JENKENS & GILCHRIST PARKER CHAPIN LLP Attorneys for the Official Committee of Unsecured Creditors of eLot, Inc. and eLottery, Inc. The Chrysler Building 405 Lexington Avenue New York, New York 10174 (212) 704-6000 Hollace T. Cohen, Esq. (HC-8651) Jennifer L. Saffer, Esq. (JS-8015) Leslie W. Chervokas, Esq. (LC-5023)	ANGEL & FRANKEL, P.C. Attorneys for Debtors and Debtors in Possession 460 Park Avenue New York, New York 10022 (212) 752-8000 Joshua J. Angel, Esq. (JA-3299) Neil Y. Siegel, Esq. (NS-3216) Michele E. Cosenza, Esq. (MC-5995)

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	
	:	Chapter 11
eLOT, INC., and	:	
eLOTTERY, INC.	:	Case Nos. 01- 15327 (ALG) and
	:	01-15328 (ALG)
Debtors.	:	
	:	Jointly Administered

SECOND AMENDED JOINT DISCLOSURE STATEMENT OF THE DEBTORS AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF eLOT, INC. AND eLOTTERY, INC. PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE

Dated: November __, 2002

THIS IS NOT A SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL THE DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THE DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT.

TABLE OF CONTENTS

INTRODUCTORY STATEMENT

THIS SECOND AMENDED JOINT DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") UNDER SECTION 1125 OF THE BANKRUPTCY CODE WITH RESPECT TO THE SECOND AMENDED JOINT PLAN OF REORGANIZATION OF THE DEBTORS AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS (THE "CREDITORS' COMMITTEE") FOR ELOT, INC. AND ELOTTERY, INC. UNDER CHAPTER 11 OF THE BANKRUPTCY CODE (THE "PLAN") CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN AND OTHER DOCUMENTS RELATING TO THE PLAN. WHILE THE DEBTORS AND THE CREDITORS' COMMITTEE BELIEVE THAT THESE SUMMARIES PROVIDE ADEQUATE INFORMATION WITH RESPECT TO THE DOCUMENTS SUMMARIZED, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS. IF ANY INCONSISTENCIES EXIST BETWEEN THE TERMS AND PROVISIONS OF THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN OR OTHER DOCUMENTS DESCRIBED THEREIN, THE TERMS AND PROVISIONS OF THE PLAN AND OTHER DOCUMENTS ARE CONTROLLING.

EACH HOLDER OF AN IMPAIRED CLAIM SHOULD REVIEW THE ENTIRE PLAN AND ALL RELATED DOCUMENTS AND SEEK THE ADVICE OF ITS OWN COUNSEL BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON BY ANY PERSON OR ENTITY FOR ANY PURPOSE OTHER THAN BY HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN IN DETERMINING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN. NOTHING CONTAINED HEREIN WILL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS, THE CREDITORS' COMMITTEE OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON HOLDERS OF CLAIMS OR EQUITY INTERESTS.

NO PARTY IS AUTHORIZED BY THE DEBTORS OR THE CREDITORS' COMMITTEE TO PROVIDE ANY INFORMATION WITH RESPECT TO THIS PLAN, THE DEBTORS' ANTICIPATED FINANCIAL POSITION OR OPERATIONS AFTER CONFIRMATION OF THE PLAN, OR THE VALUE OF THE DEBTORS' BUSINESSES AND PROPERTIES OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE FORWARD LOOKING PROJECTIONS AND FORECASTS BASED UPON CERTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. NOTHING CONTAINED IN THIS DISCLOSURE STATEMENT, EXPRESS OR IMPLIED, IS INTENDED TO GIVE RISE TO ANY COMMITMENT OR OBLIGATION OF THE DEBTORS, THE CREDITORS' COMMITTEE OR ANY OF

ITS MEMBERS OR REPRESENTATIVES WILL CONFER UPON ANY PERSON ANY RIGHTS, BENEFITS OR REMEDIES OF ANY NATURE WHATSOEVER.

EXCEPT AS OTHERWISE NOTED HEREIN, THE INFORMATION CONTAINED HEREIN IS GENERALLY INTENDED TO DESCRIBE FACTS AND CIRCUMSTANCES ONLY AS OF JULY 1, 2002, AND NEITHER THE DELIVERY OF THIS DISCLOSURE STATEMENT NOR THE CONFIRMATION OF THE PLAN WILL CREATE ANY IMPLICATION, UNDER ANY CIRCUMSTANCES, THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS CORRECT AT ANY TIME AFTER JULY 1, 2002 OR THAT THE DEBTORS OR THE CREDITORS' COMMITTEE WILL BE UNDER ANY OBLIGATION TO UPDATE SUCH INFORMATION IN THE FUTURE.

I. INTRODUCTION

On October 15, 2001 (the *"Commencement Date")*, eLot, Inc. *("eLot")* and eLottery, Inc. and *("eLottery")*, (collectively, the *"Debtors")* filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the *"Bankruptcy Code")* in the United States Bankruptcy Court for the Southern District of New York (the *"Bankruptcy Court")*. The Chapter 11 Cases are being jointly administered under cases styled *In re eLot, Inc. and In re eLottery, Inc.* (Case Nos. 01-15 327-01-15 328 (ALG). Since the Commencement Date, the Debtors have continued to operate their businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

On July 1, 2002, the Debtors and the Official Committee of Unsecured Creditors (the "Creditors' Committee") filed a Joint Disclosure Statement with the Bankruptcy Court for approval in connection with the solicitation of acceptances and rejections with respect to the Plan and on July 22, 2002 filed the First Amended Joint Disclosure Statement, and on November __, 2002 filed this Second Amended Disclosure Statement. By order dated **[_____, 2002]** (the *"Disclosure Statement Order")*, the Bankruptcy Court, among other things, approved this Disclosure Statement as containing adequate information to enable holders of Claims against the Debtors whose votes are being solicited to make an informed judgment whether to accept or reject the Plan and established certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan. A copy of the Plan is annexed hereto as Exhibit A. A copy of the Disclosure Statement Order is annexed hereto as Exhibit B.

Unless otherwise defined herein, capitalized tears used herein will have the same meanings ascribed to them in the Plan.

II. NOTICE TO HOLDERS OF CLAIMS AND EQUITY INTERESTS

A. GENERAL

The purpose of this Disclosure Statement is to enable the holders of Claims against the Debtors entitled to vote on the Plan to make informed decisions in voting whether to accept or reject the Plan. As discussed in Section VI below, each holder of an Allowed Claim in an impaired Class of Claims that is entitled to vote on the Plan pursuant to Article IV of the Plan will be entitled to vote separately to accept or reject the Plan. All holders of Claims in such

Classes should read this Disclosure Statement and the Plan in its entirety prior to voting on the Plan. No solicitation of votes on the Plan may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. In considering how to vote on the Plan, no holder of a Claim or Equity Interest or any other party should rely on any information relating to the Debtors and their businesses, other than that contained in this Disclosure Statement, the Plan, the exhibits thereto, and the Plan Supplement, except as otherwise approved by the Bankruptcy Court.

All persons receiving this Disclosure Statement and the Plan attached hereto are urged to review fully the provisions of the Plan and all other exhibits attached hereto, in addition to reviewing the text of this Disclosure Statement. This Disclosure Statement is not intended to replace careful review and analysis of the Plan. Rather, it is submitted as an aid in your review of the Plan and in an effort to explain the terms and implications of the Plan. Every effort has been made to explain fully the various aspects of the Plan as it affects all holders of Claims and Equity Interests. However, to the extent any questions arise, the Creditors' Committee and the Debtors urge you to seek independent legal advice.

In reviewing this Disclosure Statement, please keep in mind the following:

1. The approval by the Bankruptcy Court of this Disclosure Statement does not constitute an endorsement by the Bankruptcy Court of the Plan or a guarantee of the accuracy and completeness of the information contained herein.

2. There has been no independent audit of the financial information contained in this Disclosure Statement and no fairness opinion has been obtained regarding the value of the assets and the amount of the liabilities. The factual information regarding the Debtors and their assets and liabilities has been derived from the Debtors' internal documents and available public records. While every effort has been made by the Creditors' Committee and the Debtors to provide accurate information herein, the Creditors' Committee and the Debtors and their respective legal and financial advisors, cannot and do not warrant or represent that the information contained in this Disclosure Statement is complete or without any inaccuracy.

3. Certain of the statements contained in this Disclosure Statement or in exhibits attached hereto are forward looking projections and forecasts based on certain estimates and assumptions. There can be no assurance that such statements will reflect actual outcomes. You should carefully review and consider Article XI below, entitled *"Certain Risk Factors To Be Considered"* before voting to accept or reject the Plan.

4. This Disclosure Statement has not been approved or disapproved by the Securities and Exchange Commission or any securities regulatory authority of any state, nor has the Securities and Exchange Commission or any securities regulatory authority of any state passed upon the accuracy or adequacy of the statements contained herein.

5. The description herein of the Plan is a summary only and holders of Claims entitled to vote on the Plan are urged to review the entire Plan, the exhibits thereto, and the Plan Supplement before casting their votes. In the event that any inconsistency or conflict exists between this Disclosure Statement and the Plan, the terms of the Plan will control.

6. Except as set forth in this Disclosure Statement, the Plan, the exhibits thereto, and the Plan Supplement, no representations concerning the Creditors' Committee, the Debtors, their assets, past or future business operations or the Plan are authorized, nor are any such representations to be relied upon in arriving at a decision with respect to the Plan. Any representations made to secure acceptance or rejection of the Plan other than as contained in this Disclosure Statement should be reported to counsel for the Debtors and the Creditors' Committee.

B. VOTING

Pursuant to the provisions of the Bankruptcy Code, generally only those classes of claims or equity interests that are (i) *"impaired"* by a plan of reorganization and (ii) entitled to receive a distribution under such a plan are entitled to vote on a chapter 11 plan. Holders of unimpaired Claims are conclusively presumed to have accepted the Plan and thus are not entitled to vote on the Plan. Holders of Equity Interests and Classes of Claims that are impaired and not entitled to receive distributions under the Plan are deemed to have rejected the Plan and thus are not entitled to vote on the Plan. For a summary of the impairment of and proposed distributions to the Classes of Claims against and Equity Interests in each of the Debtors, please see the summary table in Section III, *"Overview of Distributions Under the Plan"* and the discussion in Section VI.A, *"Classification and Treatment of Claims Against All Debtors."*

C. RECORD DATE

The record date for determining the holders of Claims and Equity Interests that may vote on the Plan is **[**Record Date**]** (the *"Record Date").*

D. BALLOTS

In certain instances, accompanying this Disclosure Statement is a ballot *("Ballot")* for casting your vote(s) on the Plan. **Nothing in such Ballot shall constitute a waiver of any amount you assert in excess of the amount set forth on your Ballot, which amount is for voting purposes only.** A pre-addressed envelope for the return of the Ballot may also be enclosed. As noted above, Ballots for acceptance or rejection of the Plan are being provided only to certain holders of impaired Claims and Interests because they are the only holders of Claims and Interests that may vote to accept or reject the Plan. If you are the holder of an impaired Claim or Interest entitled to receive a distribution under the Plan and did not receive a Ballot, received a damaged or illegible Ballot, or lost your Ballot, or if you have any questions regarding the voting procedures in respect of the Plan, please contact Creditors' Committee counsel, Attention: Hollace T. Cohen, Esq. or Jennifer Saffer, Esq. at 212-704-6000. After carefully reviewing this Disclosure Statement and the exhibits attached hereto, if you are entitled to accept

or reject the Plan, please indicate your vote with respect to the Plan on the enclosed Ballot and return it pursuant to the instructions provided on the Ballot.

E. VOTING DEADLINE

In order to be counted, Ballots must be received by **[**the Voting Agent**]** by 5:00 p.m. Eastern Time) on **[**Voting Deadline**]** (the *"Voting Deadline").* Any executed Ballots that are timely received but do not indicate either an acceptance or rejection of the Plan will be deemed to constitute an acceptance of the Plan. Further information regarding voting procedures is contained in Article X of this Disclosure Statement.

F. CONFIRMATION HEARING AND OBJECTION DEADLINE

By order dated **[**_____, 2002**]**, the Bankruptcy Court fixed **[**Insert Confirmation Hearing Date**]**, at __:__ _.m. (Eastern Time), in the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, Room 612, New York, New York 10004, as the date, time and place of the hearing to consider confirmation of the Plan, and **[**Insert Plan Objections Deadline**]** at 4:00 p.m. (Eastern Time), as the deadline for filing objections to confirmation of the Plan. The hearing on confirmation of the Plan may be adjourned from time to time without further notice except for the announcement of the adjourned date and time at the hearing on confirmation or any adjournment thereof.

III. OVERVIEW OF DISTRIBUTIONS UNDER THE PLAN

The following table briefly summarizes the classification and treatment of Claims and Equity Interests under the Plan.

SUMMARY OF CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN[1]

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery	Status
--	Administrative Expense Claims (estimated at $795,000) (as of 9/30/02); comprising approximately $60,000 of Claims to be paid in the ordinary course of business and approximately $735,000 of accrued and unpaid Professionals' fees (as of 9/30/02). Additional administrative expenses claims will accrue through the Effective Date.	Paid in full, in Cash, or in accordance with the terms and conditions of the transactions or agreements relating to obligations incurred in the ordinary course of business during the pendency of the Chapter 11 cases or assumed by the applicable Debtor.	100%	Unimpaired

[1] This table is only a summary of the classification and treatment of Claims and Equity Interests under the Plan. Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Claims and Equity Interests.

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery	Status
	DIP Financing claims	Paid in full, in Cash	100%	Unimpaired
--	Priority Tax Claims (estimated at $53,000 to $90,000)	Except to the extent a holder of an Allowed Priority Tax Claim has been paid by the Debtors prior to the Effective Date, each holder of an Allowed Priority Tax Claim shall receive deferred Cash payments, over a period not exceeding six years after the date of assessment of such Claim, of a value, as of the Effective Date equal to the Allowed amount of such Claim.	100%	Unimpaired
Class 1	Other Priority Claims (estimated at $0 to $1,000)	Each holder of an Allowed Other Priority Claim shall receive Cash in an amount equal to such Allowed Other Priority Claim on the later of the Effective Date and the date such Allowed Other Priority Claim becomes Allowed, or as soon thereafter as is practicable.	100%	Unimpaired
Class 2	Unsecured Claims (estimated a between [$22] million and [$25] million)	Each holder of an Allowed Unsecured Claim shall receive on the Initial Distribution Date or as soon as practicable thereafter, their Pro Rata Share of 9,250,000 shares of the New Common Stock and the Warrant Trustee, as nominee, shall receive the Class A Warrants for the pro rata benefit of holders of Allowed Class 2 claims. Each holder of an Allowed Unsecured Claim shall also receive its Pro Rata Share of the Litigation Proceeds as set forth in The Plan. So long as there are any Disputed Claims in Class 2, the holders of Allowed Class 2 Claims shall receive on the Initial Distribution Date their Pro Rata Share of 9,250,000 shares, being one hundred percent (100%) , of the New Common Stock issued on the Effective Date and the Warrant Trustee shall receive the Class A Warrants to purchase 1,800,000 shares of New Common Stock at $1.00 per share each multiplied by a fraction having (i) as its numerator the aggregate of Allowed Claim in Class 2 and (ii) as its denominator the aggregate amount of Allowed and Disputed Claims in Class 2 (the "Class 2 Fraction"). The difference between the number of shares of New Common Stock and number of Class A Warrants issued to holders of Allowed Class 2 Claims or the Warrant Trustee, as applicable on the Effective Date and each Subsequent Distribution Date thereafter and 9,250,000 shares of the New Class A Common Stock and the Warrants shall be held in a Disputed Class 2 Claims reserve account together with any dividends or	[____%]	Impaired

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery	Status
		distributions on such New Common Stock pending final allowance or disallowance of Class 2 Disputed Claims, subject to interim distributions of such New Common Stock and Class A Warrants as provided below. On each Subsequent Distribution Date, the Debtors shall recalculate the amount payable to the holders of Allowed Class 2 Claims (including Class 2 Claims Allowed since the prior Distribution Date) and shall issue to each holder of an Allowed Class 2 Claim such number of shares of New Common Stock as is necessary to equal the Pro Rata Share of 9,250,000 shares of the New Common Stock and issued to the Warrant Trustee for the benefit of holders of Allowed Class 2 Claims, the Class A Warrants to purchase 1,800,000 shares of New Common Stock multiplied by the Class 2 Fraction. Any distribution on a Subsequent Distribution Date shall be made to each holder of an Allowed Class 2 Claim or the Warrant Trustee in the case of the Class A Warrants together with any dividends or distributions in respect of the New Common Stock and Warrants distributable to such holder. Upon final Allowance or disallowance of all Disputed Class 2 Claims, the balance of the New Common Stock and Class A Warrants held in the Disputed Class 2 Claims reserve account (together with any dividends or distributions thereon) not required to be paid to holders of Allowed Class 2 Claims shall be distributed to the Warrant Trustee for the benefit of the holders of Allowed Class 2 Claims in accordance with Section 4.2(b) of the Plan.		
Class 3	Intercompany Claims (approximately $17.9 million)	Each holder of an Allowed Intercompany Claim shall not receive any distributions on account of such Allowed Intercompany Claim. On the Effective Date, all Intercompany Claims shall be cancelled and extinguished and of no further force and effect as of the Effective Date.	0%	Impaired
Class 4	Equity Interests	On the Initial Distribution Date, or as soon as practicable thereafter the Warrant Trustee, as nominee, shall receive for the pro rata benefit of holders of Allowed Equity Interests, the Class B Warrants and the Class C Warrants..	de minimus	Impaired
Class 5	Options	Holders of Options shall not receive any distributions on account of such Options. On the Effective Date, all Options shall be cancelled, extinguished and of no further force and effect as of the Effective	0%	Impaired

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery	Status
		Date.		
Class 6	Secured Claims (estimated at $100)	Except to the extent that a holder of such Allowed Secured Claim agrees to different treatment, at the sole option of the Reorganized Debtors, (i) each Allowed Secured Claim shall be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the holder of such Allowed Secured Claim to demand or receive payment of such Allowed Secured Claim prior to the stated maturity of such Allowed Secured Claim from and after the occurrence of a default, (ii) each holder of an Allowed Secured Claim shall receive cash in an amount equal to such Allowed Secured Claim, including any interest on such Allowed Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, on the later of the Initial Distribution Date and the date on which such Allowed Secured Claim becomes an Allowed Secured Claim, or as soon thereafter as is practicable, or (iii) each holder of an Allowed Secured Claim shall receive the Collateral securing its Allowed Secured Claim in full and complete satisfaction of such Allowed Secured Claim on the later of the Initial Distribution Date and the date on which such Allowed Secured Claim becomes an Allowed Secured Claim, or as soon thereafter as is practicable.	100%	Unimpaired
Class 7	Convenience Claims (estimated at $22,000).	Each holder of an Allowed Convenience Claim for amounts up to $1,000 shall be entitled to receive on the Effective Date Cash in an amount equal to 27% of the amount of such Allowed Claim. Holders of Allowed Claims in Class 2, other than holders of such Allowed Claims on account of Debentures, may opt in to the Convenience Class if they waive the Amount of their Allowed Claims in the excess of $1,000.	27%	Impaired

IV. GENERAL INFORMATION

A. OVERVIEW OF CHAPTER 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself, its creditors and equity interest holders. In addition to permitting

rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates, an estate that is comprised of all of the legal and equitable interests of the debtor as of the filing date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the bankruptcy court makes the plan binding upon a debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity interest holder of a debtor. Subject to certain limited exceptions, the confirmation order discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

After a plan of reorganization has been filed, certain holders of claims against or equity interests in a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, however, section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. The Debtors are submitting this Disclosure Statement to holders of Claims against and Equity Interests in the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

B. DESCRIPTION AND HISTORY OF THE DEBTORS

1. Overview of the Debtors' Business.

eLot is a holding company whose primary subsidiary is eLottery. Neither eLot nor eLottery has any significant ongoing operations.

Primary Remaining Assets of Debtors

As a result of the Network60 Stipulation and Order (as hereinafter defined), the failure of the Debtors' strategic alliance with Plasmanet, the heavy losses sustained by the Debtors in pursuing the eLottery business, and the lack of revenues from such business, the Debtors terminated the employment of substantially all of their nonexecutive employees and certain of their executive employees. At the current time, the Debtors' significant assets are the shares of common stock and options to purchase the common stock of Dialogic Communications Corporation ("DCC"), the common stock and warrants of MDI Entertainment, Inc. ("MDI"), the stock of Virtgame and the Patent (as hereinafter defined) and other intellectual property of the Debtors.

