulates, among other things, the type of licensed gaming activity that is carried out by operators, the licensing of the various types of venues for the conduct of licensed gaming activities, the categories and number of gaming machines allowed in each type of venue, the licensing and regulation of the supply and operation of those machines and the issuance of technical specifications and standards and specific licensing requirements for each category of gaming machine.

In late 2010, the U.K. government announced its intention to change the taxation of gaming machines by introducing a new machine games duty ("MGD") that would replace both the currently applicable amusement machine license duty and value-added tax. A consultation process between the government and industry representatives regarding the announced tax changes in ongoing. The rates of MGD will be determined as part of the normal budget process. The tax changes are expected to be implemented in February 2013. Although we cannot predict the precise effect of these tax changes on our U.K. gaming machine business, which will depend in large part on the rates of the MGD, we believe that these tax changes could potentially have an overall negative impact on this business.

Executive Officers of the Company

Certain information regarding each of our executive officers is set forth below.

Name	Age	Position
A. Lorne Weil	66	Chief Executive Officer and Chairman of the Board
David L. Kennedy	65	Vice Chairman and Chief Administrative Officer
Michael R. Chambrello	54	Chief Executive Officer Asia-Pacific Region
Jeffrey S. Lipkin	41	Senior Vice President and Chief Financial Officer
Grier C. Raclin	59	Senior Vice President, General Counsel and Corporate Secretary
Larry A. Potts	64	Vice President, Chief Compliance Officer and Director of Security
Robert C. Becker	52	Vice President and Treasurer
Jeffrey B. Johnson	47	Vice President Finance, Chief Accounting Officer and Corporate Controller
James B. Trask	61	Senior Vice President and President of Printed Products Group (SGI)
William J. Huntley	62	Senior Vice President and President of Lottery Systems Group (SGI)
Stephen Frater	59	Executive Chairman Global Draw & Games Media
Steve W. Beason	50	Senior Vice President and Enterprise Chief Technology Officer (SGI)
James C. Kennedy	55	Senior Vice President and Chief Marketing Officer (SGI)

A. Lorne Weil has been Chairman of the Board of Directors since October 1991. Mr. Weil became Chief Executive Officer in November 2010, a position he previously held from 1992 to 2008. Mr. Weil also served as President of the Company from August 1997 to June 2005. Mr. Weil was President of Lorne Weil, Inc., a firm providing strategic planning and corporate development services to high technology industries, from 1979 to November 1992. Previously, Mr. Weil was Vice President of Corporate Development at General Instrument Corporation, working with wagering and cable systems.

David L. Kennedy became Chief Administrative Officer in April 2011 and has served as Vice Chairman of the Board of Directors since joining the Board in October 2009. Mr. Kennedy intends to cease serving as Chief Administrative Officer effective March 1, 2012. Mr. Kennedy will continue to serve on the Board as Vice Chairman, in a non-executive capacity. Mr. Kennedy also serves as Senior Executive Vice President of MacAndrews & Forbes Holdings Inc. and Vice Chairman of Revlon, Inc. Mr. Kennedy served as the President and Chief Executive Officer of Revlon from September 2006 through May 2009 and has held various senior management and senior financial positions with Revlon, the Coca-Cola Company and affiliates during his 40-year business career. Mr. Kennedy is a director of Revlon, Inc. and Revlon Consumer Products Corporation.

Michael R. Chambrello became Chief Executive Officer Asia-Pacific Region in November 2010 after serving as Chief Executive Officer since January 2010. From July 2005 to December 2009, Mr. Chambrello was President and Chief Operating Officer. From November 2000 to June 2005, Mr. Chambrello was President and Chief Executive Officer of Environmental Systems Products Holdings Inc. ("ESP"), which provides vehicle emissions testing systems and services to government agencies. Prior to ESP, he was Chief Executive Officer of Transmedia Asia Pacific, Inc. and Transmedia Europe Inc., which provide membership-based consumer and business services. Mr. Chambrello has 25 years of lottery industry experience, having served as President of GTECH Corporation and Executive Vice President of GTECH Holdings Corporation.

Jeffrey S. Lipkin serves as Senior Vice President and Chief Financial Officer of the Company. Mr. Lipkin joined the Company in April 2009 as Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Lipkin was a Managing Director at Credit Suisse in the Media & Telecom group within the Investment Banking division. Mr. Lipkin joined Credit Suisse in September 2003. Prior to Credit Suisse, Mr. Lipkin spent five years in the Investment Banking division at Merrill Lynch & Co and spent four years in public accounting with Coopers & Lybrand LLP. Mr. Lipkin is a certified public accountant.

Grier C. Raclin joined the Company in October 2011 and serves as Senior Vice President, General Counsel and Corporate Secretary. Mr. Raclin served as Of Counsel at Thompson Coburn LLP from January 2010 through September 2011. Prior to that, Mr. Raclin served as Executive Vice President, General Counsel and later Chief Administrative Officer of Charter Communications, Inc., a cable television operator. Prior to joining Charter in 2005, Mr. Raclin served as General Counsel and in other executive capacities with SAVVIS, Inc. and Global TeleSystems, Inc. Prior to moving in-house at Global TeleSystems in 1997, Mr. Raclin was in private practice for 17 years.

Larry A. Potts has served as Vice President, Chief Compliance Officer and Director of Security since February 2006. Mr. Potts joined the Company in September 2004 as Vice President, Security and Compliance. Previously, he was the Chief Operating Officer of an international consulting and investigative company in Washington, D.C. Prior to that, he served as a Special Agent of the Federal Bureau of Investigation for over 23 years, where he served in a number of management positions, including Deputy Director.

Robert C. Becker has served as Treasurer since October 1996 and as Vice President and Treasurer since April 2001. Prior to joining the Company, Mr. Becker served as Assistant Treasurer for the Fuller Company, a multi-national engineering and manufacturing company, from 1990 to 1994.

Jeffrey B. Johnson joined the Company in September 2011 and serves as Vice President, Finance, Chief Accounting Officer and Corporate Controller. Previously, Mr. Johnson was the Executive Vice President and Chief Financial Officer for Tensar Corporation, a private equity-backed global engineering services and construction products manufacturing company. Prior to that, he served as Vice President, Corporate Controller and Chief Accounting Officer for Tempur-Pedic International Inc., a publicly traded consumer products company. Prior to 1999, Mr. Johnson was a Manager of Audit and Business Advisory Services at Andersen LLP. Mr. Johnson is a certified public accountant and a certified management accountant.

James B. Trask became President of the Printed Products segment in January 2011 and has served as Senior Vice President of SGI since 2007. Mr. Trask joined the Company in 2002 as Managing Director of its printed products operations in Europe, Middle East and Africa, based out of Leeds, England. Mr. Trask has over 35 years of experience in the lottery and gaming industries. Prior to joining the Company, Mr. Trask headed the lotteries group of Canadian Bank Note, a lottery systems provider based in Ottawa, Canada and owner of Creative Games International, Inc., an instant lottery ticket printer in the United States. Prior to that time, Mr. Trask held various senior positions with Oberthur Gaming Technologies, responsible for operations, sales, marketing and new product development.

William J. Huntley became President of the Lottery Systems segment in January 2011 and Senior Vice President of SGI in February 2011. Mr. Huntley was previously with the Company and its predecessor company for 37 years, including serving as President of Autotote Lottery Corporation from 1997 to 2000, President of the Systems Division of SGI from 2000 to 2006, and President of Scientific Games Racing, LLC from 2006 to 2007. Mr. Huntley also served as Vice President of Autotote Systems, Inc. (which became Scientific Games Racing, LLC) from 1989 to 1997 and as Vice President of Operations of the Company from 1991 to 1994. From February 2009 to December 2010, Mr. Huntley served as a consultant to the Company.

Stephen Frater has served as Executive Chairman of Global Draw and Games Media since March 2010. Mr. Frater served as Chairman and Chief Executive Officer of Global Draw and Games Media from July 2008 to March 2010. Mr. Frater joined the Company in 2006 as part of the Company's acquisition of Global Draw, serving as Managing Director of Global Draw. Mr. Frater has worked in the bookmaking industry for over 30 years. Mr. Frater co-founded Global Draw in 1997 and was instrumental in the establishment of its gaming business in the U.K. Prior to that, Mr. Frater co-founded Great Mark, which operated the Admiral Betting chain in the U.K. Prior to co-founding Great Mark and Global Draw, Mr. Frater worked for both the Mecca and William Hill groups as Head of Customer Relations.

Steve W. Beason has served as Enterprise Chief Technology Officer since January 2011 and has served as Vice President since August 2005. Previously he served as Chief Technology Officer from August 2005 until January 2011 and President, Lottery Systems Group, from November 2006 to November 2010. Prior to joining the Company, Mr. Beason was Executive Director, Information Technology, of The Hong Kong Jockey Club managing a staff of nearly 400 information technology professionals.

James C. Kennedy was appointed Chief Marketing Officer of the Company in January 2011. Since 2005, Mr. Kennedy has served as Senior Vice President of SGI, responsible for global lottery product marketing including in China, Europe and Latin America. In addition to his marketing responsibilities, he also managed sales, customer service and creative service for all of the Company's North American lottery businesses. From 2000 to 2005, Mr. Kennedy served as Vice President of U.S. Sales for SGI and, prior to 2000, he served as President of SGI Retail Solutions. Prior to joining the Company in 1985, Mr. Kennedy was a Systems Engineer for Computer Task Group.

Access to Public Filings

We file annual reports, quarterly reports, current reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934, as amended. The SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We make the following information available free of charge through the Investor Information link (or, in the case of our code of business conduct, the Corporate Governance link) on our website at www.scientificgames.com:

- our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after they are filed electronically with the SEC;

- Section 16 ownership reports filed by our executive officers, directors and 10% stockholders on Forms 3, 4 and 5 and amendments to those reports as soon as reasonably practicable after they are filed electronically with the SEC; and

- our code of business conduct, which applies to all of our officers, directors and employees.

ITEM 1A. RISK FACTORS

Risks Relating to Our Business

We operate in highly competitive industries and our success depends on our ability to effectively compete with numerous domestic and foreign businesses.

We face competition from a number of domestic and foreign businesses, some of which have substantially greater financial resources than we do, which impacts our ability to win new contracts and renew existing contracts. We continue to operate in a period of intense price-based competition, which has affected and could continue to affect the number and the profitability of the contracts we win.

Contract awards by lottery authorities are sometimes challenged by unsuccessful bidders, which can result in costly and protracted legal proceedings that can result in delayed implementation or cancellation of the award. In addition, the U.S. lottery industry has matured such that the number of states conducting lotteries is unlikely to increase materially in the near-term.

We believe our principal competitors in the instant ticket lottery business have increased their production capacity, which is expected to increase pricing pressures in the instant ticket business and adversely affect our ability to win or renew instant ticket contracts or reduce the profitability of instant ticket contracts that we do win. Our domestic instant ticket business could also be adversely affected should additional foreign competitors in Canada export their lottery products to the U.S. or should other foreign competitors establish printing facilities in the U.S. or Canada to supply the U.S. We also compete in the international instant ticket lottery business with low-price, low-quality printers in a regulated environment where laws are being reinterpreted so as to create competition from non-traditional lottery vendors and products.

We face increased price competition in our lottery systems business from our two principal competitors. Since late 2007, we have lost lottery systems contracts in South Carolina, West Virginia, South Dakota, New Hampshire and Vermont to our competitors following the expiration of our contracts. During 2010, the lottery authority in Maine awarded a new lottery contract to one of our competitors, which award was subsequently invalidated as a result of our protest. The competitor's appeal of the protest ruling was denied on October 21, 2011. Our contract with Maine was extended for one year until June 30, 2012 pending further action by the Maine lottery authority.

Pricing pressures and potential privatizations (including partial privatizations through private management agreements or otherwise) of some lotteries may also change the manner in which lottery system and instant ticket contracts are awarded and the profitability of those contracts. Any future success of our lottery business will also depend, in part, on the success of the lottery industry in attracting and retaining players in the face of increased competition for these players' entertainment dollars, as well as our own success in developing innovative products and systems to achieve this goal. Our failure to achieve this goal could reduce our revenue from our lottery operations. As a result of pressures on state and other government budgets, other forms of gaming may be legalized, which could adversely impact our business.

Our gaming-related businesses face competition from other vendors as well as illegal operators, and changes in law and regulation can affect our future profitability. William Hill PLC, a U.K. bookmaker, recently awarded a contract to one of our principal competitors (currently the supplier for a majority of gaming machines for William Hill) for the sole supply of gaming machines to William Hill following the expiration of our gaming machine supply contract with William Hill in March 2012.

We expect to face significant competition as we seek to offer products and services for the evolving internet lottery and gaming industries, not only from our traditional competitors in the lottery business but also from a number of other domestic and foreign providers (or the operators themselves), some of which have substantially greater financial resources and/or experience in this area than we do.

In our prepaid phone card business, we are operating in a period of intense price-based competition, which is likely to continue to negatively affect our revenues and operating margins.

Unfavorable domestic and international economic conditions may adversely affect our business and financial condition.

Unfavorable general economic conditions, including relatively high rates of unemployment, have had and may continue to have a negative effect on our business and results of operations.

We cannot fully predict the effects that unfavorable economic conditions and economic uncertainty will have on us as it also impacts our customers, suppliers and business partners. However, we believe that the difficult economic conditions have contributed to reductions in spending on marketing by our customers and, in certain instances, less favorable terms under our contracts, as many of our customers face significant budget shortfalls and look to cut costs.

We believe that the lottery and wide area gaming businesses are less susceptible to reductions in consumer spending than the destination gaming business (*e.g.*, resort/casino venues, which are typically less accessible than lottery and wide area gaming retail outlets) and other parts of the consumer sector. However, we believe that declines in consumer spending have adversely impacted our lottery and wide area gaming businesses to some extent, and further declines will likely exacerbate these negative effects.

There are ongoing concerns regarding the debt burden of certain countries, particularly in the European Union, and their ability to meet their future financial obligations, which have resulted in recent downgrades of the debt ratings for these countries. These sovereign debt concerns, whether real or perceived, could result in a recession, prolonged economic slowdown, or otherwise negatively impact the general health and stability of the economies in these countries or more broadly. In more severe cases, this could result in a limitation on the availability of capital, thereby restricting our liquidity and negatively impacting our operating results. Our growth strategy may involve pursuing expansion or business opportunities in certain countries potentially facing real or perceived sovereign debt concerns, such as Italy and Greece.

Our business is subject to evolving technology.

The sales of all of our products and services are affected by changing technology, new legislation and evolving industry standards. Our ability to anticipate or respond to such changes and to develop and introduce new and enhanced products and services on a timely basis will be a significant factor in our ability to remain competitive, retain existing contracts, and expand and attract new customers.

We can give no assurance that we will achieve the necessary technological advances or have the financial resources needed to introduce new products or services on a timely basis or that we will otherwise have the ability to compete effectively in the industries we serve.

