

SCIENTIFIC GAMES CORP
Form 424B4
June 27, 2002

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-84742

PROSPECTUS

12,500,000 Shares

Scientific Games Corporation

Class A Common Stock

We are offering 12,500,000 shares of our Class A common stock under this prospectus. Unless otherwise indicated, references in this prospectus to our common stock mean our Class A common stock.

Our common stock is traded on the Nasdaq National Market under the symbol "SGMS". On June 26, 2002, the last sale price for our common stock reported on the Nasdaq National Market was \$7.39 per share.

See "Risk Factors" beginning on page 8 to read about certain risks that you should consider before buying shares of our common stock.

This prospectus constitutes a public offering of the securities offered hereby only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. None of the Securities and Exchange Commission, the Nevada State Gaming Board, the Nevada Gaming Commission, any securities commission or similar authority in Canada, or any other regulatory agency of any other jurisdiction has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus or the investment merits of the securities offered hereby. Any representation to the contrary is a criminal offense.

	<u>Per Share</u>	<u>Total</u>
Public Offering Price	\$ 7.250	\$ 90,625,000
Underwriting Discounts and Commissions	\$ 0.399	\$ 4,987,500
Proceeds to Us	\$ 6.851	\$ 85,637,500

We have granted the underwriters a 30-day option from the date of this prospectus to purchase from us up to an additional 1,875,000 shares of common stock at the public offering price, less the underwriting discount, to cover any over-allotments.

The underwriters are severally underwriting the shares being offered. The underwriters expect to deliver the shares on July 2, 2002.

Bear, Stearns & Co. Inc.

Sole Book-Running Manager

Lehman Brothers Jefferies & Company, Inc.

The date of this prospectus is June 26, 2002.

AVAILABLE INFORMATION AND INCORPORATION BY REFERENCE

We have filed a registration statement (which term includes any amendments to the registration statement) with the Securities and Exchange Commission, or SEC, on Form S-3 under the Securities Act of 1933, as amended, or the Securities Act, covering the common stock to be sold under this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto, to which reference is hereby made. Each statement made in this prospectus referring to a document filed as an exhibit or schedule to the registration statement is not necessarily complete and is qualified in its entirety by reference to the exhibit or schedule for a complete statement of its terms and conditions.

We are currently subject to the periodic reporting and other information requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Accordingly, we file annual, quarterly and special reports, and proxy statements and other information with the SEC. You may read and copy any document we file at the following SEC public reference room: Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549.

You may obtain information on the operation of the public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330.

We also file information electronically with the SEC. Our SEC filings are available from the SEC's Internet site at <http://www.sec.gov>, which contains reports, proxy and information statements, and other information regarding issuers that file electronically.

You should rely only on the information provided in this prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

The SEC allows us to "incorporate by reference" the information we have previously filed with them, which means that we can disclose important information by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below as well as any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until our offering is complete:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed March 21, 2002;

our Amendment No. 1 on Form 10-K/A to our Annual Report for the fiscal year ended December 31, 2001, filed April 30, 2002;

our Amendment No. 2 on Form 10-K/A to our Annual Report for the fiscal year ended December 31, 2001, filed June 10, 2002;

our Quarterly Report on Form 10-Q for the three months ended March 31, 2002, filed May 15, 2002;

our Amendment No. 1 on Form 10-Q/A for the three months ended March 31, 2002, filed June 10, 2002;

our Current Report on Form 8-K, filed March 4, 2002;

our Current Report on Form 8-K, filed June 20, 2002; and

all other reports filed by us pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the annual report referred to above.

We will furnish to each person, including any beneficial owner, to whom this prospectus is delivered, without charge, a copy of any or all of the information that has been incorporated by reference (including any exhibits that are specifically incorporated by reference in that information) upon oral or written request to: Scientific Games Corporation, 750 Lexington Avenue, 25th Floor, New York, New York 10022,

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "estimate," "intend," "continue," "believe," "expect" or "anticipate" or the negatives thereof, variations thereon or similar terminology. The forward-looking statements contained in this prospectus are generally located in the material set forth under the headings "Prospectus Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business" and "Government Regulation" but may be found in other locations as well. These forward-looking statements generally relate to plans and objectives for future operations and are based upon management's reasonable estimates of future results or trends. Although we believe that the plans and objectives reflected in or suggested by such forward-looking statements are reasonable, such plans or objectives may not be achieved. Actual results may differ from projected results due, but not limited, to unforeseen developments, including developments relating to the following:

the availability and adequacy of our cash flow to satisfy our obligations, including our debt service obligations, and our need for additional funds required to support capital improvements, development and acquisitions;

economic, competitive, demographic, business and other conditions in our local and regional markets;

changes or developments in the laws, regulations or taxes in the gaming and lottery industries;

actions taken or omitted to be taken by third parties, including customers, suppliers, competitors, members and shareholders, as well as legislative, regulatory, judicial and other governmental authorities;

changes in business strategy, capital improvements, development plans, including those due to environmental remediation concerns, or changes in personnel or their compensation, including federal, state and local minimum wage requirements;

an inability to renew or early termination of our contracts;

an inability to engage in future acquisitions;

the loss of any license or permit, including the failure to obtain an unconditional renewal of a required gaming license on a timely basis;

resolution of any pending or future litigation in a manner adverse to us; and

the other factors discussed under "Risk Factors" or elsewhere in this prospectus.

You should read this prospectus completely and with the understanding that actual future results may be materially different from what we expect. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing factors. These forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based.

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PROSPECTUS SUMMARY

This is only a summary of the prospectus. You should carefully read and review the entire prospectus, including "Risk Factors" and our consolidated financial statements and related notes, as well as the documents incorporated by reference in this prospectus, before making an investment decision.

Unless the context indicates otherwise, all references to "Scientific Games," "we," "our," "ours," "us" and "the Company" refer to Scientific Games Corporation and its consolidated subsidiaries after giving effect to the September 6, 2000 acquisition by Autotote Corporation of Scientific Games Holdings Corp. and to Autotote Corporation and its consolidated subsidiaries prior to the completion of the acquisition. "SGHC" refers to Scientific Games Holdings Corp. and its consolidated subsidiaries, and "Autotote" refers to Autotote Corporation and its consolidated subsidiaries, in each case prior to the completion of the acquisition of SGHC. "International" refers to non-United States jurisdictions. "On-line" lottery refers to a computerized system in which lottery terminals in retail outlets are continuously connected to a central computer system for the sale and validation of lottery tickets and related functions. "Handle" is an industry term for dollars wagered.