In the view of the Creditors Committee and the Debtors, the value of these assets can be best maximized by minimizing the costs of the Reorganized Debtors' operations while at the

same time managing these assets so that they can be sold or leveraged to pursue prudent business opportunities that may enhance the value of the New Common Stock and Warrants.

As of March 27, 2002, on a fully diluted basis, eLot owned approximately 39% of the issued and outstanding shares of common stock of DCC. According to the Debtors' Form 10-K (as hereinafter defined), DCC is a privately held company headquartered in Franklin, Tennessee that is an established leader in interactive call processing solutions for business, industry and government. It is the leading provider of voice recognition units (VRUs and ARUs) to the cable television industry and a successful provider of emergency notification systems to Public Service agencies, the military, financial institutions and other customers that have the need to establish assured contact with large numbers of people in a short period of time. Robert C. Daum, eLot's Executive Vice President, Development and Finance, serves on DCC's Board of Directors. Mr. Daum's employment under his employment agreement was terminated by eLot effective February 14, 2002. Reorganized eLot expects to replace Mr. Daum as a member of the Board of Directors of DCC. eLot sought to complete a sale of all or part of its DCC investment in the first half of 2001; however, such sale did not take place. DCC informed the Creditors' Committee by facsimile transmission dated March 27, 2002 that eLot presently owns 2,186,230 shares of DCC common stock, and holds an option(s) to purchase 12,000 additional shares of common stock at the exercise price of $0.86 per share (2,000 shares), $0.89 per share (2,000 shares); $2.60 per share (4,000 shares) and $2.15 per share (4,000 shares), respectively. The total number of shares of DCC common stock that are issued and outstanding currently are 4,485,322; total options outstanding are 1,102,110, and the total number of shares of DCC stock on a fully diluted basis are 5,587,432.

As of November 2, 2000, eLot entered into a strategic alliance agreement with MDI Entertainment, Inc. ("MDI"). Under terms of that agreement, eLot issued 1 million of its common shares in exchange for 444 shares of preferred stock in MDI that are convertible to 444,444 shares of MDI common stock, and acquired a warrant to purchase an additional 555,556 common shares of MDI at $3.50 per share. The Debtors' Form 10-K states that MDI specializes in creating, marketing and implementing entertainment-based promotions on behalf of the North American lottery industry. MDI's principal business has been the scratch ticket segment of the government lottery industry, for which it licenses well-known brand names and entertainment properties. Some of MDI's properties include Harley-Davidson(R), Wheel of Fortune(R), Jeopardy!(R), and Elvis Presley(R).

Upon information and belief, on November 9, 2002, Scientific Games Corp. (SGMS) ("Sci-Games") announced that MDI and subsidiaries of Sci-Games have signed a merger agreement under which Sci-Games will make a cash tender offer for all outstanding shares of MDI followed by a merger in which Sci-Games would purchase any remaining outstanding shares of MDI common stock not previously acquired at the same cash price per share. Sci-Games will offer to acquire all the shares of MDI (except for 708,333 shares which are currently owned by Sci-Games and approximately 4,000,000 shares beneficially owned by Steven Saferin, CEO and President of MDI) for $1.60 a share or approximately $13.1 million, subject to the terms and conditions of the agreement. Mr. Saferin, who is also MDI's founder and principal stockholder, has agreed to sell his share to Sci-Games for $1.40 per share pursuant to a separate agreement, contingent on the closing of the tender offer. Conditions to the tender offer include a requirement that, upon closing of the tender offer, Sci-Games will own or have the right to

acquire in the aggregate at least 75% of MDI's outstanding shares, including the MDI shares already owned by Sci-Games and the shares to be purchased from Mr. Saferin. The aggregate consideration expected to be paid to acquire all of MDI is approximately $18.5 million. At such time as the expected tender offer is commended, Sci-Games will file tender offer materials with the SEC and MDI will file a solicitation/recommendation statement with respect to the tender offer.

On or about December 5, 2001, the Debtors received a U.S. Patent (U.S. Patent No. 6,322,446) (the "Patent"), for their system that facilitates internet sales of state lottery tickets with a screening and verification function on the internet. Specifically, the Patent covers the Debtors' system and method that (a) enables lottery players to receive player and ticket information; (b) screens and verifies that lottery players satisfy state eligibility criteria; (c) stores player and ticket information; and (d) upon receipt of winning numbers from the state, determines winning tickets and notifies winning players. As set forth below, internet sales of state lottery tickets are subject to a governmental regulation and legislation and significant competitive factors.

According to the Debtors' press release concerning the granting of the Patent, the President and CEO of eLot expressed the Debtors' belief "that the present legislative climate in Washington appears very favorable to exempting state lotteries from any prospective internet gambling legislation." The Creditors' Committee and the Debtors do not know whether such legislation may actually be adopted.

2. Organizational Structure of the Debtors.

eLot is a publicly held company that has one (1) direct subsidiary, eLottery, which is a Debtor in these jointly administered Chapter 11 Cases. eLottery, Inc. has two subsidiaries, eLOTTONET, Inc. and Unistar Entertainment Inc. The voluntary Chapter 11 petition of eLottery referred to certain other subsidiaries that were transferred to Network60 (as hereinafter defined) pursuant to a certain Stipulation And Order of this Court dated November 29, 2001.

3. Selected Financial Information.

eLot's voluntary petition listed eLot's total assets as of September 30, 2001 as $19,446,000 (of which $10,382,000 consisted of Inter-company receivables owed by eLottery) and listed eLot's total liabilities as of September 30, 2001 as $31,055,000. eLottery's voluntary petition listed eLottery's total assets as of September 30, 2001, as $12,779,000 and total liabilities of $12,150,000 (including $10,382,000 of inter-company payables owed to eLot). The petition contained a classification between eLot's investment in eLottery and Inter-company receivables that should be restated. The correct Inter-company receivable is $17,907,000.

4. Ownership of the Debtors.

eLot is a publicly held company. As of the Commencement Date it had approximately 87,500,000 shares of common stock (excluding treasury shares) which are publicly held and which traded over the counter. Of this amount 3,500,000 shares were cancelled as part of the Network60 Stipulation and Order. At the Commencement Date there were approximately 15,000

holders of shares of eLot's common stock. According to the Voluntary Petition of eLot, eLot has one share of Series A preferred stock convertible into a maximum of 22.7 million shares of common stock. As of the Commencement Date, 1,031,807 shares of eLot's common stock (excluding options and warrants) were owned by current and former directors and officers of the Debtors.

eLottery is a wholly-owned subsidiary of eLot.

5. The Debtors' Significant Prepetition Debt Obligations.

The significant prepetition debt of the Debtors generally consists of obligations under (i) the Debentures (as hereinafter defined) and (ii) trade debt.

6. eLot Convertible Subordinated Debentures.

On or about March 15, 1986, eLot (then known as Vodavi Technology Corporation, a Delaware corporation) issued $28.75 million aggregate face amount of its 7.5% Convertible Subordinated Debentures due March 15, 2011 (the "*Debentures*"). eLot issued the Debentures under an Indenture, dated as of March 1, 1986 between Vodavi Technology Corporation ("*Vodavi*") and United States Trust Company of New York ("*U.S. Trust*"), as Trustee. eLot is the successor in interest to Vodavi, and The Bank of New York (the "*Indenture Trustee*") is successor in interest to U.S. Trust under the Indenture. As of the Commencement Date, the principal and interest owed on the Debentures aggregated approximately $16,970,901.

The Debentures are unsecured, senior subordinated obligations of eLot and are contractually subordinated in right of payment to the prior payment in full of all "Senior Debt" (as defined in the Indenture). As of the Commencement Date, the Debtors had no Senior Debt, such that as a factual matter, the Debentures are not required to be paid after any other claims.

7. Events Leading To The Commencement Of The Chapter 11 Cases

(a) Operational Difficulties

According to the Affidavit Pursuant to Local Rule 1007-2 of Edwin J. McGuinn, Jr., CEO of eLottery, sworn to October 10, 2001 and the Affidavit Pursuant to local Rule 1007-2 of Edwin J. McGuinn, Jr., President and CEO of eLot, sworn to October 10, 2001 (collectively, the "McGuinn Affidavits"), the "immediate cause" of the commencement of each of the Debtors' Chapter 11 cases was "insufficient working capital". According to the McGuinn Affidavits, each of the Debtors' "underlying financial difficulties arose out of continued operating losses due to governmental lotteries migrating more cautiously than expected onto the internet due to legislative, political and social issues." The Creditors' Committee believes that the Debtors' need for reorganization in Chapter 11 was also caused by, among other things, poor management and planning and the failure of two internet ventures, one with Plasmanet and the other with Network60.

(b) Significant Indebtedness

As of the Commencement Date, according to their Voluntary Petitions, the Debtors' significant indebtedness consisted of approximately $16,970,901 in principal and interest on the Debentures. In addition, according to the Debtors' Schedules adjusted to take into account certain settlements, there will be approximately $7.5 million of additional Allowed Unsecured Claims. Proofs of Claim for a total of approximately $39 million were filed in the Debtors' cases. The Creditors' Committee and the Debtors are in the process of reviewing such claims and each of the Creditors' Committee and the Debtors reserves the right to object to claims.

(c) Competition

The following information was extracted from the Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2000 of eLot dated as of March 26, 2001 ("Form 10-K"). The Creditors' Committee, its members and representatives cannot make any representations or bear any liability with respect to the accuracy or completeness of such information as reported by the Debtors.

According to eLot's Form 10-K, the lottery business is highly competitive, and eLottery faced competition from a number of domestic and foreign instant ticket manufacturers, on-line lottery system providers and other competitors. The 10-K discloses that at the time of its filing there were three primary lottery services competitors in the United States: GTECH Corporation ("GTECH"), Automated Wagering International, Inc. ("AWI"), a subsidiary of Powerhouse Technologies, Inc. ("Powerhouse"), and Sci-Games. eLottery believed that these companies engaged in vigorous competition with respect to existing lottery technologies and services and have experienced a decline in the rate of growth of existing lottery operations. These companies may be developing internet retail capabilities and value added lottery systems and services for the domestic and international markets in order to provide new growth opportunities for established state lotteries and higher margin returns for the providers of related technologies and services.

Internationally, there are many lottery services and product suppliers that provide competition to eLottery, in addition to the companies listed above. eLottery anticipated that a considerable length of time would be needed to develop an independent market presence in foreign countries other than Canada and Mexico, and there will be substantially higher costs in pursuing these markets. Therefore, eLottery anticipated that the marketing of its products and services internationally would be conducted primarily through joint ventures with existing providers of lottery services or independent consultants. At the time of filing its Form 10-K, eLottery believed that no assurance could be given that eLottery would develop such relationships to the point of having a significant impact on its financial results or operations in the near future.

Both in the domestic market and internationally, according to the Form 10-K, factors that influence the award of lottery contracts in addition to price are believed to include, among others, the ability to optimize lottery revenues through game design and technical capability, quality of the product, dependability, production capacity, marketing experience, financial condition and reputation of the bidder, the security and integrity of the bidder's production operations, products

and services and the satisfaction of various other requirements and qualifications imposed by specific jurisdictions.

According to the Form 10-K, competitors have typically either manufactured only instant tickets or provided only certain on-line services to support conventional sales of paper lottery tickets, including software for the management systems, marketing assistance and various other specific duties. Also according to the Form 10-K, however, certain competitors have announced plans to market internet-based lottery systems and certain jurisdictions (that are unspecified in the Form 10-K) have already undertaken internet lottery ticket sales.

(d) Government Regulation and Legislation

The Form 10-K states that lotteries are not permitted in various states or jurisdictions of the United States unless expressly authorized by law. The ongoing operations of authorized lotteries in the United States typically are extensively regulated. Applicable legislation varies from jurisdiction to jurisdiction but, in addition to authorizing the lottery and creating the applicable regulatory authority, the lottery statutes generally dictate certain broad parameters of lottery operation, including the percentage of lottery revenues that must be paid out in prizes. Lottery authorities typically exercise significant control as to the selection of vendors and award of lottery contracts, ticket prices, types of games played and marketing strategy, all of which could affect eLottery's operating results.

Prior to and after granting a lottery contract, governmental authorities generally conduct an investigation of the contracting party and its employees pursuant to which such authorities may require removal of an employee deemed to be unsuitable. Certain states also require extensive personal and financial disclosure (including, among other things, submission of fingerprints, personal financial statements and federal and state income tax returns) and background checks of control persons and entities beneficially owning a specified percentage (typically 5% or more) of eLot’s securities. The failure of such beneficial owners to submit to such background checks and provide such disclosure could jeopardize the award of a lottery contract to eLottery or provide the basis for cancellation of any existing lottery contract.

The award of lottery contracts and ongoing operations of lotteries in international jurisdictions also are extensively regulated, although this regulation usually varies from that prevailing in the United States. Restrictions are frequently imposed on foreign corporations seeking to do business in such jurisdictions. Laws and regulations applicable to lotteries in the United States and foreign jurisdictions are subject to change and the effect of such changes on eLottery's ongoing and potential operations cannot be predicted with certainty.

It is eLot’s understanding, as stated in the Form 10-K, that several federal and state prosecutorial agencies in the United States have taken the position that the provision of internet gaming services to residents of the United States is subject to existing federal and state laws which generally prohibit the provision of gaming opportunities, except where licensed or subject to exemption. On the other hand, it is eLot’s understanding that many providers of internet gaming services to citizens and residents of the United States have taken the position that existing federal and state laws pertaining to the provision of gaming opportunities do not apply to internet gaming services. Legislation has been introduced to the United States Senate and House

of Representatives in the last two sessions of Congress prior to the filing of eLot's Form 10-K which, if enacted, would have effectively amended the Federal Wire Statute, codified at 18 U.S.C. Section 1084, to prohibit the provision of internet gaming operations to residents of the United States with certain exceptions. It has been eLot's policy to comply with federal and state laws in the United States pertaining to gaming and at the present time and, in the absence of a contract to do so with a state authorized lottery, not to offer its internet gaming services to residents of the United States.

Legislation is currently pending in Congress that would allow internet sales of state lottery tickets to residents of a state if such state's law permitted such sales. H.R. 3125, also known as the Goodlatte/McCollum Bill would prohibit or restrict most types of internet gambling, but would, however, allow states to permit the sale of lottery tickets over the internet to state residents as contemplated by the Debtors. It is not known whether this or similar legislation will be enacted.

V. EVENTS DURING THE CHAPTER 11 CASES

On October 15, 2001, the Debtors commenced the Chapter 11 Cases in the Bankruptcy Court. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

The following is a brief description of the major events during the Chapter 11 Cases.

A. OPERATION OF THE DEBTORS' BUSINESSES AFTER THE COMMENCEMENT DATE

1. Continuation of Business; Stay of Litigation

Following the commencement of the Chapter 11 Cases, the Debtors have continued to operate as debtors in possession with the protection of the Bankruptcy Court. The Bankruptcy Court has certain supervisory powers over the Debtors' operations during the pendency of the Chapter 11 Cases. The Debtors are operating in the ordinary course of business; any transactions that are outside the ordinary course of business require Bankruptcy Court approval.

An immediate effect of the filing of a bankruptcy case is the imposition of the automatic stay under the Bankruptcy Code which, with limited exceptions, enjoins the commencement or continuation of all litigation against the Debtors. This injunction will remain in effect until the Effective Date unless modified or lifted by order of the Bankruptcy Court.

2. First Day Orders

On the Commencement Date, the Debtors submitted to the Bankruptcy Court a number of "first day orders," along with supporting applications and affidavits. These first day orders included, among others, (i) an order for joint administration of the Chapter 11 Cases; (ii) an order authorizing the employment of Angel & Frankel, P.C. as counsel to the Debtors; (iii) an order extending the time to file schedules of assets and liabilities, and statements of financial affairs; (iv) an order authorizing the maintenance of the Debtors' pre-petition bank accounts, business forms, and fixing time for the Debtors to comply with 11 U.S.C. §345; (v) an order to pay

prepetition salaries, wages, reimbursable employee expenses and granting related relief; and (vi) an order to maintain utility services to the Debtors.

3. Appointment of the Creditors' Committee

On October 22, 2001, the United States Trustee appointed the Creditors' Committee to represent the interests of the Debtors' unsecured creditors. The Creditors' Committee consists of three (3) members. They are (i) Alpine Associates, LP; (ii) Morse Williams & Co., Inc.; and (iii) The Bank of New York, as Indenture Trustee. As discussed below, the law firm of Jenkens & Gilchrist Parker Chapin LLP are the attorneys for the Creditors' Committee.

4. Retention of Professionals

Since the Commencement Date, the Bankruptcy Court has entered orders authorizing the Debtors to retain the following Professionals: (a) Angel & Frankel, P.C. as restructuring counsel and (b) F. Chau & Associates, as special patent counsel to the Debtors.

The Bankruptcy Court also entered an order authorizing the Creditors' Committee to retain Winston & Strawn, as attorneys to the Creditors' Committee. Hollace T. Cohen, Esq., a former partner of Winston & Strawn, was the attorney at Winston & Strawn primarily responsible for representing the Creditors' Committee in the Chapter 11 cases. On November 21, 2001, Ms. Cohen resigned from Winston & Strawn and on November 26, 2001, Ms. Cohen joined Jenkens & Gilchrist Parker Chapin LLP as a partner in its bankruptcy group. Also on November 26, 2001, the member of the Creditors' Committee voted to terminate its attorney client relationship with Winston & Strawn and, subject to approval by the Bankruptcy Court, to retain Jenkens & Gilchrist Parker Chapin LLP as substitute counsel. By order dated December 27, 2001, the Bankruptcy Court approved and authorized the Creditors' Committee's retention of Jenkens & Gilchrist Parker Chapin LLP as attorneys for the Creditors' Committee effective November 26, 2001.

5. Compliance with Bankruptcy Code, Bankruptcy Rules, Local Court Rules, and U. S. Trustee Deadlines

Since the Commencement Date, the Debtors have filed various pleadings seeking extensions of time to, among other things, file schedules and statements of financial affairs, assume or reject leases of non-residential real property, comply with General Order No. 11, file notice of removal, and extend the exclusive period for filing the Plan and soliciting acceptances thereof.

On November 28, 2001, the Debtors filed their Statements of Financial Affairs, Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases, and Lists of Equity Security Holders (collectively, and as the same may be amended or modified through and including the Confirmation Date, the "Schedules").

On February 14, 2002, the U. S. Trustee conducted a meeting of creditors pursuant to section 341 of the Bankruptcy Code.

By order dated January 18, 2002 (the "Bar Date Order"), pursuant to Bankruptcy Rule 3003(c)(3), the Bankruptcy Court fixed February 25, 2002 (the "Bar Date") as the date by which proofs of claim are required to be filed in the Chapter 11 Cases. In accordance with the Bar Date Order, on or about January 10, 2002, a proof of claim form, a notice regarding the scheduling of each Claim and a notice regarding the Bar Date Order were mailed to all creditors listed on the Schedules. Pursuant to the Bar Date Order, all proofs of claim relating to unexpired leases and executory contracts rejected on or before January 18, 2002, are required to be filed by the Bar Date.

6. Exclusivity

In late January, 2002, the Debtors filed a motion dated January 24, 2002 for an order increasing the Debtors' exclusive periods to file a plan and disclosure statement and solicit acceptances thereto pursuant to Section 1121 of the Bankruptcy Code. The Creditors' Committee informally objected to the Debtors' entitlement to such relief and after negotiation with the Debtors, agreed to a stipulation providing for each of the Debtors' and the Creditors' Committee to have the exclusive right to file a plan of reorganization to and including March 29, 2002. On February 8, 2002, the Bankruptcy Court signed the "Stipulation and Order Regarding Exclusivity" which granted each of the Creditors' Committee and the Debtors the exclusive right to file a plan of reorganization to and including March 29, 2002, and granted related relief.

7. Debtor in Possession Financing

On November 6, 2002, the Bankruptcy Court entered an interim stipulation and order (the "Interim DIP Order"), which, among other things, authorized the Debtors to obtain, on an interim basis, debtor in possession financing in an aggregate principal amount of up to $100,000 from Morse/Alpine Funding, LLC (the "DIP Lender"). Morse Williams & Co., Inc. and Alpine Associates L.P. are members of, and in the case of Alpine Associates, L.P., is the chair of, the Creditors' Committee and are members of the DIP Lender. The Interim DIP Order set November 21, 2002 as the date for final hearing on the debtor in possession financing. At such hearing, the Debtors will seek final approval of the debtor in possession credit facility and authority to borrow from the Lender post-petition financing and advances from time to time up to an aggregate principal amount of $200,000 (together with any additional advances as may be agreed to by the parties or authorized by Final Order of the Bankruptcy Court, the "DIP Credit Facility").