We may not be able capitalize on the expansion of internet or other forms of interactive gaming or other trends and changes in the lottery and gaming industries.

Part of our strategy is to take advantage of the liberalization of internet and mobile gaming, both within the U.S. and internationally. This strategy involves several risks and uncertainties, including legal, business and financial risks.

In general, our ability to successfully pursue our interactive gaming strategy depends on the laws and regulations relating to wagering over the internet and through interactive channels. Until recently, there was uncertainty as to whether the Wire Act prohibits states from conducting intrastate lottery transactions via the internet if the transmissions over the internet during the transaction cross state lines. In late 2011, the Office of Legal Counsel of the DOJ issued an opinion to the effect that state lottery ticket sales over the internet to in-state adults do not violate the Wire Act. The opinion may provide an impetus for states to authorize internet or other forms of interactive gaming in order to create an additional revenue stream. However, as a general matter, we believe states will be required or otherwise deem it advisable to enact enabling legislation or new regulations addressing the sale of lottery tickets or the offering of other forms of gaming over the internet. The enactment of internet gaming legislation that federalizes significant aspects of the regulation of internet gaming could have an adverse impact on our ability to pursue our interactive strategy in the U.S. Internationally, laws relating to internet gaming are evolving, particularly in Europe. To varying degrees, a number of European governments have taken steps to change the regulation of internet wagering through the implementation of new or revised licensing and taxation regimes, including the possible imposition of sanctions on unlicensed providers. We cannot predict the timing, scope or terms of any such state, federal or foreign laws and regulations, or the extent to which any such legislation will facilitate or hinder our interactive strategy.

In jurisdictions that authorize internet gaming, there can be no assurance that we will be successful in selling our technology, content and services to internet gaming operators as we expect to face intense competition from our traditional competitors in the lottery business as well as a number of other domestic and foreign providers (or the operators themselves), some of which have substantially greater financial resources and/or experience in this area than we do. In addition, there is a risk that the authorization of the sale of lottery tickets or games or other forms of gaming via the internet in a particular jurisdiction could, under certain circumstances, adversely impact our revenue relating to sales of lottery products through traditional channels in such jurisdiction. Any such adverse impact would be magnified to the extent we are not involved in and generating revenue from, the provision of products or services for internet gaming in such jurisdiction.

Our ability to compete effectively in the internet gaming space will depend on the acceptance by our customers of the products and services we offer. Such products and services may rely on technology that we acquire or license from third parties. On January 23, 2012, we entered into an agreement with Playtech that restructured our strategic relationship relating to internet and gaming products and services. Under the agreement, Playtech will license its internet gaming software to us on a mutually non-exclusive basis for use by certain categories of our current and prospective customers, including U.S. casinos and lotteries worldwide. There can be no assurance that we will be able to successfully develop and market internet gaming solutions under our new agreement with Playtech or otherwise. Our performance under any arrangement with a customer that contemplates the customer's use of Playtech's software will be dependent to some extent on Playtech's performance and reliability. We will be required to share with Playtech a significant portion of our revenue from any such offering in the form of a license fee.

We are also internally developing potential internet gaming solutions for our customers. Such internal development is costly and there can be no assurance that such development will result in commercially viable products. In addition, there can be no assurance that our internally developed products will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us.

We are heavily dependent on our ability to renew our long-term contracts with our customers and we could lose substantial revenue and profits if we are unable to renew certain of our contracts.

Generally, our customer contracts contain initial multi-year terms, with optional renewal periods held by the customer. Upon the expiration of a contract, including any extensions thereof, new contracts may be awarded through a competitive bidding process.

Since late 2007, we have lost lottery systems contracts in South Carolina, West Virginia, South Dakota, New Hampshire and Vermont to our competitors following the expiration of our contracts. During 2010, the lottery authority in Maine awarded a new lottery contract to one of our competitors, which award was subsequently invalidated as a result of our protest. The competitor's appeal of the protest ruling was denied on October 21, 2011. Our contract with Maine was extended for one year beyond its expiration until June 30, 2012 pending further action by the Maine lottery authority.

We are also required by certain of our lottery customers to provide surety or performance bonds in connection with our contracts. As of December 31, 2011, we had approximately $206.9 million of outstanding surety and performance bonds. There can be no assurance that we will continue to be able to obtain surety or performance bonds on commercially reasonable terms or at all. Our inability to provide such bonds would materially and adversely affect our ability to renew existing, or obtain new lottery contracts.

In our U.K. gaming business, William Hill, a U.K. bookmaker, recently awarded a contract to one of our principal competitors (currently the supplier for a majority of gaming machines for William Hill) for the sole supply of gaming machines to William Hill following the expiration of our gaming machine supply contract with William Hill in March 2012.

There can be no assurance that our current contracts will be extended or that we will be awarded new contracts as a result of competitive bidding processes or otherwise in the future. The termination, expiration or failure to renew one or more of our contracts could cause us to lose substantial revenues and profits, which could have an adverse effect on our ability to win or renew other contracts or pursue acquisitions or other growth initiatives. For additional information regarding the potential expiration dates of certain other contracts, see the table in "Business Contract Procurement" in Item 1 of this Annual Report on Form 10-K.

We may not have sufficient cash flows from operating activities, cash on hand and available borrowings under our credit facilities to finance required capital expenditures under new contracts, service our indebtedness and meet our other cash needs. These obligations require a significant amount of cash.

Our lottery systems and gaming machine businesses generally require significant upfront capital expenditures for terminal assembly, software customization and implementation, systems and equipment installation and telecommunications configuration. In connection with a renewal or re-bid of a lottery systems or gaming machine contract, a customer may seek to obtain new equipment or impose new service requirements, which may require additional capital expenditures in order to retain the contract. Historically, we have funded these upfront costs through cash flows generated from operations, available cash on hand and borrowings under our credit facilities. Our ability to generate revenue and to continue to procure new contracts will depend on, among other things, our then present liquidity levels or our ability to obtain additional financing on commercially reasonable terms.

If we do not have adequate liquidity or are unable to obtain financing for these upfront costs on favorable terms or at all, we may not be able to bid on certain contracts, which could restrict our ability to grow and have a material adverse effect on our results of operations. Moreover, we may not realize the return on investment that we anticipate on new or renewed contracts due to a variety of factors, including lower than anticipated retail sales, higher than anticipated capital or operating expenses and unanticipated regulatory developments or litigation. We may not have adequate liquidity to pursue other aspects of our strategy, including bringing our products and services to new customers or new or underpenetrated geographies (including through equity investments) or pursuing strategic acquisitions.

As of December 31, 2011, we had total indebtedness of approximately $1,390.7 million, or approximately 75.8% of our total capitalization, consisting primarily of senior secured term loan and revolving credit facilities under our credit agreement and senior subordinated notes. Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our lenders, including the lenders participating in our revolving credit facilities, may have suffered losses related to their lending and other financial relationships, especially because of the general weakening of the national and global economy and increased financial instability of many borrowers. As a result, lenders may become insolvent or tighten their lending standards, which could make it more difficult for us to borrow under our revolving credit facilities or to obtain other financing on favorable terms or at all. Our financial condition and results of operations would be adversely affected if we were unable to draw funds under our revolving credit facilities because of a lender default or to obtain other cost-effective financing. Any default by a lender in its obligation to fund its commitment under our revolving credit facilities (or its participation in letters of credit) could limit our liquidity to the extent of the defaulting lender's commitment.

If we are unable to generate sufficient cash flow from operations in the future to meet our commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. We cannot assure you that any of these actions could be completed on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. Moreover, our existing debt agreements contain, and our future debt agreements may contain, restrictive covenants that may prohibit us from adopting these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

Our credit facilities and the indentures governing our senior subordinated notes impose certain restrictions. Failure to comply with any of these restrictions could result in the acceleration of the maturity of our indebtedness. Were this to occur, we would not have sufficient cash to pay our accelerated indebtedness.

The operating and financial restrictions and covenants in our debt agreements, including our credit agreement and the indentures governing our senior subordinated notes may adversely affect our ability to finance future operations or capital needs or to engage in new business activities. Our credit facilities and/or indentures restrict our ability to, among other things:

- declare dividends or redeem or repurchase capital stock;
- prepay, redeem or purchase other debt;
- incur liens;
- make loans, guarantees, acquisitions and investments;
- incur additional indebtedness;
- engage in sale and leaseback transactions;
- amend or otherwise alter debt and other material agreements;
- make capital expenditures;
- engage in mergers, acquisitions or asset sales;
- engage in transactions with affiliates; and
- alter the business we conduct.

In addition, our credit agreement require us to maintain certain financial ratios. As a result of these covenants, we will be limited in the manner in which we can conduct our business, and may be unable to engage in favorable business activities or finance future operations or capital needs. A failure to comply with the restrictions contained in our credit agreement or indentures, or to maintain the financial ratios required by our credit agreement, could lead to an event of default which could result in an acceleration of our indebtedness. See Note 8 (Long-Term and Other Debt) to our Consolidated Financial Statements for additional information regarding these financial ratios.

There can be no assurance that our future operating results will be sufficient to ensure compliance with the covenants in our credit agreement, indentures or other debt instruments or to remedy any such default. In addition, in the event of acceleration, we may not have or be able to obtain sufficient funds to make any accelerated payments.

Our business depends on the protection of our intellectual property and proprietary information.

We believe that our success depends, in part, on protecting our intellectual property in the U.S. and in foreign countries. Our intellectual property includes certain patents and trademarks relating to our instant ticket games and wagering systems, as well as proprietary or confidential information that is not subject to patent or similar protection. Our intellectual property protects the integrity of our games, systems, products and services, which is a core value of our business. For example, our intellectual property is designed to ensure the security of the printing of our instant lottery tickets and provide simple and secure validation of our lottery tickets. Competitors may independently develop similar or superior products, software, systems or business models. In cases where our intellectual property is not protected by an enforceable patent, such independent development may result in a significant diminution in the value of our intellectual property.

There can be no assurance that we will be able to protect our intellectual property. We enter into confidentiality or license agreements with our employees, vendors, consultants and, to the extent legally permissible, our customers, and generally control access to, and the distribution of, our game designs, systems and other software documentation and proprietary information, as well as the designs, systems and other software documentation and information that we license from others. Despite our efforts to protect these proprietary rights, unauthorized parties may try to copy our gaming products, business models or systems, use certain of our confidential information to develop competing products, or develop independently or otherwise obtain and use our gaming products or technology, any of which could have a material adverse effect on our business. Policing unauthorized use of our technology is difficult and expensive, particularly because of the global nature of our operations. The laws of other countries may not adequately protect our intellectual property.

There can be no assurance that our business activities, games, products and systems will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims (with or without merit) against us. Any such claim and any resulting litigation, should it occur, could subject us to significant liability for damages and could result in invalidation of our proprietary rights, distract management, and/or require us to enter into costly and burdensome royalty and licensing agreements. Such royalty and licensing agreements, if required, may not be available on terms acceptable to us, or may not be available at all. In the future, we may also need to file or respond to lawsuits to defend the validity of our intellectual property rights and trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources.

We rely on products and technologies that we license from third parties. There can be no assurance that these third-party licenses, or the support for such licenses, will continue to be available to us on commercially reasonable terms, if at all.

Our business competes on the basis of the security and integrity of our systems and products.

We believe that our success depends, in part, on providing secure products and systems to our customers. Attempts to penetrate security measures may come from various combinations of customers, retailers, vendors, employees and others. Our ability to monitor and ensure the quality of our products is periodically reviewed and enhanced. Similarly, we regularly assess the adequacy of our security systems to protect against any material loss to any of our customers and the integrity of our products to end-users. Expanded utilization of the internet and other interactive technologies may result in increased security concerns for us and our customers. There can be no assurance that our business will not be affected by a security breach or lapse, which could have a material adverse impact on our results of operations, business and/or prospects.

Our industry is subject to strict government regulations that may limit our existing operations and have an adverse impact on our ability to grow.

In the U.S. and many other countries, lotteries and other forms of gaming is subject to extensive and evolving regulation. Such gaming regulatory requirements vary from jurisdiction to jurisdiction. Therefore, we are subject to a wide range of complex gaming laws and regulations in the jurisdictions in which we are licensed or operate. Most jurisdictions require that we be licensed, that our key personnel and certain of our security holders be found suitable or be licensed, and that our products be reviewed and approved before placement. If a license, approval or finding of suitability is required by a regulatory authority and we fail to seek or do not receive the necessary approval, license or finding of suitability, then we may be prohibited from providing our products or services for use in the particular jurisdiction.

The regulatory environment in any particular jurisdiction may change in the future, and any such change could have a material adverse effect on our results of operations, business or prospects. Moreover, there can be no assurance that the operation of lotteries, video gaming machines, internet gaming or other forms of lottery or gaming will be approved by additional jurisdictions or that those jurisdictions in which these activities are currently permitted will continue to permit such activities. Laws and regulations relating to internet and other form of interactive gaming are evolving. For additional discussion regarding risks associated with the evolving interactive gaming regulatory landscape, see the risk factor above captioned " We may not be able capitalize on the expansion of internet or other forms of interactive gaming or other trends and changes in the lottery and gaming industries."

There can be no assurance that law enforcement or gaming regulatory authorities will not seek to restrict our business in their jurisdictions or even institute enforcement proceedings. In addition, there can be no assurance that any instituted enforcement proceedings will be favorably resolved, or that such proceedings will not have a material adverse impact on our ability to retain and renew existing licenses or to obtain new licenses in other jurisdictions.

Moreover, in addition to the risk of an enforcement action, we also potentially risk an impact on our reputation in the event of any potential legal or regulatory investigation whether or not we are ultimately accused of or found to have committed any violation. We are required to obtain and maintain licenses from various jurisdictions in order to operate certain aspects of our business and we are subject to extensive background investigations and suitability standards in our business. We also will become subject to regulation in any other jurisdiction in which our customers operate in the future. There can be no assurance that we will be able to obtain new licenses or renew any of our existing licenses, or that if such licenses are obtained, that such licenses will not be conditioned, suspended or revoked, and the loss, denial or non-renewal of any of our licenses could have a material adverse effect on our results of operations, business or prospects. Lottery authorities generally conduct background investigations of the winning vendor and its employees prior to and after the award of a lottery contract. Generally, regulatory authorities have broad discretion when granting, renewing or revoking these approvals and licenses. Lottery authorities with which we do business may require the removal of any of our employees deemed to be unsuitable and are generally empowered to disqualify us from receiving a lottery contract or operating a lottery system as a result of any such investigation. Our failure, or the failure of any of our key personnel, systems or machines, in obtaining or retaining a required license or approval in one jurisdiction could negatively impact our ability (or the ability of any of our key personnel, systems or gaming machines) to obtain or retain required licenses and approvals in other jurisdictions. The failure to obtain or retain a required license or approval in any jurisdiction would decrease the geographic areas where we may operate and generate revenues, decrease our share in the lottery or gaming industry and put us at a disadvantage relative to our competitors.