In connection with the acquisition of SGHC, we changed our fiscal year-end from an October 31 year-end to a calendar year-end, beginning with the year ending December 31, 2001. On April 27, 2001, Autotote Corporation changed its name to Scientific Games Corporation. On January 29, 2002, we transferred the listing for our Class A common stock to the Nasdaq National Market from the American Stock Exchange and changed our trading symbol to "SGMS". Except as otherwise noted, all information in this prospectus assumes that the underwriters' over-allotment option is not exercised.

This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Our Company

We are a leading worldwide provider of services, systems and products to both the instant ticket lottery industry and the pari-mutuel wagering industry, based on revenues. We believe we offer our customers the widest array of some of the most technologically advanced products and services in each of these industries. We also believe that we are the world's only fully integrated lottery service provider, offering lottery authorities on-line lottery systems, instant tickets and related facilities management, or cooperative services, programs, which effectively enable such authorities to outsource all of their instant ticket lottery operations to us.

We currently command an approximate 65% share of the market for instant lottery tickets in the United States, as measured by retail sales, serving 28 of 40 jurisdictions in the U.S. that currently sell instant lottery tickets. In addition, we currently operate on-line lottery systems for seven of the 40 on-line lottery authorities in the U.S. We believe we are also the second largest provider of lottery systems in Europe.

We typically sell our instant tickets for a per unit price or are paid a fee equal to a percentage of the retail value of the instant tickets sold. In the on-line lottery market in the U.S., we generally provide our systems under service contracts pursuant to which we are paid a fee equal to a percentage of all wagers processed, whereas in international markets we generally sell our systems to lottery authorities.

We are also a leading worldwide provider of computerized wagering systems to the pari-mutuel wagering industry. In addition, we are a leading provider of ancillary pari-mutuel services, such as race simulcasting and telecommunications services. We provide our systems and services to thoroughbred, harness and greyhound racetracks, off-track betting facilities, or OTBs, casinos, jai alai frontons and other establishments where pari-mutuel wagering is permitted. In 2001, our systems processed

approximately 65% of the estimated \$18 billion in pari-mutuel wagering conducted on horse racing in North America.

In our North American pari-mutuel business, we enter into service contracts pursuant to which we are generally paid a percentage of all wagers processed by our wagering systems, and we receive additional fees for our ancillary services, on either a per event or a monthly subscription basis. In most international markets, we sell our pari-mutuel wagering systems and terminals to pari-mutuel operators. We also own

and operate substantially all of the OTBs in the State of Connecticut. Additionally, in The Netherlands, we are currently the exclusive licensed operator for all pari-mutuel wagering.

For the three months ended March 31, 2002, our Revenue, EBITDA, Net income available to common stockholders and Diluted net income available to common stockholders per share were \$107.0 million, \$30.1 million, \$5.4 million and \$0.10, respectively, as compared to \$112.1 million, \$24.7 million, \$(4.1) million and \$(0.10), respectively, over the same period in 2001. For the year ended December 31, 2001, our Revenue, EBITDA, Net income available to common stockholders and Diluted net income available to common stockholders per share were \$440.2 million, \$105.1 million, \$(7.6) million and \$(0.19), respectively. "EBITDA", as included herein, represents operating income plus depreciation and amortization expenses. EBITDA is included in this prospectus as it is a basis upon which we assess our financial performance, and it provides useful information regarding our ability to service our debt. EBITDA should not be considered in isolation or as an alternative to net income, cash flows from operations, or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles as measures of our profitability or liquidity. EBITDA as defined in this prospectus may differ from similarly titled measures presented by other companies.

Our Strategy

Our strategy is to leverage our core competencies in wagering systems technology, field service operations and game design and development to rapidly grow and develop our lottery, pari-mutuel and related businesses worldwide. We intend to execute this strategy by focusing on the following initiatives:

Expand Our Share of the Domestic On-Line Lottery Market. We believe we are well-positioned to leverage our long-standing relationships with lottery authorities throughout the United States to increase our share of the on-line lottery market. We have been awarded seven of the last 12 on-line lottery contracts for which we submitted proposals, and we intend to compete for additional on-line lottery contracts as existing contracts held by our competitors expire.

Pursue Additional Facilities Management Opportunities. We intend to expand our facilities management operations by pursuing opportunities to become the systems and services provider to which lottery authorities or pari-mutuel operators outsource their operations. Currently, six states in the U.S. outsource all of their instant ticket lottery operations to us. We intend to pursue additional facilities management opportunities in our existing businesses as well as in related businesses.

Further Develop Our International Business. We believe that significant opportunities exist to increase our presence in international markets for all of our products and services. We are currently a leading worldwide supplier of instant lottery tickets, having sold tickets to customers in more than 50 countries, and we believe we are the second largest supplier of on-line lottery systems and terminals in Europe. In addition, our pari-mutuel products and services are in operation in approximately 20 countries around the world. We have entered into strategic alliances and/or joint ventures with several prominent operators in the lottery, pari-mutuel and gaming industries in Europe, such as Lottomatica, S.p.A. and a consortium that includes Arena Leisure plc and the BSKyB network. We intend to leverage our existing international relationships and infrastructure to further develop our international business.

Support the Development of New and Alternative Channels of Distribution. We believe there will be opportunities to develop new or alternative channels of distribution in both the lottery and pari-mutuel industries, subject to either the adoption of enabling legislation, or the liberalization of existing legislation. Wagering within the pari-mutuel industry has evolved from wagering only at a racetrack where a race is held, to wagering at a racetrack on races simulcast from other racetracks, to wagering at an OTB or other off-track venue, and now, in some jurisdictions, to wagering via the telephone and the Internet. As states continue to search for additional sources of revenue, we believe legislation will be broadened or enacted to support the growth of lottery and pari-mutuel gaming. For example, in early 2002, South Carolina initiated a new instant ticket and on-line lottery. We also believe that various state or international lottery authorities may seek to expand the distribution of their lottery games both through their traditional retail agency networks and through alternative channels. We intend to continue to develop new products, services and technologies that, subject to legislation, will enable our customers to take advantage of new or alternative channels of distribution.