Pursuant to the Interim DIP Order, the Lender was granted, (a) pursuant to Section 364(c)(2) of the Bankruptcy Code, a first priority lien on and security interest in (1) all of the Debtors existing and hereafter acquired shares of MDI and (2) all profits, and products thereof under Section 552(b) of the Bankruptcy Code (collectively, the "DIP Collateral"); and (b) pursuant to Section 364(c)(1) of the Bankruptcy Code, a super priority administrative claim to the extent of any diminution in the value of the DIP Collateral at any time below the amount of then outstanding indebtedness to the DIP Lender under the DIP Credit Facility. In connection with the DIP Credit Facility, the Debtors and the DIP Lender entered into a debtor in possession loan and credit agreement and a pledge agreement.

The proceeds of the DIP Credit Facility are to be used to fund necessary expenses of the Debtors during the Chapter 11 Cases and shall be used only in accordance with a Court-approved budget.

Amounts outstanding under the DIP Credit Facility will accrue interest at the rate of 12% per annum.

Amounts outstanding under the DIP Credit Facility shall be repaid from the proceeds of the loan to be made under the New Credit Agreement.

8. Other Significant Events During the Chapter 11 Cases

(a) Surrender of Life Insurance Policies

On February 20, 2002 the Bankruptcy Court entered an order authorizing the Debtors to surrender certain life insurance policies in order to access the cash value of such policies. The Debtors have received cash in the approximate amount of $206,000 on account of the surrender of the policies and it is anticipated that the Debtors will receive additional cash in the approximate amount of $10,000 on account of the same.

(b) Network60

Pursuant to an "Agreement and Plan of Reorganization" (the "Network Agreement") dated March 1, 2001 among Network, Inc. ("Network") and eLot, Network sold 1000 shares of capital stock of each of Easywinnings.com, Inc. ("Easywinnings") and Radiostakes.com, Inc. ("Radiostakes") and 100 shares of capital stock of Prizechest, Inc. ("Prizechest") to eLot in exchange for the issue to Network by eLot of 3.5 million shares of eLot common stock. After the closing of this agreement, the Debtors integrated the operations of Easywinnings, RadioStakes and Prizechest in to the operations of the Debtors under the name "DM 360".

On or about October 31, 2001, Network60 LLC ("Network60"), which had acquired all of the assets of Network, filed a motion in these Chapter 11 cases seeking relief from the automatic stay (the "Network Motion") to exercise alleged rights pursuant to a Pledge Agreement dated March 1, 2001 between Network and eLot (the "Pledge Agreement"). Network60 alleged, among other things, that pursuant to the Pledge Agreement, eLot had pledged to Network the shares of common stock of Easywinnings, Radiostakes and Prizechest that eLot had acquired pursuant to the Network Agreement.

The Creditors' Committee and the Debtors each filed an objection to the Network Motion. Prior to a determination by the Bankruptcy Court of the Network Motion, the Creditors' Committee, the Debtors and Network60, after extensive negotiations, agreed to resolve, subject to Bankruptcy Court approval, the issues raised by the Network Motion.

The resulting Stipulation and Order signed by the Bankruptcy Court on November 29, 2001, provided for, among other things, the transfer by eLot to Network60 the shares of common stock of Easywinnings, Radiostakes and Prizechest as well as the domain name "DM360",

certain computer equipment and a certain license and the transfer to eLot by Network60 of the 3.5 million shares of eLot common stock issued to Network pursuant to the Network Agreement.

The Stipulation and Order further provided that all revenue generated by Easywinnings, Radiostakes and Prizechest between March 1, 2001 and October 15, 2001 which consisted of $75,000 in cash and approximately $437,000 of accounts receivable (the "Accounts Receivable") became the exclusive property of the Debtors. Pursuant to the Stipulation and Order, Network60 became obligated to collect for the benefit of the Debtors, the Accounts Receivable generated by Easywinnings, Radiostakes and Prizechest between March 1, 2001 and October 15, 2001 (less, under certain circumstances that did not occur, commissions).

The Stipulation and Order required Network60 to attempt to collect the Accounts Receivable for a ninety (90) day period. The Debtors have received cash in the approximate amount of $150,000 on account of the Accounts Receivable.

The Stipulation and Order further provided for a release of claims against the Debtors by Network60, Network and certain affiliates thereof as well as providing that Network would be responsible for all claims on account of Easywinnings, Radiostakes and Prizechest from and after the Commencement Date.

(c) Twelve Oaks

Twelve Oaks Liquidating Trust ("Twelve Oaks") alleges that pursuant to that certain "Settlement, Release and Covenant not to Sue Agreement", dated April 17, 2001 (the "2001 Twelve Oaks Settlement Agreement") between eLot and Twelve Oaks, Twelve Oaks has a secured claim against the Debtors in the amount of $500,000, which Twelve Oaks alleges is secured by 150,000 share of DCC common stock (the "Twelve Oaks DCC Shares"). The Twelve Oaks DCC Shares are currently being held by Torys LLP, as escrow agent ("Torys"), pursuant to an alleged escrow agreement set forth in a letter dated April 17, 2001 to Torys from eLot and Twelve Oaks (the "Escrow"). Twelve Oaks asserts that pursuant to the 2001 Twelve Oaks Settlement Agreement, it is entitled to an immediate cash payment of $500,000 or immediate turnover of the Twelve Oaks DCC Shares. The trustee of Twelve Oaks is Philip Gunn ("Gunn"), an insider and director of eLot. The Creditors' Committee (a) disputes the amount of the alleged Twelve Oaks Claim, (b) maintains that such claim is not secured by the Twelve Oaks DCC Shares or otherwise, (c) maintains that the transfer, if any, of the Twelve Oaks DCC Shares pursuant to the 2001 Twelve Oaks Settlement Agreement and any lien granted therein is avoidable as a fraudulent transfer, (d) maintains that the alleged claims of Twelve Oaks should be equitably subordinated and the lien, if any, on the Twelve Oaks DCC Shares should be transferred to eLot pursuant to Section 510(c) of the Bankruptcy Code, and (f) maintains that any action during the pendency of the Debtors' Cases to obtain the Twelve Oaks DCC Shares is stayed by operation of Section 362 of the Bankruptcy Code.

In order to resolve the issues related to the alleged Twelve Oaks claim, and to avoid the uncertainty and expense of litigation, Twelve Oaks, eLot and the Creditors' Committee have agreed, subject to the Bankruptcy Court approval, to resolve the issues related to the alleged Twelve Oaks claims pursuant to an agreement to be contained in the Plan Supplement (the "Twelve Oaks Settlement"). The Twelve Oaks Settlement will provide for the Twelve Oaks

DCC Shares to continue to be held in the Escrow until the earlier of (a) a sale by the Debtors of such shares, (b) November 1, 2003 or (c) one year after the Effective Date of the Plan. In the case of any sales of DCC shares by the Reorganized Debtors, the Twelve Oaks DCC Shares will be deemed purchased on a pro rate basis (i.e. 6.8%). Twelve Oaks will receive, subject to the conditions of the Twelve Oaks Settlement, up to $475,000 from the proceeds of such sale. In the event that some or all of the Twelve Oaks DCC Shares have not been sold prior to the sooner of one year after the Effective Date or October 1, 2003, at the option of Reorganized eLot, Twelve Oaks will receive payment in cash in return for such shares up to an aggregated amount of $475,000 or will receive the Twelve Oaks DCC Shares not previously sold. Other than as set forth in the Twelve Oaks Settlement, Twelve Oaks has agreed to waive and release all claims against the estate. If for any reason the Twelve Oaks Settlement is not approved by the Bankruptcy Court, each of Twelve Oaks, the Creditors' Committee, and the Debtors reserves their rights with respect to the Twelve Oaks claim.

B. NEGOTIATIONS WITH DEBTOR IN CONNECTION WITH A PLAN OF REORGANIZATION

Throughout the Chapter 11 Cases, the Creditors' Committee engaged in discussions and negotiations with the Debtors in an attempt to formulate a consensual plan of reorganization.

In this connection, the Creditors' Committee analyzed and commented on several term sheets prepared by the Debtors in connection with a potential consensual plan, and negotiated in good faith with the Debtors to try to reach a mutually acceptable consensual plan. On or about March 8, 2002, the Debtors informed the Creditors' Committee that they did not wish to pursue negotiations in respect of a consensual plan and had decided instead to file a plan without the Creditors' Committee's input or consent. On March 27, 2002, the Debtors filed the Joint Disclosure Statement under Section 1125 of the Bankruptcy Code accompanied by the Debtors' Joint Plan of Reorganization. On March 29, 2002 the Creditors' Committee filed its original Disclosure Statement with its original Plan of Reorganization for eLot and eLottery attached as Exhibit A.

Subsequent negotiations among the Creditors' Committee, the Debtors and Debtors' Management resulted in various amendments to the Creditors' Committee Plan and the Debtor Plan (and which resulted in various amendments to both the Plan and the Debtors' Plan (and which resulted in both parties filing First Amended Plans and First Amended Disclosure Statements)).

Further negotiations among the Creditors' Committee, the Debtors and the Debtors' Management resulted in resolution of various other issues including with respect to terms of exit financing, treatment of claims of certain insiders of the Debtors and certain issues related to releases. As a result of such negotiation and agreement, the Creditors' Committee and the Debtors filed the First Amended Disclosure Statement and related First Amended Joint Plan of Reorganization.

As a result of the Debtors' desire to reduce operational costs upon emergence from Chapter 11, the Debtors and the Creditors' Committee agreed to modify certain aspects of First Amended Joint Plan which resulted in the filing of this Second Amended Disclosure Statement and the related Second Amended Joint Plan.

C. SETTLEMENT OF CLAIMS OF CERTAIN CURRENT AND FORMER OFFICERS AND DIRECTORS OF THE DEBTORS

Michael Yacenda, Robert Daum, Barbara Andersen, Edwin J. McGuinn, David Parcells, Stanley Kabala, Jerome Seslowe, John Hectus, Philip Gunn, and Richard Fernandes, each a current or former director or officer of the Debtors (the "Officers and Directors"), have asserted various claims against the Debtors in an aggregate approximate amount in excess of $1,658,000 on account of, among other things, unpaid salary, severance, contract rejection damages, and board fees and have asserted that in excess of $665,000 of such claims should be treated as Administrative Claims. The Creditors' Committee disputes that many of such alleged claims are entitled to treatment as Administrative Claims and further disputes the validity, priority and amount of these alleged claims, and believes that certain of such claims could be equitably subordinated. In order to avoid the cost and uncertainty involved in litigating such claims, and the potential cost if some or any of such claims are determined to be Allowed Administrative Claims, the Creditors' Committee and the Debtors and directors have proposed to settle and resolve such alleged claims pursuant to the "Officer and Director Settlement." To participate in the Officer and Director Settlement, each of the above must, agree to waive and release any and all claims they may have against the Debtors and their Estates (other than on account of Equity Interests and/or notes issued pursuant to the Indenture and in the case of Ms. Andersen, on account of post-petition services rendered to the Debtors), except for the right to receive a distribution on account of such claims from the Officer and Director Settlement fund, which shall consist of up to $1,391,236 of unsecured claims to be treated under Class 2 of the Plan. Each Officer and Director who enters into the Officer and Director Settlement will be released by the Debtors as set forth in the Plan and be a Released Party. The Creditors' Committee reserves the right to object to the claims and assert any claims and causes of action against any Officer or Director who does not participate in the Officer and Director Settlement. Bankruptcy Court approval of the Twelve Oaks Settlement is also required for Mr. Gunn's release. With respect to Mr. Daum, the Creditors' Committee reserves the right not to consent to his inclusion in the Officer and Director Settlement.

VI. THE PLAN OF REORGANIZATION

Both the Creditors' Committee and the Debtors believe that (i) through the Plan, holders of Allowed Claims and Equity Interests will obtain a substantially greater recovery from the Estates of the Debtors than the recovery that they would receive if the assets of the Debtors were liquidated under chapter 7 of the Bankruptcy Code and (ii) the Plan will afford the Debtors the opportunity and ability to continue in business until such time as the value of certain assets of the Debtors (including the Patent and the stock of DCC) can be maximized.

THE PLAN IS ANNEXED HERETO AS EXHIBIT A AND IS AN INTEGRAL PART OF THIS DISCLOSURE STATEMENT. THE SUMMARY OF THE PLAN SET FORTH BELOW IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE PLAN. IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE PROVISIONS OF THE PLAN AND THE SUMMARY CONTAINED HEREIN, THE TERMS OF THE PLAN WILL GOVERN.

A. CLASSIFICATION AND TREATMENT OF CLAIMS AGAINST ALL DEBTORS

The Plan classifies Claims and Equity Interests separately and provides different treatment for different Classes of Claims and Equity Interests in accordance with the Bankruptcy Code. As described more fully below, the Plan provides, separately for each Class, that holders of certain Allowed Claims and Equity Interests will receive various amounts and types of consideration based on the different rights of the holders of Claims and Equity Interests in each Class.

The Creditors' Committee and the Debtors do not believe that there are any valid secured claims against the estates. Twelve Oaks asserted that its claim is secured and, as discussed above in Section V(A)(7)(c), the Creditors' Committee disputed such assertion. Subject to Bankruptcy Court approval, the Debtors, the Creditors Committee and Twelve Oaks have agreed to resolve the Twelve Oaks claim consensually by entering into the stipulation described in Section V (A)(7)(c) above.

1. Administrative Expense Claims

Administrative Expense Claims are Claims constituting a cost or expense of administration of the Chapter 11 Cases allowed under sections 503(b) and 507(a)(l) of the Bankruptcy Code. Such claims include any actual and necessary costs and expenses of preserving the Estates of the Debtors, any actual and necessary costs and expenses of operating the business of the Debtors in Possession, any indebtedness or obligations incurred or assumed by the Debtors in Possession in connection with the conduct of their business, including, without limitation, for the acquisition or lease of property or an interest in property or the rendition of services, all compensation and reimbursement of expenses to the extent Allowed by the Bankruptcy Court under section 330 or 503 of the Bankruptcy Code and any fees or charges assessed against the Estates of the Debtors under section 1930 of chapter 123 of title 28 of the United States Code. It is estimated that Allowed Administrative Expense Claims will aggregate approximately [$960,000], comprised of approximately $60,000 of Claims to be paid in the ordinary course of business and approximately [$900,000] of accrued and unpaid Professionals' fees and expenses.

Except to the extent that any entity entitled to payment of any Allowed Administrative Expense Claim agrees to a different treatment in accordance with the provisions of the Plan, each holder of an Allowed Administrative Expense Claim, shall receive Cash in an amount equal to such Allowed Administrative Expense Claim on the later of the Effective Date and the date such Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as soon thereafter as is practicable.

2. Compensation and Reimbursement Claims

Compensation and Reimbursement Claims are Administrative Expense Claims for the compensation of Professionals and reimbursement of expenses incurred by such Professionals pursuant to sections 327, 328, 330, 331, 503(b), and 1103 of the Bankruptcy Code (the "*Compensation and Reimbursement Claims*"). Fees and expenses of the attorneys for the Debtors and attorneys for the Creditors' Committee from the Commencement Date through

September 30, 2002 total approximately [$735,000]. To date, $100,000 in fees have been paid to Professionals by the Debtors. As noted above, the Debtors estimate there will be approximately [$900,000] of accrued and unpaid Compensation and Reimbursement Claims at the Effective Date.

Section 503(b) of the Bankruptcy Code provides for payment of compensation to creditors, indenture trustees and other entities making a "substantial contribution" to a reorganization case, and to attorneys for and other professional advisors to such entities. The amounts, if any, which may be sought by entities for such compensation are not known by the Debtors at this time. Requests for compensation must be approved by the Bankruptcy Court after a hearing on notice at which the Debtors and other parties in interest may participate and, if appropriate, object to the allowance of any compensation and reimbursement of expenses.

Section 7.13 of the Plan provides for the payment of the Indenture Trustee's fees and expenses.

Pursuant to the Plan, each holder of a Compensation and Reimbursement Claim (i) shall file its respective final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Confirmation Date by the date that is sixty (60) days after the Effective Date or such other date as may be fixed by the Bankruptcy Court and (ii) if granted such an award by the Bankruptcy Court, shall be paid in full in such amounts as are Allowed by the Bankruptcy Court (a) on the date such Compensation and Reimbursement Claim becomes an Allowed Claim, or as soon thereafter as is practicable, or (b) upon such other terms as may be mutually agreed upon between such holder of such Compensation and Reimbursement Claim and the Creditors' Committee or, on and after the Effective Date, the Reorganized Debtors and the Oversight Committee. Furthermore, prior to the Effective Date, the estimated amount of unpaid fees and expenses of Professionals as estimated by the Professionals as of the Effective Date will be deposited by the Reorganized Debtors in an interest-bearing segregated account in accordance with Bankruptcy Rule 3020(a). Such escrowed funds, including interest thereon, shall be used to pay Allowed Administrative Expense Claims of Professionals, together with interest thereon, and any funds remaining after making all such payments shall revest in Reorganized eLot. In the event that the escrowed funds are insufficient to pay such Allowed Administrative Expense Claims, Reorganized eLot shall pay such Claims upon allowance.

3. DIP Credit Facility Claims

All amounts outstanding under the DIP Credit Facility shall be paid in Cash, in full, on the Effective Date. Once such payments have been made, the DIP Credit Facility shall be deemed terminated and the lender under the DIP Credit Facility shall take all reasonable action necessary to surrender the shares of MDI stock pledged to secure the DIP Credit Facility to the Reorganized Debtors or the person or person providing the Exit Financing Facility (as defined below).

4. Priority Tax Claims

Priority Tax Claims are Claims for taxes entitled to priority in payment under section 507(a)(8) of the Bankruptcy Code. The Debtors estimate that the amount of Allowed Priority Tax Claims will be approximately $53,000 to $90,000.

Except to the extent that a holder of an Allowed Priority Tax Claim has been paid by the Debtors prior to the Effective Date, each holder of an Allowed Priority Tax Claim shall receive deferred Cash payments, over a period not exceeding six years after the date of assessment of such Claim, of a value, as of the Effective Date, equal to the Allowed amount of such Claim.

5. Class 1-Other Priority Claims

Other Priority Claims are Claims that are entitled to priority in accordance with section 507(a) of the Bankruptcy Code (other than Administrative Expense Claims and Priority Tax Claims). Such Claims include (i) Unsecured Claims for accrued employee compensation earned within ninety (90) days prior to the Commencement Date to the extent of $4,650 per employee and (ii) contributions to employee benefit plans arising from services rendered within one-hundred and eighty (180) days prior to the Commencement Date, but only for each such plan to the extent of (a) the number of employees covered by such plan multiplied by $4,650, less (b) the aggregate amount paid to such employees from the Estates for wages, salaries, or commissions. The Debtors and the Creditors' Committee believe that all Other Priority Claims previously have been paid pursuant to an order of the Bankruptcy Court. Accordingly, the Debtors believe that there should be no or a de minimus amount of Allowed Other Priority Claims.

Pursuant to the Plan, holders of Allowed Other Priority Claims, if any exist, will be paid in full, in Cash on the later of the Effective Date and the date such Other Priority Claim becomes an Allowed Claim, or as soon thereafter as is practicable. The legal, equitable and contractual rights of the holders of Other Priority Claims, if any exist, are not altered by the Plan.

6. Class 2-Unsecured Claims

Class 2 is impaired by the Plan. Each holder of an Allowed Class 2 Claim shall be entitled to vote to accept or reject the Plan. Each holder of an Allowed Unsecured Claim shall receive on the Effective Date or as soon as practicable thereafter its Pro Rata Share of the New Common Stock and the Warrant Trustee, as nominee, will receive for the pro rata benefit of holders of Allowed Class 2 Claims, the Class A Warrants. Each holder of an Allowed Unsecured Claim shall also receive its Pro Rata share of the Litigation Proceeds. It is estimated that the total amount of Allowed Unsecured Claims will be approximately [$22.0] million to [$25] million.