Some jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage (typically 5% or more) of our equity securities. The failure of these beneficial owners to submit to such background checks and provide required disclosure could jeopardize the award of a contract to us or provide grounds for termination of an existing contract. Additional restrictions are often imposed on foreign entities such as us by international jurisdictions in which we seek to market our products or services. In light of these regulations and the potential impact on our business, our restated certificate of incorporation allows for the restriction of stock ownership by persons or entities who fail to comply with informational or other regulatory requirements under applicable gaming laws, who are found unsuitable to hold our stock by gaming authorities or whose stock ownership adversely affects our ability to obtain, maintain, renew or qualify for a license, contract, franchise or other regulatory approval from a gaming authority. The licensing procedures and background investigations of the authorities that regulate our businesses and the restriction in our certificate of incorporation may inhibit potential investors from becoming significant stockholders or inhibit existing stockholders from retaining or increasing their ownership.

We have developed and implemented an internal compliance program in an effort to ensure that we comply with legal requirements imposed in connection with our gaming-related activities, as well as legal requirements generally applicable to all publicly traded corporations. The compliance program is run on a day-to-day basis by our Chief Compliance Officer with legal advice provided by our legal department and outside experts. The compliance program is overseen by the Compliance Committee of our Board of Directors, consisting entirely of outside directors. There can be no assurance that such steps will prevent the violation of one or more laws or regulations, or that a violation by us or an employee will not result in the imposition of a monetary fine or suspension or revocation of one or more of our licenses.

Gaming opponents persist in their efforts to curtail the expansion of legalized gaming, which, if successful, could limit the growth of our operations.

Legalized gaming is subject to opposition from gaming opponents. There can be no assurance that this opposition will not succeed in preventing the legalization of gaming in jurisdictions where these activities are presently prohibited or prohibiting or limiting the expansion of gaming where it is currently permitted, in either case to the detriment of our business, financial condition, results and prospects.

We may not succeed in realizing the anticipated benefits of our strategic equity investments and relationships.

Under certain circumstances we pursue growth through strategic equity investments, including joint ventures, as a means to, among other things, gain access to new and tactically important geographies, business opportunities and technical expertise, while simultaneously offering the potential for reducing capital requirements.

These strategic equity investments currently include investments in LNS, Northstar, Sportech, RCN and our equity investments in China. We are party to strategic agreements with Playtech relating to gaming machines that contemplate our use of and reliance on Playtech's back-end technology platform in international jurisdictions. In 2011, Global Draw completed the migration of its server-based gaming machines to this back-end technology platform in the U.K. and began migrating server-based gaming machines outside the U.K. to this technology during the third quarter of 2011.

As of December 31, 2011, we owned a 50% interest in Sciplay with Playtech to deliver internet gaming solutions to government-sponsored and government-regulated lotteries and certain other gaming operators. Sciplay was formed to capitalize on the combination of Playtech's internet gaming software and content and our experience and relationships with lotteries and other gaming operators. On January 23, 2012, we entered into an agreement with Playtech that restructured this strategic relationship from a joint venture arrangement to a license arrangement. Under the agreement, Playtech will license its internet gaming software to us on a mutually non-exclusive basis for use by certain categories of our current and prospective customers, including U.S. casinos and lotteries worldwide. The Sciplay-related entities are now wholly owned subsidiaries of Scientific Games. There can be no assurance that we will be able to successfully develop and market internet gaming solutions under our restructured arrangement with Playtech.

Northstar, in which we are a 20% equity holder, was awarded the agreement to be the private manager for the Illinois Lottery for a ten-year term following a competitive procurement process, which agreement was executed on January 18, 2011. See "Business Operational Overview Printed Products Northstar" in Item 1 of this Annual Report on Form 10-K. On January 26, 2011, the Illinois Appellate Court upheld a constitutional challenge to the revenue statute that, among other things, amended the Illinois lottery law to facilitate the PMA, on grounds that the statute impermissibly addressed more than one subject. On July 11, 2011, the Illinois Supreme Court reversed the Appellate Court decision and upheld the revenue statute. Operations under the PMA commenced on July 1, 2011. Under the terms of the PMA, Northstar is entitled to receive annual incentive compensation payments from Illinois to the extent it is successful in increasing the lottery's net income above specified target levels of lottery net income, subject to a cap of 5% of the applicable year's net income. Northstar will be responsible for payments to Illinois to the extent the lottery net income levels set forth in Northstar's successful bid are not achieved, subject to a similar cap. The lottery net income levels set forth in Northstar's successful bid were $851.1 million, $950 million, $980 million, $986 million and $1 billion for the five fiscal years ending June 30, 2012, 2013, 2014, 2015 and 2016, respectively, representing a compound annual growth rate in lottery net income of approximately 44%, including an approximate 27% increase in lottery net income in the first year. These net income target levels are subject to upward or downward adjustment under certain circumstances in accordance with the terms of the PMA.

We may not realize the anticipated benefits of these strategic equity investments and other strategic relationships that we may enter into, or may not realize them in the timeframe expected. These arrangements pose significant risks that could have a negative effect on our operations, including: the potential diversion of our management's attention from our core business to, for example, integrate technologies; the potential failure to realize anticipated synergies, economies of scale or other value associated with the arrangements; unanticipated costs and other unanticipated events or circumstances; possible adverse effects on our operating results during any integration process; impairment charges if our strategic equity investments or relationships are not as successful as we originally anticipate; and our potential inability to achieve the intended objectives of the arrangements.

Furthermore, our strategic equity investment and other strategic relationships pose risks arising from our reliance on our partners and our lack of sole decision-making authority, which may give rise to disputes between us and our partners. For instance, our investment in LNS is a minority investment in a venture whose largest equity holder is Lottomatica, the parent company of one of our principal competitors, and, although certain corporate actions require our prior consent, we do not control decisions relating to the governance of LNS. Our partners may have economic or business interests or goals that are inconsistent with our interests and goals, take actions contrary to our objectives or policies, undergo a change of control, experience financial and other difficulties or be unable or unwilling to fulfill their obligations under our arrangements.

The failure to avoid or mitigate the risks described above or other risks associated with such arrangements could have a material adverse effect on our business, financial condition and results of operations.

We may be required to recognize additional impairment charges.

We assess our goodwill and other intangible assets and our long-lived assets as and when required by accounting principles generally accepted in the U.S. ("GAAP") to determine whether they are impaired. We recorded accelerated depreciation expense of $6.4 million and $8.3 million in 2011 and 2010, respectively, as a result of Global Draw's migration to a new platform technology. In 2010, we recorded asset impairment charges of approximately $17.5 million related to underperforming Lottery Systems contracts, $3.0 million of impairments related to obsolete equipment in Lottery Systems and $2.5 million of impairments related to obsolete equipment in Global Draw. In 2009, we recorded asset impairment charges of approximately $24.7 million primarily related to underperforming Lottery Systems contracts. Refer to the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Valuation of long-lived and intangible assets and goodwill" in Item 7 of this Annual Report on Form 10-K and Note 1 (Description of the Business and Summary of Significant Accounting Policies) and Note 4 (Property and Equipment) to our Consolidated Financial Statements in this Annual Report on Form 10-K. We cannot predict the occurrence of impairments and there can be no assurance that we will not have to record additional impairment charges in the future.

Our inability to complete future acquisitions of gaming and related businesses and integrate those businesses successfully could limit our future growth.

Part of our corporate strategy is to continue to pursue expansion and strategic acquisition opportunities. In connection with any such acquisitions, we could face significant challenges in managing and integrating the expanded or combined operations, including acquired assets, operations and personnel. There can be no assurance that acquisition opportunities will be available on acceptable terms or at all or that we will be able to obtain necessary financing or regulatory approvals to complete potential acquisitions. Our ability to succeed in implementing our strategy will depend to some degree upon the ability of our management to identify, complete and successfully integrate commercially viable acquisitions. Acquisition transactions may disrupt our ongoing business and distract management from other responsibilities.

Our revenues fluctuate due to seasonality and timing of equipment sales and, therefore, our periodic operating results are not guarantees of future performance.

Our revenues can fluctuate due to seasonality in some components of our business. The summer season historically has been the weakest part of the year for certain parts of our lottery business, particularly where our revenues are tied to a percentage of retail sales under our CSP or POS contracts. The third quarter is typically the weakest quarter for Global Draw, which could adversely affect the amounts wagered and our corresponding service revenue.

In addition, our revenue from Lottery Systems can be somewhat dependent on the size of jackpots of lottery games such as Powerball and Mega Millions during the relevant period.

Our success depends in part on our ability to develop, enhance and/or introduce successful gaming concepts and game content.

Lottery and gaming equipment sales and software license revenue usually reflects a limited number of large transactions, which may not recur on an annual basis. Consequently, revenue and operating margins can vary substantially from period to period as a result of the timing and magnitude of major equipment sales and software license revenue. As a general matter, lottery and gaming equipment sales generate lower operating margins than revenue from other aspects of our business. In addition, instant ticket sales may vary depending on the season and timing of contract awards, changes in customer budgets, ticket inventory levels, lottery retail sales and general economic conditions.

Our Global Draw, Games Media and Barcrest businesses develop and source game content both internally and through third-party suppliers. Games Media and Barcrest also seek to secure third-party brands for incorporation into its game content. We believe creative and appealing game content produces more revenue and net win for the gaming machine customers of these businesses and provides them with a competitive advantage, which in turn enhances the revenues of Global Draw, Games Media and Barcrest and their ability to attract new business or to retain existing business. In our lottery business, we believe that innovative gaming concepts and game content, such as multiplier games from Lottery Systems and licensed brand game content from Printed Products, can enhance the revenue of our lottery customers and distinguish us from our competitors. There can be no assurance that we will be able to sustain the success of our existing game content or effectively develop or obtain from third parties new or enhanced game content that will be widely accepted both by our customers and their end users.

We are dependent on our suppliers and contract manufacturers, and any failure of these parties to meet our performance and quality standards or requirements could cause us to incur additional costs or lose customers.

Our production of instant lottery tickets, in particular, depends upon a continuous supply of raw materials, supplies, power and natural resources. Our operating results could be adversely affected by an interruption or cessation in the supply of these items or a serious quality assurance lapse, including as a result of the insolvency of any of our key suppliers.

Similarly, production of our presses and lottery and gaming systems is dependent upon a regular and continuous supply of components many of which are manufactured outside of the United States. The assembly of many of our terminals and other hardware is performed by third parties. Any interruption or cessation in the supply of these items or services or any material quality assurance lapse with respect thereto could materially adversely affect our ability to fulfill customer orders, our financial condition or our results of operations.

We transmit certain wagering data utilizing satellite transponders, generally pursuant to long-term contracts. The technical failure of any of these satellites would require us to obtain other communication services, including other satellite access. In some cases, we employ backup systems to limit our exposure in the event of such a failure. There can be no assurance of access to such other satellites or, if available, the ability to obtain the use of such other satellites on favorable terms or in a timely manner. While satellite failures are infrequent, the operation of satellites is outside of our control.

In addition, our gaming businesses include a number of significant contracts whose performance depends upon our third-party suppliers delivering equipment on schedule in order to meet our contract commitments. Failure of the suppliers to meet their delivery commitments could result in us being in breach of, and subsequently losing, those contracts, which loss could have a material adverse effect on our results of operations.

We may be liable for product defects or other claims relating to our products.

Our products could be defective, fail to perform as designed or otherwise cause harm to our customers, their equipment or their products. If any of our products are defective, we may be required to recall the products and/or repair or replace them, which could result in substantial expenses and affect our profitability. Any problems with the performance of our products, such as an instant ticket misprint, could harm our reputation, which could result in a loss of sales to customers and/or potential customers. In addition, if our customers believe that they have suffered harm caused by our products, they could bring claims against us that could result in significant liability. Any claims brought against us by customers may result in diversion of management's time and attention, expenditure of large amounts of cash on legal fees, expenses and payment of damages, decreased demand for our products or services, or injury to our reputation. Our insurance may not sufficiently cover a large judgment against us or a large settlement payment, and is subject to customary deductibles, limits and exclusions.

We have foreign operations, which subjects us to foreign currency exchange rate fluctuations and other risks.

We are a global business and derive a substantial and growing portion of our revenue and profits from operations outside the United States. In the year ended December 31, 2011, we derived approximately 52% of our revenue from sales to customers outside of the United States.

Our consolidated financial results are significantly affected by foreign currency exchange rate fluctuations. Foreign currency exchange rate exposures arise from current transactions and anticipated transactions denominated in currencies other than U.S. dollars and from the translation of foreign currency balance sheet accounts into U.S. dollar-denominated balance sheet accounts. We are exposed to currency exchange rate fluctuations because a significant portion of our revenue is denominated in currencies other than the U.S. dollar, particularly the British Pound Sterling and the Euro. In particular, uncertainty regarding economic conditions in the Europe and the debt crisis affecting certain countries in the European Union poses risk to the stability of the Euro. Exchange rate fluctuations have in the past adversely affected our operating results and cash flows and may adversely affect our results of operations and cash flows and the value of our assets outside the U.S. in the future.

In January 2012, we entered into foreign currency forward contracts with an aggregate notional value of €23.5 million to hedge a portion of our net investment in certain of our subsidiaries that is denominated in Euros. As a result, the Company is subject to the risk that the counterparty to one or more of these contracts defaults on its performance under the contracts. During an economic downturn, the counterparty's financial condition may deteriorate rapidly and with little notice and we may be unable to take action to protect our exposure. In the event of a counterparty default, we could incur losses, which may harm our business and financial condition. In the event that one or more of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty.

Our operations in foreign jurisdictions subject us to additional risks customarily associated with such operations, including:

- the complexity of foreign laws, regulations and markets;
- the impact of foreign labor laws and disputes;
- other economic, tax and regulatory policies of local governments; and
- the ability to attract and retain key personnel in foreign jurisdictions.

Additionally, foreign taxes paid by our foreign subsidiaries and equity investees on their earnings may not be recovered against our U.S. tax liability. At December 31, 2011, we had a deferred tax asset for our foreign tax credit ("FTC") carry forward of approximately $30.1 million. Although we will continue to explore tax planning strategies to use all of our FTC, at December 31, 2011, we established a valuation allowance of approximately $30.1 million against the FTC deferred tax asset to reduce the asset to the net amount that our management estimates is "more likely than not" to be realized.

In addition, our ability to expand successfully in foreign jurisdictions involves other risks, including difficulties in integrating foreign operations, risks associated with entering jurisdictions in which we may have little experience and the day-to-day management of a growing and increasingly geographically diverse company. Our investment in foreign jurisdictions often entails entering into joint ventures or other business relationships with locally based entities, which can involve additional risks arising from our lack of sole decision-making authority, our reliance on a partner's financial condition, inconsistency between our business interests or goals and those of our partners and disputes between us and our partners.