Pursue the Development and/or Acquisition of Innovative New Products and Services. We intend to pursue new product development opportunities in our core businesses, as well as in related gaming businesses. Examples of our new developments include probability-based instant lottery tickets, the first deployment of a Virtual Private Network, or VPN, for lottery retailer communications and the introduction of self-service terminals for pari-mutuel and lottery applications. We believe that these developments, together with our established operating history, demonstrate our ability to introduce innovative products and services. We intend to continue to evaluate opportunities to grow our business both internally and through acquisition.

Our Competitive Strengths

We believe the following strengths will enable us to execute our strategy:

Leading Market Positions. In the instant ticket lottery industry, we are a leading worldwide provider of tickets and related services, having accounted for approximately 65% of all retail sales of instant lottery tickets in the U.S. in 2001. In addition, our wagering systems processed approximately 65% of the estimated \$18 billion wagered on pari-mutuel horse racing events in North America in 2001.

Substantial Recurring Revenue. We generally provide our on-line lottery and pari-mutuel services pursuant to long-term contracts that typically have a minimum initial term of five years, while our domestic instant lottery ticket contracts typically have an initial term of three years. Our on-line and instant ticket lottery contracts typically contain multiple renewal options that generally have been exercised. In our pari-mutuel business, we have been similarly successful in renewing most of our service contracts as they expire. In our venue management operations, we own and have the right to operate the Connecticut OTB in perpetuity, subject to our compliance with certain licensing requirements. Our service revenues, which we deem to be recurring, constituted nearly 83% of our revenues in 2001.

Scope of Product and Service Offerings. We believe that we offer our customers a broader array of lottery and pari-mutuel products and services than any of our competitors. We believe we are the only fully integrated competitor in the lottery market, providing our customers with game design and development services, instant tickets, instant ticket validation and inventory management systems, on-line lottery systems and cooperative services. Similarly, we believe our pari-mutuel business offers the broadest selection of technologically advanced computerized wagering systems and related equipment to racetracks.

Significant Barriers to Entry. We believe our game design expertise, specialized equipment and proprietary technologies and processes would require significant time and investment to

replicate. In the lottery business, we design over 1,000 unique games a year, and we utilize sophisticated printing and packaging technologies that are highly specialized to meet the printing and security requirements of lottery authorities. In addition, Federal laws require instant lottery tickets to be manufactured at facilities in the U.S., precluding the importation of such tickets. U.S. lotteries also generally require that a vendor be a current operator of another lottery system in order to bid to provide on-line lottery services. Moreover, the installation of lottery systems typically requires significant up-front capital expenditures, as well as operational expertise.

During the past decade, we have invested over \$150 million to establish an operational infrastructure and transaction processing networks that many of the industry's leading pari-mutuel operators have come to rely on. Our networks link multiple racetracks, OTBs, and regional networks of racetracks and OTBs to one another via dedicated, secure, high-speed communications channels, enabling operators to capitalize on the growth of the off-track wagering market in a more cost-effective manner. In addition, regulatory restrictions provide for significant barriers to entry in the pari-mutuel wagering systems business.

Technological Expertise. We believe that we are the technology leader in our lottery and pari-mutuel businesses. We enjoy significant economies of scale and scope in the design, development, manufacturing and deployment of our products and services in these businesses.

Recent Developments

On June 5, 2002, we completed the purchase of 65% of the equity of Serigrafica Chilena S.A., or SERCHI. The purchase price was \$3.9 million, paid at closing, plus up to \$4.4 million in cash or stock payable upon the achievement of certain financial performance levels of SERCHI over the next four years.

On February 26, 2002, we executed a letter of intent to acquire MDI Entertainment, Inc. in a stock-for-stock transaction valued at approximately \$26 million. On February 28, 2002, a class action suit on behalf of MDI's public stockholders was filed against multiple parties, including us and MDI, to enjoin the proposed acquisition on the grounds that the value of MDI's common stock is in excess of the amount we provided for in our letter of intent. On May 8, 2002, we and MDI announced that we had mutually and amicably terminated negotiations with respect to that contemplated acquisition. The announcement followed MDI's announcement that it had received a proposal from a third party to acquire a majority interest in MDI for \$3.30 per share in cash. In light of this development, the plaintiffs filed a notice of dismissal of the class action lawsuit.

The Offering

Shares Offered	12,500,000 shares of Class A common stock.
Shares Outstanding After This Offering	55,485,764 shares of Class A common stock.
Offering Price	\$7.25 per share of Class A common stock.
Over-Allotment Option	We have granted the underwriters a 30-day option from the date of this prospectus to purchase from us up to an additional 1,875,000 shares of common stock at the public offering price, less the underwriting discount, to cover any over-allotments. See "Underwriting".
Use of Proceeds	We intend to use the net proceeds from this offering, of approximately \$83.1 million, to redeem and seek to repurchase a portion of our outstanding 12 ¹ / ₂ % Senior Subordinated Notes and, if additional net proceeds are available, to repay a portion of the outstanding balances of the Term A loans and, subject to acceptance by the lenders, the Term B loans under our existing credit facility. See "Use of Proceeds".

Nasdaq National Market symbol **SGMS.**

The table set forth above is based on 42,985,764 shares of our Class A common stock outstanding as of March 31, 2002. This table excludes 1,875,000 shares of our Class A common stock to be sold if the underwriters' over-allotment option is exercised in full. This table also excludes 9,836,281 shares of our Class A common stock issuable upon the exercise of outstanding options, warrants and other stock rights, of which 6,191,101 are exercisable within 60 days of March 31, 2002 and 22,259,064 shares of our Class A common stock issuable upon conversion of our Series A Convertible Preferred Stock, computed as of March 31, 2002. See "Description of Capital Stock".