So long as there are any outstanding Disputed Claims in Class 2, the holders of Allowed Class 2 Claims shall receive on the Effective Date their Pro Rata Share of 9,250,00 shares, being 100% of the New Common Stock initially issued and the Warrant Trustee, as nominee, for the pro rata benefit of holders of Allowed Class 2 Claims shall receive the Class A Warrants multiplied by a fraction (the "Class 2 Fraction") having (i) as its numerator the aggregate of Allowed Claims in Class 2 and (ii) as its denominator the aggregate amount of Allowed and Disputed Claims in Class 2. The difference between the number of shares of New Common Stock issued to holders of Allowed Class 2 Claims and the Class A Warrants to be issued to the

Warrant Trustee for the benefit of the holders of Allowed Class 2 Claims on the Effective Date and each subsequent Distribution Date thereafter and 9,250,000 shares of the New Common Stock and the Class A Warrants shall be held in a Disputed Class 2 Claims Reserve together with any distributions or dividends on such New Common Stock pending final allowance or disallowance of Class 2 Disputed Claims, subject to interim distributions of such New Common Stock and Class A Warrants as provided below. On each Subsequent Distribution Date, Reorganized eLot shall recalculate the amount payable to the holders of Allowed Class 2 Claims (including Class 2 Claims Allowed since the prior Distribution Date) and shall issue to each holder of an Allowed Class 2 Claim such number of shares of New Common Stock and to the Warrant Trustee, such number of Class A Warrants as is necessary to equal the Pro Rata Share of 9,250,000 shares of New Common Stock and the Class A Warrants multiplied by the Class 2 Fraction. Any distribution on a Subsequent Distribution Date shall be made to each holder of an Allowed Class 2 Claim together with any dividends or distributions in respect of the New Common Stock distributable to such holder. Upon final Allowance or disallowance of all Disputed Class 2 Claims, the balance, if any, of the New Common Stock and Class A Warrants held in the Disputed Class 2 Claims Reserve together with any dividends or distributions thereon) shall be distributed pro rata to holders of Allowed Class 2 Claims in the case of the New Common Stock, and to the Warrant Trustee for the pro rata benefit of holders of Allowed Class 2 Claims in the case of the Class A Warrants.

All proceeds (including interest earned thereon) of any Cause of Action (commenced by the Oversight Committee or otherwise) shall, after payment of related attorneys' fees and costs, which fees and costs will be paid first from the Litigation Reserve and then from any Litigation Proceeds, be distributed Pro Rata to holders of Allowed Class 2 Claims as soon as practicable and prior to the termination of the Oversight Committee, provided, however, that no distribution of proceeds on account of any Cause of Action shall be made prior to the execution of a settlement or entry of a Final Order resolving the last Cause of Action pursued by the Oversight Committee. Pending distribution of the Litigation Proceeds, the Litigation Proceeds shall be held in a separate interest bearing account.

Any Litigation Proceeds payable in respect of any Disputed Class 2 Claim shall be placed in an interest-bearing reserve account until such Claim is Allowed or disallowed. Upon allowance in whole or in part of any Class 2 Claim the amount payable on account of such Claim, plus interest earned thereon, shall be paid to the holder of the Allowed Class 2 Claim, Litigation Proceeds payable in respect of any Disputed Class 2 Claim that is disallowed shall be paid ratably to the persons entitled to distributions of Litigation Proceeds in accordance with Section 4.2 of the Plan.

The Debtors and Creditors' Committee cannot estimate what, if any, distributions will be made to holders of Allowed Class 2 Claims on account of Litigation Proceeds.

7. Class 3-Intercompany Claims

Class 3 is impaired by the Plan. Each holder of an Allowed Inter-company Claim is conclusively presumed to have rejected the Plan and is not entitled to vote to accept or reject the Plan. The holders of Allowed Intercompany Claims shall not receive any distributions on account

of such Allowed Intercompany Claims. On the Effective Date, all Inter-company Claims shall be extinguished.

8. Class 4-Equity Interests

Class 4 is impaired by the Plan. Each holder of an Allowed Equity Interest shall be entitled to vote to accept or reject the Plan. On the Effective Date or as soon thereafter as practicable, the Warrant Trustee, as nominee, shall receive, for the pro rata benefit of holders of Allowed Class 4 Equity Interests, the Class B Warrants and the Class C Warrants.

9. Class 5-Options

Class 5 is impaired by the Plan. Each holder of an Option is conclusively presumed to have rejected the Plan and is not entitled to vote to accept or reject the Plan. The holders of Options shall not receive any distributions on account of such Options. On the Effective Date, all Options shall be cancelled, extinguished, and of no further force and effect as of the Effective Date.

10. Class 6-Secured Claims

Class 6 is unimpaired by the Plan. Except to the extent that a holder of Allowed Class 6 Claim agrees to different treatment, at the sole option of the Reorganized Debtors, (i) each Allowed Secured Claim shall be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the holder of such Allowed Secured Claim to demand or receive payment of such Allowed Secured Claim prior to the stated maturity of such Allowed Secured Claim from and after the occurrence of a default, (ii) each holder of an Allowed Secured Claim shall receive cash in an amount equal to such Allowed Secured Claim, including any interest on such Allowed Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, on the later of the Initial Distribution Date and the date on which such Allowed Secured Claim becomes an Allowed Secured Claim, or as soon thereafter as is practicable, or (iii) each holder of an Allowed Secured Claim shall receive the Collateral securing its Allowed Secured Claim in full and complete satisfaction of such Allowed Secured Claim on the later of the Initial Distribution Date and the date on which such Allowed Secured Claim becomes an Allowed Secured Claim, or as soon thereafter as is practicable.

11. Class 7-Convenience Claims

Class 7 is impaired by the Plan. Each holder of an Allowed Convenience Claim is entitled to vote to accept or reject the Plan. Each holder of an Allowed Convenience Claim for amounts up to $1,000 shall be entitled to receive on the Effective Date Cash in an amount equal to 27% of the amount of such Allowed Claim. Holders of Allowed Claims in Class 2, other than holders of such Allowed Claims on account of the Debentures, may opt into the Convenience Class if they waive the amount of their Allowed Claims in excess of $1,000.

B. PROVISIONS REGARDING VOTING AND DISTRIBUTIONS UNDER THE PLAN AND TREATMENT, OF DISPUTED, CONTINGENT AND UNLIQUIDATED CLAIMS

1. Voting of Claims

Each holder of an Allowed Claim in an impaired Class of Claims entitled to vote on the Plan will be entitled to vote separately to accept or reject the Plan as provided in Bankruptcy Code, Bankruptcy Rules, and any order or orders of the Bankruptcy Court.

2. Nonconsensual Confirmation

If any impaired Class of Claims entitled to vote does not accept the Plan by the requisite statutory majorities provided in section 1126(c) of the Bankruptcy Code, the Creditors' Committee will request the Bankruptcy Court to confirm the Plan under section 1129(b) of the Bankruptcy Code. With respect to impaired Classes of Claims that are deemed to reject the Plan, the Creditors' Committee and the Debtors will request the Bankruptcy Court to confirm the Plan under section 1129(b) of the Bankruptcy Code.

3. Method of Distributions Under the Plan

(a) Disbursing Agent

All distributions under the Plan shall be made by Reorganized eLot.

(b) Distributions on Claims and Equity Interests Allowed as of the Effective Date

Except as otherwise provided herein or as ordered by the Bankruptcy Court, distributions to be made on account of Claims that are Allowed Claims and Equity Interests that are Allowed Equity Interests as of the Effective Date shall be made on the Distribution Date or as soon thereafter as is practicable. All Class A Warrants shall be distributed to the Warrant Trustee, as nominee, for the pro rata benefit of holders of Allowed Class 2 Claims. All Class B Warrants and all Class C Warrants shall be distributed to the Warrant Trustee, as nominee, for the pro rata benefit of holders of Allowed Equity Interests in Class 4. Any distribution to be made on the Effective Date pursuant to this Plan shall be deemed as having been made on the Effective Date if such distribution is made on the Effective Date or as soon thereafter as is practicable. Any payment distribution required to be made under the Plan on a day other than a Business Day shall be made on the next succeeding Business Day. Notwithstanding the date on which any distribution of securities is made to or for the benefit of a holder of a Claim that is an Allowed Claim or a holder of an Equity Interest that is an Allowed Equity Interest on the Effective Date, as of the date of the distribution such holder shall be deemed to have the rights of a holder of such securities distributed as of the Effective Date and any holder of an Allowed Claim shall be entitled to interest earned thereon from the Effective Date to the date of payment on any Cash to be distributed in respect of such Allowed Claim and holders of Allowed Claims and Allowed Interests shall be entitled to all distributions or dividends in respect of any New Common Stock to be distributed to or for the benefit of such holders pursuant to the Plan.

(c) Delivery of Distributions

Subject to Bankruptcy Rule 9010 except with respect to distribution to holders of Allowed Claims on account of Debentures and distributions of Class A Warrants, Class B Warrants and Class C Warrants, all distributions under the Plan shall be made to the holder of each Allowed Claim at the address of such holder as listed on the Schedules as of the Record Date provided that distributions on account of the Debentures shall be made to the Indenture Trustee. All distributions under the Plan of Class A Warrants will be made to the Warrant Trustee, as nominee, for the pro rata benefit of the holders of Allowed Class 2 Claims. All distributions under the Plan of Class B Warrants and Class C Warrants will be made to the Warrant Trustee, as nominee, for the pro rata benefit of holders of Allowed Equity Interests in Class 4. When the Class A Warrants become distributable they will be distributed by the Warrant Trustee to the holders of Allowed Class 2 Claims, provided that such distributions on account of Debentures shall be made to the Indenture Trustee. Distributions of Class B Warrants and Class C Warrants shall be made by the Warrant Trustee to the holders of each Allowed Equity Interest at the address of such holder as listed in the stock register of eLot on the Equity Interest Record Date.

(d) Distributions of Cash

All payments of Cash made pursuant to the Plan will be made by check drawn on a domestic bank or wire transfer.

(e) Setoffs and Recoupment

All rights of set off and recoupment shall be preserved under the Plan but neither the failure to set off or recoup nor the allowance of any Claim under the Plan will constitute a waiver or release by the Debtors of any such Claim or right of setoff or recoupment it may have against such claimant.

(f) Timing of Distributions

Any payment or distribution required to be made under the Plan on the Effective Date will be deemed timely if made within thirty (30) days after the Effective Date. Any payment or distribution required to be made under the Plan on a day other than a Business Day will be made on the next succeeding Business Day.

(g) Minimum Distributions

No payment of Cash less than five dollars ($5.00) will be made by the Reorganized Debtors to any holder of a Claim unless a request therefor is made in writing to the Reorganized Debtors on or before the sixtieth (60th) day after the Effective Date.

(h) Method of Payment

Any Cash payment made by the Disbursing Agent pursuant to the Plan shall be in U. S. dollars, either by check drawn on a domestic bank or wire transfer therefrom.

(i) Fractional Shares

No fractional shares of New Common Stock or Warrants to purchase fractional shares, or Cash in lieu thereof will be distributed under the Plan. When any distribution pursuant to the Plan on account of an Allowed Claim or an Allowed Equity Interest would otherwise result in the issuance of a number of shares of New Common Stock or Warrants that is not a whole number, the actual distribution of shares of New Common Stock or Warrants will be rounded as follows: (i) fractions of 1/2 or greater will be rounded to the next higher whole number, and (ii) fractions of less than 1/2 will be rounded to the next lower whole number. The total number of shares of New Common Stock and Warrants to be distributed will be adjusted as necessary to account for the rounding provided in Section 5.3(i) of the Plan. For purposes of applying this Section, the holders of Allowed Class 2 Claims payable with respect to Debentures shall, in the case of Debentures held in street name, mean the beneficial holders thereof on the Distribution Date.

(j) Unclaimed Distributions

All distributions under the Plan unclaimed for a period of one (1) year after distribution thereof will be deemed unclaimed property under section 347(b) of the Bankruptcy Code and revest in Reorganized eLot and any entitlement of any holder of any Claim to such distributions will be extinguished and forever barred.

(k) Distributions to Holders as of the Record Date

As at the close of business on the Record Date, the claims register will be closed, and there will be no further changes in the record holder of any Claim. Neither the Debtors, the Reorganized Debtors ,the Creditors' Committee, nor the Oversight Committee will have any obligation to recognize any transfer of any Claim occurring after the Record Date. The Debtors, the Creditors' Committee, the Reorganized Debtors and the Oversight Committee will instead be authorized and entitled to recognize and deal for all purposes under the Plan with only those record holders stated on the claims register as of the close of business on the Record Date.

(l) Allocation of Plan Distributions Between Principal and Interest

Any distribution received by a holder of an Allowed Claim will, for federal income tax purposes, be allocated first to the principal amount of the Claim (as determined for federal income tax purposes) to the extent thereof, and then, to the extent the consideration exceeds the principal amount of the Claim, thereafter to the remaining portion of such Claim representing accrued but unpaid interest, if any.

4. Disputed Claims

(a) Distributions Upon Allowance of Disputed Claims

No distributions will be made on account of a Disputed Claim, or undisputed portion thereof, unless and until such Disputed Claim becomes an Allowed Claim by a Final Order. If a Disputed Claim becomes an Allowed Claim subsequent to the Effective Date the holder of such claim, or as applicable, the Warrant Trustee for the benefit of such holder, will receive the distribution that would have been made to such holder under the Plan if the Disputed Claim had

been an Allowed Claim on or prior to the Effective Date, with interest as provided in the Plan, within sixty (60) days after such Disputed Claim becomes an Allowed Claim.

Any Litigation Proceeds payable in respect of any Disputed Class 2 Claim shall be placed in an interest-bearing reserve account until such Claim is Allowed or disallowed. Upon allowance in whole or in part of any Class 2 Claim the amount payable on account of such Claim, plus interest earned thereon, shall be paid to the holder of the Allowed Class 2 Claim. Litigation Proceeds payable in respect of any Disputed Class 2 Claim that is disallowed shall be paid ratably to the persons entitled to distributions of Litigation Proceeds in accordance with Section 4.2 of the Plan.

(b) Objections to and Resolution of Claims

Except as to applications for allowance of compensation and reimbursement of expenses under sections 330 and 503 of the Bankruptcy Code, the Creditors' Committee and the Debtors, on and after the Effective Date, Reorganized eLot and the Oversight Committee shall each have the exclusive right to make and file objections to Claims. Any objections to a proof of claim shall be served and filed on or before the latest of (a) sixty (60) days after the Effective Date, (b) forty-five (45) days after the proof of claim is filed with the Bankruptcy Court, and (c) such later date as may be fixed by the Bankruptcy Court.

(c) Estimation of Claims

Each of the Creditors' Committee, the Debtors and on and after the Effective Date, each of the Oversight Committee and Reorganized eLot may, at any time, request that the Bankruptcy Court, on proper notice estimate any Disputed Claim pursuant to Section 502(c) of the Bankruptcy Court and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. If the Bankruptcy Court estimates any Disputed Claim, that estimated amount will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, Reorganized eLot may elect to pursue any supplemental proceedings to object to any ultimate Distribution to such Claim. All of the objection, estimation, settlement and resolution procedures set forth in the Plan are cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

(d) Voting Rights of Holders of Disputed Claims and Disputed Equity Interests

Pursuant to Bankruptcy Rule 3018(a), a Disputed Claim or Disputed Equity Interest will not be counted for purposes of voting on the Plan to the extent it is Disputed, unless an order of the Bankruptcy Court is entered after notice and a hearing temporarily allowing the Disputed Claim or Disputed Equity Interest for voting purposes under Bankruptcy Rule 3018(a). Such disallowance for voting purposes shall be without prejudice to the holders of such Disputed Claim or Disputed Equity Interest seeking to have such Disputed Claim or Disputed Equity Interest Allowed for purposes of Distribution under the Plan.

(e) Cancellation of Existing Securities and Agreements

On the Effective Date, all debentures, promissory notes, bonds, share certificates, warrants, stock options and other instruments evidencing any Claim or Equity Interest shall be deemed cancelled and of no further legal effect (other than as evidence of any right to receive distributions, fees, and expenses under the Plan), without further act or action under any applicable agreement, law, regulation, order, or rule and the obligations of the Debtors and the Indenture Trustee under the agreements, indentures, and certificates of designations governing such Claims and Equity Interests, as the case may be, shall be discharged. On the Effective Date, all obligations and responsibilities of the Indenture Trustee (and its counsel) shall be discharged. On the Effective Date (a) all Debentures shall be deemed cancelled and extinguished; (b) the Indenture will be deemed cancelled and extinguished, and (c) the Indenture Trustee and its professionals are fully discharged and released from any further obligations and responsibilities under the Indenture.

As a condition to receiving the New Common Stock, Class A Warrants and Litigation Proceeds distributable under the Plan, the holders of Debentures shall surrender their Debentures to the Indenture Trustee. When a holder surrenders its Debentures to the Indenture Trustee, the Indenture Trustee shall hold the instrument in "book entry only" until such instruments are cancelled. Such instruments surrendered to the Indenture Trustee shall be deemed cancelled automatically without further legal effect (other than as evidence of any right to receive distributions, fees, and expenses under the Plan) upon the Indenture Trustee's receipt of such instruments. Any holder of Debentures whose instrument has been lost, stolen, mutilated or destroyed shall, in lieu of surrendering such instrument, deliver to the Indenture Trustee: (a) evidence satisfactory to the Indenture Trustee of the loss, theft, mutilation or destruction of such instrument, and (b) such security or indemnity that may be reasonably required by the Indenture Trustee to hold the Indenture Trustee harmless with respect to any such representation of the holder. Upon compliance with the preceding sentence, such holder shall, for all purposes under the Plan, be deemed to have surrendered such instrument. Any holder of a Debenture that has not surrendered or been deemed to have surrendered its Debentures within one (1) year after the Effective Date, shall have its Claim disallowed, shall receive no distribution on account of its Claim as a holder on account of such Debentures, and shall be forever barred from asserting any Claim on account of its Debentures.

As of the Effective Date, all Debentures shall represent only the right to participate in the distributions provided in the Plan.

C. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES UNDER THE PLAN

1. Assumption or Rejection of Executory Contracts and Unexpired Leases

(a) Executory Contracts and Unexpired Leases

Under section 365 of the Bankruptcy Code, the Debtors have the right, subject to Bankruptcy Court approval, to assume, to assume and assign, or to reject executory contracts and unexpired leases. Although not defined in the Bankruptcy Code, an “executory contract” is

usually described as a contract under which material performance (other than payment of money) is due by each party. If an executory contract or unexpired lease is rejected under section 365 of the Bankruptcy Code, the "rejection" is treated as a breach of the contract or lease occurring prior to the Petition Date and giving rise a pre-petition unsecured claim. "Rejection" damages are limited in certain contexts under section 502 of the Bankruptcy Code. If an executory contract or unexpired lease is assumed or assumed and assigned, the Debtors (or their assignees) have the obligation to perform their obligations thereunder in accordance with the terms of such agreement. Section 1123 of the Bankruptcy Code provides, among other things, that a plan may provide for the assumption, assumption and assignment, or rejection of executory contracts and unexpired leases.

The Debtors are parties to a number of executory contracts, including licensing and servicing agreements. All executory contracts and unexpired leases that exist between the Debtors and any person or entity shall be deemed rejected as of the Effective Date in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code, except for any executory contract or unexpired lease that is set forth on Schedule 6.1 to the Plan, which shall be deemed to be assumed, provided, however, that the Creditors' Committee and the Debtors reserve the right, on or prior to the Effective Date, to amend Schedule 6.1 to delete any executory contract or unexpired lease therefrom or add any executory contract or unexpired lease thereto, in which event such executory contract(s) or unexpired lease(s) shall be deemed to be, respectively, rejected by the applicable Debtor or assumed. The Creditors' Committee and the Debtors shall provide notice of any amendments to Schedule 6.1 to the parties to the executory contracts and unexpired leases affected thereby. The listing of a document on Schedule 6.1 shall not constitute an admission by the Debtors or the Creditors' Committee that such document is an executory contract or an unexpired lease or that any Debtor has any liability thereunder.

In the event that any executory contract or unexpired license is to be assumed or assumed and assigned pursuant to the Plan, any monetary amount in default shall be cured, pursuant to section 365(b)(1) and 365(f)(2) of the Bankruptcy Code, by payment of the cure amount set forth on or as otherwise determined by the Bankruptcy Court, in Cash on the Effective Date or on such other terms as the parties to each such executory may agree. Any objection as to such cure amount or other matter pertaining to the assumption and assignment shall be filed with the Bankruptcy Court no later than thirty (30) days after the later of (i) the notice of entry of an order approving the rejection of any such executory contract or unexpired lease is mailed to the non-Debtor contracting party, (ii) notice of entry of the Confirmation Order is mailed to the non-Debtor contracting party, and (iii) notice of an amendment to Schedule 6.1 affecting such executory contract or unexpired lease is mailed to the non-Debtor contracting party. Any objection not filed within such time shall be forever barred from assertion against the Debtors, their estates and their respective assets or property. The Plan further provides that any such Claims, proof of which are not timely filed, shall be barred forever from assertion against the Debtors, their Estates and or their respective assets or property. Unless otherwise ordered by the Bankruptcy Court, all such properly filed Claims, shall, if Allowed, be treated as Class 2 Claims. In the event of a timely objection, the Debtors, with the consent of the Creditors' Committee, shall, either (i) pay the amount asserted by the objecting party, (ii) pay such other amount to which the Debtors, the Creditors' Committee and the objecting party may agree, or (iii) request a determination of the issue by the Bankruptcy Court and, following such determination, the Debtors shall (x) pay the amounts, if any, determined to be due and owing or (y) be deemed to

have rejected such contract or lease pursuant to the Plan in accordance with sections 365 and 1123 of the Bankruptcy Code.

