

SCIENTIFIC GAMES CORP
Form 10-Q
August 07, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015

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.)

6650 S. El Camino Road, Las Vegas, Nevada 89118
(Address of principal executive offices)
(Zip Code)

(702) 897-7150
(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 ý 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 ý 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 company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ý

Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a 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 ý

The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of July 31, 2015:

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Class A Common Stock: 86,104,168

Class B Common Stock: None

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
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AND OTHER INFORMATION
THREE AND SIX MONTHS ENDED JUNE 30, 2015

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Glossary of Terms

The following terms or acronyms used in this Form 10-Q are defined below:

Term or Acronym	Definition
2018 Notes	8.125% senior subordinated notes due 2018 issued by Scientific Games Corporation
2019 Notes	9.250% senior subordinated notes due 2019 issued by SGI
2020 Notes	6.250% senior subordinated notes due 2020 issued by SGI
2021 Notes	6.625% senior subordinated notes due 2021 issued by SGI
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bally	Bally Technologies, Inc.
Bally acquisition	the acquisition of Bally by the Company on November 21, 2014
Barcrest	Barcrest Group Limited
coin-in	the amount wagered
Company	Scientific Games Corporation
CSG	Beijing CITIC Scientific Games Technology Co., Ltd.
CSL	China Sports Lottery
D&A	depreciation and amortization
ESPP	employee stock purchase plan
FASB	Financial Accounting Standards Board
Global Draw	The Global Draw Limited
GLB	Beijing Guard Libang Technology Co., Ltd.
Hellenic Lotteries	Hellenic Lotteries S.A.
ITL	International Terminal Leasing
LAP	local-area progressive
LBO	licensed betting office
LNS	Lotterie Nazionali S.r.l.
MGD	machine games duty
net win	coin-in less payouts
Northstar Illinois	Northstar Lottery Group, LLC
Northstar New Jersey	Northstar New Jersey Lottery Group, LLC
Note	refers to a note to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q, unless otherwise indicated
participation	with respect to our gaming business, refers to gaming machines provided to customers through service or leasing arrangements in which we earn revenues and are paid based on: (1) a percentage of net win; (2) fixed daily fees; (3) a percentage of the coin-in; or (4) a combination of a fixed daily fee and a percentage of the coin-in, and with respect to our lottery business, refers to a contract or arrangement in which we earn revenues and are paid based on a percentage of retail sales
PMA	private management agreement
R&D	research and development
RCN	Roberts Communications Network, LLC
RGD	remote gaming duty
RMB	Chinese Renminbi Yuan
RMG	real-money gaming
RSU	restricted stock unit
SEC	Securities and Exchange Commission

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Secured Notes	7.00% senior secured notes due 2022 issued by SGI
Securities Act	Securities Act of 1933, as amended
SG&A	selling, general and administrative
SIG	Scientific Games International, Inc.
SHFL	SHFL entertainment, Inc.

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Shufflers	various models of automatic card shufflers, deck checkers and roulette chip sorters
Sportech	Sportech plc
Unsecured Notes	10.00% senior unsecured notes due 2022 issued by SGI
U.S.	United States of America
U.S. GAAP	accounting principles generally accepted in the U.S.
VLT	video lottery terminal
WAP	wide-area progressive
WMS	WMS Industries, Inc.
WMS acquisition	the acquisition of WMS by the Company on October 18, 2013

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," "plan," "continue," "believe," "expect," "anticipate," "should," "could," "potential," "opportunity," "goal" or 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 management's current expectations, assumptions and estimates and are not guarantees of timing, 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;

U.S. and international economic and industry conditions, including declines in or slow growth of gross gaming revenues or lottery retail sales, reductions in or constraints on capital spending by gaming or lottery operators and bankruptcies of, or credit risk relating to, customers;

•limited growth from new gaming jurisdictions, slow addition of casinos in existing jurisdictions and declines in the replacement cycle of existing gaming machines;

•ownership changes and consolidation in the casino industry;

•opposition to legalized gaming or the expansion thereof;

•inability to adapt to, and offer products that keep pace with, evolving technology;

•inability to develop successful gaming concepts and content;

•laws and government regulations, including those relating to gaming licenses and environmental laws;

•inability to identify and capitalize on trends and changes in the gaming and lottery industries, including the expansion of interactive gaming;

•dependence upon key providers in our social gaming business;

•inability to retain or renew, or unfavorable revisions of, existing contracts, and the inability to enter into new contracts;

•level of our indebtedness, higher interest rates, availability or adequacy of cash flows and liquidity to satisfy obligations or future cash needs, and restrictions and covenants in debt agreements;

•protection of intellectual property, inability to license third party intellectual property and the intellectual property rights of others;

•security and integrity of software and systems and reliance on or failures in information technology systems;

•natural events that disrupt our operations or those of our customers, suppliers or regulators;

inability to benefit from, and risks associated with, strategic equity investments and relationships, including (1) the inability of our joint venture to meet the net income targets or otherwise to realize the anticipated benefits under its private management agreement with the Illinois lottery (or in connection with any termination thereof), (2) the inability of our joint venture to meet the net income targets or other requirements under its agreement to provide marketing and sales services to the New Jersey Lottery or otherwise to realize the anticipated benefits under such agreement and (3) the failure to realize the anticipated benefits related to the award to our consortium of an instant lottery game concession in Greece;

failure to achieve the intended benefits of the Bally acquisition, the WMS acquisition, our other recent acquisitions, or future acquisitions, including due to the inability to successfully integrate such acquisitions or realize synergies in the anticipated amounts or within the contemplated timeframes or cost expectations, or at all;

disruption of current plans and operations in connection with our recent acquisitions (including in connection with the integration of Bally and WMS), including departure of key personnel or inability to recruit additional qualified personnel or maintain relationships with customers, suppliers or other third parties;

costs, charges and expenses relating to the Bally acquisition and the WMS acquisition;

incurrence of employee termination or restructuring costs and impairment or asset write-down charges;

implementation of complex revenue recognition standards;

fluctuations in our results due to seasonality and other factors;

dependence on suppliers and manufacturers;

risks relating to foreign operations, including fluctuations in foreign currency exchange rates, restrictions on the payment of dividends from earnings, restrictions on the import of products and financial instability, including the potential impact to our instant lottery game concession or VLT lease arrangements resulting from the recent economic and political conditions in Greece;

dependence on employees;

litigation and other liabilities relating to our business, including litigation and liabilities relating to our contracts and licenses, our products and systems, our employees, intellectual property and our strategic relationships;

influence of certain stockholders; 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 SEC, including under Item 1A "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on March 17, 2015. 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. Although we believe industry information to be accurate, it is 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 gaming and lottery industries than the gaming and lottery industries in the U.S.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Services	\$337.9	\$179.3	\$668.3	356.1
Product sales	218.1	102.2	417.5	187.3
Instant games	135.5	135.4	264.4	261.6
Total revenue	691.5	416.9	1,350.2	805.0
Operating expenses:				
Cost of services (1)	98.6	64.6	189.1	131.1
Cost of product sales (1)	107.9	54.9	205.8	101.3
Cost of instant games (1)	68.8	72.9	135.8	142.8
Selling, general and administrative				