The holders of our Series A Convertible Preferred Stock have the right to purchase a number of shares equal to their pro rata portion, on an as converted basis, of the shares to be issued in this offering, which number is approximately 3.7 million shares. Such holders have advised us that they will purchase an aggregate of approximately 166,769 shares in this offering and otherwise waive such right, and accordingly 12,333,231 shares will be available for purchase by other investors. See "Description of Capital Stock".

Risk Factors

Before making an investment in our common stock, you should carefully consider the matters discussed under the heading "Risk Factors" starting on page 8.

Corporate Information

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We are incorporated under the laws of the State of Delaware in the United States. Our executive offices are located at 750 Lexington Avenue, New York, New York 10022, and our telephone number is (212) 754-2233. Our website address is www.scientificgames.com. Information contained in our website does not constitute part of this prospectus.

Winner's Choice , Terra 2000®, SciScan Technology®, Aegis , PROBE®, EXTREMA®, TrackPlay , SGI-NET , ECLIPSE , NASRIN®, SAM®, STAN , MAX®, TINY TIM®, On the Wire® and Autotote.com are among our registered trademarks and servicemarks. This prospectus also includes other trademarks of Scientific Games.

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Summary Historical and Pro Forma Financial Data

The following tables set forth our summary historical and pro forma financial data as at and for the periods indicated. The summary financial and operating data for the years ended October 31, 1999 and 2000, the two months ended December 31, 2000 and the year ended December 31, 2001 have been derived from and should be read in conjunction with our audited Consolidated Financial Statements and the notes thereto, included in this prospectus. The unaudited pro forma statement of operations data for the year ended December 31, 2000 give effect to the acquisition of SGHC by us as if the acquisition had occurred on January 1, 2000. The summary financial and operating data for the three-month periods ended March 31, 2001 and 2002, have been derived from and should be read in conjunction with our unaudited Consolidated Financial Statements and the notes thereto, included in this prospectus and include all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of our results for such periods. The consolidated unaudited financial data for the three months ended March 31, 2002 are not necessarily indicative of the results to be achieved for the year ending December 31, 2002. The summary financial and operating information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

Actual Results Years Ended October 31,		Actual Results Two Months Ended December 31,	Pro Forma Results Year Ended December 31,	Actual Results Year Ended December 31,	Actual Results Three Months Ended March 31,	
1999	2000	2000	2000(1)	2001	2001	2002
			(Unaudited)		(Unaudited)	(Unaudited)

(in thousands, except per share amounts)

Statement of Operations Data:

Operating Revenues:														
Services	\$	148,660	\$	186,520	\$	57,584	\$	341,455	\$	364,567	\$	88,040	\$	92,516
Sales		62,488		46,828		9,007		83,202		75,674		24,068		14,456
Total revenues	\$	211,148	\$	233,348	\$	66,591	\$	424,657	\$	440,241	\$	112,108	\$	106,972
Operating income		16,748		13,958		2,952		23,753		49,894		11,055		19,719
Income (loss) before extraordinary items	\$	379	\$	(18,420)	\$	(4,914)	\$	(25,189)	\$	(584)	\$	(2,437)	\$	7,205
Net income (loss) before preferred dividends(2)	\$	379	\$	(30,987)	\$	(4,914)	\$	(37,756)	\$	(584)	\$	(2,437)	\$	7,205
Net income (loss) available to common stockholders	\$	379	\$	(32,001)	\$	(6,057)	\$	(44,547)	\$	(7,635)	\$	(4,136)	\$	5,402
Basic net income (loss) before extraordinary items per share	\$	0.01	\$	(0.50)	\$	(0.12)	\$	(0.67)	\$	(0.01)	\$	(0.06)	\$	0.17

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	Actual Results Years Ended October 31,		Actual Results Two Months Ended December 31,		Pro Forma Results Year Ended December 31,		Actual Results Year Ended December 31,		Actual Results Three Months Ended March 31,					
Diluted net income (loss) before extraordinary items per share	\$	0.01	\$	(0.50)	\$	(0.12)	\$	(0.67)	\$	(0.01)	\$	(0.06)	\$	0.10
Basic net income (loss) available to common stockholders per share(2)	\$	0.01	\$	(0.87)	\$	(0.15)	\$	(1.19)	\$	(0.19)	\$	(0.10)	\$	0.13
Diluted net income (loss) available to common stockholders per share(2)	\$	0.01	\$	(0.87)	\$	(0.15)	\$	(1.19)	\$	(0.19)	\$	(0.10)	\$	0.10

Other Financial Data:

EBITDA(3)	\$	40,537	\$	41,784	\$	11,550	\$	74,196	\$	105,103	\$	24,663	\$	30,125
Capital expenditures		14,934		35,046		6,103		n/a		46,493		9,350		6,834
Depreciation and amortization		22,189		27,826		8,598		50,443		55,209		13,608		10,406

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Actual As of December 31, 2001	Actual As of March 31, 2002
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(Unaudited)

(in thousands)

Balance Sheet Data:

Cash and cash equivalents	\$	12,649	\$	5,016
Total assets		601,952		597,128
Total long-term debt and capital leases		439,735		441,807
Total stockholders' equity		24,078		33,743

(1) Reflects the acquisition of SGHC as if it had occurred on January 1, 2000 and reflects all results on a year ended December 31, 2000 basis.

(2) After non-cash paid-in-kind dividends on convertible preferred stock.

(3) "EBITDA", as included herein, represents operating income plus depreciation and amortization expenses, excluding gains or losses on sales of businesses. EBITDA is included in this prospectus as it is a basis upon which we assess our financial performance, and it provides useful information regarding our ability to service our debt. EBITDA should not be considered in isolation or as an alternative to net income, cash flows from operations, or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles as measures of our profitability or liquidity. EBITDA as defined in this prospectus may differ from similarly titled measures presented by other companies.

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RISK FACTORS

You should carefully consider the following risks, as well as the other information contained in this prospectus, before investing in shares of our common stock. If any of the following risks actually occurs, our business, financial condition, operating results or prospects could be harmed. In that case, the trading price of our common stock could decline, and you might lose all or part of your investment. You should refer to the information set forth in this prospectus and our financial statements and the related notes included in this prospectus.