(b) Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan

Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Bankruptcy Court and served upon the Debtors or, on and after the Effective Date, the Reorganized Debtors, no later than thirty (30) days after the later of (i) notice of entry of an order approving the rejection of such executory contract or unexpired lease is mailed to the contract party, (ii) notice of entry of the Confirmation Order is mailed to the contract party, and (iii) notice of an amendment to Schedule 6.l affecting such executory contract or unexpired lease is mailed to the contract party. All such Claims not filed within such time will be forever barred from assertion against the Debtors, their Estates, the Reorganized Debtors, and their property. Unless otherwise ordered by the Bankruptcy Court, all Claims arising from the rejection of executory contracts and unexpired leases shall be treated as Unsecured Claims under the Plan. Nothing contained herein shall extend the time for filing a proof of claim for rejection of any contract or lease rejected prior to the Confirmation Date.

D. IMPLEMENTATION OF THE PLAN

1. Substantive Consolidation

Entry of the Confirmation Order shall constitute the approval, pursuant to section 105(a) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of the Chapter 11 Cases for all purposes related to the Plan, including, without limitation, for purposes of voting, confirmation and distribution. Pursuant to such order, (i) all assets and liabilities of the Debtors shall be deemed merged or treated as though they were merged into and with the assets and liabilities of eLot, (ii) no distributions shall be made under the Plan on account of Intercompany Claims among the Debtors, (iii) no distributions shall be made under the Plan on account of Option Interests, (iv) all guarantees of the Debtors of the obligations of any other Debtor shall be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors shall be deemed to be one obligation of the consolidated Debtors and (v) each and every Claim filed or to be filed in the Chapter 11 Case of any of the Debtors shall be deemed filed against the consolidated Debtors, and shall be deemed one Claim against and obligation of the consolidated Debtors.

2. Transfer of Assets and Merger of Corporate Entities

On or as of the Effective Date, if deemed necessary or appropriate by the Creditors' Committee, the Debtors may, notwithstanding any other transfers described in this Article VII, cause eLottery and any non-Debtor subsidiary of the Debtors to be merged into Reorganized eLot or Reorganized eLottery or dissolved, cause the transfer of assets between the Debtors, or engage in any other transaction in furtherance of the Plan. Upon the occurrence of any such mergers, all assets of the merged entities shall be transferred to and become the assets of the surviving corporation, and all liabilities of the merged entities not discharged, released or

extinguished pursuant to the Plan and the Confirmation Order, shall be assumed by and shall become the liabilities of the surviving corporation.

3. Cash

On the Effective Date, the Debtors will deposit with the Disbursing Agent all Cash to be distributed on the Effective Date under the Plan. Sources of such Cash are the proceeds from the sale, if any, of the shares of common stock of MDI and Virtgame, and proceeds of the loan to be extended to the Reorganized Debtors either by Alpine Associates, LP ("Alpine") and Morse Williams & Co., Inc. ("Morse Williams") or a related entity or entities of up to $1,400,000 (which shall be secured by the Virtgame and MDI common stock and warrants, the DCC common stock, and any proceeds thereof and shall be guaranteed by Reorganized eLottery), or, provided the Debtors agree, and the Bankruptcy Court approves a "breakup" fee of $50,000 in favor of Alpine and Morse Williams, from such other source(s) on terms superior in all respects to those offered by Alpine and Morse Williams and for which a written commitment has been received at least 10 days prior to the Confirmation Hearing.

4. Authorization of New Securities

The issuance of the New Common Stock and the Warrants by Reorganized eLot is authorized under the Plan without further act or approval under applicable law, regulation, order or rule.

5. New Warrant Agreements

On the Effective Date, each of the New Class A Warrant Agreement, the New Class B Warrant Agreement and the New Class C Warrant Agreement in substantially the form contained in the Plan Supplement will be executed and delivered by the Reorganized eLot and the warrant agent.

6. Trust Agreement

On the Effective Date, the Reorganized Debtors shall enter into the Trust Agreement.

7. Payment of the Indenture Trustee's Fees

On the Effective Date, or as soon thereafter as practicable the Debtors will compensate the Indenture Trustee for the Indenture Trustee's Expenses.

E. EFFECT OF CONFIRMATION OF PLAN

1. Term of Bankruptcy Injunction or Stays

Unless otherwise provided, all injunctions or stays provided for in the Chapter 11 Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in fill force and effect until the Effective Date.

2. Claims Retained/Oversight Committee

As of the Effective Date, any and all Causes of Action and avoidance claims the Debtors in Possession are empowered to bring under sections 502(d), 544, 545, 547, 548, 549, 550 and 551 of the Bankruptcy Code or applicable non-bankruptcy law, will be controlled by the Oversight Committee, as set forth below, and all proceeds thereof by judgment or settlement shall be distributed as Litigation Proceeds pursuant to the Plan. A Litigation Reserve will be established pursuant to the Plan, which shall be available to pay attorneys fees and expenses associated with the claims resolution process and the review and pursuit of Causes of Action.

The Oversight Committee, which shall serve without compensation, shall be composed of two members of the Creditors' Committee and shall retain the attorneys for the Creditors' Committee as counsel. The names of the initial members of the Oversight Committee shall be designated and disclosed by the Creditors' Committee prior to the date of the Confirmation Hearing.

The Oversight Committee will terminate on the later of (a) two years after the Effective Date or (b) two months after a settlement is executed or a Final Order is entered resolving the last Cause of Action pursued by the Oversight Committee.

All proceeds (including interest earned thereon) of any Cause of Action (commenced by the Oversight Committee or otherwise) shall, after payment of related attorneys' fees and costs, as described above, shall be distributed Pro Rata to holders of Allowed Class 2 Claims as soon as practicable and prior to the termination of the Oversight Committee, provided, however, that no distribution of proceeds on account of any Cause of Action shall be made prior to the execution of a settlement or entry of a Final Order resolving the last Cause of Action pursued by the Oversight Committee. Pending distribution of the Litigation Proceeds, the Litigation Proceeds shall be held in a separate interest bearing account.

3. Vesting of Assets

On the Effective Date, the Debtors, their properties, interests in property, and their operations will be released from the custody and jurisdiction of the Bankruptcy Court, and the estate of each of the Debtors will vest in the applicable Reorganized Debtor. Such vested property shall be free and clear of all Liens, Claims, encumbrances, and interests, except as otherwise provided in the Plan. From and after the Effective Date, the Reorganized Debtors may operate their businesses and may use, acquire, and dispose of their property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules, subject to the terms and conditions of the Plan. Notwithstanding the above, the Causes of Action shall be controlled by the Oversight Committee and shall not vest in the Reorganized Debtors.

4. Binding Effect

Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code and subject to the occurrence of the Effective Date, on and after the Confirmation Date, the provisions of the Plan will bind any holder of a Claim against, or Equity Interest in, the Debtors and such holder' s respective successors and assigns, whether or not the Claim or Equity Interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

5. Discharge of Debtors

Except as otherwise provided, pursuant to section 1141(d)(l) of the Bankruptcy Code, upon the Effective Date, all Claims against and Equity Interests in any of the Debtors will be discharged and released. Except as otherwise provided, on the Effective Date, as to every discharged debt, Claim, or Equity Interest, all persons, entities, and governmental units (including, without limitation, any creditor or holder of a Claim or Equity Interest) will be precluded from asserting against the Debtors or the Reorganized Debtors, or against the Debtors' or the Reorganized Debtors assets or properties, all such debts, Claims, or Equity Interests and any other or further Claim based upon any document, instrument, or act, omission, transaction, or other activity of any kind or nature that occurred prior to the Confirmation Date.

6. Injunction

Except as otherwise expressly provided in the Plan or the Confirmation Order, all entities who have held, hold, or may hold in the future Claims against or Equity Interests in any or all of the Debtors, are permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest; (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Reorganized Debtors on account of any such Claim or Equity Interest; (c) creating, perfecting, or enforcing any encumbrance of any kind against the Reorganized Debtors or against the property or interests in property of the Reorganized Debtors on account of any such Claim or Equity Interest; (d) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from the Reorganized Debtors or against the property or interests in property of the Reorganized Debtors on account of any such Claim or Equity Interest; and (e) commencing or continuing in any manner any action or other proceeding of any kind with respect to any Claims and Causes of Action (other than Causes of Action retained by the Oversight Committee pursuant to the Plan).

7. Releases

On the Effective Date, each of the Released Parties shall be deemed to be released from any and all claims, obligations, suits, judgments, damages, rights, cause of action and liabilities whatsoever, whether known or unknown, foreseen and unforeseen, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act, omission, transaction, event or other occurrence taking place on prior to the Effective Date in any way relating to the Debtors, the Chapter 11 Cases or the Plan, except that (i) no Released Party shall be released from any act or omission constituting gross negligence, misconduct or fraud, as determined by Final Order of the Bankruptcy Court or any other Court having jurisdiction with respect to such matter, and (ii) the Reorganized Debtors shall not relinquish or waive the right to assert any of the foregoing as a legal or equitable defense or right of set-off or recoupment against any Released Party by the Debtors or the Reorganized Debtors.

8. Exculpation

On the effective date, to the extent permitted by applicable law, the Exculpated Parties shall neither have nor incur any liability to any holder of a Claim(s) or Equity Interest(s)

for any act or omission in connection with, related to, or arising out of the administration of the chapter 11 Cases, including, without limitation, the negotiation, preparation and the pursuit of confirmation of the Plan, the consummation of the Plan or the administration of the Plan or the property to be distributed under the Plan, except for liability based upon willful misconduct or gross negligence. The Bankruptcy Court shall have exclusive jurisdiction over any action against any of the Exculpated Parties based upon any action or omission in connection with, or arising out of the chapter 11 Cases, the proposed confirmation or consummation of the Plan, or the administration for the Chapter 11 Cases or Plan or the property to be distributed under the Plan. Any action against any of the Exculpated Parties based upon any act or omission in connection with or arising out of the Chapter 11 Cases, the proposed confirmation or consummation of the Plan, or the administration of the Chapter 11 Cases or Plan or the property to be distributed under the Plan shall be commenced prior to the Confirmation Hearing, or shall be forever barred.

F. EFFECTIVENESS OF THE PLAN

1. Conditions Precedent to Effectiveness of the Plan

The Plan shall not become effective unless and until the following conditions shall have been satisfied or waived pursuant to Section 10.4 of the Plan:

(a) the Confirmation Order, in form and substance reasonably acceptable to the Debtors and the Creditors' Committee, shall have been signed by the judge presiding over the Chapter 11 Cases, and there shall not be a stay or injunction in effect with respect thereto;

(b) all actions, documents and agreements necessary to implement the Plan shall have been effected or executed;

(c) the Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are determined by the Creditors' Committee and the Debtors to be necessary to implement the Plan, including, without limitation, no action letters from the Securities and Exchange Commission and letter or other rulings from the Internal Revenue Service; and

(d) the Reorganized Debtors' respective Certificates of Incorporation and Bylaws, in form and substance reasonably acceptable to the Creditors' Committee and the Debtors, shall have been effected or executed.

2. Conditions to Effective Date

The occurrence of each of the following shall be a separate condition to the Effective Date of the Plan:

(a) the Confirmation Order has been entered and become a Final Order in form and substance reasonably satisfactory to the Debtors and the Creditors' Committee, and there shall not be a stay or injunction in effect with respect thereto;

(b) all actions, documents and agreements, including, without limitation, the New Class A Warrant Agreement, the New Class B Warrant Agreement, the New Class C

Warrant Agreement, the Trust Agreement and the New Credit Agreement, the Pledge and Security Agreement and the Guaranty necessary to implement the Plan shall have been effected or executed;

(c) the New Common Stock and Warrants issued pursuant to the Plan in exchange for claims against and Equity Interests in the Debtors are exempt from registration under the Securities Act of 1933 pursuant to section 1145 of the Bankruptcy Code or otherwise, except to the extent that holders of the New Common Stock or the Warrants are "underwriters," as that term is defined in section 1145 of the Bankruptcy Code;

(d) the New Common Stock and Warrants issuable on the Effective Date shall have been issued to the holders of Allowed Claims or the Warrant Trustee, as applicable, or in the case of holders of the Debentures, the Indenture Trustee, on behalf of such holders, and in the case of any Disputed Claims or Disputed Equity Interests, placed in a reserve account;

(e) any Cash distributions payable on the Effective Date shall have been made;

(f) the Reorganized Debtors' respective Certificates of Incorporation and Bylaws, as necessary, shall have been filed with the applicable authority of each entity's jurisdiction of incorporation in accordance with such jurisdiction's corporation laws;

(g) the Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents they deem necessary to implement the Plan; and

(h) the estimated unpaid fees and expenses of Professionals through the Effective Date must be deposited in an interest-bearing segregated account on the Effective Date.

3. Failure of Conditions

In the event that one or more of the conditions specified in Section 10.1 of the Plan have not occurred on or before sixty (60) days after the Confirmation Date or waived by the Creditors' Committee, upon notification submitted by the Creditors' Committee to the Bankruptcy Court, and the Debtors, (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan shall be made, (c) the Debtors and all holders of Claims and Equity Interests shall be restored to the status quo ante as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred, and (d) the Debtors' obligations with respect to the Claims and Equity Interests shall remain unchanged and nothing contained herein shall constitute or be deemed a waiver or release of any Claims or Equity Interests by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any person in any further proceedings involving the Debtors.

4. Waiver of Conditions

The Creditors' Committee shall have the right to waive, by a writing signed by a representative of the Creditors' Committee and subsequently filed with the Bankruptcy Court,

one or more of the conditions precedent to effectiveness of the Plan set forth in Sections 10.1 and 10.2 of the Plan.

G. SUMMARY OF OTHER PROVISIONS OF THE PLAN

The following paragraphs summarize certain other significant provisions of the Plan. The Plan should be referred to for the complete text of these and other provisions of the Plan. The following paragraphs summarize certain other significant provisions of the Plan. The Plan should be referred to for the complete text of these and other provisions of the Plan.

1. Retention of Jurisdiction

After the Effective Date, the Bankruptcy Court will retain subject matter jurisdiction and retain exclusive subject matter jurisdiction where it exists prior to the Effective Date of all matters arising out of, and related to, the Chapter 11 Cases and the Plan, to the fullest extent permitted by law, pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes: (a) to hear and determine pending matters related to the assumption or rejection of executory contracts or unexpired leases, if any are pending, and the allowance of cure amounts and Claims resulting therefrom, and to hear and determine and, if necessary, to liquidate any and all Claims arising therefrom; (b) to adjudicate all controversies concerning the classification or allowance of any Claims or Equity Interests; (c) to liquidate, Allow, or disallow any Claims that are Disputed, contingent, or unliquidated; (d) to consider and act on the compromise and settlement of any Claim or Cause of Action by or against the Debtors, including but not limited to determining all controversies, suits, and disputes that may arise in connection with the interpretation, enforcement, or consummation of such compromises and settlements previously approved by the Bankruptcy Court or that may be approved in the future; (e) to hear and determine any and all adversary proceedings, applications and contested matters; (f) to hear and determine any objection to Claims; (g) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, or vacated; (h) to issue such orders in aid of execution and consummation of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code; (i) to consider any amendments to or modifications of the Plan, to cure any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order; (j) to hear and determine all applications for compensation and reimbursement of expenses of Professionals under the Bankruptcy Code or the Plan; (k) to hear and determine disputes arising in connection with the interpretation, implementation, consummation, or enforcement of the Plan, including, without limitation, any and all disputes arising in connection with the interpretation, implementation, or enforcement of the discharge provisions contained in the Plan; (l) to hear and determine all actions to recover assets of the Debtors and property of the Debtors' Estates, wherever located, (m) to hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code; (n) to hear any other matter not inconsistent with the Bankruptcy Code; (o) to adjudicate disputes over the issuance of the New Common Stock and Warrants and any dispute relating to the Trust Agreement; (p) to determine such other matters as may be set forth in the Confirmation Order or which may arise in connection with the Plan or the Confirmation Order; and (q) to enter a final decree closing the Chapter 11 Cases.

2. Effectuating Documents and Further Transactions.

Each of the Debtors or the Reorganized Debtors is authorized and directed to execute, deliver, file or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan and any securities issued pursuant to the Plan. All transactions that. are required to occur on the Effective Date under the terms of the Plan shall be deemed to have occurred simultaneously.

3. Corporate Action

On the Effective Date, all matters provided for under the Plan that would otherwise require approval of the stockholders or directors of one or more of the Debtors or the Reorganized Debtors including, without limitation, the issuance of the New Common Stock and the Warrants, the effectiveness of the Reorganized Debtors' respective Certificates of Incorporation, the Reorganized Debtors' respective Bylaws, the corporate mergers or dissolutions that can be effectuated pursuant to the Plan, the execution of loan documents and related agreements necessary for the secured loan of up to $1,400,000, and the election or appointment, as the case may be, of directors and officers of the Debtors pursuant to the Plan, will be deemed to have occurred and will be in effect from and after the Effective Date pursuant to the applicable general corporation law of the states in which the Debtors and the Reorganized Debtors are incorporated, without further order of the Bankruptcy Court and without any requirement of further action by the stockholders or directors of the Debtors or the Reorganized Debtors. On the Effective Date, or as soon thereafter as is practicable, the Reorganized Debtors will, if required, file its amended certificate of incorporation with the Secretary of State of the state in which each such entity is (or will be) incorporated, in accordance with the applicable general corporation law of each such state. All documents or instruments to be executed and delivered by the Debtors under this Plan shall be deemed appropriately executed if signed by either of the President, Chief Executive Officer, Executive Vice President, or any Vice President of the Debtors.

4. Exemption from Transfer Taxes

Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of notes, debentures or equity securities under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including, without limitation, any merger agreements or agreements of consolidation, deeds, bills of sale, or assignments or real or personal property executed in connection with any of the transactions contemplated under the Plan, will not be subject to any stamp, real estate transfer, mortgage recording, sales, use, or other similar tax. All sale transactions consummated by the Debtors and approved by the Bankruptcy Court on and after the Commencement Date through and including the Effective Date, including, without limitation, the transfers effectuated under the Plan, the sale by the Debtors of owned' property pursuant to section 363(b) of the Bankruptcy Code and the assumption, assignment and sale by the Debtors of unexpired leases of non-residential real property pursuant to section 365(a) of the Bankruptcy Code, will be deemed to have been made under, in furtherance of, or in connection with the Plan

and, thus, will not be subject to any stamp, real estate transfer, mortgage recording or other similar tax; and that all recording officers and other entities whose duties include recordation of documents lodged for recording shall record, file and accept such documents delivered under the Plan without the imposition of any charge, fee, governmental assessment , or tax.

5. Injunction Regarding Worthless Stock Deduction

At the Confirmation Hearing, the Debtors may request that the Bankruptcy Court include in the Confirmation Order a provision enjoining any "50 percent shareholder" of the Debtors within the meaning of section 382(g)(4)(D) of the Internal Revenue Code of 1986, as amended, from claiming a worthless stock deduction with respect to its Equity Interest for any taxable year of such shareholder ending prior to the Effective Date.

6. Termination of the Creditors' Committee

The appointment of the Creditors' Committee will terminate ninety (90) days after the Effective Date, except that it shall have the right to object or otherwise take positions with respect to fee applications and any appeals relating to the confirmation of the Plan.

7. Post-Confirmation Date Fees and Expenses

From and after the Confirmation Date, the Debtors and the Reorganized Debtors shall, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, be authorized to pay the reasonable fees and expenses of all Professional persons appointed in the Chapter 11 Cases thereafter incurred by the Debtors and Reorganized Debtors, including, without limitation, those fees and expenses incurred in connection with the implementation and consummation of the Plan.

8. Payment of Statutory Fees

All fees payable pursuant to section 1930 of the title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid on the Effective Date.

9. Preservation of Insurance

The Plan provides that the Debtors' discharge and release from all Claims as provided in the Plan, does not diminish or impair the enforceability of any insurance policy that may cover Claims against the Debtors, the Reorganized Debtors (including, with respect to the Reorganized Debtors, without limitation, its officers and directors) or any other person or entity.

