

SCIENTIFIC GAMES CORP  
Form 10-Q  
August 08, 2012  
Table of Contents

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

FORM 10-Q

{Mark One}

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

For the quarterly period ended June 30, 2012

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)

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 T 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 T 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Table of Contents

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

The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of August 3, 2012:

Class A Common Stock: 91,502,855

Class B Common Stock: None

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Table of Contents

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES  
INDEX TO FINANCIAL INFORMATION  
AND OTHER INFORMATION  
THREE MONTHS ENDED JUNE 30, 2012

PART I.	<u>FINANCIAL INFORMATION</u>	4
Item 1.	<u>Financial Statements</u>	4
	<u>Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>	4
	<u>Consolidated Statements of Operations and Comprehensive Income for the Three Months Ended June 30, 2012 and 2011</u>	5
	<u>Consolidated Statements of Operations and Comprehensive Income for the Six Months Ended June 30, 2012 and 2011</u>	6
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011</u>	7
	<u>Notes to Consolidated Financial Statements</u>	9
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4.	<u>Controls and Procedures</u>	46
PART II.	<u>OTHER INFORMATION</u>	47
Item 1A.	<u>Risk Factors</u>	47
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 6.	<u>Exhibits</u>	48

Table of Contents

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,” or similar terminology. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located 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 management’s current expectations, assumptions and estimates and are not guarantees of future results or performance. Actual results may differ materially from those contemplated in these statements due to a variety of risks and uncertainties and other factors, including, among other things: competition; material adverse changes in economic and industry conditions; technological change; retention and renewal of existing contracts and entry into new or revised contracts; availability and adequacy of cash flows to satisfy obligations and indebtedness or future needs; protection of intellectual property; security and integrity of software and systems; laws and government regulation, including those relating to gaming licenses, permits and operations; inability to identify, complete and integrate future acquisitions; inability to benefit from, and risks associated with, strategic equity investments and relationships; failure of Northstar to meet the net income targets or otherwise realize the anticipated benefits under its private management agreement with the Illinois Lottery; seasonality; inability to identify and capitalize on trends and changes in the lottery and gaming industries, including the potential expansion of regulated gaming via the internet; inability to enhance and develop successful gaming concepts; dependence on suppliers and manufacturers; liability for product defects; fluctuations in foreign currency exchange rates and other factors associated with international operations; influence of certain stockholders; dependence on key personnel; failure to perform on contracts; resolution of pending or future litigation; labor matters; and stock price volatility. Additional information regarding risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated in forward-looking statements is included from time to time in our filings with the Securities and Exchange Commission (“SEC”), including under the heading “Risk Factors” in our most recent Annual Report on Form 10-K. Forward-looking statements speak only as of the date they are made and, except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

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

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	June 30, 2012(Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 112,431	\$104,402
Accounts receivable, net of allowance for doubtful accounts of \$7,287 and \$4,782 as of June 30, 2012 and December 31, 2011, respectively	166,882	182,467
Inventories	83,584	79,742
Deferred income taxes, current portion	4,862	4,697
Prepaid expenses, deposits and other current assets	38,102	35,805
Total current assets	405,861	407,113
Property and equipment, at cost	806,817	788,529
Less: accumulated depreciation	(404,281 )	(362,041 )
Net property and equipment	402,536	426,488
Goodwill	777,738	768,782
Intangible assets, net	87,025	86,859
Equity investments	309,418	340,494
Other assets	140,772	132,629
Total assets	\$ 2,123,350	\$2,162,365
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Debt payments due within one year	\$ 14,783	\$26,191
Accounts payable	57,832	66,221
Accrued liabilities	134,744	145,135
Total current liabilities	207,359	237,547
Deferred income taxes	57,663	56,264
Long-term debt, excluding current installments	1,354,920	1,364,476
Other long-term liabilities	62,355	60,364
Total liabilities	1,682,297	1,718,651
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$0.01 per share, 199,300 shares authorized, 98,576 and 98,181 shares issued and 92,602 and 92,433 shares outstanding as of June 30, 2012 and December 31, 2011, respectively	986	982
Additional paid-in capital	706,037	693,600
Accumulated loss	(154,361 )	(143,591 )
Treasury stock, at cost, 5,974 and 5,749 shares held as of June 30, 2012 and December 31, 2011, respectively	(76,355 )	(74,460 )
Accumulated other comprehensive loss	(35,254 )	(32,817 )
Total stockholders' equity	441,053	443,714
Total liabilities and stockholders' equity	\$ 2,123,350	\$2,162,365

See accompanying notes to consolidated financial statements

4

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Table of ContentsSCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited, in thousands, except per share amounts)

	Three Months Ended	
	June 30,	
	2012	2011
Revenue:		
Instant tickets	\$ 119,627	\$ 130,419
Services	88,635	82,096
Sales	21,045	7,733
Total revenue	229,307	220,248
Operating expenses:		
Cost of instant tickets (1)	68,420	72,133
Cost of services (1)	45,273	41,460
Cost of sales (1)	14,238	5,361
Selling, general and administrative	47,171	43,426
Employee termination and restructuring	6,046	—
Depreciation and amortization	39,086	29,004
Operating income	9,073	28,864