Risks Related to Our Business

We Have a Recent History of Operating Losses and May Not Continue to Maintain Profitability

We realized a net loss available to common stockholders of \$32.0 million in 2000, including approximately \$23.6 million of one-time transaction expenses incurred in connection with our acquisition of SGHC in September 2000 and the refinancing of the debt of both companies. We realized a net loss available to common stockholders of \$7.6 million in 2001. While we have focused our operations on our core lottery and pari-mutuel businesses and have continued our cost reduction programs, we can give you no assurance that we will not experience additional net losses in the future.

We Operate in Highly Competitive Industries and Our Success Depends on Our Ability to Effectively Compete with Numerous Domestic and Foreign Lottery and Pari-mutuel Businesses

The instant ticket and on-line lottery businesses are highly competitive. We face competition from a number of domestic and foreign instant ticket manufacturers, on-line lottery system providers and other competitors, some of which have substantially greater financial resources than we do. We continue to operate in a period of intense price-based competition. The award of contracts by state officials is influenced by factors including price, the ability to optimize lottery revenues through game design, technical capability, marketing capability and applications, the quality, dependability and upgrade capability of the network, production capacity, the security and integrity of the vendor's production operations, the experience, financial condition and reputation of the vendor and the satisfaction of other requirements and qualifications that lottery authorities may impose. Contract awards by lottery authorities are sometimes challenged by unsuccessful competitors, which can result in protracted legal proceedings and delayed implementation or cancellation of the award. The 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 divert gaming activity from our lottery operations.

The market for pari-mutuel wagering services is also competitive, and certain of our competitors may have substantially greater financial and other resources than we do. We compete primarily on the basis of the design, performance, reliability and pricing of our products as well as customer service. Our pari-mutuel customers face significant competition from other operators in the pari-mutuel business, other gaming venues such as casinos and state sponsored lotteries and other forms of legal and illegal gaming. The continuing popularity of horse racing is important to the growth and operating results of our pari-mutuel business. Competition from sporting events and other forms of entertainment, and casinos, sports wagering services and other non-racetrack gaming operators, may reduce the attendance, and amounts wagered, at our customers' horse racing facilities, which could divert wagering activity away from our pari-mutuel customers.

While we have exclusive licenses for our OTB operations in Connecticut and The Netherlands, our revenues may be adversely affected by competition for the consumer's wagering and entertainment dollar. Our venue management business competes with other pari-mutuel operations as well as other forms of gaming and entertainment. Competition for wagers comes from casinos, racetracks, lotteries and other forms of legal and illegal gambling. Other gaming competitors operate in our licensed markets and in surrounding areas and compete for our customers, and additional competitors could be

licensed, or existing regulations could be changed, so as to divert wagering activity from our OTB operations.

The market for prepaid phone cards is highly fragmented but competition comes from other instant ticket lottery printers utilizing similar lottery security and printing technologies, as well as alternative printing and non-printing technologies. Our telecommunications products operations compete with other printing companies on the basis of price, availability, product features and product security. There is competition within our class of products and other technologies to provide the desired functionality. There are alternative technologies, such as smart cards, to provide the funding of telephone services. Moreover, the cellular telephone industry is undergoing significant growth and rapid technology changes such that other technologies including electronic commerce could impact our growth opportunities and our customer relationships. Further, increasing price competition in the prepaid phone card business may continue to negatively affect our operating margins.

The markets for all of our products and services are also affected by changing technology, new legislation and evolving industry standards. Our ability to anticipate 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 expand, remain competitive, attract new customers and retain existing contracts.

We can give you no assurance that we will achieve the necessary technological advances, have the financial resources, introduce new products or services on a timely basis or otherwise have the ability to effectively compete in these markets. See "Business Competition".

We Are Heavily Dependent on Our Ability to Renew Our Long-Term Contracts with Our Customers in the Lottery and Pari-mutuel Businesses, and We Could Lose Substantial Revenue if We Are Unable to Renew Certain of Our Contracts

Generally, our lottery contracts are for initial terms of one to seven years, with optional renewal periods. Upon the expiration of a lottery contract, including any extensions thereof, lottery authorities may award new contracts through a competitive bidding process. Contracts representing approximately 88% of our annual revenues from instant ticket lottery contracts are scheduled to expire or reach optional extension dates during the next three years.

Lottery contracts typically permit a lottery authority to terminate the contract at any time for failure to perform or other specified reasons without penalty. In addition, lottery contracts to which we are a party frequently contain exacting implementation schedules and performance requirements. 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. Because of financial and economic events that have occurred this past year, such as the September 11 attack, the bond market is experiencing unusual contraction. Because of this, we cannot assure you that we will continue to be able to obtain 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.

Our contracts for the provision of pari-mutuel wagering services are typically for initial terms of five years. Contracts accounting for the following percentages of our current annual pari-mutuel revenues are scheduled to expire at the times indicated: 16.9% will expire in 2002; 22.3% will expire in 2003; and 22.2% will expire in 2004. There can be no assurance that our current lottery or pari-mutuel contracts will be extended or that we will be awarded new lottery or pari-mutuel contracts as a result of competitive bidding processes in the future.

Our rights to operate all on-track and off-track pari-mutuel wagering in The Netherlands under a license granted by the Dutch Ministry of Agriculture extend through June 30, 2003, and might not be renewed thereafter.

The termination, expiration or failure to renew one or more of our contracts could cause us to lose substantial revenue.

Our Ability to Bid on New Contracts Is Dependent upon Our Ability to Fund Required Up-Front Capital Expenditures through Our Cash from Operations or through Access to Capital Markets

Our pari-mutuel and lottery contracts generally require significant up-front capital expenditures for terminal assembly, software customization and implementation, systems and equipment installation and telecommunications configuration. Historically we have funded these up-front costs through cash flows generated from operations, available cash on hand and borrowings under our credit facilities. Our ability to continue to procure new contracts will depend on, among other things, our then present liquidity levels or our ability to obtain additional financing at commercially acceptable rates to finance the initial up-front costs. If we are unable to obtain financing for these up-front 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 future profitability.

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 the industries in which we operate. For example, our intellectual property is designed to ensure the security of the printing of our instant lottery tickets and pre-paid phone cards and provides 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.

We cannot assure you 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 other proprietary information, as well as the designs, systems and other software documentation and other information 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.