10. Amendment or Modification of the Plan

Alterations, amendments or modifications of the Plan may be proposed in writing by the Debtors and the Creditors' Committee at any time prior to the Confirmation Date, provided that the Plan, as altered, amended or modified, satisfies the conditions of sections 1122 and 1123 of the Bankruptcy Code, and the Creditors' Committee shall have complied with section 1125 of the Bankruptcy Code. The Plan may be altered, amended, or modified at any time after the

Confirmation Date and before substantial consummation, provided that the Plan, as altered, amended or modified, satisfies the requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan, as altered, amended, or modified, under section 1129 of the Bankruptcy Code and the circumstances warrant such alterations, amendments, or modifications. A holder of a Claim or Equity Interest that has accepted the Plan shall be deemed to have accepted the Plan, as altered, amended, or modified, if the proposed alteration, amendment, or modification does not materially and adversely change the treatment of the Claim or Equity Interest of such holder.

11. Severability

If, prior to the Confirmation Date, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions hereof shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision hereof, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable in accordance with its terms.

12. Revocation or Withdrawal of the Plan

The Debtors and the Creditors' Committee reserves the right to revoke or withdraw the Plan prior to the Confirmation Date. If the Plan is revoked or withdrawn prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained herein shall constitute or be deemed a waiver or release of any Claims by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any person in any further proceedings involving the Debtors.

13. Binding Effect

The Plan shall be binding upon and inure to the benefit of the Debtors, the holders of Claims and Equity Interests, and their respective successors and assigns, including, without limitation, the Reorganized Debtors.

14. Notices

All notices, requests, and demands to or upon the Debtors or the Reorganized Debtors to be effective shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

15. Governing Law

Except to the extent the Bankruptcy Code, Bankruptcy Rules, or other federal law is applicable, or to the extent an exhibit to the Plan provides otherwise, the rights and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law of such jurisdiction.

16. Withholding and Reporting Requirements

In connection with the consummation of the Plan, the Debtors or the Reorganized Debtors, as the case may be, shall comply with all withholding and reporting requirements imposed by any federal, state, local, or foreign taxing authority and all distributions hereunder shall be subject to any such withholding and reporting requirements. Notwithstanding any other provision of the Plan (i) each holder of an Allowed Claim or Allowed Equity Interest that is to receive a distribution of New Common Stock and/or Warrants pursuant to the Plan shall have sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding and other tax obligations, on account of such distribution, and (ii) no distribution shall be made to or on behalf of such holder pursuant to the Plan unless and until such holder has made arrangements satisfactory to the Reorganized Debtors for the payment and satisfaction of such tax obligations. Any New Common Stock or Warrants to be distributed pursuant to the Plan shall, pending the implementation of such arrangements, be treated as an unclaimed distribution pursuant to Section 12.15 of the Plan.

17. Plan Supplement

Forms of the documents relating to the Reorganized Debtors Bylaws and the Reorganized Debtors Certificates of Incorporation, the New Credit Agreement, the Pledge and Security Agreement, the New Guaranty, the New Class A Warrant Agreement, the New Class B Warrant Agreement, the New Class C Warrant Agreement, the Trust Agreement and the Twelve Oaks Settlement, shall be contained in the Plan Supplement and filed with the Clerk of the Bankruptcy Court at least ten (10) days prior to the last day upon which holders of Claims and Equity Interests may vote to accept or reject the Plan (_____, 2002). Upon its filing with the Bankruptcy Court, the Plan Supplement may be inspected in the office of the Clerk of the Bankruptcy Court during normal Bankruptcy Court hours. Holders of Claims or Equity Interests may obtain a copy of the Plan Supplement, at the Debtors' expense, upon written request to the attorneys for the Creditors' Committee.

18. Waiver of Federal Rule of Civil Procedure 62(a)

The Creditors' Committee may request that the Confirmation Order include (a) a finding that Fed. R. Civ. P. 62(a) shall not apply to the Confirmation Order and (b) authorization for the Creditors' Committee to consummate the Plan immediately after entry of the Confirmation Order.

19. Setoff by the United States

Pursuant to the Plan, the valid setoff rights, if any, of the United States of America will be unaffected by the Plan or confirmation thereof.

20. Headings

Headings are used in the Plan for convenience and reference only, and shall not constitute a part of the Plan for any other purpose.

21. Exhibits/Schedules

All exhibits and schedules to the Plan, including the Plan Supplement, are incorporated into and are a part of the Plan as if set forth in forth herein.

VII. DIRECTORS AND OFFICERS OF THE REORGANIZED DEBTORS

A. DIRECTORS AND OFFICERS OF THE REORGANIZED DEBTORS

On the Effective Date, the management, control, and operation of the Reorganized Debtors will become the general responsibility of the Boards of Directors of the Reorganized Debtors.

1. The Reorganized Debtors

(a) Board of Directors

The initial Boards of Directors of each of the Reorganized Debtors will consist of 3 individuals. The names of the members of the initial Boards of Directors of each of the Reorganized Debtors will be designated and disclosed by the Creditors' Committee prior to the date of the Confirmation Hearing. Each of the members of the initial Boards of Directors will serve in accordance with the Reorganized Debtors' respective Certificates of Incorporation or Bylaws as the same may be amended from time to time.

(b) Officers

The initial officers of each of the Reorganized Debtors shall consist of a president, treasurer and secretary. The names of the initial officers of each of the Reorganized Debtors shall be designated and disclosed by the Creditors' Committee prior to the date of the Confirmation Hearing. The Board of Directors of the Reorganized eLot may, prior to or after the Effective Date, determine to implement a management option program for certain directors and officers of the Reorganized Debtors. Such option program may result in dilution of New Common Stock and Warrants.

B. BYLAWS AND CERTIFICATES OF INCORPORATION

The bylaws and certificates of incorporation of the Reorganized Debtors will contain provisions necessary (a) to prohibit the issuance of nonvoting equity securities as required by section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such certificates of incorporation and bylaws as permitted by applicable law, and (b) to effectuate the provisions of the Plan, including but not limited to the authorization of sufficient shares of New Common Stock necessary for issuance to holders of Claims and Equity Interests receiving New Common

Stock and Warrants, upon exercise of such Warrants. The Amended Certificates of Incorporation will, among other things, contain appropriate provisions consistent with the Plan (i) governing the authorization of up to 30 million shares of New Common Stock (with 9.25 million being issued on the Effective Date or as soon thereafter as is practicable); and (ii) prohibiting the issuance of nonvoting equity securities as required by Section 1123(a)(6) of the Bankruptcy Code. The Creditors' Committee and the Debtors reserve the right to make additional modifications to the certificates of incorporation, including, without limitation, to incorporate in a different state or states.

VIII. SECURITIES TO BE ISSUED PURSUANT TO THE PLAN

A. NEW COMMON STOCK

On the Initial Distribution Date, the shares of the New Common Stock will be issued to holders of Allowed Class 2 Claims entitled to receive such stock under the Plan. On the Effective Date, the shares of common stock of Reorganized eLottery will be issued to Reorganized eLot directly or indirectly so as to recreate the prepetition corporate structure, subject to the Creditors' Committee's general right to cause any or all of the Debtors to be merged into one or more of the Reorganized Debtors or be dissolved, cause the transfer of assets between or among the Reorganized Debtors, or engage in any other transaction in furtherance of the Plan.

On the Effective Date, pursuant to the Plan, issuance by Reorganized eLot of 9.250,000 shares of New Common Stock out of a total authorization of 30,000,000 shares is authorized without further act or action under applicable laws, regulations, rules or orders. Each share of New Common Stock will entitle its holder to one vote with no cumulative voting rights. Holders of New Common Stock will have the right to participate proportionately in any dividends distributed by Reorganized eLot.

B. WARRANTS

Upon the Effective Date of the Plan, the Warrant Trustee, as nominee, for the pro rata benefit of holders of Allowed Claims in Class 2 will receive the Class A Warrants which, upon the Class A Warrant Distribution Date will be distributed to holders of Allowed Claims in Class 2 and will be exercisable into 1,800,000 shares of New Common Stock. The Class A Warrants will have an exercise price of $1.00 per share (the projected value of the New Common Stock on the Effective Date) and will be exercisable from the date which is the earlier of the date eighteen months after the Effective Date or the occurrence of a Trigger Event until the third anniversary of the Effective Date. The exercise price of the Class A Warrants will not adjust for post Effective Date below exercise price issuances of New Common Stock and other securities, if any, which are convertible or exchangeable into shares of New Common Stock. The Class A Warrants will adjust in the case of combinations and subdivisions of New Common Stock and similar transactions. The Class A Warrants will be subject to the terms and conditions of the New Class A Warrant Agreement, which will be substantially in the form filed with the Plan Supplement.

Upon the Effective Date, the Warrant Trustee, as nominee, for the pro rata benefit of holders of Allowed Class 4 Equity Interests, will receive the Class B Warrants and the Class C

Warrants, which will be distributed to holders of Allowed Class 4 Equity Interests upon the occurrence of the Class B and Class C Warrant Distribution Date. The Class B Warrants will entitle the holders thereof to purchase, in the aggregate, 750,000 shares of the New Common Stock at $.10 per share from and after the occurrence of a Trigger Event until the third anniversary of the Effective Date.

The Class C Warrants will entitle the holders thereof to purchase, in the aggregate, 1,200,000 shares of New Common Stock at $1.00 per share from and after the Trigger Event until the third anniversary of the Effective Date. The exercise price of the Class B Warrants and the Class C Warrants will not adjust for post Effective Date issuances of New Common Stock and other securities if any, which are convertible or exchangeable into shares of New Common Stock. The Class B Warrants and the Class C Warrants will adjust in the case of combinations and subdivisions of New Common Stock and similar transactions. The Class B Warrants and the Class C Warrants will be subject to the terms and conditions of the New Class B Warrant Agreement and the New Class C Warrant Agreement, respectively, each of which will be substantially in the form filed with the Plan Supplement.

IT IS POSSIBLE THAT THE CLASS B AND THE CLASS C WARRANT DISTRIBUTION DATE WILL NOT OCCUR DURING THE THREE YEAR PERIOD IN WHICH THE CLASS B WARRANTS AND THE CLASS C WARRANTS ARE EXERCISABLE.

IX. SECURITIES LAW MATTERS

A. SECTION 1145 OF THE BANKRUPTCY CODE

In reliance upon an exemption from the registration requirements of the Securities Act and equivalent state securities laws afforded by section 1145 of the Bankruptcy Code, the New Common Stock and the Warrants to be issued on the Effective Date as provided in the Plan, will be exempt from the registration requirements of the Securities Act and equivalent state securities laws. Section 1145 of the Bankruptcy Code generally exempts from such registration the offer or sale of a debtor's securities or of an affiliate of, or a successor to, a debtor under a chapter 11 plan if such securities are offered or sold in exchange for a claim against, or interest in, or an administrative expense claim against, such debtor. Section 1145 also exempts from registration the offer of any security through any conversion privilege attached to any security that was sold in the manner specified in the preceding sentence that the Creditors' Committee believes would apply to the issuance of the New Common Stock and the Warrants.

The Creditors' Committee believes that the exchange of the New Common Stock and Warrants for Claims and Equity Interests under the circumstances provided in the Plan would satisfy the requirements of section 1145(a) of the Bankruptcy Code. Thus, the New Common Stock and Warrants issued pursuant to the Plan on the Effective Date would be deemed to have been issued in a public offering in compliance with the requirements of the Securities Act and, therefore, could be resold by any holder thereof without registration under the Securities Act, unless the holder is an *"underwriter"* with respect to such securities, as that term is defined in section 1145(b)(l) of the Bankruptcy Code (a *"statutory underwriter").* In addition, such securities generally could be resold by the recipients thereof without registration under state

securities or *"blue sky"* laws pursuant to various exemptions provided by the respective laws of the several states. However, recipients of securities issued under the Plan are advised to consult with their own counsel as to the availability of any such exemption from registration under federal and state securities laws in any given instance and as to any applicable requirements or conditions to the availability thereof.

Section 1145(b) of the Bankruptcy Code defines *"underwriter"* for purposes of the Securities Act as one who, except with respect to *"ordinary trading transaction"* of an entity that is not an *"issuer,"* (a) purchases a claim with a view to distribution of any security to be received in exchange for the claim, or (b) offers to sell securities issued under a plan for the holders of such securities, or (c) offers to buy securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution of such securities, or (d) is an issuer (in this case, the Reorganized Debtors) of the securities within the meaning of Section 2(11) of the Securities Act.

The term *"issuer"* is defined in Section 2(4) of the Securities Act; however, the reference (contained in section 1145(b)(l)(D) of the Bankruptcy Code) to Section 2(11) of the Securities Act purports to include as statutory underwriters all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. "*Control*" (as defined in Rule 405 promulgated under the Securities Act) means the possession, direct or indirect, of the power to direct or cause the direction of the policies of a person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor, under a plan of reorganization (e.g., the Reorganized Debtors) may be deemed to be a *"control person"* of such debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor's or its successor's voting securities. Moreover, the legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns at least ten percent (10%) of the voting securities of a reorganized debtor is a presumptive *"control person"* of the Debtors.

To the extent that persons deemed to be control persons and thus *"underwriters"* receive the New Common Stock pursuant to the Plan, resales by such persons would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. However, entities deemed to be statutory underwriters for purposes of section 1145 of the Bankruptcy Code may be able to sell securities without registration pursuant to the resale provisions of Rule 144 promulgated under the Securities Act.

Rule 144 permits the resale of securities received pursuant to the Plan by statutory underwriters subject to applicable holding period requirements, volume limitations, notice and manner of sale requirements, availability of current information about the issuer and certain other conditions. Generally, Rule 144 provides that if such conditions are met, specified persons who resell *"restricted securities"* or who resell securities that are not restricted but who are *"affiliates"* of the issuer of the securities sought to be resold, will not be deemed to be *"underwriters"* as defined in Section 2(11) of the Securities Act. Under Rule 144(k), a person who is not deemed to have been an affiliate of the issuer at any time during the 90 days preceding a sale, and who has beneficially owned the securities proposed to be sold for two (2) years, is entitled to sell such

securities without having to comply with the manner of sale, public information, volume limitation or notice filing provisions of Rule 144.

Whether or not any particular person would be deemed to be an *"underwriter"* of the New Common Stock or Warrants to be issued pursuant to the Plan, or an *"affiliate"* of the Reorganized Debtors, would depend upon various facts and circumstances applicable to that person. Accordingly, neither the Creditors' Committee nor the Debtors expresses any view as to whether any person would be such an *"underwriter"* or an *"affiliate"*.

IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER OR AN AFFILIATE OF THE REORGANIZED DEBTORS, NEITHER THE DEBTORS NOR THE CREDITORS' COMMITTEE MAKES ANY REPRESENTATIONS OR AGREEMENTS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN THE NEW COMMON STOCK OR THE WARRANTS TO BE DISTRIBUTED PURSUANT TO THE PLAN. ACCORDINGLY, THE CREDITORS' COMMITTEE AND THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF SECURITIES CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

Pursuant to the Plan, certificates evidencing shares of the New Common Stock or Warrants received by holders of five percent (5%) or more of the outstanding New Common Stock calculated on a fully diluted basis or by holders that do not certify that they are not underwriters within the meaning of section 1145 of the Bankruptcy Code, will bear a legend substantially in the form below:

> THE SHARES OF [NEW COMMON STOCK] [WARRANTS] EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS REORGANIZED ELOT RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

Any entity that would receive legended securities as provided above may instead receive certificates evidencing New Common Stock or the Warrants without such legend if, prior to the Effective Date, such entity delivers to Reorganized eLot (i) an opinion of counsel reasonably satisfactory to Reorganized eLot to the effect that the shares of New Common Stock or Warrants to be received by such entity are not subject to the restrictions applicable to *"underwriters"* under section 1145 of the Bankruptcy Code and may be sold without registration under the Securities Act, and (ii) a certification that it is not an *"underwriter"* within the meaning of section 1145 of the Bankruptcy Code.

Any holder of a certificate evidencing shares of New Common Stock or the Warrants bearing such legend may present such certificate to Reorganized eLot or its designated transfer

agent for such shares for exchange for one or more new certificates not bearing such legend or for transfer to a new holder without such legend at such time as (a) such shares are sold pursuant to an effective registration statement under the Securities Act or (b) such holder delivers to Reorganized eLot an opinion of counsel reasonably satisfactory to Reorganized eLot to the effect that such notes, debentures or shares are no longer subject to the restrictions applicable to *"underwriters"* under section 1145 of the Bankruptcy Code and may be sold without registration under the Securities Act or to the effect that such transfer is exempt from registration under the Securities Act, in which event the certificate issued to the transferee will not bear such legend, unless otherwise specified in such opinion.

To the extent that Section 1145(a)(3) of the Bankruptcy Code may apply to sales of securities of other issuers owned by Reorganized eLot, Reorganized eLot shall comply with such section, such that sales of such securities shall be exempt from registration under Section 5 of the Securities Act.

B. PERIOD OF NONTRANSFERABILITY AND NON ASSIGNABILITY OF WARRANTS

The Class A Warrants, the Class B Warrants and the Class C Warrants (collectively, the "Warrants") will be held pursuant to a certain Trust Agreement by the Warrant Trustee, as nominee for the benefit of holders (a) Allowed Claims in Class 2 in the case of the Class A Warrants, and (b) for the benefit of Allowed Equity Interests in Class 4, in the case of the Class B Warrants and Class C Warrants pending (i) in the case of the Class A Warrants, the Class A Warrant Distribution Date, and (ii) in the case of the Class B Warrants and Class C Warrants, the Class B and Class C Warrant Distribution Date. So long as any of the Warrants are held by the Warrant Trustee pursuant to the Trust Agreement, such Warrants will not be transferable, assignable or delivered to the holders of Allowed Claims in Class 2 and Allowed Equity Interests in Class 4 and, therefore, no trading will be able to take place with respect to such Warrants.

The Trustee of the Trust will hold the Class A Warrants, Class B Warrants and Class C Warrants during the period that they are neither transferable nor assignable. The Class A Warrants will be distributed pro rata to holders of Allowed Class 2 Claims from the Trust on the Class A Warrant Distribution Date (i.e., the earlier of the date 18 months after the Effective Date or the occurrence of a Trigger Event.) The Class A Warrants will be exercisable from and after the Class A Warrant Distribution Date. The Class B Warrants and the Class C Warrants will be distributed from the Trust pro rata to holders of Allowed Class 4 Equity Interests only upon the Class B and Class C Warrant Distribution Date (i.e., the occurrence of a Trigger Event) and will only be exercisable from and after the Trigger Event Date.

In the event a Trigger Event does not occur prior to three years after the Effective Date (the Expiration Date for the Class B Warrants and the Class C Warrants), then no distribution of the Class B Warrants and the Class C Warrants will occur.

Each of the following is a Trigger Event: (1) Reorganized eLot and/or its consolidated subsidiaries including, eLottery, Inc., shall have $1 million of revenue, provided there is less than $100,000 of debt outstanding under the Exit Credit Facility, in any consecutive 12-calendar month period determined on a consolidated basis in accordance with generally accepted accounting principles from the direct or indirect operation of the lottery business, including but

not limited to, from any license of the Intellectual Property to a third party; (2) Reorganized eLot and/or its consolidated subsidiaries shall realize, in one or a series of related transactions, at least $1 million in the aggregate in cash or cash equivalents or securities (as reasonably valued by the Board of Directors of Reorganized eLot), from the sale or license of the Intellectual Property and/or the assets of Reorganized eLottery (net of transaction costs, including, but not limited to broker, finder, accounting and/or legal fees and expenses incurred in connection with such transaction and net of payment of any amounts required to repay or retire outstanding indebtedness secured by the Intellectual Property and/or other assets sold); (3) Reorganized eLot and/or its consolidated subsidiaries shall realize at least $1 million in cash or cash equivalents or securities (as reasonably valued by the Board of Directors of Reorganized eLot), from the sale of all or a portion of the DCC Stock (net of transaction costs, including, but not limited to, broker, finder, accounting and/or legal fees and expenses incurred in connection therewith and net of payment of any amounts required to repay or retire outstanding indebtedness secured by the DCC Stock); (4) Reorganized eLot shall have entered into a sale (whether by public or private offering) of all or a portion of shares of the common stock of Reorganized eLottery which results in net proceeds of at least $1 million in cash or cash equivalents or securities (as reasonably valued by the Board of Directors of Reorganized eLot), (net of the costs of sale, including, but not limited to, legal and accounting fees and expenses, printing, filing fees, etc., incurred in connection therewith and any underwriting or similar discounts and commissions and net of payment of any amounts required to repay or retire indebtedness of Reorganized eLot secured by the stock of Reorganized eLottery); (5) Reorganized eLot or Reorganized eLottery shall have entered into a merger, consolidation, or other combination with, or a sale of all or substantially all of its assets in one or more related transactions to any Person (other than any subsidiary of Reorganized eLot) which results in an exchange of the shares of the common stock of Reorganized eLot or of Reorganized eLottery for securities, cash or other consideration; (6) Reorganized eLot shall for any reason file periodic reports under the Securities Exchange Act, as amended (the "Exchange Act"); and (7) Reorganized eLot and its consolidated subsidiaries shall have assets of more than $10 million determined in accordance with SEC Regulations S-X.