Through our joint ventures and wholly owned foreign enterprises, we have lottery-related investments and business operations in China, from which we expect to derive a growing portion of income. Our business in, and results of operations from, China are subject to a number of risks, including risks relating to competition in China, our ability to finance or refinance our operations in China, the complex regulatory environment in China, the political climate in China, the Chinese economy and our joint venture and other business partners in China. Our joint ventures in China are with locally based state-owned enterprises, which can potentially heighten the joint venture-related risks described above relating to inconsistency of business interests and disputes.

We anticipate that continued lottery-related growth in China depends in part on sustained demand for lottery tickets at higher price points, as well as continued expansion of the retailer network, optimization of retailer inventories and other growth initiatives. There can be no assurance that lottery ticket demand will be sustained at higher price points, and we cannot predict the rate of retailer expansion, the extent of inventory optimization or the success of our other growth initiatives.

There can be no assurance that legal and regulatory requirements in China will not change or that China's central or local governments will not impose new, stricter regulations or interpretations of existing regulations that would impose additional costs on our operations in China or even restrict or prohibit such operations. For example, comprehensive legislation regulating competition took effect on August 1, 2008. This law, among other things, prohibits certain types of agreements (unless they fall within specified exemptions) and certain behavior classified as abuse of dominant market position or intellectual property rights. Additionally, new lottery regulations providing for enhanced supervision of the lottery industry in China became effective on July 1, 2009. We cannot predict with certainty what impact these laws and regulations or any future laws and regulations (or implementing rules or enforcement policies relating to any of the foregoing) will have on our business in China.

We may not realize the operating efficiencies, competitive position or financial results that we anticipate from our investments in foreign jurisdictions and our failure to effectively manage the risks associated with our operations in foreign jurisdictions could have a material adverse effect on our results of operations, business or prospects.

Certain holders of our common stock exert significant influence over the Company and may make decisions with which other stockholders may disagree.

In August 2004, MacAndrews & Forbes Holdings Inc. was issued approximately 25% of our outstanding common stock in connection with its conversion of our then outstanding Series A Convertible Preferred Stock. According to an amendment to Schedule 13D filed with the SEC on June 16, 2011, this holder beneficially owns 31,700,737 shares of our common stock, or approximately 34.4% of our currently outstanding common stock. Pursuant to a stockholders' agreement with us, which we originally entered into with holders of the Series A Convertible Preferred Stock, such holder is entitled to appoint up to four member of our Board of Directors and certain actions of the Company require the approval of such holder. As a result, this holder has the ability to exert significant influence over our business and may make decisions with which other stockholders may disagree, including, among other things, delaying, discouraging or preventing a change of control of the Company or a potential merger, consolidation, tender offer, takeover or other business combination.

If certain of our key personnel leave us, our business will be significantly adversely affected.

We depend on the continued performance of A. Lorne Weil, our Chairman and Chief Executive Officer, and Michael Chambrello, our Chief Executive Officer Asia-Pacific Region, as well as the other members of our senior management team. Messrs. Weil and Chambrello have extensive experience in the lottery and gaming industries and have contributed significantly to the growth of our business. We rely on Mr. Weil's overall strategic vision and his direction on business development projects, including mergers and acquisitions. We rely on Mr. Chambrello to maintain and grow our China business. If we lose the services of them or any of our other senior officers and cannot find suitable replacements for such persons in a timely manner, it could have a material adverse effect on our business. Mr. Weil has an employment agreement that is scheduled to expire at the end of 2015. Mr. Chambrello has an employment agreement that is scheduled to expire at the end of 2013.

We could incur costs in the event of violations of or liabilities under environmental laws.

Our operations and real property are subject to U.S. and foreign environmental laws and regulations, including those relating to air emissions, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur costs, including cleanup costs, fines or penalties, and third-party claims as a result of violations of or liabilities under environmental laws. Some of our operations require environmental permits and controls to prevent or reduce environmental pollution, and these permits are subject to review, renewal and modification by issuing authorities.

Failure to perform under our lottery contracts may result in litigation, substantial monetary liquidated damages and contract termination.

Our business subjects us to contract penalties and risks of litigation, including due to potential allegations that we have not fully performed under our contracts or that goods or services we supply are defective in some respect. Litigation is pending in Colombia arising out of the termination of certain Colombian lottery contracts in 1993. An agency of the Colombian government has asserted claims against certain parties, including our subsidiary, SGI, which owned a minority interest in Wintech de Colombia S.A., or Wintech (now liquidated), the former operator of the Colombian national lottery. The claims are for, among other things, contract penalties, interest and the costs of a bond issued by a Colombian surety. For additional information regarding this litigation, see "Legal Proceedings" in Item 3 of this Annual Report on Form 10-K. There can be no assurance that this litigation will not be finally resolved adversely to us or result in material liability.

In addition, our lottery contracts typically permit a lottery authority to terminate the contract at any time for material failure to perform, other specified reasons and, in many cases, for no reason at all. Lottery contracts to which we are a party also frequently contain exacting implementation schedules and performance requirements and the failure to meet these schedules and requirements may result in substantial monetary liquidated damages, as well as possible contract termination. We are also required by certain of our lottery customers to provide surety or performance bonds. We have paid or incurred liquidated damages under our lottery contracts and material amounts of liquidated damages could be imposed on us in the future, which could, if imposed, have a material adverse effect on our results of operations, business or prospects.

Labor disputes may have an adverse effect on our operations.

Certain of our employees are represented by unions, including employees at our printing facilities in Australia, Canada, Chile and the United Kingdom. There can be no assurance that we will not encounter any conflicts or strikes with any labor union that represents our employees, which could have an adverse effect on our business or results of operations, could cause us to lose customers or could cause our customers' operations to be affected and might have permanent effects on our business.

The price of our common stock has been volatile and may continue to be volatile

Our stock price may fluctuate in response to a number of events and factors, such as, variations in operating results, actions by various regulatory agencies, litigation, financial estimates and recommendations by securities analysts, rating agency reports, performance of other companies that investors or security analysts deem comparable to us, news reports relating to our business, our markets and general market conditions. During the 52-week period ended February 24, 2012, our stock price fluctuated between a high of $13.08 and a low of $6.50. This significant stock price fluctuation may make it more difficult for our stockholders to sell their common stock when they want and at prices they find attractive.

ITEM 1B. UNRESOLVED STAFF MATTERS

No disclosure required pursuant to this Item.

ITEM 2. PROPERTIES

We occupy approximately 1,013,000 square feet of space throughout the United States and Puerto Rico. Our principal facilities include approximately 355,000 square feet owned (subject to mortgage encumbrance) in Alpharetta, Georgia for administrative offices, manufacturing and warehousing (supporting all of our segments) and approximately 23,000 square feet of leased office space in New York, New York for our corporate offices.

Internationally, we occupy approximately 986,000 square feet of owned or leased space, including administrative offices and manufacturing and warehouse facilities supporting the Printer Products segment in Leeds, England (approximately 150,000 square feet that is owned), Montreal, Canada (approximately 119,000 square feet that is owned), Santiago, Chile (approximately 47,000 square feet that is owned) and Sydney, Australia (approximately 49,000 square feet that is leased). Additionally, we own approximately 65,000 square feet in Germany for administrative offices and warehouse and distribution.

ITEM 3. LEGAL PROCEEDINGS

Although we are a party to various claims and legal actions arising in the ordinary course of business, we believe, 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 our consolidated financial position or results of operations.

Our subsidiary, 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. (together with its successor agency, "Ecosalud"), an agency of the Colombian government. The contract provided for a penalty against Wintech, SGI and the other shareholders of Wintech of up to $5.0 million if certain levels of lottery sales were not achieved. In addition, SGI delivered to Ecosalud a $4.0 million surety bond as a further guarantee of performance under the contract. 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 that we believe 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 declared that the contract was in default and asserted various claims against Wintech, SGI and other shareholders of Wintech for, among other things, realization of the full amount of the penalty, plus interest and costs of the bond. On June 4, 1999, Ecosalud filed a collection proceeding against SGI before the Tribunal Contencioso of Cundinamarca in Colombia. In July 2002, the Tribunal denied SGI's preliminary motion to dismiss the lawsuit and the decision was upheld on appeal. SGI's procedural defense motion was also denied. As a result of these decisions, this lawsuit will be heard in due course on its merits by the Tribunal and an appeal stage will be available. In July 2009, a Colombian court ruled against Wintech's appeal (to which we are not party) of an action by the Colombian governmental agency that arises out of the same claims asserted by the Colombian governmental agency against SGI.

SGI believes it has various defenses on the merits against Ecosalud's claims. Although we believe 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.

ITEM 4. MINE SAFETY DISCLOSURES

No disclosure required pursuant to this Item.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our outstanding common stock is listed for trading on the Nasdaq Global Select Market under the symbol "SGMS". The following table sets forth, for the periods indicated, the range of high and low sales prices of our Class A common stock.

	Sales Price of Scientific Games Common Stock	
	High	Low
Fiscal Year 2011 (January 1, 2011 - December 31, 2011)		
First Quarter	$ 11.27	$ 8.26
Second Quarter	$ 10.83	$ 8.32
Third Quarter	$ 10.59	$ 6.80
Fourth Quarter	$ 9.82	$ 6.50
Fiscal Year 2010 (January 1, 2010 - December 31, 2010)		
First Quarter	$ 17.01	$ 13.22
Second Quarter	$ 15.09	$ 9.18
Third Quarter	$ 11.99	$ 9.04
Fourth Quarter	$ 10.09	$ 6.58

On February 24, 2012, the last reported sale price for our common stock on the Nasdaq Global Select Market was $12.09 per share. There were approximately 1,044 holders of record of our common stock as of February 24, 2012.

We have never paid any cash dividends on our Class A common stock. Our Board of Directors presently intends to retain earnings for use in the business. Any future determination as to payment of dividends will depend upon our financial condition and results of operations and such other factors as are deemed relevant by our Board. Further, under the terms of certain of our debt agreements, we are limited in our ability to pay cash dividends or make certain other restricted payments (other than stock dividends) on our Class A common stock.

On December 8, 2011, our Board of Directors approved an extension of our existing stock repurchase program to December 31, 2012. The program, originally announced in May 2010, was due to expire on December 31, 2011. Under the program, we are authorized to repurchase, from time to time through open market purchases or otherwise, shares of our outstanding common stock in an aggregate amount up to $200 million. As of December 31, 2011, we had approximately $173.7 million available for potential repurchases under the program. Repurchases for the fourth quarter ended December 31, 2011 are reflected on the following table:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
10/1/2011 - 10/31/2011	5,118	$ 7.25		$173.7 million
11/1/2011 - 11/30/2011	41,501	$ 8.72		$173.7 million
12/1/2011 - 12/31/2011	142,616	$ 9.54		$173.7 million
Total	189,235	$ 9.30		$173.7 million

(1) There were no shares purchased as part of the publicly announced repurchase program during the quarter ended December 31, 2011. The activity in this column reflects 189,235 shares acquired from employees to satisfy the withholding taxes associated with the vesting of restricted stock units and the exercise of stock options during the quarter ended December 31, 2011.

(2) The $200 million stock repurchase program, which expires on December 31, 2012, was publicly announced on May 10, 2010.

Shareholder Return Performance Graph

The following graph compares the cumulative total stockholder return over the five-year period ended December 31, 2011 of our common stock, the Nasdaq Composite Index and an index of peer group companies that operate in industries or lines of business similar to ours.

The peer group index consists of Bally Technologies, Inc. (New York Stock Exchange ("NYSE"): BYI), IGT (NYSE: IGT), WMS Industries Inc. (NYSE: WMS), Multimedia Games, Inc. (Nasdaq Global Select Market: MGAM), Aristocrat Leisure Limited (Australian Securities Exchange: ALL), Lottomatica (Borsa Italiana S.p.A.: LTO), Intralot (Athens Stock Exchange: INLOT), Pollard (Toronto Stock Exchange: PLB.UN-TO) and Playtech Limited (AIM: PTEC).

The companies in each peer group have been weighted based on their relative market capitalization each year. The graph assumes that $100 was invested in our common stock, the Nasdaq Composite Index and the peer group index at the beginning of the five-year period and that all dividends were reinvested. The comparisons are not intended to be indicative of future performance of our common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Scientific Games Corporation, the NASDAQ Composite Index, and a Peer Group

*

$100 invested on December 31, 2006 in stock or index, including reinvestment of dividends. Fiscal year ended December 31.

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Scientific Games Corporation	100.00	109.99	58.02	48.13	32.95	32.09
NASDAQ Composite Index	100.00	110.26	65.65	95.19	112.10	110.81
Peer Group Index	100.00	102.63	35.08	55.21	49.41	42.99

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data presented below as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 have been derived from our audited consolidated financial statements. The information below reflects the acquisitions and dispositions of certain businesses from 2007 through 2011, including the sale of our racing communications business and our 70% interest in NASRIN, a data communications business, to RCN in exchange for a 29.4% interest in RCN on February 28, 2007, the acquisition of Oberthur Gaming Technologies on May 1, 2007, the acquisition of certain assets of Sceptre Leisure Solutions Limited on April 19, 2010, the acquisition of substantially all of GameLogic's assets on August 5, 2010, the disposition of our racing and venue management businesses ("the Racing Business") on October 5, 2010 and the acquisition of Barcrest on September 23, 2011. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K and our Consolidated Financial Statements and the Notes thereto included in Item 8 of this Annual Report on Form 10-K.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA
(in thousands, except per share amounts)

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Revenue:					
Instant tickets	$ 493,275	$ 465,090	$ 453,238	$ 548,308	$ 498,179
Services	331,701	363,138	410,014	451,664	424,236
Sales	53,746	54,271	64,497	118,857	124,289
Total Revenue	878,722	882,499	927,749	1,118,829	1,046,704
Operating expenses:					
Cost of instant tickets (1)	281,565	270,787	270,836	331,501	283,924
Cost of services (1)	171,374	206,034	234,093	263,284	237,509
Cost of sales (1)	38,340	38,045	44,539	85,856	90,347
Selling, general and administrative expenses (a)	183,022	158,500	168,248	184,213	165,080
Write-down of assets held for sale (b)		8,029	54,356		
Employee termination and restructuring costs (c)	1,997	602	3,920	13,695	3,642
Depreciation and amortization (d)	118,603	141,766	151,784	218,643	160,366
Operating income (loss)	83,821	58,736	(27)	21,637	105,836
Other (income) expense:					
Interest expense	104,703	101,613	87,498	78,071	70,772
Earnings from equity investments	(29,391)	(49,090)	(59,220)	(58,570)	(41,252)
Loss (gain) on early extinguishment of debt	4,185	2,932	(4,829)	2,960	
Other	911	8,594	2,856	(4,691)	(2,050)
	80,408	64,049	26,305	17,770	27,470
Net income (loss) before income taxes	3,413	(5,313)	(26,332)	3,867	78,366
Income tax expense	15,983	143,888	13,547	8,352	25,211
Net (loss) income	(12,570)	(149,201)	(39,879)	(4,485)	53,155
Basic and diluted net income (loss) per share:					
Basic	$ (0.14)	$ (1.61)	$ (0.43)	$ (0.05)	$ 0.57
Diluted	$ (0.14)	$ (1.61)	$ (0.43)	$ (0.05)	$ 0.55
Weighted average number of shares used in per share calculations:					
Basic shares	92,068	92,666	92,701	92,875	92,566
Diluted shares	92,068	92,666	92,701	92,875	95,996

(1) Exclusive of depreciation and amortization.