We cannot assure you 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 against us. Any such claims 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 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. We cannot assure you that these third-party licenses, or the support for such licenses, will continue to be available to us on commercially reasonable terms.

The Lottery and Pari-mutuel Industries Are Subject to Strict Government Regulations Which May Limit Our Existing Operations and Have a Negative Impact on Our Ability to Grow

In the U.S. and many other countries, wagering and lotteries must be expressly authorized by law. Once authorized, the wagering industry and the ongoing operations of lotteries are subject to extensive and evolving governmental regulation. We can give you no assurance that the operation of pari-mutuel wagering facilities, lotteries, video gaming industry machines, Internet gaming or other forms of wagering or lottery systems will be approved by additional jurisdictions or that those jurisdictions in which these wagering and lottery activities are currently permitted will continue to permit such activities.

We are required to obtain and maintain licenses from various state and local jurisdictions in order to operate certain aspects of our lottery and pari-mutuel businesses. There can be no assurance that we will be able to renew any of our licenses, and the loss or non-renewal of any of our licenses could have a material adverse effect on our business. Once authorized, the ongoing operations of lottery operators are typically subject to extensive and evolving regulation. Lottery authorities generally conduct an intensive investigation of the winning vendor and its employees prior to and after the award of a lottery contract. 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. 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 securities. The failure of these beneficial owners to submit to such background checks and provide required disclosure could jeopardize the award of a lottery contract to us or provide grounds for termination of an existing lottery contract. Additional restrictions are often imposed by international jurisdictions in which we market our lottery systems on foreign corporations, such as us, seeking to do business in such jurisdictions. Similar restrictions and considerations are also applicable to our pari-mutuel business.

There also have been and may continue to be investigations of various types, including grand jury investigations, conducted by governmental authorities into possible improprieties and wrong-doing in connection with efforts to obtain and/or the awarding of lottery contracts and related matters. As such investigations frequently are conducted in secret, we may not necessarily know of the existence of an investigation which might involve us. Because our reputation for integrity is an important factor in our business dealings with lottery and other governmental agencies, a governmental allegation or a finding of improper conduct on our part or attributable to us in any manner could have a material adverse effect on our business, including our ability to retain existing contracts or to obtain new or renewal contracts. In addition, any adverse publicity resulting from such an investigation could have a material adverse effect on our reputation and business.

Currently, account wagering operations, through which pari-mutuel customers place wagers by phone or via the Internet on thoroughbred, harness or greyhound racing, may be conducted only from certain jurisdictions and only through licensed wagering operators in certain jurisdictions. The licensing process can be both lengthy and costly, and we may not be successful in obtaining required licenses, registrations, permits and approvals or renewals of any of the foregoing. In addition, expansion of our account wagering operations will be limited unless more states amend their laws to permit account wagering. Statutory amendments necessary to permit account wagering may not be passed, and statutory amendments adverse to our current account wagering operations may be passed. Furthermore, while we believe that our current and planned business activities comply with all applicable laws, law enforcement authorities in certain jurisdictions have opposed the expansion of wagering via telephone and the Internet and state regulators have expressed concerns to us regarding such wagering by their citizens through racetracks serviced by our pari-mutuel wagering systems. We cannot assure you that our activities or the activities of our customers will not become the subject of any law enforcement proceeding or that any such proceeding would not have a material adverse impact on us or our business plans. Additionally, although we believe that a December 2000 amendment to the federal

Interstate Horseracing Act of 1978 clarifies that account wagering, off-track betting and inter-track simulcasting, as currently conducted by the U.S. horse racing industry, are authorized under U.S. Federal law, the amendment may not be interpreted in this manner by all concerned. We cannot assure you that we can continue to conduct our pari-mutuel, account wagering, OTB and race simulcasting operations in all of the jurisdictions in which we currently operate or that a discontinuation of any of these operations would not have a material adverse impact on us or our business plans.

In the past, regulatory requirements for pari-mutuel wagering, lottery and other gaming activities in the U.S. were adopted and administered primarily on the state or local level. In 1996, the U.S. Congress passed legislation authorizing the commission of a comprehensive study of gaming, including segments of the gaming industry that we serve. We are unable to predict whether this study will result in legislation that would impose regulations on gaming industry operators, or whether such legislation, if any, would have a material adverse effect on us.

For additional discussion of government regulation and the associated risks, see "Government Regulation".

Gaming Opponents Persist in Their Efforts to Curtail the Expansion of Legalized Gaming Which, If Successful, Could Limit Our Existing Operations

We can give you 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 gaming where it is currently permitted, in either case to the detriment of our business, financial condition, results and prospects.

Our Ability to Successfully Complete Future Acquisitions of Gaming and Related Businesses Could Limit Our Future Growth

Part of our corporate strategy is to continue to pursue expansion and acquisition opportunities in gaming and related businesses, and we could face significant challenges in managing and integrating the expanded or combined operations including acquired assets, operations and personnel. We cannot assure you 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. 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 Seasonal, Weather and Other Variations and You Should Not Rely upon Our Quarterly Operating Results as Indications of Future Performance

Our pari-mutuel service revenues are subject to seasonal and weather variations. The first and fourth quarters of the calendar year traditionally comprise the weakest season for our pari-mutuel wagering service revenue. As a result of inclement weather during the winter months, a number of racetracks do not operate and those that do operate often experience missed racing days. This adversely affects the amounts wagered and our corresponding service revenues. Wagering equipment sales and software license revenues usually reflect a limited number of large transactions, which do not recur on an annual basis. Consequently, revenues and operating results can vary substantially from period to period as a result of the timing of revenue recognition for major equipment sales and software license revenue. In addition, instant ticket and prepaid phone card sales may vary depending on the season and timing of contract awards, changes in customer budgets, ticket inventory levels, lottery retail sales and general economic conditions.

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We Are Dependent on 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 and prepaid phone cards, 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 materials.

We simulcast live racing events by transmitting audio and/or video signals from one facility to a satellite for reception by wagering locations across the country. Our access to satellite service is provided pursuant to long-term contracts. The technical failure of the satellite through which we transmit substantially all of our racing events would require us to obtain other satellite access. We have no assurance of access to such other satellites, or if available, whether the use of such other satellites could be obtained on favorable terms or in a timely manner. While satellite failures are infrequent, the operation of the satellite is outside of our control. We have obtained insurance to cover any potential loss due to the failure of a satellite.