C. REPORTING UNDER THE SECURITIES EXCHANGE ACT

Upon the Effective Date of the Plan, Reorganized eLot will have fewer than 300 holders of the New Common Stock and it is Reorganized eLot's intention to terminate registration of the New Common Stock under section 12(g), and suspend its reporting obligations under section 15(d), of the Exchange Act. As a result, Reorganized eLot will not be required to file periodic reports under the Exchange Act, such as reports on Form 10-K and Form 10-Q, until such time as it has 300 holders of its New Common Stock or is otherwise required to file such reports or voluntary elects to commence filing such reports. Under SEC rules, record holders include not only persons or entities who hold such shares "of record," but, also, among others, persons or entities for which a depositary such as the Depositary Trust Company, ("DTC") holds shares as nominee. Without such reporting, current information, including financial information, about Reorganized eLot will not be available and neither the New Common Stock nor any Class of Warrants will be eligible for trading on a national securities exchange, on NASDAQ or through the Over the Counter Bulletin Board. Further, unless Reorganized eLot publishes specified current information regarding its operations and condition and makes the information available to its shareholders, brokers and dealers that may trade in its stock, brokers and dealers will be prohibited from publishing quotations with respect to such securities. Further, in the event that

the price at which the New Common Stock or any Class of Warrants trades is less than $5 per share or Warrant, then the sale of such securities will be subject to the requirements under the Exchange Act for transactions in penny stocks and the receipt by any customer from the customer's broker of a risk disclosure document. Because of these restrictions, the Debtors do not believe that a public market will develop in the New Common Stock or any of the Warrants unless and until the beginning of the year in which it has 300 holders of record of the New Common Stock, or it is required to register the New Common Stock or any of the Warrants under Section 12(g) of the Exchange Act.

If Reorganized eLot has more than 300 holders of the New Common Stock at the beginning of any fiscal year, it will become subject to the reporting requirements of the Exchange Act, unless there is another basis for continued suspension of reporting requirements at that time. The New Common Stock issued to holders of Allowed Class 2 Claims will be freely transferable and assignable from and after the Effective Date (subject to affiliates of the Company complying with Rule 144 of the Securities Act of 1933). Therefore, it is possible that the number of holders of New Common Stock may increase to more than 300 at any time, including if shares are transferred from DTC nominees to beneficial holders. The likelihood that that may occur may increase once the Class A Warrants are distributed by the Warrant Trustee to holders of Allowed Class 2 Claims if the shares of New Common Stock acquired upon the exercise of the Class A Warrants are sold to persons not then holders of New Common Stock.

Under Section 12(g) of the Exchange Act, any company that has a class of equity securities (e.g. the New Common Stock or any Class of the Warrants) held of record by more than 500 persons, and also has more than $10 million of assets determined in accordance with SEC Regulations S-X, as of the end of any calendar year, must register those securities pursuant to Section 12(g) of the Exchange Act within 120 days after year end.

D. POSSIBLE APPLICATION OF INVESTMENT COMPANY ACT OF 1940

Reorganized eLot intends to operate the lottery business and intends to take such actions as reasonably necessary to avoid becoming subject to the Investment Company Act. If Reorganized eLot fails to be engaged primarily, as promptly as possible, and in any event within one year in a business other than investing, owning, holding or trading in securities it may become subject to the Investment Company Act.

X. VOTING PROCEDURES AND REQUIREMENTS

A. CLASS ENTITLED TO VOTE UNDER THE PLAN

Only holders of Allowed Claims or Allowed Equity Interests in the following Classes are authorized to vote to accept or reject the Plan:

Class 2:	Unsecured Claims
Class 4:	Equity Interests
Class 7:	Convenience Claims

B. VOTING REQUIREMENTS

IT IS IMPORTANT THAT HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN. All known holders of Claims and Equity Interests entitled to vote on the Plan have been sent a Ballot together with this Disclosure Statement. Such holders should read the Ballot carefully and follow the instructions contained therein. Please use only the Ballot (or Ballots) that accompanies this Disclosure Statement.

FOR YOUR VOTE TO COUNT, YOUR BALLOT MUST BE RECEIVED BY [_____] NO LATER THAN 5:00 P.M., EASTERN TIME, ON [VOTING DEADLINE]. If you return your Ballot to your agent, you must return your Ballot to them in sufficient time for them to process it and return it to [_____], counsel to [_____], by the voting deadline.

BALLOTS SHOULD NOT BE RETURNED TO THE INDENTURE TRUSTEE.

Any Ballot that is executed and returned but which does not indicate an acceptance or rejection of the Plan will be deemed an acceptance of the Plan. If you have any questions concerning voting procedures, if your Ballot is damaged or lost, or if you need an additional copy of the Disclosure Statement, you may contact Jennifer L. Saffer, Esq. at (212) 704-6000.

C. ACCEPTANCE BY CLASSES OF CLAIMS AND INTERESTS

Under the Bankruptcy Code, acceptance of a Chapter 11 plan by an impaired class of claims occurs when holders of at least two-thirds in dollar amount and more than one-half in number of the allowed claims of that class that cast ballots for acceptance or rejection of a plan of reorganization vote to accept the plan. Thus, acceptance of the Plan by impaired Classes will occur only if at least two-thirds in dollar amount and a majority in number of the holders of Claims in each Class that timely return their Ballots vote in favor of acceptance.

Under the Bankruptcy Code acceptance by an impaired Class of Interests will only occur if more than two-thirds (2/3) of the Allowed Equity Interests in the Class that have voted, vote to accept the Plan. Thus, acceptance of the Plan by Class 4 will occur if holders of two-thirds (2/3's) of the Equity Interests voting to accept or reject the Plan vote to accept the Plan.

A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code. Moreover, the Creditors' Committee will seek to confirm the Plan even if one or more Classes of Claims or Equity Interests do not accept the Plan.

XI. CERTAIN RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK

FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

A. OVERALL RISKS TO RECOVERY BY HOLDERS OF CLAMS

The ultimate recoveries under the Plan to holders of Claims (other than those holders who are paid solely in Cash under the Plan) depend upon the realizable value of the New Common Stock, Class A Warrants and Litigation Proceeds, if any to be issued to such holders. The ultimate recoveries under the Plan to holders of Equity Interests depend on the realized value of the Class B and Class C Warrants to be issued to such holders. The New Common Stock and Warrants to be issued pursuant to the Plan is subject to a number of material risks, including, but not limited to, those specified below. The factors specified below assume that the Plan is approved by the Bankruptcy Court and that the Effective Date occurs on or about _____, 2002.

B. SIGNIFICANT HOLDERS

Upon the consummation of the Plan, certain holders of Claims, may receive distributions of shares of the New Common Stock representing in excess of five percent (5.0%) of the outstanding shares of the New Common Stock. If holders of significant numbers of shares of New Common Stock were to act as a group, such holders could be in a position to control the outcome of actions requiring stockholder approval, including the election of directors. This concentration of ownership could also facilitate or hinder a negotiated change of control of the Reorganized Debtors and, consequently, have an impact upon the value of the New Common Stock and Warrants.

Further, the possibility that one or more of the holders of significant numbers of shares of New Common Stock may determine to sell all or a large portion of their shares of New Common Stock in a short period of time may adversely affect the market price of the New Common Stock and Warrants.

C. LACK OF ESTABLISHED MARKET FOR NEW COMMON STOCK

The New Common Stock will be issued to holders of Allowed pre-Commencement Date Claims, some or all of whom may prefer to liquidate their investment rather than to hold it on a long-term basis. As noted, there currently is no trading market for the New Common Stock nor is it known whether or when one would develop. Further, there can be no assurance as to the degree of price volatility in any such market. While the Plan was developed based on the Debtors' assumed reorganization value of $1.00 per share of the New Common Stock based on 9,250,000 shares of New Common Stock to be issued on the Effective Date for an aggregate reorganization value of approximately $9,250,000, such valuation is not an estimate of the price at which the New Common Stock may trade in the market. Neither the Creditors' Committee nor the Debtors have attempted to make any such estimate in connection with the development of the Plan. No assurance can be given as to the market prices that will prevail following the Effective Date.

D. DIVIDEND POLICIES

Reorganized eLot does not anticipate paying any dividends on the New Common Stock in the foreseeable future. In addition, the Reorganized Debtors may enter into arrangements to fund their operations. The covenants in certain debt instruments to which the Reorganized Debtors may be a party may limit the ability of Reorganized eLot to pay dividends. Certain institutional investors may only invest in dividend-paying equity securities or may operate under other restrictions which may prohibit or limit their ability to invest in New Common Stock or Warrants.

E. PREFERRED STOCK

Until such time (if any) as the Board of Directors of Reorganized eLot determines that Reorganized eLot should issue preferred stock and establishes the respective rights of the holders of one or more series thereof, it is not possible to state the actual effect of authorization of the preferred stock upon the rights of holders of New Common Stock. The effects of such issuance could include, however: (i) reduction of the amount of Cash otherwise available for payment of dividends on New Common Stock if dividends were also payable on the preferred stock; (ii) restrictions on dividends on New Common Stock if dividends on the preferred stock were in arrears; (iii) dilution of the voting power of New Common Stock (if the preferred stock were to have voting rights (including, without limitation, votes pertaining to the removal of directors)); and (iv) restriction of the rights of holders of New Common Stock to share in Reorganized eLot's assets upon liquidation until satisfaction .of any liquidation preference granted to the holders of preferred stock. In addition, so-called "blank check" preferred stock may be viewed as having possible anti-takeover effects, if it were used to make a third party's attempt to gain control of Reorganized eLot more difficult, time consuming or costly.

eLot has no current plans pursuant to which preferred stock would be issued as an anti-takeover device or otherwise.

XII. CONFIRMATION OF THE PLAN

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan.

A. THE CONFIRMATION HEARING

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled for _____ at the Courtroom of The Honorable Allan L. Gropper, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for an announcement of the adjourned date made at the Confirmation Hearing. Any objection to confirmation must be made in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim or number and type of shares of Equity Interests held by the objector. Any such objection must be filed with the Bankruptcy Court and served so that it is received by the Bankruptcy Court and the following parties on or before **[**Insert Plan Objections Deadline] at 4:00 p.m. Eastern Standard Time:

Jenkens & Gilchrist Parker Chapin LLP
Attorneys for the Creditors' Committee
405 Lexington Avenue
New York, New York 10174
Attn: Hollace T. Cohen, Esq.

ANGEL & FRANKEL, P.C.
Attorneys for Debtors
460 Park Avenue
New York, New York 10022
Attn: Neil Y. Siegel, Esq.

Office Of The United States Trustee
33 Whitehall Street
21st Floor
New York, New York 10004
Attn: Paul N. Schwartzberg, Esq.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

B. REQUIREMENTS FOR CONFIRMATION OF THE PLAN

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of a plan are that the plan is (i) accepted by all impaired classes of claims and equity interests or, if rejected by an impaired class, that the plan "does not discriminate unfairly" and is "fair and equitable" as to such class, (ii) feasible and (iii) in the "best interests" of creditors and stockholders that are impaired under the plan.

1. Unfair Discrimination and Fair and Equitable Tests

To obtain nonconsensual confirmation of the Plan, it must be demonstrated to the Bankruptcy Court that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to each impaired, nonaccepting Class. The Bankruptcy Code provides a non-exclusive definition of the phrase "fair and equitable." The Bankruptcy Code establishes "cram down" tests for secured creditors, unsecured creditors and equity holders, as follows:

(a) Secured Creditors. Either (i) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim deferred cash payments having a present value equal to the amount of its allowed secured claim, (ii) each impaired secured creditor realizes the "indubitable equivalent" of its allowed secured claim or (iii) the property securing the claim is sold free and clear of liens with such liens to attach to the proceeds of the sale and the treatment of such liens on proceeds to be as provided in clause (i) or (ii) of this subparagraph.

(b) Unsecured Creditors. Either (i) each impaired unsecured creditor receives or retains under the plan property of a value equal to the amount of its allowed claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

(c) Equity Interests. Either (i) each holder of an equity interest will receive or retain under the plan property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled or the value of the interest or (ii) the holder of an interest that is junior to the nonaccepting class will not receive or retain any property under the plan.

2. Feasibility

The Bankruptcy Code permits a plan to be confirmed if it is not likely to be followed by liquidation or the need for further financial reorganization. Under the business plan contemplated by the Plan, Reorganized eLot will initially operate as a holding company with investments in the MDI stock, the Virtgame stock, the DCC stock and options and the Patents and other intellectual property owned by the Reorganized Debtors. The management of Reorganized eLot will seek to maximize the value of the New Common Stock by managing these assets in the most cost efficient manner. The Reorganized Debtors will have a part time accountant who will assist in the claims resolution process and will be responsible for the preparation and filing of all tax returns related to both the pre-petition and post-petition periods and, to the extent management determines appropriate, the filing of reports under securities and other applicable laws. Reorganized eLot will have a President, who, will provide services initially on a part time basis including the management of the Reorganized Debtors assets. The Creditors' Committee and the Debtors believe that at such time as favorable legislation were passed relative to use of the internet for lotteries the Boards of Directors of the Reorganized Debtors will be in a position to determine whether a sale or licensing of the Patent and other intellectual property, or the development of their own internet operations or other use of these assets will be most beneficial.

The Debtors believe that the Reorganized Debtors can be operated for approximately $500,000 per year. For purposes of determining whether the Plan meets the feasibility requirement, the Debtors have supplied a projected Effective Date balance sheet, a copy of which is attached hereto as Exhibit C as well as a budget for the period January 2003 through December 2003 (the "Budget"), a copy of which is attached hereto as Exhibit D. Based on the Budget, the Creditors' Committee and the Debtors believe that the Reorganized Debtors will be able to make all payments required pursuant to the Plan and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

Sources of Cash on the Effective Date and for operation of the Reorganized Debtors thereafter, are the Reorganized Debtors' cash on hand, sales (or tenders) of the stock of Virtgame and the common stock of MDI, and the loan to be extended to the Reorganized Debtors by Alpine and Morse in the amount of up to $1,400,000.

3. Best Interests Test

With respect to each impaired class of claims and equity interests, confirmation of a plan requires that each holder of a claim or equity interest either (i) accept the plan or (ii) receive or retain under the plan property of a value, as of the effective date, that is not less than the value such holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To determine what holders of Claims and Equity Interests of each impaired Class would receive if the Debtors were liquidated under chapter 7, the Bankruptcy Court must determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation case. The cash amount which would be available for satisfaction of Claims and Equity Interests would consist of the proceeds resulting from the disposition of the unencumbered assets and properties of the Debtors, augmented by the unencumbered cash held by the Debtors at the time of the commencement of the liquidation case. Such cash amount would be reduced by the amount of the costs and expenses of the liquidation and by such additional administrative and priority claims that might result from the termination of the Debtors' business and the use of chapter 7 for the purposes of liquidation.

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those which might be payable to attorneys and other professionals that such a trustee might engage. In addition, claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the debtor during the pendency of the Chapter 11 case. The foregoing types of claims and other claims which might arise in a liquidation case or result from the pending Chapter 11 case, including any unpaid expenses incurred by the debtor during the Chapter 11 case such as compensation for attorneys, financial advisors and accountants, would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay prepetition unsecured claims.

To determine if the Plan is in the best interests of each impaired Class, the present value of the distributions from the proceeds of a liquidation of the Debtors' unencumbered assets and properties, after subtracting the amounts attributable to the foregoing claims, are then compared with the value of the property offered to such classes of claims and equity interests under the plan.

After considering the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Chapter 11 Cases, including (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) the erosion in value of assets in a chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail, and (iii) inability to maximize value on account of, among other things, the Patent and the DCC Stock which is closely held, the Creditors' Committee and the Debtors have determined that confirmation of the Plan will provide each holder of an Allowed Claim or Equity Interest with a recovery that is not less than such holder would receive pursuant to liquidation of the Debtors under chapter 7.

The Creditors' Committee and the Debtors also believe that the value of any distributions to each Class of Allowed Claims in a chapter 7 case, would be less than the value of distributions under the Plan because such distributions in a chapter 7 case would not occur for a substantial period of time. It is likely that distribution of the proceeds of the liquidation could be delayed after the completion of such liquidation in order to resolve Claims and prepare for distributions. In the likely event litigation was necessary to resolve Claims asserted in the chapter 7 case, the delay could be prolonged.

XIII. VALUE OF THE REORGANIZED DEBTORS

The Debtors believe that the value of the Reorganized Debtors is approximately $10.5 million.

Estimates of value do not purport to be appraisals or necessarily reflect the values that may be realized if assets are sold as a going concern, in liquidation, or otherwise. The estimates of value represent hypothetical values of the Reorganized Debtors as the continuing owner and operator of their business and assets. Such estimates reflect computations of the estimated value of the Reorganized Debtors through the application of various valuation techniques and do not purport to reflect or constitute appraisals, liquidation values or estimates of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly different than the amounts set forth herein. AS A RESULT, THE ESTIMATE OF THE VALUE FOR THE REORGANIZED DEBTORS SET FORTH HEREIN IS NOT NECESSARILY INDICATIVE OF ACTUAL OUTCOMES, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN THOSE SET FORTH HEREIN. BECAUSE SUCH ESTIMATE IS INHERENTLY SUBJECT TO UNCERTAINTIES, NEITHER THE CREDITORS' COMMITTEE, THE DEBTORS, THEIR RESPECTIVE RETAINED PROFESSIONALS AND ADVISORS, NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR ITS ACCURACY. IN ADDITION, THE VALUATION OF NEWLY-ISSUED SECURITIES SUCH AS THE NEW COMMON STOCK AND WARRANTS IS SUBJECT TO ADDITIONAL UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT. Actual market prices of such securities at issuance will depend upon, among other things, prevailing interest rates, conditions in the financial markets, the anticipated initial securities holdings of prepetition creditors, some of which may prefer to liquidate their investment rather than hold it on a long-term basis, and other factors which generally influence the prices of securities. It should be noted that there is presently no trading

market for the New Common Stock or the Warrants, and there can be no assurance that a trading market will develop.

The valuation analysis set forth herein was performed for purposes of determining the value available to distribute pursuant to the Plan and analyzing relative recoveries to holders of Allowed Claims and Equity Interests thereunder.

XIV. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Creditors' Committee and the Debtors have evaluated alternatives to the Plan, including the liquidation of the Debtors. After studying these alternatives, the Creditors' Committee and the Debtors have concluded that the Plan is the best alternative and will maximize recoveries by parties in interest, assuming confirmation of the Plan. The following discussion provides a summary of the Debtors' and Creditors' Committee's analysis leading to its conclusion that a liquidation or alternative plan of reorganization would not provide the highest value to parties in interest.

A. LIQUIDATION UNDER CHAPTER 7

If no plan of reorganization can be confirmed, the Debtors' Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which one or more trustees would be elected or appointed to liquidate the assets of the Debtors for distribution to its creditors in accordance with the priorities established by the Bankruptcy Code. A discussion of the effect that a chapter 7 liquidation would have on the recovery of holders of Allowed Claims and Allowed Equity Interests is set forth in the preceding Section XIIB3. The Debtors and the Creditors' Committee believe that liquidation under chapter 7 would result in (1) smaller distributions being made to creditors and holders of common stock than those provided for in the Plan, and (2) the failure to realize the greater future value of the Debtors' assets.

B. ALTERNATIVE PLAN OF REORGANIZATION

If the Plan is not confirmed, the Debtors or any other party in interest could attempt to formulate a different plan. Such a plan might involve either a reorganization and continuation of the debtors' business or an orderly liquidation of their assets. The Debtors and the Creditors' Committee believe that the Plan, as described herein, enables holders of Claims and Equity Interests to realize the greatest recovery under the circumstances. In a liquidation under chapter 11, the Debtors' assets would be sold in an orderly fashion over a more extended period of time than in a liquidation under chapter 7, resulting in greater proceeds than under chapter 7. Further, if a trustee were not appointed, because one is not required in Chapter 11 cases, the expenses for professional fees would most likely be lower than in chapter 7 cases. Although preferable to a chapter 7 liquidation, the Debtors and the Creditors' Committee believe that a liquidation under chapter 11 is a much less attractive alternative to holders of Claims than the Plan because the return to holders of Allowed Claims provided for in the Plan is likely to be greater than the returns under a chapter 11 liquidation.