Selected balance sheet data (end of period)					
Total assets	$ 2,161,901	$ 2,151,538	$ 2,291,792	$ 2,182,453	$ 2,098,786
Total long-term debt, including current installments	1,390,667	1,396,690	1,367,063	1,239,467	1,043,938

Stockholders' equity	443,714	452,658	619,758	595,829	693,591
Ratio of earnings to fixed charges (2)	1.1	0.8	0.4	0.7	1.6

(2)
See Exhibit 12 to this Annual Report on Form 10-K for the calculation of ratio of earnings to fixed charges.

The following notes are an integral part of these selected historical consolidated financial data.

(a) Includes $21,538, $22,807, $34,589, $34,122 and $25,312 in stock-based compensation expense in 2011, 2010, 2009, 2008, and 2007, respectively.

(b) Includes a write-down of assets held for sale of approximately $8,000 and $54,400 million in 2010 and 2009, respectively, resulting from our strategic decision in 2009 to sell the Racing Business.

(c) Employee termination and restructuring costs consists generally of expenses incurred for restructuring our operations from time to time and the cost associated with reducing our workforce and the termination of leases or other commitments.

(d) Depreciation and amortization expense includes accelerated depreciation charges related to obsolete equipment or technology and also includes the impact of any impairment charges related to underperforming contracts. Charges for accelerated depreciation or impairment included in depreciation and amortization expense were $6,400, $31,300, $24,700, $76,200 and $26,300 for 2011, 2010, 2009, 2008 and 2007, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations" in Item 7 of this Annual Report on Form 10-K for further discussion regarding these charges.

(e) Loss on early extinguishment of debt includes losses that we incur when we refinance our long-term debt obligations and also includes write-offs of the associated deferred financing costs. In 2011 we recorded a loss of approximately $4,200 as a result of the write-off of deferred financing fees attributable to our August 25, 2011 credit agreement amendment. In 2010, we recorded a loss on early extinguishment of long-term debt of approximately $2,900 related to the repurchase and redemption of our 6.25% senior subordinated notes due 2012 (the "2012 Notes") and the repayment of a portion of the term loan under our credit agreement. In 2009, we recorded a gain on early extinguishment of debt of approximately $4,500 related to the repurchase of our 0.75% convertible senior subordinated debentures due 2024. In 2008 we recorded a write-off of approximately $3,000 of unamortized deferred financing fees related to the termination of our old credit agreement, which was replaced by our current credit agreement. See Note 8 (Long-Term and Other Debt) to our Consolidated Financial Statements for more information regarding our debt instruments.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis (this "MD&A") is intended to enhance the reader's understanding of our operations and current business environment. This MD&A should be read in conjunction with the description of our business (Item 1 of this Annual Report on Form 10-K) and our Consolidated Financial Statements and Notes thereto (Item 8 of this Annual Report on Form 10-K).

This MD&A also contains forward-looking statements and should be read in conjunction with the disclosures and information contained under "Forward-Looking Statements" at the beginning of this Annual Report on Form 10-K and "Risk Factors" (Item 1A of this Annual Report on Form 10-K).

As used in this MD&A, the terms "we," "us," "our" and the "Company" mean Scientific Games Corporation together with its consolidated subsidiaries.

Business Overview

General

We are a leading global supplier of products and services to lotteries and a leading provider of gaming technology and content to gaming operators worldwide. We also gain access to technology and pursue global expansion through strategic acquisitions and equity investments. We manage and report our operations in three business segments: Printed Products; Lottery Systems; and Gaming. Corporate expenses are not allocated to segments. See " Business Segment Results" below and Note 15 (Business and Geographic Segments) for additional business segment information.

The discussion below highlights certain key drivers of our business and certain known trends, demands, commitments, events and uncertainties that have affected our recent financial and operating performance and may affect our future financial and operating performance.

Our revenue is classified as instant ticket revenue, service revenue and sales revenue. Instant ticket revenue includes revenue related to our instant ticket fulfillment and services businesses, including our brand licensing and Properties Plus businesses. Revenue generated from our sales of lottery systems, terminals, gaming machines, gaming content and phone cards, which sales are typically non-recurring in nature and not subject to multi-year supply agreements, is categorized as sales revenue. All other revenue generated from Lottery Systems (including revenue from the validation of instant tickets) and Gaming is classified as service revenue.

We believe we are likely to continue to experience a highly competitive procurement environment for domestic and international customer contracts in connection with bids, re-bids, extensions and renewals, which could lead to the loss of contracts or rate reductions and/or additional service requirements in contracts that we win or retain. In 2012, a number of our customer contracts are up for re-bid, extension or renewal. See the table in "Business Contract Procurement" in Item 1 of this Annual Report on Form 10-K for additional information regarding our customer contracts. Our strategy to counter-balance these industry trends includes working with our customers to grow their sales through a variety of methods including launching new products and services, implementing innovative technologies and marketing tools and expanding retail distribution.

For the year ended December 31, 2011, we derived approximately 52% of our revenue from sales to customers outside of the U.S. and were affected by fluctuations in foreign currency exchange rates. The foreign currencies to which we are most exposed are the British Pound Sterling and Euro. We refer herein to the impact of changes in foreign currency exchange rates, which results from translating foreign functional currencies into U.S. dollars for reporting purposes. The impact of foreign currency exchange rate fluctuations represents the difference between the relevant period rates and the prior period rates applied to the relevant period activity.

Printed Products

Retail sales of instant tickets can be a key performance indicator of our instant ticket revenue, although there may not always be a direct correlation between retail sales and our instant ticket revenue due to the type of contract (e.g., PPK versus POS or CSP contracts), the impact of changes in our customer contracts or other factors. Based on third-party data, our customers' total instant ticket lottery retail sales in the U.S. increased approximately 6.5% in 2011 compared to 2010. Most of our U.S. customers reported year-over-year growth in sales of instant tickets, which we believe was primarily driven by sales of higher price-point tickets. Our U.S. instant ticket revenue increased approximately 6% in 2011 compared to 2010 due in part to the improvement in retail sales. Internationally, we also experienced instant ticket revenue growth in 2011 from our POS and CSP contracts, which we believe was also attributable to sales of higher price-point tickets.

Our licensed game contracts are generally game-specific and therefore short-term and non-recurring. Our instant ticket revenue may be negatively impacted to the extent we are unable to continue to win licensed game-specific or multi-state game contracts. There has been an increase in interest within the lottery industry in player loyalty programs, which we believe may result in growth opportunities for our Properties Plus® offering. In the third quarter of 2011, the Iowa lottery launched Properties Plus and the Tennessee lottery awarded us a contract for a player loyalty system. In addition, the Missouri lottery is expected to begin a Properties Plus program in the first quarter of 2012. We expect our 2012 results of operations to be positively impacted by these new opportunities.

We are the primary supplier of instant lottery tickets for LNS, which was awarded the concession to be the exclusive operator of the Italian Gratta e Vinci instant ticket lottery beginning on October 1, 2010. LNS succeeded Consorzio Lotterie Nazionali ("CLN"), a consortium comprised of essentially the same group that owns LNS, which held the prior concession. Over the life of the new concession, we expect that we will supply no less than 80% of LNS' instant ticket production requirements. Retail sales of the Italian instant ticket lottery increased 8.4% in 2011 compared to 2010. Our 2011 results reflect a year-over-year increase in instant ticket revenue related to our PPK contract with LNS, which we believe resulted from LNS' increased focus on business operations following the completion of the tender process for the new concession, increased retail distribution and the success of a €20 ticket. However, retail sales for the fourth quarter of 2011 were flat compared to the prior-year period, and preliminary retail sales information through mid-February 2012 indicates a decline in retail sales of approximately 3% compared to the prior-year period, despite retail sales growth of approximately 18% in January 2012. While we believe February 2012 sales may have been negatively impacted to some extent by severe inclement weather in certain parts of Italy, the recent sales information illustrates the volatility of instant ticket retail sales in Italy.

The upfront fees paid by LNS in 2010 associated with the new concession are amortized by LNS (anticipated to be approximately €89.0 million per year of the new concession), which reduces our earnings from equity investments. Our share of the amortization is approximately €18.0 million per year on a pre-tax basis. In light of the corporate structure of LNS, we record earnings from our equity investment in LNS on an after-tax basis, which impacted the comparability of our results of operations from our equity investment during 2011 since we recorded earnings from CLN on a pre-tax basis.

Under our CSP agreement with Northstar, we are responsible for the design, development, manufacturing, warehousing and distribution of instant lottery tickets and are compensated based on a percentage of retail sales. Our increase in instant ticket revenue in 2011 reflected the commencement of our CSP agreement with Northstar on July 1, 2011.

Northstar is entitled to receive annual incentive compensation payments from Illinois to the extent it is successful in increasing the lottery's net income above specified target levels, subject to a cap of 5% of the applicable year's net income. Northstar will be responsible for payments to Illinois to the extent such targets are not achieved, subject to a similar cap. The lottery net income levels set forth in

Northstar's successful bid for the private management agreement, or PMA, were $851.1 million, $950 million, $980 million, $986 million and $1 billion for the five fiscal years ending June 30, 2012, 2013, 2014, 2015 and 2016, respectively, representing a compound annual growth rate in lottery net income of approximately 44%, including an approximate 27% increase in lottery net income in the first year. These net income target levels are subject to upward or downward adjustment under certain circumstances in accordance with the terms of the PMA. Northstar is entitled to be reimbursed on a monthly basis for most of its operating expenses under the PMA, although certain expenses of Northstar associated with managing the lottery are not reimbursable. Earnings and cash flows from our equity investment in Northstar may be impacted to the extent the lottery achieves, or fails to achieve, the applicable net income targets and will be impacted to the extent Northstar incurs non-reimbursable expenses. The impact of this equity method investment was not material to our earnings from our equity investments in 2011.

As U.S. states and international jurisdictions increasingly look towards lottery and gaming as a source to grow revenue, we believe they could pursue an outsourcing model whereby the day-to-day management of their lotteries are conducted by a third party, similar to the private management agreement the Illinois lottery awarded to our Northstar.

We believe that instant lottery tickets currently comprise less than 20% of lottery sales outside of the U.S., compared to almost 60% in the U.S. We are especially focused on increasing instant ticket penetration in both underpenetrated and new jurisdictions, particularly in Asia, South/Latin America and Eastern/Central Europe. In Greece, we recently submitted an expression of interest to operate a new instant ticket lottery through a consortium comprised of us and three other lottery and gaming companies.

Lottery Systems

Based on third-party data, our Lottery Systems customers' total draw game retail sales in the U.S. increased approximately 0.1% in 2011 compared to 2010. In 2011, our service revenue in the U.S. was flat, reflecting this improvement in retail sales offset by lost contracts in New Hampshire and Vermont as of June 30, 2010. The level of jackpots of the Powerball and Mega Millions multi-state draw lottery games impact our service revenues. In 2011, U.S. lottery directors authorized certain changes to the Powerball game, including an increase in the ticket price to $2, which became effective on January 15, 2012. The increase in the Powerball ticket price potentially provides an impetus for sales growth in draw lottery retail sales. Our service revenue is also impacted by increases or decreases in retail sales of instant tickets where we provide the instant ticket validation services as part of a lottery systems contract.

We are the exclusive instant ticket validation network provider to the CSL. Instant ticket retail sales of the CSL increased approximately 21% in 2011 compared to 2010. We believe the increase is a result of our strategic initiatives related to our China operations, which focus on accelerating growth through the offering of higher price-point instant tickets, such as the launch of a 30RMB ticket in the third quarter of 2011, the expansion of the retailer and validation network, the introduction of tickets with licensed brands such as the NBA and advertising campaigns to build brand awareness. We also continue to focus on the pursuit of additional distribution channels. The rate we receive on retail sales under our China instant ticket validation contract decreased by 0.2% in January 2011, decreased by an additional 0.1% in January 2012 and is scheduled to decrease an additional 0.1% in January 2014. To the extent we are not able to continue to offset these rate reductions by retail sales growth, our revenue and gross margin from this contract may be adversely affected.

Our lottery system sales revenue is non-recurring and generated primarily outside the U.S.

We have recently seen an increase in bidding opportunities to provide central monitoring and control systems for video gaming networks, particularly in jurisdictions in North America, as these jurisdictions pursue VLTs as an opportunity to address budget deficits. We believe that this could be an attractive growth opportunity for the Company in the coming years. On January 3, 2012, we signed a contract to design, implement and administer our sixth generation AEGIS-Video Central Communication System (CCS) for the Illinois Gaming Board. Under the terms of the contract, we will provide real-time communication and control between every licensed video gaming terminal in the State of Illinois, as well as day-to-day management of the operation of the CCS and service throughout the State. The contract was awarded through a competitive procurement process, has an initial term of six years and may be extended by mutual agreement up to four additional years. Beginning in 2012, we expect that our results of operations will be impacted as a result of this contract.

Gaming

Our Gaming segment included the Racing Business prior to its sale to Sportech on October 5, 2010. Due to the Company's continued involvement with Sportech, including our equity interest in Sportech, the disposal of the Racing Business did not qualify as discontinued operations and was not reflected as such in our Consolidated Statements of Operations. The comparability of our results of operations during 2011 was affected by the sale of the Racing Business.

The LBO sector of the U.K. gaming industry is highly competitive and concentrated to approximately four large LBO operators in the U.K. In 2010, Global Draw began migrating its server-based gaming machines to a new back-end technology platform and rolling out this new technology to its U.K. customers. Global Draw completed the U.K. migration in the second quarter of 2011. Net win per machine increased in 2011 compared to 2010, which we believe was attributable in part to the new technology platform. We began migrating server-based gaming machines located outside the U.K. to the new technology platform during the third quarter of 2011.

In 2011, we completed the installation of gaming machines for the entire Ladbrokes LBO estate in accordance with the four-year contract that was awarded to us in 2010. The roll-out of gaming machines for Ladbrokes represented a significant portion of the increase in our installed gaming machine base from 22,000 at December 31, 2010 to 35,700 at December 31, 2011. Our 2011 operating results reflect an increase in revenue resulting from our higher installed base of gaming machines. In January 2012, William Hill PLC, a U.K. bookmaker, awarded a contract to one of our principal competitors (currently the supplier for a majority of gaming machines for William Hill) for the sole supply of gaming machines to William Hill's LBOs following the expiration of our gaming machine supply contract with William Hill in March 2012. The loss of this contract will impact our operating results in 2012.

