

SCIENTIFIC GAMES CORP
Form 10-Q
August 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

{Mark One}

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission file number: 0-13063

SCIENTIFIC GAMES CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

81-0422894
(I.R.S. Employer Identification No.)

750 Lexington Avenue, New York, New York 10022

(Address of principal executive offices)

(Zip Code)

(212) 754-2233

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of August 6, 2010:

Class A Common Stock: **91,419,609**
Class B Common Stock: **None**

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

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

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of June 30, 2010 and December 31, 2009

(Unaudited, in thousands, except per share amounts)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 151,453	\$ 260,131
Accounts receivable, net of allowance for doubtful accounts of \$2,252 and \$2,140 as of June 30, 2010 and December 31, 2009, respectively	157,131	177,967
Inventories	66,852	73,940
Deferred income taxes, current portion	15,792	22,557
Prepaid expenses, deposits and other current assets	43,488	47,031
Assets held for sale	89,273	91,102
Total current assets	523,989	672,728
Property and equipment, at cost	770,300	751,713
Less: accumulated depreciation	(310,016)	(283,274)
Property and equipment, net	460,284	468,439
Goodwill, net	736,704	772,732
Intangible assets, net	73,844	79,822
Other assets and investments	405,876	298,071
Total assets	\$ 2,200,697	\$ 2,291,792
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Debt payments due within one year	\$ 8,873	\$ 24,808
Accounts payable	37,908	57,309
Accrued liabilities	113,052	122,989
Liabilities held for sale	20,532	20,097
Total current liabilities	180,365	225,203
Deferred income taxes	34,826	37,418
Other long-term liabilities	61,228	67,158
Long-term debt, excluding current installments	1,368,921	1,342,255
Total liabilities	1,645,340	1,672,034
Commitments and contingencies		
Stockholders equity:		
Class A common stock, par value \$0.01 per share, 199,300 shares authorized, 97,295 and 97,013 issued and 92,398 and 93,883 shares outstanding as of June 30, 2010 and	973	939

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December 31, 2009, respectively		
Additional paid-in capital	667,557	651,348
Accumulated earnings	18,724	18,180
Treasury stock, at cost, 4,897 and 3,130 shares held as of June 30, 2010 and December 31, 2009, respectively	(66,352)	(48,125)
Accumulated other comprehensive loss	(65,545)	(2,584)
Total stockholders' equity	555,357	619,758
Total liabilities and stockholders' equity	\$ 2,200,697	\$ 2,291,792

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended June 30, 2010 and 2009

(Unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,	
	2010	2009
Revenues:		
Instant tickets	\$ 118,439	\$ 112,795
Services	101,010	105,459
Sales	13,584	6,774
Total revenues	233,033	225,028
Operating expenses:		
Cost of instant tickets (exclusive of depreciation and amortization)	68,227	65,617
Cost of services (exclusive of depreciation and amortization)	55,171	58,526
Cost of sales (exclusive of depreciation and amortization)	9,600	4,963
Selling, general and administrative expenses	40,552	39,132
Write-down of assets held for sale	5,874	
Depreciation and amortization	27,078	30,261
Operating income	26,531	26,529
Other expense (income):		
Interest expense	24,845	21,395
Equity in earnings of joint ventures	(13,631)	(15,480)
Gain on early extinguishment of debt		(1,756)
Other expense, net	6,584	931
	17,798	5,090
Income before income taxes	8,733	21,439
Income tax expense	13,076	1,093
Net (loss) income	\$ (4,343)	\$ 20,346
Basic and diluted net (loss) income per share:		
Basic net (loss) income per share	\$ (0.05)	\$ 0.22
Diluted net (loss) income per share	\$ (0.05)	\$ 0.22
Weighted-average number of shares used in per share calculations:		
Basic shares	93,552	92,463
Diluted shares	93,552	93,959

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Six Months Ended June 30, 2010 and 2009

(Unaudited, in thousands, except per share amounts)

	Six Months Ended June 30,	
	2010	2009
Revenues:		
Instant tickets	\$ 227,538	\$ 222,872
Services	194,714	205,720
Sales	27,120	27,126
Total revenues	449,372	455,718
Operating expenses:		
Cost of instant tickets (exclusive of depreciation and amortization)	132,144	132,711
Cost of services (exclusive of depreciation and amortization)	109,613	117,194
Cost of sales (exclusive of depreciation and amortization)	19,866	20,385
Selling, general and administrative expenses	79,108	80,618
Write-down of assets held for sale	5,874	
Employee termination costs		3,920
Depreciation and amortization	54,733	61,404
Operating income	48,034	39,486
Other expense (income):		
Interest expense	49,559	40,204
Equity in earnings of joint ventures	(29,443)	(30,578)
Gain on early extinguishment of debt		(4,044)
Other expense (income), net	12,566	(986)
	32,682	4,596
Income before income taxes	15,352	34,890
Income tax expense	14,808	39,734
Net income (loss)	\$ 544	\$ (4,844)
Basic and diluted net income (loss) per share:		
Basic net income (loss) per share	\$ 0.01	\$ (0.05)
Diluted net income (loss) per share	\$ 0.01	\$ (0.05)
Weighted-average number of shares used in per share calculations:		
Basic shares	93,771	92,500
Diluted shares	94,364	92,500

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2010 and 2009

(Unaudited, in thousands, except per share amounts)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 544	\$ (4,844)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	54,733	61,404
Change in deferred income taxes	11,611	35,016
Stock-based compensation	12,533	18,618
Non-cash interest expense	3,396	8,402