XV. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. INTRODUCTION

THE FOLLOWING DISCUSSION IS A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO THE DEBTORS, HOLDERS OF CLAIMS WHO ACQUIRED SUCH CLAIMS ON ORIGINAL ISSUANCE, AND HOLDERS OF EQUITY INTERESTS AND IS BASED ON THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "TAX CODE"), TREASURY REGULATIONS PROMULGATED AND PROPOSED THEREUNDER, JUDICIAL DECISIONS AND PUBLISHED ADMINISTRATIVE RULES AND PRONOUNCEMENTS OF THE INTERNAL REVENUE SERVICE ("IRS"), ALL AS IN EFFECT ON THE DATE HEREOF. CHANGES IN SUCH RULES OR NEW INTERPRETATIONS THEREOF COULD SIGNIFICANTLY AFFECT THE TAX CONSEQUENCES DESCRIBED BELOW. NO RULINGS HAVE BEEN REQUESTED FROM THE IRS AND NO OPINIONS HAVE BEEN OBTAINED FROM COUNSEL WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN.

THE FEDERAL, STATE, LOCAL AND OTHER INCOME TAX CONSEQUENCES OF THE PLAN TO THE HOLDERS OF CLAIMS AND EQUITY INTERESTS MAY VARY BASED UPON THE SPECIFIC CIRCUMSTANCES OF EACH HOLDER. THIS DISCUSSION DOES NOT COVER ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO THE DEBTORS OR THE HOLDERS OF CLAIMS OR EQUITY INTERESTS, NOR DOES THIS SUMMARY DEAL WITH TAX ISSUES SPECIFIC TO CERTAIN TYPES OF TAXPAYERS, SUCH AS DEALERS IN SECURITIES, S CORPORATIONS, INSURANCE COMPANIES, FINANCIAL INSTITUTIONS, TAX-EXEMPT ORGANIZATIONS AND FOREIGN PERSONS. IN ADDITION, THE STATE, LOCAL, FOREIGN OR ESTATE AND GIFT TAX ISSUES ARE NOT ADDRESSED HEREIN.

THE FOLLOWING SUMMARY IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND, THEREFORE, EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISOR FOR THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES PARTICULAR TO SUCH HOLDER UNDER THE PLAN.

B. GENERAL CONSEQUENCES TO HOLDERS OF CLAIMS

The federal income tax consequences of the implementation of the Plan to a holder of a Claim will depend, among other things, upon the origin of the holder's Claim, when the holder's Claim becomes an Allowed Claim, when the holder receives payment in respect of such Claim, whether the holder reports income using the accrual or cash method of accounting, whether the holder has taken a deduction for the worthlessness of such Claim and whether the Claim is a capital asset in the hands of the holder.

1. Holders of Allowed Administrative Expense Claims (Unclassified) and Allowed Other Priority Claims (Class 1).

Each holder of Allowed Administrative Expense Claims and Allowed Other Priority Claims generally will be paid in full in cash on or after the Effective Date. Each such holder must include amounts received in excess of his, her or its adjusted tax basis in the Claim (if any) in gross income in the taxable year in which such amounts are actually or constructively received, except to the extent such amounts have been previously taken into income. Where appropriate, income tax and employment tax will be withheld from such payments as required by law.

2. Holders of Allowed Unsecured Claims (Class 2).

Each holder of an Allowed Unsecured Claim in Class 2 who does not elect to have the Claim treated as a Convenience Claim (described below) and each holder of an Unsecured Claim payable with respect to the Debentures will receive on or after the Effective Date shares of the New Common Stock and the Warrant Trustee, as nominee, will receive, the pro rata benefit of holders of Allowed Class 2 Claims, the Class A Warrants. The Class A Warrants will be distributed to holders of Allowed Class 2 Claims on the Class A Warrant Distribution Date. A holder of an Unsecured Claim generally will recognize income or loss in the taxable year in which the New Common Stock and Class A Warrants are actually or constructively received by the holder. The amount of any such income recognized will be equal to the difference between (i) the sum of the fair market value of the New Common Stock and Class A Warrants when received and (ii) the holder's adjusted tax basis in the Unsecured Claim (other than basis attributable to any accrued but unpaid interest previously included in the holder's taxable income). Any amounts received in respect of an Allowed Unsecured Claim for accrued but unpaid interest will be taxed to the holder as ordinary interest income, except to the extent previously included in income by the holder under his, her or its method of accounting. It is assumed for purposes of this discussion that each Unsecured Claim will be treated as bona fide indebtedness (rather than equity) for federal income tax purposes.

A holder's tax basis in the New Common Stock and Class A Warrants received in satisfaction of such holder's Unsecured Claim will generally be equal to the respective fair market values of such stock and the Warrants on the date of their actual or constructive receipt. In general, the holder's holding period for the New Common Stock and Class A Warrants will begin on the date of the actual or constructive receipt thereof.

Provided that the New Common Stock and Class A Warrants are capital assets in the hands of a holder, any gain recognized by a holder upon a subsequent taxable disposition of the New Common Stock or Class A Warrants received pursuant to the Plan in satisfaction of the holder's Allowed Unsecured Claim generally will be a long-term capital gain if the New Common Stock or Class A Warrants have been held by the holder for more than one year prior to the disposition. However, any such gain will be treated as ordinary income to the extent of any bad debt deductions (or additions to a bad debt reserve) claimed with respect to the Unsecured Claim and any ordinary loss recognized upon satisfaction of such Claim.

C. CONSEQUENCES TO HOLDERS OF INTERCOMPANY CLAIMS (CLASS 3).

On the Effective Date, all Intercompany Claims will be cancelled. Each holder of an Intercompany Claim will recognize a loss. A deduction should be available for the amount of such cancelled claim.

D. CONSEQUENCES TO HOLDERS OF EQUITY INTERESTS (CLASS 4).

[The Warrant Trustee will, as nominee, receive for the benefit of holders of Allowed Class 4 Equity Interests, the Class B Warrants and Class C Warrants. The Class B Warrants and Class C Warrants will be distributed by and will be exercisable upon the Class B and Class C Warrant Distribution Date. Generally, a holder of an Equity Interest will realize gain or loss on the exchange of the Equity Interest for the Class B and Class C Warrants in an amount equal to the difference between (i) the fair market value of Class B and Class C Warrants on the date of the actual or constructive receipt and (ii) the adjusted basis of the Equity Interest in the hands of such holder.

Whether such realized gain or loss will be included in gross income by each holder for federal income tax purposes will depend in part upon whether such exchange qualifies as a "reorganization" as defined in section 368 of the Tax Code. The management of the Company believes that the receipt of the Class B and Class C Warrants in exchange for the Equity Interests will not constitute a "reorganization" for federal income tax purposes. Therefore, a holder of an Allowed Equity Interest generally should recognize gain or loss on the constructive exchange under the Plan of such interest for the Class B and Class C Warrants. No ruling will be obtained from the Internal Revenue Service ("IRS") regarding the treatment of the issuance of the Class B and Class C Warrants in exchange for the Equity Interests. If the receipt of the and Class B and Class C Warrants in exchange for the Equity Interests constitutes a taxable exchange for federal income tax purposes, a holder's "aggregate tax basis" in such Warrants received in satisfaction of the Equity Interests will generally equal the holder's aggregate adjusted tax basis in [see below "Consequences of the Exercise, Sale or Lapse of the Warrnats"] the Equity Interest plus the amount of any gain recognized.

E. CONSEQUENCES TO HOLDERS OF OPTIONS (CLASS 5).

On the Effective Date, all Options will be extinguished and holders of Options will not receive any distributions pursuant to the Plan. Accordingly, holders of Options will realize a loss equal to their adjusted tax basis, if any, in their Options upon implementation of the Plan. Any such loss will be a long-term capital loss if the Options were a capital asset in the hands of the holder and were owned by the holder for more than one year.

F. CONSEQUENCES TO HOLDERS OF SECURED CLAIMS (CLASS 6).

Each holder of an Allowed Secured Claim will be reinstated as a Secured Claim holder and may, in the sole discretion of the Reorganized Debtors, receive cash or collateral with respect to such holder's Claim. Upon such actual or constructive receipt of cash or property in satisfaction of the holder's Secured Claim, such holder will recognize gain or loss equal to the difference between the amount of cash or the fair market value of the property received and the holder's tax basis in the Claim. If the Secured Claim were a capital asset in the hands of the

holder and were owned by the holder for more than one year, any such gain or loss will be long-term gain or loss, except for the accrued and unpaid interest on the Claim, which will be treated as ordinary income.

G. CONSEQUENCES TO HOLDERS OF CONVENIENCE CLAIMS (CLASS 7).

Each holder of an Allowed Convenience Claim will be entitled on the Effective Date to receive an amount of cash equal to 27% of such holder's Claim not exceeding $1,000. Allowed holders of Unsecured Claims other than on account of the Debentures may elect to have their Claims treated as Convenience Claims provided such holder waives the amount of their Allowed Claim to the extent it exceeds $1,000. Each such holder will realize gain or loss equal to the difference between the amount of cash received and the holder's tax basis in the Convenience Claim (or the Unsecured Claim, as the case may be). If the amount of the tax basis in such claim exceeds the amount realized, the difference will constitute a loss. Any gain or loss recognized by such holder will be a long-term capital gain or loss, as the case may be, if the Convenience Claim (or the Unsecured Claim as the case may be) were a capital asset in the hands of the holder and were held by it for more than one year.

1. Allocation of Distributions to Accrued Interest.

Pursuant to the Plan, all distributions in respect of Allowed Claims will be allocated first to the principal amount of the Allowed Claim, with any excess allocated to unpaid accrued interest. However, there is no assurance that such allocation would be respected by the IRS for federal income tax purposes. In general, to the extent any amount (whether stock or cash) is received by a debt holder on account of accrued interest owed to such holder, such amount will be taxable to the holder as interest income (if not previously included in the holder's gross income). With respect to any unpaid interest, a holder generally will recognize a deductible loss to the extent such accrued interest was previously included in the holder's gross income. Each holder is urged to consult their own tax advisor regarding the allocation of the consideration received by such holder.

2. Tax Withholding.

All distributions under the Plan are subject to any applicable withholding. Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to backup withholding, currently at a 30% tax rate. Backup withholding generally applies if the holder (a) fails to furnish its social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that it is not subject to backup withholding and that the TIN provided is its correct TIN. Backup withholding is not an additional tax but is an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

H. CONSEQUENCES OF EXERCISE, SALE OR LAPSE OF WARRANTS

No gain or loss will be recognized by a holder upon the exercise of a Class A, Class B or Class C Warrant. A holder's tax basis in any New Common Stock acquired pursuant to the exercise of such Warrant will equal the sum of the holder's tax basis in the exercised Warrant and any amount paid upon such exercise. Upon the sale of the New Common Stock acquired by a holder of a Class A, Class B or Class C Warrant, such holder will recognize capital gain or loss, provided the shares are held by the holder as a capital asset. If the shares are held for more than one year after the exercise of a Warrant and prior to the sale, the holder will recognize long-term gain or loss.

Upon the sale of a Class A, Class B or Class C Warrant, a holder generally will recognize capital gain or loss equal to the difference between the amount received upon such sale and the holder's tax basis in the Warrant. Such gain or loss will be long-term capital gain or loss if the Warrant is a capital asset in the hands of the holder and has been held for more than one year. In the event a Class A, Class B or Class C Warrant lapses prior to its exercise or sale, the holder of such Warrant will be deemed to have sold such Warrant on the date of such lapse and will recognize a long-term or short-term capital loss equal to the holder's tax basis in such Warrant.

Any gain recognized by a holder upon a taxable disposition of a Class A, Class B or Class C Warrant or New Common Stock acquired upon the exercise of such Warrant will be treated as ordinary income to the extent of any bad debt deductions (or additions to a bad debt reserve) previously claimed with respect to the holder's Claim exchanged for the Warrant and any ordinary loss recognized upon satisfaction of such Claim.

I. CONSEQUENCES TO DEBTORS

1. Cancellation-of-Debt ("COD") Income.

In general, the discharge of a debt obligation by a debtor for an amount less than the adjusted issue price (generally, the amount received upon incurring the obligation plus the amount of any previously amortized original issue discount and less the amount of any previously amortized bond issue premium) results in COD income which must be reported by the debtor for federal income tax purposes, unless, in accordance with section 108(e)(2) of the Code, payment of the liability would have given rise to a deduction. A corporate debtor that issues its own stock in satisfaction of its debt is treated as realizing COD income to the extent the fair market value of the stock is less than the adjusted issue price of the old debt. COD income is not recognized by a taxpayer that is a debtor in a bankruptcy case if the discharge is granted by the court or pursuant to a plan approved by the court.

Pursuant to the Plan, the Unsecured Claims, including the Debenture Claims, based upon current estimates of the value of the New Common Stock, cash and Class A, Class B and Class C Warrants upon issuance to holders of the Unsecured Claims, will be satisfied at less than their full value, thereby giving rise to COD income. Such COD income will not be included in the gross income of the Debtors, but will reduce the Debtors' tax attributes as described below. The amount of such COD income will equal the difference between (i) the sum of the fair market value of the New Common Stock and Class A, Class B and Class C Warrants issued and any

cash distributed and (ii) the sum of the amount of the Unsecured Claims (including any Claims payable with respect to the Debentures) that are extinguished (including any accrued and unpaid interest).

2. Attribute Reduction.

A taxpayer that excludes COD income because of a discharge of indebtedness in bankruptcy is required to reduce certain tax attributes. Such attributes must be reduced, among other things, in the following order: (i) net operating losses ("NOLs") for the taxable year of the discharge and NOL carryovers to such taxable year, dollar for dollar; (ii) general business credit carryovers, 33-l/3 cents for each dollar of excluded income; (iii) the minimum tax credit available under section 53(b) of the Tax Code as of the beginning of the taxable year immediately following the taxable year of the discharge, 33-l/3 cents for each dollar of excluded income; (iv) any capital losses for the taxable year of the discharge and any capital loss carryovers to such taxable year, dollar for dollar; (v) the basis of the taxpayer's depreciable and non-depreciable assets, dollar for dollar; and (vi) passive activity loss or credit carryovers of the taxpayer under section 469(b) of the Code from the taxable year of the discharge, dollar for dollar in the case of loss carryovers and 33-l/3 cents for each dollar of excludible income in the case of any passive activity credit carryovers. However, the taxpayer may elect under section 108(b)(5) of the Code, in lieu of the attribute reduction set forth above, to reduce the basis of depreciable property first. This election extends to the stock of a subsidiary if the subsidiary consents to reduce the basis of its depreciable property. The Debtors do not expect to make the election to reduce the basis of their depreciable assets first under section 108(b)(5) of the Code.

It is not clear whether, in the case of a consolidated group (such as the Debtors or Reorganized Debtors), the attribute reduction rules apply separately to the corporation the debt of which is being discharged, and not to the entire group without regard to the identity of the debtor. The Debtors or Reorganized Debtors may take the position that the attribute reduction rules should be applied on a company-by-company basis. There is no assurance that the IRS would not challenge such a position.

3. Utilization of Debtors' NOL Carryovers.

In general, whenever there is a 50% ownership change of a debtor corporation during a three-year period, the ownership change rules in section 382 of the Code limit the use of NOLs on an annual basis to the product of the fair market value of the corporation immediately before the ownership change, multiplied by a long-term tax-exempt rate published monthly by the IRS. The current long-term tax-exempt rate is 4.50%. In any given year, this limitation may be increased by certain built-in gains realized after, but accruing economically before, the ownership change and the carryover of unused section 382 limitations from prior years.

On the other hand, if at the date of an ownership change the adjusted basis for federal income tax purposes of a debtor's assets exceeds the fair market value of such assets by prescribed amounts (a "net unrealized built-in loss"), then, upon the realization of such built-in losses during a five-year period beginning on the date of the ownership change, such losses are treated as if they were part of the net operating loss carryover, rather than the current deduction, and are also subject to the section 382 limitation.

The Debtors believe that implementation of the Plan will result in a section 382 change of ownership. The effect of the ownership change rules can be ameliorated by an exception that applies in the case of reorganizations under the Bankruptcy Code. Under section 382(l)(5) of the Code, the general ownership change rules will not apply upon an exchange by qualifying creditors and stockholders of their claims and interests for at least 50% of the debtor's stock (by vote and value). Instead, the debtor's NOL will not be limited on an annual basis but will be reduced by the amount of interest deductions claimed during the three-year period preceding the year of ownership change, in respect of debt converted into stock in the reorganization. Moreover, if the section 382(l)(5) bankruptcy exception applies, any further ownership change of the debtor within a two-year period will result in forfeiture of all of the debtor's NOLs incurred prior to the date of the second ownership change.

If the debtor does not otherwise qualify for the section 382(l)(5) bankruptcy exception, the use of the NOL will be governed by section 382(l)(6) of the Code, which sets forth a special valuation rule. Under this rule, the equity of the corporation for purposes of applying the section 382(b) limitation formula is valued by using the value immediately after the ownership change (which will increase the value of the old loss corporation to reflect any surrender or cancellation of creditors' claims) instead of immediately before the ownership change.

Based on their consolidated federal income tax return for the taxable year ending December 31, 2001, the Debtors had an NOL carryover of approximately $[____] million. Such NOL carryover will be reduced by any COD income generated under the Plan as discussed above. In addition, the amount of the carryover could be reduced or eliminated because of audit adjustments by the IRS that result from IRS examinations of the Debtors' tax returns. Depending upon the valuation of the Debtors' assets, the Debtors could have a net unrealized built-in loss upon the ownership change arising from implementation of the Plan. The amount of any NOL carryforwards available to the Debtors or Reorganized Debtors will be dependent on factual information and cannot be ascertained at this time.

4. Consolidated Return Items.

The confirmation of the Plan may result in the recognition of income or loss attributable to the existence of deferred intercompany transactions, excess loss accounts or similar items. The Debtors believe that the any recognition of such items (if any) should not have a material effect on them.

5. Alternative Minimum Tax.

A corporation is required to pay alternative minimum tax to the extent that 20% of alternative minimum taxable income ("AMTI") exceeds the corporation's regular tax liability for the year. AMTI is generally equal to regular taxable income with certain adjustments. For purposes of computing AMTI, a corporation is entitled to offset no more than 90% of its AMTI with NOLs (as computed for alternative minimum tax purposes). Thus, if the Reorganized Debtors' consolidated group is subject to the alternative minimum tax in future years, a federal tax of 2% (20% of the 10% of AMTI not offset by NOLs) will apply to any net taxable income earned by the Reorganized Debtors' consolidated group in future years that is otherwise offset by NOLs.

J. FEDERAL INCOME TAX TREATMENT OF TRUST

Under the terms of the Plan, the Class A, Class B and Class C Warrants will be transferred to a trust formed for the purpose of administering distributions under the Plan to certain holders of Allowed Claims and Allowed Interests. It is the intention of management of the Debtors that such trust be formed and maintained as a liquidating trust within the meaning of Treasury Regulation § 301.7701-4(d) and a grantor trust under section 671 of the Code. The management of the Debtors believes that the Trust will comply with the requirements applicable to trusts in order to allow the Trust to be treated as a liquidating trust. However, no rulings with be sought from the IRS regarding the tax status of the Trust. Accordingly, there is no guarantee that upon examination the IRS will agree that the Trust is a liquidating trust taxable as a grantor trust.

If the Trust is a liquidating trust that is treated as a grantor trust for purposes of the Tax Code, each beneficiary will be treated as directly owning his, her or its share of the Trust Assets. As a result, any items of income, loss, deduction or credit of the Trust for federal income tax purposes will be allocable to the trust assets deemed owned by the respective beneficiary. Any such items will be reported by the affected beneficiary on his, her or its federal (and applicable state and local) income tax return.

The Warrant Trustee will be required to file an annual statement with the IRS setting forth any items of income, gain, loss, deduction, or credit of the Trust. The statement will be accompanied by IRS Form 1041 (U.S. Income Tax Return for Estates and Trusts). A copy of the statement will also be furnished to each beneficiary.

XVI. CONCLUSION AND RECOMMENDATION

The Debtors and the Creditors' Committee believe that confirmation and implementation of the Plan is preferable to any of the alternatives described above because it will provide the greatest recoveries to holders of Claims. Other alternatives would involve significant delay, uncertainty and substantial additional administrative costs. The Debtors and the Creditors' Committee members urge holders of Claims entitled to vote to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received not later than 5:00 p.m., Eastern Time, on **[**Insert Plan Objections Deadline**]**.

Dated: New York, New York
November __, 2002

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF eLOT, INC. AND eLOTTERY, INC.
By: Alpine Associates L.P., its Chairman

By: _____

eLot, Inc.

By: _____

eLottery, Inc.

By: _____

THIS PAGE INTENTIONALLY LEFT BLANK