On September 23, 2011, we completed the acquisition of Barcrest, a leading supplier of games, gaming content, gaming platforms and systems to gaming operators and venues in the U.K. and in continental Europe. Barcrest is being integrated with our existing gaming business. The comparability of our 2011 results of operations was, and the comparability of our 2012 results of operations will be, affected by the acquisition.

In January 2012, following a comprehensive strategic review, we announced our exit from the Barcrest analog AWP machine business in order to focus our game design and other resources solely on a digital server-based model. We also reorganized the Games Media digital supply business to more effectively capitalize on the Barcrest acquisition. In 2011, we recorded approximately $1.0 million of employee termination and restructuring costs associated with the integration of Barcrest. We expect that our operating results may be impacted in the first half of 2012 by increased employee termination and restructuring costs of approximately $4.0 million to $6.0 million resulting from our exit from the analog Barcrest AWP business and the reorganization of Games Media.

In late 2010, the U.K. government announced its intention to change the taxation of gaming machines by introducing a new a new machine games duty, or MGD, that would replace both the currently applicable amusement machine license duty and value-added tax. A consultation process between the government and industry representatives regarding the announced tax changes is ongoing. The rates of MGD will be determined as part of the normal budget process. The tax changes are expected to be implemented in February 2013. Although we cannot predict the precise effect of these tax changes on our U.K. gaming machine business, which will depend in large part on the rates of the MGD, these tax changes could potentially have an overall negative impact on this business.

We continue to seek to expand our wide-area gaming deployments of server-based gaming machines and systems outside the U.K. into jurisdictions including the Caribbean, Mexico, Lithuania, Puerto Rico, and Poland. In addition, the acquisition of Barcrest provided us with entry into the Czech and Italy wide area gaming sectors. As of December 31, 2011, we had approximately 6,500 gaming machines deployed outside the U.K.

Recently Issued Accounting Guidance

In September 2009, the Financial Accounting Standards Board ("FASB") amended the Accounting Standards Codification ("ASC") as summarized in Accounting Standards Update ("ASU") 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. As summarized in ASU 2009-14, ASC Topic 985 has been amended to remove from the scope of industry-specific revenue accounting guidance for software and software related transactions tangible products containing software components and non-software components that function together to deliver the product's essential functionality. As summarized in ASU 2009-13, ASC Topic 605 has been amended: (1) to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) to require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of the selling price; and (3) to eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The accounting changes summarized in ASU 2009-14 and ASU 2009-13 are both effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application.

We adopted these amendments to the ASC on January 1, 2011 on a prospective basis as applicable to our revenue generated from licensing branded properties that are coupled with a service component, where we also purchase and distribute prizes on behalf of lottery authorities. The impact of these accounting changes was not material to our consolidated financial statements.

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. We adopted the new guidance on January 1, 2012.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present net income and other comprehensive income either in one continuous statement or in two separate but consecutive statements. The new guidance was adopted on January 1, 2012 and will impact our financial statement presentation of comprehensive income for the period ending March 31, 2012 and the prior-year period that will be reflected in our Form 10-Q that we will file for the period ending March 31, 2012. The new guidance also requires presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements. However, the effective date pertaining to this requirement was deferred by the update issued by FASB in December 2011.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines the fair value of a reporting unit is less than its carrying amount, the two-step goodwill impairment test is required. We will apply the new guidance to our December 31, 2012 annual goodwill impairment valuation.

CONSOLIDATED RESULTS (in thousands)

				Favorable (Unfavorable) (in millions)			
	2011	2010	2009	2011 vs 2010		2010 vs 2009	
Revenue:							
Instant tickets	$ 493,275	$ 465,090	$ 453,238	$ 28.2	6%	$ 11.9	3%
Services	331,701	363,138	410,014	(31.4)	(9)%	(46.9)	(11)%
Sales	53,746	54,271	64,497	(0.5)	(1)%	(10.2)	(16)%
Total Revenue	878,722	882,499	927,749	(3.8)	0%	(45.3)	(5)%
Operating expenses:							
Cost of instant tickets (1)	281,565	270,787	270,836	10.8	4%	0.0	0%
Cost of services (1)	171,374	206,034	234,093	(34.7)	(17)%	(28.1)	(12)%
Cost of sales (1)	38,340	38,045	44,539	0.3	1%	(6.5)	(15)%
Selling, general and administrative expenses	183,022	158,500	168,248	24.5	15%	(9.7)	(6)%
Write-down of assets held for sale		8,029	54,356	(8.0)	(100)%	(46.3)	(85)%
Employee termination and restructuring costs	1,997	602	3,920	1.4	232%	(3.3)	(85)%
Depreciation and amortization	118,603	141,766	151,784	(23.2)	(16)%	(10.0)	(7)%
Operating income (loss)	83,821	58,736	(27)	25.1	43%	58.8	(217641)%
Other (income) expense:							
Interest expense	104,703	101,613	87,498	3.1	3%	14.1	16%
Earnings from Equity Investments	(29,391)	(49,090)	(59,220)	19.7	(40)%	10.1	(17)%
Loss on early extinguishment of debt	4,185	2,932	(4,829)	1.3	43%	7.8	(161)%
Other	911	8,594	2,856	(7.7)	(89)%	5.7	201%
	80,408	64,049	26,305	16.4	26%	37.7	143%
Net income (loss) before income tax expense	3,413	(5,313)	(26,332)	8.7	(164)%	21.0	(80)%
Income tax expense	15,983	143,888	13,547	(127.9)	(89)%	130.3	962%
Net loss	$ (12,570)	$ (149,201)	$ (39,879)	$ 136.6	(92)%	$ (109.3)	274%

(1) Exclusive of depreciation and amortization.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue Analysis

The decrease in our consolidated revenue was principally due to the sale of the Racing Business, which generated $83.8 million in revenue in 2010. The decrease in consolidated revenue was offset by increases in each of our categories of revenue from our core businesses and the acquisition of Barcrest, which increased our consolidated revenues by $14.3 million. The increase in our instant ticket revenue reflected increased revenue from both our domestic and international businesses driven by increases in retail sales and higher sales of licensed products, including our multi-state games. The decrease in service revenue of $31.4 million in 2011 included the impact of service revenue related to the Racing Business of $76.0 million. The decrease in our service revenue was offset by increases in our service revenue from international Lottery Systems of $4.9 million, the expansion of our Global Draw U.K. LBO business resulting in increased service revenue of $29.6 million, and $6.9 million from the acquisition of Barcrest. The decrease in our sales revenue in 2011 included the impact of the sale of the Racing Business, resulting in a decrease of $7.8 million which was predominantly offset by increased sales resulting from the acquisition of Barcrest. Our consolidated revenue includes a favorable impact of foreign currency translation of $12.0 million.

Operating Expenses

Cost of Revenues

Consolidated cost of revenues decreased in 2011 versus 2010 reflecting the decrease in consolidated revenue for the same period, as well as achievement of our cost reduction and efficiency efforts. Our cost of instant tickets increased 4% in 2011 versus 2010 compared to an increase in instant ticket revenue of 6% for the same period. Cost of services decreased 17% in 2011 versus 2010 compared to a decrease in service revenue of 9% for the same period. Cost of sales increased by 1% in 2011 versus 2010 compared to a 1% decrease in sales revenue for the same period.

Selling, General and Administrative Expense ("SG&A")

The increase in our SG&A reflected increased headcount and incentive compensation expense of $11.1 million relating to support of our strategic growth initiatives and an accrual of $4.3 million for potential compensation related to our Asia-Pacific Plan. The increase also reflected $9.9 million of higher acquisition-related due diligence and advisory fees and expenses related to a customer claim, increase in expense of $2.1 million resulting from the acquisition of Barcrest and an increase of $2.0 million to support expansion of China operations. We also incurred an increase in expense of $2.0 million to support the expansion of the Global Draw business, an increase in professional fees of $1.8 million during 2011 primarily related to our financing activities and the impact of foreign currency translation of $1.8 million. The increases were partially offset by lower expenses of $9.3 million due to the sale of the Racing Business, lower costs of $2.2 million as a result of the costs incurred in 2010 related to the Italian instant ticket concession tender and lower stock-based compensation expense of $1.3 million.

Write-down of Assets Held for Sale

The write-down of assets held for sale of $8.0 million included in the year ended December 31, 2010 was the result of valuing the held for sale assets of the Racing Business at fair market value less the estimated costs to sell prior to its sale on October 5, 2010.

Employee Termination and Restructuring Costs

Employee termination and restructuring costs in 2011 and 2010 were a result of our cost reduction initiatives related to Global Draw's migration to a new back-end technology platform and the integration of Barcrest into the gaming divisions.

Depreciation and Amortization Expense

Depreciation and amortization expenses decreased in 2011 primarily due to the long-lived asset impairments related to underperforming Lottery Systems contracts and obsolete equipment recorded in 2010 and accelerated depreciation expense from Global Draw recorded in 2010 on existing technology as we migrated to a new platform that did not repeat to the same extent in 2011.

Other Income and Expenses

Interest expense increased from 2010 to 2011 primarily due to the issuance of our 8.125% senior subordinated notes due 2018 (the "2018 Notes") and the retirement of the 2012 Notes in 2010.

Loss on early extinguishment of debt of $4.2 million in 2011 was the result of the write-off of deferred financing fees related to the August 25, 2011 credit agreement amendment. Loss on early extinguishment of debt of $2.9 million for the year ended December 31, 2010 was the result of the write-off of debt-related costs related to the purchase of $187.1 million in aggregate principal amount of the Company's 2012 Notes and a prepayment on a portion of the outstanding borrowings under the term loan facilities under the Company's credit agreement.

Earnings from equity investments for 2011 decreased from 2010, which was primarily related to a decline in earnings from our equity investment in LNS of $20.8 million. The Company's share of earnings from LNS is reported on an after-tax basis (it was previously reported on a pre-tax basis under the prior equity investment, CLN) and reflects the amortization of a portion of the upfront fees for the new concession, which together reduced our earnings from our equity investment by approximately $34.8 million. The decrease was partially offset by an increase in earnings from our equity investment in CSG of $4.9 million.

In 2010, we incurred a loss on foreign currency forward contracts related to the Italian instant ticket concession tender of $12.6 million. The foreign currency forward contracts were settled in 2010.

Income Tax Expense

Income tax expense was $16.0 million for the year ended December 31, 2011 compared to $143.9 million for the year ended December 31, 2010. The effective income tax rates for the years ended December 31, 2011 and 2010 were 468.7% and (2,708.9)%, respectively. During the year ended December 31, 2010, we recorded a valuation allowance of $149.6 million against our U.S. deferred tax assets. The income tax expense in 2011 was primarily attributable to income tax expense in our foreign jurisdictions. The effective tax rate for 2011 does not include the benefit of the 2011 U.S. pre-tax loss as a result of the valuation allowance against our U.S. deferred tax assets.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue Analysis

The decrease in consolidated revenue in 2010 reflected lower revenue of $24.9 million due to the sale of the Racing Business on October 5, 2010. The decrease in consolidated revenue was offset by an increase in our instant ticket revenue primarily due to higher sales under our domestic and international CSP contracts and international POS contracts and increased sales of licensed products. The decrease in service revenue in 2010 included the impact from the sale of the Racing Business of

$29.2 million. Service revenue also decreased in 2010 due to terminated Lottery Systems contracts in the U.S., lower revenue from Gaming due to revised contracts in the U.K. and lower revenue from our Austrian over-the-counter business. Our sales revenue decreased $10.2 million in 2010 compared to 2009, primarily due to lower international hardware and software sales, offset by increased hardware and software sales of $4.2 million from the Racing Business prior to its sale on October 5, 2010.

Operating Expenses

Cost of Revenues

Consolidated cost of revenue decreased in 2010 versus 2009 consistent with the decrease in consolidated revenue for the same period, as well as improved cost reduction and efficiency efforts. Our cost of instant tickets was flat in 2010 versus 2009 compared to an increase in instant ticket revenue of 3% for the same period. Cost of services decreased 12% in 2010 versus 2009 compared to a decrease in service revenue of 11% for the same period. Cost of sales decreased 15% in 2010 versus 2009 compared to a 16% decrease in sales revenue for the same period.

SG&A

The decrease in SG&A was principally the result of lower stock-based compensation expense of $11.8 million, lower selling and administrative expenses of $3.8 million due to the sale of the Racing Business and lower consulting and other professional service expenses of $5.8 million, partially offset by higher legal fees and proposal costs of $4.9 million, higher incentive compensation costs of $4.3 million and recognition of an earn out of $2.3 million related to an acquisition completed in 2004.

Write-down of Assets Held for Sale

The write-down of assets held for sale of $8.0 million included in 2010 was the result of valuing the held for sale assets of the Racing Business at fair market value less the estimated costs to sell prior to its sale on October 5, 2010.

Employee Termination and Restructuring Costs

Employee termination costs of $0.6 million for 2010 decreased $3.3 million from 2009. Employee termination costs of $3.9 million for 2009 were a result of our cost reduction efforts.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased due to the impairment of long-lived assets recorded in 2010 of $17.5 million related to underperforming Lottery Systems contracts, offset by a reduction in depreciation expense of $24.7 million due to impairment of long-lived assets recorded in 2009 related to underperforming Lottery Systems contracts. In addition, the held for sale accounting treatment of the Racing Business prior to its sale on October 5, 2010 resulted in lower depreciation expense of $19.2 million. The decreases were partially offset by accelerated depreciation expense of approximately $8.3 million recorded on existing technology as Global Draw migrated to a new platform beginning in 2010. In addition, in 2010, we recorded impairments of long-lived assets totaling $5.5 million related to obsolete equipment.

Other Income and Expenses

The increase in interest expense was attributable to a net increase in outstanding debt from December 31, 2009 of $1,367.1 million to $1,396.7 million as of December 31, 2010 as well as an increase in the weighted average interest rate on fixed rate debt. The increase in debt was partially offset by a decline in LIBOR rates. See Note 8 (Long-Term and Other Debt) to our Consolidated Financial Statements for additional information related to our debt.

The decrease in earnings from equity investments was primarily due to lower equity in earnings of from our equity investment in LNS/CLN of $10.3 million as a result of lower sales of instant lottery tickets by LNS/CLN during the tender process for the new instant ticket concession, recording earnings on an after-tax basis in the fourth quarter of 2010 rather than on a pre-tax basis as we had done historically and the amortization of the associated upfront fees, which reduced our equity in earnings by approximately $8.0 million during 2010.

Loss on early extinguishment of debt of $2.9 million in 2010 was the result of the write-off of debt-related costs related to the purchase of $187.1 million in aggregate principal amount of the 2012 Notes and a prepayment on a portion of the outstanding borrowings under the term loan facilities under the Company's credit agreement.

Other expense in 2010 of $8.6 million increased by $5.7 million from other expense of $2.9 million in 2009. The increase was primarily due to the net loss on foreign currency forward contracts related to our hedging of the upfront fees for the new Italian instant ticket concession.