The Profitability of Our Foreign Operations May Be Impacted by Risks Uniquely Associated with Foreign Operations

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Our business in foreign markets subjects us to risks customarily associated with such activities, including:

currency fluctuations, which may or may not be hedged;

foreign withholding taxes on our subsidiaries' earnings that could reduce cash flow available to meet our required debt service and our other obligations;

the complexity of foreign laws, regulations and markets;

the impact of foreign labor laws and disputes; and

other economic, tax and regulatory policies of local governments.

We cannot assure you that we will be able to operate successfully in any foreign market.

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, President and Chief Executive Officer, and the members of our senior management team. Mr. Weil has extensive experience in the lottery and pari-mutuel businesses and has contributed significantly to the growth of our business. If we lose the services of Mr. Weil 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.

Failure to Perform Under Our Lottery Contracts May Result in Substantial Monetary Liquidated Damages, As Well As Contract Termination

Our business subjects us to certain risks of litigation, including 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 Scientific Games International, Inc., or SGI, which owned a minority interest in 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. SGI has been advised by Colombian counsel that it has various defenses on the merits as well as procedural defenses. Although we believe that any potential losses arising from this litigation 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 this litigation might not be finally resolved adversely to us or result in material liability. See "Business Legal Proceedings".

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Risks Related to Our Capital Structure and This Offering

Our Stock Price Is Volatile, and You May Not Be Able To Resell Your Shares At or Above the Price You Pay for Them

The trading price of our Class A common stock has experienced, and may continue to experience, substantial volatility. Between January 1, 2001 and June 26, 2002, the closing price of our Class A common stock ranged from a low of \$1.94 per share to a high of \$10.05 per share. The market price of our Class A common stock could continue to fluctuate substantially due to a variety of factors, including:

quarterly fluctuations in results of operations;

fluctuations in the public equity markets in general;

legislative or regulatory developments adverse to our business or the wagering industry in general;

negative publicity about us or the wagering industry in general;

changes in or failure to meet earnings estimates by securities analysts;

sales of our common stock by existing stockholders or the perception that these sales may occur;

sales or other issuances by us, or the perception of potential sales or other issuances, of substantial amounts of our shares, including in connection with our future acquisitions; and

adverse judgments or settlements obligating us to pay damages.

These factors could have a material adverse effect on the market price of our Class A common stock, regardless of our financial condition or operating results.

We Have Substantial Indebtedness, Which Reduces the Funds We Would Otherwise Have Available to Fund Our Operations and Which May Limit Our Ability to Incur Additional Indebtedness That We May Need to Operate or Grow Our Business

We have a substantial amount of indebtedness. At March 31, 2002, our total outstanding indebtedness was approximately \$441.8 million. Interest expense on our outstanding indebtedness was approximately \$50.4 million for the year ended December 31, 2001, including approximately \$2.4 million of non cash charges, and approximately \$11.5 million for the three months ended March 31, 2002, including approximately \$0.6 million of non cash charges. Our substantial indebtedness could have important consequences for us, including the following:

we may have difficulty borrowing money in the future for working capital, capital expenditures, potential acquisition opportunities, general corporate purposes or other purposes;

a substantial portion of our cash flow from operations must be used to pay our interest expense and repay our indebtedness, which will reduce the funds that would otherwise be available to us to fund our operations, capital expenditures and future business opportunities and may limit our ability to implement our business strategy; and

we may be vulnerable to economic downturns and adverse developments in our business, may be limited in our ability to withstand competitive pressures and may have reduced flexibility in responding to changing business, regulatory and economic conditions.

Part of Our Indebtedness Is in Variable Interest Rate Instruments, and We Are Exposed to Fluctuations in Interest Rates

After taking into consideration our interest rate swaps discussed below, approximately one-third of our debt, representing approximately \$149.7 million of indebtedness, is in variable rate instruments. Consequently, we are exposed to fluctuations in interest rates. The effect of a 0.125% change in the

interest rates associated with our variable rate debt will result in a change of approximately \$187,000 per annum in our interest expense and cash flow assuming no change in our outstanding borrowings.

To reduce the risks associated with fluctuations in the market interest rates and as required by our credit facility, we have entered into three interest rate swap contracts for an aggregate notional amount of \$140 million. These interest rate swaps obligate us to pay a fixed LIBOR rate and entitle us to receive a variable LIBOR rate on an aggregate \$140 million notional amount of debt thereby creating the equivalent of fixed rate debt until May 30, 2003.

We May Not Be Able to Generate Sufficient Cash Flow to Meet Our Debt Service Requirements

We cannot assure you that our future cash flows, together with borrowing under our revolving credit facility, will be sufficient to meet our debt obligations and commitments. Our ability to generate cash flow from operations sufficient to make scheduled payments on our debt as they become due will depend on our future performance and our ability to implement our business strategy successfully. Our performance will be affected by prevailing economic conditions and financial, business, regulatory and other factors, most of which are beyond our control. In addition, there can be no assurance that future borrowings will be available to us under our revolving credit facility to meet our other debt obligations.

Failure to pay interest or make scheduled principal payments would result in a default under the indenture governing our outstanding 12¹/₂% Senior Subordinated Notes and under the credit agreement governing our senior credit facilities. A payment default, if not waived, would result in acceleration of our debt, in which case the debt would become immediately due and payable. If this occurs, we may be forced to reduce

or delay capital expenditures and implementation of our business strategy, sell assets, obtain additional equity capital or refinance or restructure all or a portion of our outstanding debt. In the event that we are unable to do so, we may be left without sufficient liquidity and we may be unable to repay our debt and our secured lenders will be able to foreclose on our assets. We may need to refinance all or a portion of our indebtedness on or before maturity. However, we cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Covenant Restrictions in Our Senior Credit Facilities and the Indenture Governing Our 12¹/₂% Senior Subordinated Notes May Limit Our Ability to Finance Future Operations and Operate Our Business

Our senior credit facilities, our indenture and certain of our other agreements regarding indebtedness contain, among other things, covenants that restrict our and certain of our subsidiaries' ability to finance future operations or capital needs or to engage in other business activities. In addition, the senior credit facilities and the indenture governing our 12¹/₂% Senior Subordinated Notes restrict, among other things, our and certain of our subsidiaries' ability to:

- incur additional indebtedness;
- pay dividends or distributions, or make certain other restricted payments;
- purchase or redeem capital stock;
- make investments and extend credit;
- engage in certain transactions with affiliates;
- engage in sale-leaseback transactions;
- consummate certain asset sales;
- effect a consolidation or merger or sell, transfer, lease, or otherwise dispose of all or substantially all of our assets; and
- create certain liens and other encumbrances on our assets.