Income Tax Expense

Income tax expense was $143.9 million for 2010 compared to $13.5 million for 2009. The effective income tax rates for 2010 and 2009 were (2,708.9)% and (51.5)%, respectively. During 2010, we recorded a valuation allowance of $149.6 million against our U.S. deferred tax assets and this valuation allowance caused the effective tax rate for 2010 to be greater than the effective tax rate for the comparable year period.

BUSINESS SEGMENTS RESULTS

PRINTED PRODUCTS

				Favorable (Unfavorable) (in millions)			
	2011	**2010**	**2009**	**2011 vs 2010**		**2010 vs 2009**	
Revenue:							
Instant tickets	$ 493,275	$ 465,090	$ 453,238	$ 28.2	6%	$ 11.9	3%
Services				0.0		0.0	
Sales	9,664	9,222	13,374	0.4	5%	(4.2)	(31)%
Total Revenue	502,939	474,312	466,612	28.6	6%	7.7	2%
Operating expenses:							
Cost of instant tickets (1)	281,565	270,787	270,836	10.8	4%	(0.0)	0%
Cost of services (1)				0.0		0.0	
Cost of sales (1)	5,928	6,981	8,923	(1.1)	(15)%	(1.9)	(22)%
Selling, general and administrative expenses	49,269	46,894	37,411	2.4	5%	9.5	25%
Employee termination and restructuring costs			2,016	0.0		(2.0)	(100)%
Depreciation and amortization	32,746	33,303	32,982	(0.6)	(2)%	0.3	1%
Operating income	$ 133,431	$ 116,347	$ 114,444	$ 17.1	15%	$ 1.9	2%

(1) Exclusive of depreciation and amortization.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue Analysis

Instant ticket revenue reflected higher revenue of $17.1 million from U.S. customers primarily from our POS and CSP contracts, including our CSP agreement with Northstar, and sales of higher price-point games resulting in higher lottery retail sales. The growth in our U.S. instant ticket revenue in 2011 was also attributable to our successful introduction of the multi-state Wheel of Fortune® licensed game in the second quarter of 2011.

The increases in the U.S. were offset by lower U.S. PPK contract revenue primarily due to timing of orders as a result of contract revisions and increased competition where we are not the exclusive instant ticket supplier. Our international revenue increased $5.0 million primarily due to growth in revenue from our European CSP and POS contracts and higher price-point games, offset by a decrease in PPK contract revenue due in part to the loss of our Lotto West contract in 2011. Revenue also increased as a result of favorable foreign currency translation of $6.0 million. Printed Products sales revenue primarily includes phone cards sales.

Operating Income

Operating income increased in 2011 compared to 2010 due to a higher and more profitable mix of revenue offset by an increase in SG&A expenses primarily due to non-recurring expenses related to a contract dispute.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue Analysis

The increase in instant ticket revenue was primarily due to an increase in revenue of $8.5 million from our U.S. and European CSP contracts, attributable to our CSP contracts in Arkansas (effective September 2009) and Puerto Rico (effective December 2009), partially offset by our lost CSP contracts in Ohio (ended June 2009) and Arizona (ended January 2010). Instant ticket revenue also increased $5.8 million due to the conversion of a U.K. contract to a POS contract in the prior-year period, increases from our U.S. instant ticket business and a full year of revenue from our Properties Plus contract with Arkansas that began in the fourth quarter of 2009 and an increase in our international licensing revenue. The increase in revenue was partially offset by lower international sales of instant lottery tickets of $6.4 million and lower sales of tickets to CLN and LNS of $8.6 million. Revenue also increased as a result of favorable foreign currency translation of $5.7 million. The decrease in sales revenue was impacted by a decline in phone card sales.

Operating Income

Operating income increased in 2010 compared to 2009 due to higher and more profitable mix of revenues and a decrease in employee termination costs recorded in 2009 that did not repeat in 2010. Operating income was negatively impacted by higher SG&A costs primarily attributable to higher incentive compensation expense, increased legal fees and increased costs related to the new Italian instant ticket tender offer in 2010.

LOTTERY SYSTEMS

	2011	2010	2009	Favorable (Unfavorable) (in millions) 2011 vs 2010		2010 vs 2009	
Revenue:							
Instant tickets	$	$	$	$		$	
Services	205,801	199,439	211,015	6.4	3%	(11.6)	(5)%
Sales	36,528	36,597	46,372	(0.1)	0%	(9.8)	(21)%
Total Revenue	242,329	236,036	257,387	6.3	3%	(21.4)	(8)%
Operating expenses:							
Cost of instant tickets (1)				0.0		0.0	
Cost of services (1)	109,016	104,274	110,660	4.7	5%	(6.4)	(6)%
Cost of sales (1)	25,134	25,716	32,619	(0.6)	(2)%	(6.9)	(21)%
Selling, general and administrative expenses	23,713	22,973	22,769	0.7	3%	0.2	1%
Employee termination and restructuring costs			125	0.0		(0.1)	(100)%
Depreciation and amortization	46,891	64,979	68,902	(18.1)	(28)%	(3.9)	(6)%
Operating income	$ 37,575	$ 18,094	$ 22,312	$ 19.5	108%	$ (4.2)	(19)%

(1) Exclusive of depreciation and amortization.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue Analysis

The increase in Lottery Systems service revenue reflected service revenue from U.S. customers that was flat year over year and approximately $4.9 million of increased revenue from international customers. In the U.S., instant ticket validation service revenue increased, offset by lost contracts in New Hampshire and Vermont which both ended June 30, 2010. The increase in international revenue reflected higher instant ticket validation revenues from the CSL of $2.5 million and an increase in service revenue of $2.5 million from other international customers. Revenue also increased $1.7 million as a result of favorable foreign currency translation. Lottery systems sales revenue was flat in 2011 compared to 2010.

Operating Income

Operating income increased primarily due to the $18.1 million lower depreciation and amortization expense as a result of the long-lived asset impairments recorded in 2010 that did not repeat in 2011.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue Analysis

The decrease in Lottery Systems service revenue was primarily due to contract losses in West Virginia (ended June 2009), South Dakota (ended August 2009) and Vermont and New Hampshire (both ended June 30, 2010) resulting in lower revenue of approximately $9.4 million, lower international revenue of $3.9 million and the negative impact of foreign currency translation of $0.9 million. The decrease was partially offset by higher instant ticket validation revenue from the CSL of $2.6 million. The decrease in lottery system sales revenue was primarily due to a decline in hardware sales outside of the U.S. of $15.4 million as compared to the prior year and the negative impact of foreign currency translation of $1.0 million, partially offset by an increase in hardware sales in the U.S. of $6.5 million.

Operating Income

Operating income decreased as a result of the decrease in revenue, offset by a decrease in depreciation and amortization expense due to long-lived asset impairments recorded in 2009 that did not repeat to the same extent in 2010.

GAMING

	2011	2010	2009	Favorable (Unfavorable) (in millions) 2011 vs 2010		2010 vs 2009	
Revenue:							
Instant tickets	$	$	$	$		$	
Services	125,900	163,699	198,999	(37.8)	(23)%	(35.3)	(18)%
Sales	7,554	8,452	4,751	(0.9)	(11)%	3.7	78%
Total Revenue	133,454	172,151	203,750	(38.7)	(22)%	(31.6)	(16)%
Operating expenses:							
Cost of instant tickets (1)				0.0		0.0	
Cost of services (1)	62,358	101,760	123,433	(39.4)	(39)%	(21.7)	(18)%
Cost of sales (1)	7,278	5,348	2,997	1.9	36%	2.4	78%
Selling, general and administrative expenses	16,408	20,518	24,923	(4.1)	(20)%	(4.4)	(18)%
Write-down of assets held for sale		8,029	54,356	(8.0)	(100)%	(46.3)	(85)%
Employee termination and restructuring costs	1,997	602	433	1.4	232%	0.2	39%
Depreciation and amortization	38,435	42,983	49,224	(4.5)	(11)%	(6.2)	(13)%
Operating (loss) income	$ 6,978	$ (7,089)	$ (51,616)	$ 14.1	(198)%	$ 44.5	(86)%

(1) Exclusive of depreciation and amortization.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue Analysis

The decrease in service revenue was primarily due to the sale of the Racing Business, resulting in a decrease of $76.0 million. The decrease was partially offset by increased revenue of $29.6 million primarily from the expansion of Global Draw's terminal base, higher net win per terminal, $6.9 million from the acquisition of Barcrest on September 23, 2011 and higher revenue of $3.2 million due to favorable foreign currency translation. Sales revenue was lower due to a decrease of $7.8 million from the sale of the Racing Business, partially offset by terminal sales to Barcrest customers.

Operating Income

Operating income increased in part due to the sale of the Racing Business resulting in a more profitable mix of revenue and a decrease in SG&A costs of $9.3 million. The decrease in SG&A was partially offset by an increase of $4.1 million primarily due to the acquisition of Barcrest and expansion of the Global Draw business during 2011. Employee termination costs increased in 2011 primarily related to Global Draw's migration to a new back-end technology platform and the integration of Barcrest. The write down of assets held for sale of $8.0 million recorded in 2010 was the result of valuing the held for sale assets of the Racing Business prior to its sale on October 5, 2010. Depreciation expense decreased due in part to the accelerated depreciation and amortization expense in 2010 and impairments of long-lived assets in 2010 related to obsolete equipment.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue Analysis

The decrease in service revenue was principally due to the sale of the Racing Business, resulting in a decrease of $29.2 million. Global Draw revenue decreased $6.1 million, primarily due to lower revenue from our Austrian over-the-counter business of $4.1 million, lower revenue of $7.2 million from revised contract terms in the U.K., lower revenue from independent betting shops of $1.2 million and lower revenue from Games Media of $1.6 million. The decreases were offset by higher revenue of $8.6 million from expansion of the U.K. LBO business. Sales revenue increased primarily due to increased hardware and software sales from the Racing Business prior to its sale on October 5, 2010.

Operating Income

Operating income increased primarily due to the sale of the Racing Business resulting in lower SG&A expenses, lower depreciation and amortization expenses, and a decrease of $46.3 million in the write-down of assets held for sale year-over-year.

Critical Accounting Policies

The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of all of our accounting policies. Our significant accounting policies are more fully described in Note 1 (Description of the Business and Summary of Significant Accounting Policies) to our Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

Revenue recognition

We recognize revenue when it is realized or realizable and earned. As described below, the determination of when to recognize revenue for certain revenue transactions requires judgment.

Revenue from licensed branded property coupled with a service component whereby we purchase and distribute merchandise prizes on behalf of the lottery authorities to identified winners is recognized pursuant to *ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements.* Under ASU 2009-13, two deliverables in this arrangement, the license and the merchandising services, become separate units of accounting. We then allocate revenue to the deliverables based on their relative selling prices. Revenue allocated to the license is recognized when the use of the licensed brand is permitted, typically when the contract is signed. Revenue allocated to the merchandising services is recognized on a proportional performance method as this method best reflects the pattern in which the obligations of the merchandising services to the customer are fulfilled. A performance measure is used based on total estimated cost allocated to the merchandising services. By accumulating costs for services as they are incurred, and dividing such costs by the total costs of merchandising services which is estimated based on a budget prior to contract inception, a percentage is determined. The percentage determined is applied to the revenue allocated to the merchandising services and that proportionate amount of revenue is recognized on a monthly basis.

Revenue from the sale of lottery systems that require the production and delivery of terminals and customized software is recognized using the cost-to-cost measure of the percentage-of-completion method of accounting. The percentage-of-completion method recognizes income as work on a contract progresses. The use of the percentage-of-completion method depends on our ability to make reasonably dependable cost estimates for the design, manufacture, and delivery of our products. Estimation of these costs requires the use of judgment. Revenues under percentage-of-completion contracts are recorded as costs are incurred.

Stock-based compensation

We measure compensation cost for stock awards at fair value and recognize compensation over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock and the fair value of stock options are determined using the Black-Scholes valuation model. The estimation of stock-based awards that will ultimately vest requires judgment and, to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future changes in estimates may differ substantially from our current estimates.

We may grant certain stock-based awards that are contingent upon the Company achieving certain financial performance targets. Upon determining the performance target is probable, the fair value of the award is recognized over the service period, subject to potential adjustment.

Valuation of long-lived and intangible assets and goodwill

We assess the recoverability of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We assess the impairment of goodwill annually or more frequently if events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The Company has three reporting units: Printed Products; Lottery Systems; and Gaming. Factors we consider important that could trigger an impairment review include:

- significant underperformance relative to expected historical performance or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy of our overall business;
- significant adverse change in the legality of our business ventures or the business climate in which we operate; and
- loss of a significant customer.

We evaluate goodwill for impairment by comparing the carrying value of each reporting unit to its fair value using a two-step impairment test. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. When we determine that the carrying value of the long-lived assets, intangible assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on the projected discounted cash flow or by a comparison to third-party indications of fair market value. The estimate of a reporting unit's fair value requires the use of assumptions and estimates regarding the reporting unit's future cash flows, growth rates and weighted average cost of capital. Any significant adverse changes in key assumptions about these businesses and their prospects or an adverse change in market conditions may cause a change in the estimation of fair value and could result in an impairment charge. Given the significance of goodwill, an adverse change to the estimated fair value could result in an impairment charge that could be material to our financial statements.

Our annual impairment valuation as of December 31, 2011 produced estimated fair values of equity for our reporting units in excess of the carrying value of equity. In each case, the estimated fair value of the reporting unit substantially exceeded the carrying value. Accordingly, we do not believe that any of our reporting units were at risk of failing step one of the goodwill impairment test as of December 31, 2011.

Significant judgment is required in the forecasting of future operating results, which are used in the preparation of projected cash flows. Due to uncertain market conditions and potential changes in our strategy and products, it is possible that forecasts used to support our goodwill may change in the future, which could result in significant non-cash charges that would adversely affect our results of operations.

Income Taxes and Deferred Income Taxes

Income taxes are determined using the liability method of accounting for income taxes. The Company's tax expense includes the U.S. and international income taxes but excludes the provision for U.S. taxes on undistributed earnings of international subsidiaries deemed to be permanently invested.

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely. At December 31, 2011, the Company has a valuation allowance of $236.3 million recorded against the benefit of certain deferred tax assets of foreign and domestic subsidiaries.

The Company operates within multiple taxing jurisdictions and in the normal course of business is examined in various jurisdictions. The reversal of the accruals is recorded when examinations are completed, statutes of limitation are closed or tax laws are changed.

LIQUIDITY, CAPITAL SOURCES AND WORKING CAPITAL

Sources of Liquidity

At December 31, 2011, our principal sources of liquidity were cash and equivalents and amounts available under our revolving credit facility discussed below under " Credit Agreement and Other Debt."

At December 31, 2011, our available cash and equivalents and borrowing capacity totaled $296.1 million (including cash and cash equivalents of $104.4 million and availability of $191.7 million under the revolving credit facility) compared to $258.6 million at December 31, 2010 (including cash and cash equivalents of $124.3 million and availability of $134.3 million under our $250.0 million revolving credit facility). There were no borrowings outstanding; however, we had $58.3 million in outstanding letters of credit as of December 31, 2011, which reduces our available borrowings under our revolving credit facility. The amount of our available cash and equivalents fluctuates principally based on borrowings or repayments under our credit facilities, investments, acquisitions and changes in our working capital position. Our borrowing capacity under the revolving credit facility will depend on outstanding borrowings and letters of credit issued under the revolving credit facility and will depend on us remaining in compliance with the limitations imposed by our credit agreement, including the maintenance of our financial ratios and other covenants. We were in compliance with all covenants under our credit agreement as of December 31, 2011.

We believe that our cash flow from operations, available cash and equivalents and available borrowing capacity under our revolving credit facility will be sufficient to meet our liquidity needs for the foreseeable future; however, there can be no assurance that this will be the case. We believe that substantially all cash held outside the U.S. is free from legal encumbrances or similar restrictions that would prevent it from being available to meet the Company's global liquidity needs. The Company's intention is to reinvest undistributed earnings of foreign subsidiaries and current plans do not indicate a need to repatriate earnings of foreign subsidiaries to fund operations in the U.S.

Total cash held by our foreign subsidiaries was $81.5 million as of December 31, 2011. To the extent that a portion of our foreign cash were required to meet liquidity needs in the U.S. (which we do not currently anticipate), we might incur a tax liability, the timing and amount of which would depend on a variety of factors. A significant amount of the cash held by our foreign subsidiaries as of December 31, 2011 could be transferred to the U.S. as repayments of intercompany loans and we have significant foreign tax credit carryovers that would be available to reduce any potential U.S. tax liability.

Our contracts are periodically subject to renewal and there can be no assurance that we will be successful in sustaining our cash flow from operations should our existing contracts not be renewed, be renewed on less favorable terms, or through the addition of new contracts. In addition, lottery customers in the United States generally require service providers to provide performance bonds in connection with each state contract. As of December 31, 2011, our aggregate outstanding performance bonds were $206.9 million. Our ability to obtain performance bonds on commercially reasonable terms is subject to the Company's financial condition and by prevailing market conditions, which may be impacted by economic and political events. Although we have not experienced difficulty in obtaining such bonds to date, there can be no assurance that we will continue to be able to obtain performance bonds on commercially reasonable terms or at all. If we need to refinance all or part of our indebtedness, on or before maturity, or provide letters of credit or cash in lieu of performance bonds, there can be no assurance that we will be able to obtain new financing or to refinance any of our indebtedness, on commercially reasonable terms or at all.

Cash Flow Summary A Three Year Comparative

Years Ended December 31,	**2011**	**2010**	**2009**	**2011 vs 2010**	**2010 vs 2009**
Net cash provided by operating activities	$ 171.1	$ 170.6	$ 220.1	$ 0.5	$ (49.5)
Net cash used in investing activities	(161.1)	(287.6)	(188.2)	126.5	(99.4)
Net cash (used in) provided by financing activities	(24.6)	(9.8)	92.1	(14.8)	(101.9)
Effect of exchange rates on cash and cash equivalents	(5.2)	(9.0)	0.4	3.8	(9.4)
Increase (decrease) in cash and cash equivalents	$ (19.8)	$ (135.8)	$ 124.4	$ 116.0	$ (260.2)

Cash flows from operating activities

Cash flow from operating activities in 2011 was relatively consistent with levels in 2010 as working capital and net loss exclusive of non-cash charges were consistent between years.

Cash flows from operating activities decreased $49.5 million in 2010. The decrease in 2010 was primarily due to an increase in net loss. This increase in net loss was due primarily to the change in deferred income taxes due to a valuation allowance in 2010. This was partially offset by a non-cash loss recorded in 2009 related to the sale of racing.

Cash flows from Investing activities

Net cash used in investing activities decreased in 2011. Capital expenditures totaled $8.6 million in 2011 compared to $9.4 million in 2010. Wagering system expenditures, including software and intangible expenditures totaled $83.3 million in 2011, compared to $99.3 million in 2010, primarily due to decreased contract capital requirements for our lottery and gaming systems in 2011 compared to 2010. Our net cash used for equity investments decreased due to our cash investment made in LNS in 2010 of $203.2 million compared to our cash investment in Northstar and ITL during 2011 totaling $12.0 million and $23.8 million, respectively. We also received return of capital payments totaling $17.8 million from LNS during 2011. We acquired Barcrest on September 23, 2011 for approximately $48.4 million and we received cash proceeds of $35.9 million from the sale of the Racing Business on October 5, 2010.

Net cash used in investing activities increased in 2010 compared to the prior year. Capital expenditures totaled $9.4 million in the year 2010, compared to $12.9 million in the prior year. Wagering system expenditures, including software expenditures, totaled $99.3 million in the year ended December 31, 2010, compared to $98.6 million in the prior year. The wagering expenditures primarily related to the Indiana lottery contract and gaming terminals related to Global Draw and Games Media. Our cash used in equity method investments in 2010 reflected the investment in LNS of $203.2 million. Our cash used in business acquisitions decreased in 2010 from 2009. We acquired Sceptre Leisure Solutions Limited and GameLogic during 2010 for an aggregate of $12.5 million. Net cash used in investing activities was partially offset by net cash proceeds received of approximately $35.9 million from the sale of the Racing Business.

Cash flows from financing activities

Net cash used in financing activities in 2011 reflected repayments under the Credit Agreement and fees associated with amendments to the Credit Agreement (as defined below).

Net cash used in financing activities in 2010 reflected the borrowings and repayments under the Credit Agreement and in connection with the issuance of the 2018 Notes, as well as repurchases of stock.

Credit Agreement and Other Debt

Credit Agreement

We are party to a credit agreement, dated as of June 9, 2008, as amended and restated as of February 12, 2010, and amended as of December 16, 2010, March 11, 2011 and as further amended and restated as of August 25, 2011 (as so amended, the "Credit Agreement"), among SGI, as borrower, the Company, as a guarantor, the several lenders from time to time parties thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent. A summary of the terms of the Credit Agreement and the financial ratios that the Company is required to maintain under the terms of the Credit Agreement is included in Note 8 (Long-Term and Other Debt).

On March 11, 2011, the Company and SGI entered into an amendment to the Credit Agreement (the "March Amendment"). Under the March Amendment, from and after December 31, 2010, "consolidated EBITDA" (as such term is defined in the Credit Agreement) will generally include the Company's share of the earnings from our equity investment in LNS, whether or not such earnings have been distributed to the Company, before interest expense (other than interest expense in respect of debt of LNS if such debt exceeds $25.0 million), income tax expense and depreciation and amortization expense, provided that the amount of "consolidated EBITDA" attributable to the Company's interest in LNS that would not have otherwise been permitted to be included in "consolidated EBITDA" prior to giving effect to the March Amendment will be capped at $25.0 million in any period of four consecutive quarters (or $30.0 million in the case of any such period ending on or prior to June 30, 2012). Prior to giving effect to the March Amendment, "consolidated EBITDA" generally included only the Company's share of the earnings of LNS that was distributed to the Company. In addition, under the terms of the March Amendment, any cash compensation expense incurred but not paid in a particular period will be added back for purposes of determining "consolidated EBITDA" so long as no cash payment in respect thereof is required prior to the scheduled maturity of the borrowings under the Credit Agreement. This add-back was revised pursuant to the subsequent amendment described below to permit up to $993,000 of non-cash compensation expense accrued prior to August 25, 2011 to be added back notwithstanding that cash payments may be required to be made in respect thereof prior to the scheduled maturity of the borrowings under the Credit Agreement. "Consolidated EBITDA" is relevant for determining whether the Company is in compliance with the financial ratios required to be maintained under the terms of the Credit Agreement.

The March Amendment also provides that up to $100.0 million of unrestricted cash and cash equivalents of the Company and its subsidiaries in excess of $15.0 million will be netted against "consolidated total debt" for purposes of determining the Company's "consolidated leverage ratio" and "consolidated senior debt ratio" (as such terms are defined in the Credit Agreement) as of any date from and after December 31, 2010. In connection with the March Amendment, SGI paid approximately $2.6 million of fees and expenses to (or for the benefit of) the consenting lenders. For more information regarding the March Amendment, see our Current Report on Form 8-K filed with the SEC on March 14, 2011.

On August 25, 2011, the Company and SGI entered into an amendment to the Credit Agreement (the "August Amendment"). In connection with the August Amendment, the scheduled maturity date of approximately $247.0 million (or 99%) of the revolving credit facility commitments and approximately $555.8 million (or 98%) of the outstanding term loans under the Credit Agreement was extended from June 9, 2013 to June 30, 2015. Under the amended Credit Agreement, SGI has the flexibility to extend the maturity date of, or reduce or prepay without premium or penalty (other than break-funding costs), the approximately $16.4 million of revolving credit facility commitments and outstanding term loans that were not extended in connection with the August Amendment, subject to certain conditions set forth in the August Amendment or the Credit Agreement, as applicable. On February 21, 2012, the Company and SGI entered into an agreement to refinance the approximately $16.4 million of revolving credit facility and term loan commitments that were not extended in connection with the August Amendment and extend the maturity dates on these commitments to June 30, 2015. SGI paid approximately $0.06 million of fees and expenses to (or for the benefit of) the new lender.

Under the terms of the August Amendment, certain financial covenant ratios were revised. In addition, borrowings under the Credit Agreement bear interest at a rate per annum equal to, at SGI's option, either (1) a base rate determined by reference to the higher of (a) the prime rate of JPMorgan, (b) the federal funds effective rate plus 0.50% and (c) the LIBOR rate for a deposit in dollars with a maturity of one month plus 1.00%, or (2) a reserve-adjusted LIBOR rate, in each case plus an applicable margin based on the consolidated leverage ratio as set forth in a grid. Under the terms of the August Amendment, the two lowest applicable margin levels in the grid were eliminated such that the applicable margin now varies based on the consolidated leverage ratio from 1.50% to 2.50% above the base rate for base rate loans, and from 2.50% to 3.50% above LIBOR for LIBOR-based loans

The August Amendment provides for additional refinancing flexibility in the form of (1) permitted bank debt or debt securities that may be unsecured or secured on a pari passu or junior basis with the collateral securing the obligations under the Credit Agreement and (2) replacement facilities under the Credit Agreement that can be used to refinance either the term loans or the revolving commitments under the Credit Agreement in whole. In addition, SGI will have the capability to request one or more additional tranches of term loans, increase the existing tranche of term loans, or increase the revolving commitments in an amount not to exceed $200 million after the effective date of the amendment (the "Incremental Facility"). In lieu of incurring additional indebtedness pursuant to the Incremental Facility, the August Amendment also provides SGI with the flexibility to incur additional incremental indebtedness in the form of one or more series of debt securities in an aggregate principal amount not to exceed the amounts allowed to be incurred under the Incremental Facility.

In addition, the August Amendment renews most of the negative covenant baskets as of the effective date of such amendment and provides investment flexibility for SGI by allowing the borrower to move capital stock, property and cash from non-guarantor subsidiaries to loan parties and then back to non-guarantor subsidiaries, subject to certain limitations set forth in the Credit Agreement. The August Amendment also provides SGI the ability to use an existing restricted payment basket comprised of $200 million plus a permitted expenditure amount that is based in part on the cumulative consolidated net income of the Company for investments and prepayments of certain indebtedness. In connection with the August Amendment, SGI paid an aggregate of approximately $6.3 million of fees and expenses to (or for the benefit of) the consenting and new lenders of which approximately $5.8 million was capitalized as deferred financing fees. The Company recorded a loss on early extinguishment of debt of approximately $4.2 million. For more information regarding the August Amendment, see our Current Report on Form 8-K filed with the SEC on August 31, 2011.

Other Debt

On October 27, 2011, SGI completed a consent solicitation commenced on October 19, 2011 in which SGI sought and obtained consents from the holders of a majority in aggregate principal amount of SGI's 7.875% senior subordinated notes due 2016 (the "2016 Notes") to certain amendments to the indenture governing the 2016 Notes (the "Indenture"). SGI paid consenting holders $5.0 million in the aggregate in connection with the consent solicitation.

SGI and the other parties to the indenture entered into a supplemental indenture (the "Supplemental Indenture") implementing the amendments to the Indenture. The Supplemental Indenture amends the Indenture to conform certain provisions of the Indenture to those contained in the indenture governing the Company's 2018 Notes and thereby provides the Company with additional flexibility for investment opportunities that it may decide to pursue, including potential strategic partnerships, equity investments and other acquisitions.

In particular, the Supplemental Indenture amends the definition of "consolidated net income" in the Indenture to exclude certain items, including net after-tax impairment charges and asset write-offs, which will, among other things, increase the Company's capacity to make additional "restricted investments" under the Indenture. In addition, the Supplemental Indenture amends the definition of "permitted investments" to include certain investments relating to the Italian instant ticket concession held by LNS. The primary effect of this amendment is to "grandfather" the investments the Company made in 2010 to cover the Company's portion of the upfront fees associated with the new concession for purposes of determining the Company's capacity to make additional "restricted investments" under the Indenture. For more information regarding the consent solicitation and the Supplemental Indenture, see our Current Report on Form 8-K filed with the SEC on October 28, 2011.

On May 6, 2011, we paid the remaining £0.6 million aggregate principal amount outstanding of the promissory notes we issued to defer a portion of the earn-out payable in connection with our acquisition of Global Draw in 2006.

On January 17, 2012 we repaid RMB 12.5 million of RMB 178.5 million in aggregate principal amount of Chinese bank loans with cash on hand.

Effective October 17, 2008, SGI entered into a three-year interest rate swap agreement (the "Hedge") with JPMorgan, which expired on October 17, 2011. Under the Hedge, which was designated as a cash flow hedge, SGI paid interest on a $100 million notional amount of debt at a fixed rate of 3.49% and received interest on a $100 million notional amount of debt at the then prevailing three-month LIBOR rate. The objective of the Hedge was to eliminate the variability of cash flows attributable to the LIBOR component of interest expense paid on $100 million of our variable-rate debt.

Contractual Obligations

Our contractual obligations and commercial commitments principally include obligations associated with our outstanding indebtedness, contractual purchase obligations and future minimum operating lease obligations and other long-term liabilities as set forth in the table below as of December 31, 2011:

	Cash Payments Due By Period In thousands				
	Total	Within 1 Year	Within 2 - 3 Years	Within 4 - 5 Years	After 5 Years
Long-term debt, 7.875% notes (1)	$ 200,000			200,000	
Long-term debt, 8.125% notes (1)	250,000				250,000
Long-term debt, 9.25% notes (1)	350,000				350,000
Long-term debt, term loan (1)	566,010	6,280	25,860	533,870	
Unsecured borrowings denominated in RMB (1)	28,256	18,758	9,498		