In addition, our senior credit facilities require us to maintain specified financial ratios and satisfy certain financial condition tests which may require that we take action to reduce our indebtedness or to act in a manner contrary to our business objectives. Events beyond our control, including changes in

general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. We cannot assure you that we will meet those tests or that the lenders will waive any failure to meet those tests. A breach of any of these covenants would result in a default under the senior credit facilities and the indenture. If an event of default under the senior credit facilities occurs, the lenders could elect to declare all amounts outstanding under the senior credit facilities, together with accrued interest, to be immediately due and payable. If we were unable to repay those amounts, the lenders could proceed against the collateral we granted to them to secure the indebtedness under the senior credit facilities.

Conversion of Our Series A Convertible Preferred Stock Could Result in Dilution to Holders of Our Common Stock

If the holders of the outstanding shares of our Series A Convertible Preferred Stock convert their shares, we would be required to issue to such holders approximately 22.3 million additional shares of common stock. Conversion of the Series A Convertible Preferred Stock would result in dilution to holders of our common stock. The number of shares issuable is based on the conversion price as of March 31, 2002, which is also the maximum conversion price, and the amount of Series A Convertible Preferred Stock outstanding as of March 31, 2002, which amount will increase as the preferred stock continues to accrue quarterly dividends in paid-in-kind additional shares at a rate of 6% per annum. There will be another payment-in-kind on June 30, 2002. The conversion price of the preferred stock will decrease in the event the average 30-day per share market price, or AMP, of our common stock drops below \$8.94 and will decrease further if the AMP drops below \$5.10 and \$4.63. The number of shares of common stock issuable upon conversion will increase as the conversion price decreases.

Holders of Our Series A Convertible Preferred Stock Exert Significant Influence over the Company and Make Decisions with Which Other Stockholders May Disagree

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Holders of our Series A Convertible Preferred Stock are entitled to vote, on an as converted basis, along with the holders of our common stock on all matters on which holders of common stock are entitled to vote. In addition, holders of our Series A Convertible Preferred Stock currently are entitled to elect four of the ten members of our Board of Directors and are required to approve certain actions of the Company. As a result, these holders have the ability to exert significant influence over our business and may make decisions with which other stockholders may disagree, including, among other things, to delay, discourage or prevent a change of control of the Company or a potential merger, consolidation, tender offer, takeover or other business combination. Holders of our Series A Convertible Preferred Stock have elected to our Board of Directors Antonio Belloni, Rosario Bifulco, Peter A. Cohen and Michael S. Immordino.

The holders of our Series A Convertible Preferred Stock have the right to purchase a number of shares equal to their pro rata portion, on an as converted basis, of the shares to be issued in this offering, which number is approximately 3.7 million shares. Such holders have advised us that they intend to purchase an aggregate of approximately 166,769 shares in this offering.

A Change of Control Could Result in the Acceleration of Our Debt Obligations

A change of control (such as, for example, subject to certain exceptions, the acquisition of a majority of our outstanding voting stock by a third party) could result in the acceleration of both our senior credit facilities and the obligation to offer to repurchase our outstanding 12¹/₂% Senior Subordinated Notes. We cannot assure you that we will have sufficient funds at the time of a change of control to repay any indebtedness that is accelerated, or to fund any such repurchases, as a result of such change of control or that restrictions in our senior credit facilities will allow such repurchases, and this would likely materially adversely affect our financial condition.

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USE OF PROCEEDS

The net proceeds from the sale of the 12,500,000 shares of common stock offered hereby will be approximately \$83.1 million, based upon an offering price per share of \$7.25, after deducting the underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds to redeem approximately \$52.5 million of our outstanding 12¹/₂% Senior Subordinated Notes and to pay the noteholders a required premium of approximately \$6.6 million in connection with the redemption. Under an amendment to our senior credit facilities executed on June 25, 2002, we are permitted to use up to \$100 million of net proceeds from this offering to redeem or repurchase our Senior Subordinated Notes within 90 days of completion of this offering. Accordingly, we may use up to an additional \$24.0 million of net proceeds to repurchase Senior Subordinated Notes from holders if such Notes are available at prices we consider attractive. As of March 31, 2002, the outstanding principal balance of the Senior Subordinated Notes was approximately \$150 million. If we redeem and also repurchase Senior Subordinated Notes as described above, then after such redemption and repurchase the outstanding principal balance of the Senior Subordinated Notes would be approximately \$76.1 million. To the extent that we do not repurchase Senior Subordinated Notes with net proceeds within 90 days of completion of this offering, we will use those proceeds to repay Term A loans and Term B loans under our senior credit facilities. As of March 31, 2002, there were outstanding \$54.0 million of Term A loans and \$216.7 million of Term B loans. If we use \$24.0 million of net proceeds to repay these loans, there would be outstanding \$49.2 million of Term A loans and \$197.4 million of Term B loans. However, the Term B lenders have the option to waive their rights to receive such repayments. If the Term B lenders waive all of their rights to receive repayments, all of the repayments of the principal balance under our senior credit facilities would be available for the repayment of the Term A loans, which would have an outstanding principal balance of \$30.0 million following such repayment.

As of March 31, 2002, the annual interest rate on the Senior Subordinated Notes was 12.5% and the annual interest rates on the outstanding Term A loans and Term B loans under our senior credit facilities were 5.2% and 6.2%, respectively. The Senior Subordinated Notes mature on August 15, 2010, and the Term A and Term B loans mature on September 30, 2006 and September 30, 2007, respectively.

When we redeem or repurchase 12¹/₂% Senior Subordinated Notes