

SCIENTIFIC GAMES CORP

Form 10-Q

August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

{Mark One}

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

For the quarterly period ended June 30, 2011

OR

**o 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 x No o

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 x No o

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 ☒ x

Accelerated filer ☐ o

Non-accelerated filer ☐ o

Smaller reporting company ☐ o

(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 o No x

The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of August 3, 2011:

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Class A Common Stock: **92,125,024**

Class B Common Stock: **None**

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

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AND OTHER INFORMATION

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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 headings 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 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 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 complete the proposed acquisition of Barcrest Group Limited and Cybervision Technology CZ s.r.o.; inability to benefit from, and risks associated with, joint ventures and strategic investments and relationships; failure of the Company's Northstar joint venture 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; 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 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 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.

You should also note that this Quarterly Report on Form 10-Q may contain various 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, there is less publicly available information concerning the international lottery industry than the lottery industry in the U.S.

[Table of Contents](#)**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of June 30, 2011 and December 31, 2010****(Unaudited, in thousands, except per share amounts)**

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 127,256	\$ 124,281
Accounts receivable, net of allowance for doubtful accounts of \$2,150 and \$2,175 as of June 30, 2011 and December 31, 2010, respectively	166,771	178,179
Inventories	69,229	68,744
Deferred income taxes, current portion	2,528	2,448
Prepaid expenses, deposits and other current assets	50,095	40,013
Total current assets	415,879	413,665
Property and equipment, at cost	787,604	776,367
Less accumulated depreciation	(350,920)	(325,786)
Net Property and equipment	436,684	450,581
Goodwill, net	780,927	763,915
Intangible assets, net	78,659	70,613
Other assets and investments	502,542	452,764
Total assets	\$ 2,214,691	\$ 2,151,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Debt payments due within one year	\$ 9,479	\$ 8,431
Accounts payable	55,872	50,642
Accrued liabilities	134,260	136,925
Total current liabilities	199,611	195,998
Deferred income taxes	63,376	60,858
Other long-term liabilities	61,344	53,765
Long-term debt, excluding current installments	1,381,335	1,388,259
Total liabilities	1,705,666	1,698,880
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$0.01 per share, 199,300 shares authorized, 97,863 and 97,474 shares issued and 92,114 and 91,725 shares outstanding as of June 30, 2011 and December 31, 2010, respectively	979	975
Additional paid-in capital	682,093	674,691
Accumulated earnings	(130,934)	(131,021)

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Treasury stock, at cost, 5,749 shares held as of June 30, 2011 and December 31, 2010	(74,460)	(74,460)
Accumulated other comprehensive income (loss)	31,347	(17,527)
Total stockholders' equity	509,025	452,658
Total liabilities and stockholders' equity	\$ 2,214,691	\$ 2,151,538

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, 2011 and 2010

(Unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,	
	2011	2010
Revenue:		
Instant tickets	\$ 130,419	\$ 118,439
Services	82,096	101,010
Sales	7,733	13,584
Total revenue	220,248	233,033
Operating expenses:		
Cost of instant tickets (1)	72,133	68,227
Cost of services (1)	41,460	55,171
Cost of sales (1)	5,361	9,600
Selling, general and administrative expenses	43,426	40,552
Write-down of assets held for sale		5,874
Depreciation and amortization	29,004	27,078
Operating income	28,864	26,531
Other (income) expense:		
Interest expense	26,409	24,845
Earnings from equity investments	(9,224)	(13,631)
Other (income) expense, net	(876)	6,584
	16,309	17,798
Net income before income taxes	12,555	8,733
Income tax expense	5,536	13,076
Net income (loss)	\$ 7,019	\$ (4,343)
Basic and diluted net income (loss) per share:		
Basic net income (loss) per share	\$ 0.08	\$ (0.05)
Diluted net income (loss) per share	\$ 0.08	\$ (0.05)
Weighted-average number of shares used in per share calculations:		
Basic shares	92,069	93,552
Diluted shares	92,565	93,552

(1) Exclusive of depreciation and amortization.

See accompanying notes to consolidated financial statements

Table of Contents**SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****Six Months Ended June 30, 2011 and 2010****(Unaudited, in thousands, except per share amounts)**

	Six Months Ended June 30,	
	2011	2010
Revenue:		
Instant tickets	\$ 244,279	\$ 227,538
Services	155,843	194,714
Sales	16,782	27,120
Total revenue	416,904	449,372
Operating expenses:		
Cost of instant tickets (1)	139,366	132,144
Cost of services (1)	80,382	109,613
Cost of sales (1)	11,051	19,866
Selling, general and administrative expenses	82,980	79,108
Write-down of assets held for sale		5,874
Depreciation and amortization	59,908	54,733
Operating income	43,217	48,034
Other (income) expense:		
Interest expense	52,864	49,559
Earnings from equity investments	(18,574)	(29,443)
Other (income) expense, net	(1,870)	12,566
	32,420	32,682
Net income before income taxes	10,797	15,352
Income tax expense	10,710	14,808
Net income	\$ 87	\$ 544
Basic and diluted net income per share:		
Basic net income per share	\$ 0.00	\$ 0.01
Diluted net income per share	\$ 0.00	\$ 0.01
Weighted-average number of shares used in per share calculations:		
Basic shares	91,978	93,771
Diluted shares	92,518	94,364

(1) Exclusive of depreciation and amortization.

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, 2011 and 2010

(Unaudited, in thousands, except per share amounts)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 87	\$ 544
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	59,908	54,733
Change in deferred income taxes	768	11,611
Stock-based compensation	9,702	12,533
Non-cash interest expense	4,107	3,396
Undistributed earnings from equity investments	10,186	4,133
Write-down of assets held for sale		5,874
Changes in current assets and liabilities, net of effects of acquisitions		
Accounts receivable	13,664	16,131
Inventories	191	2,220
Accounts payable	(8,587)	(13,818)
Accrued liabilities	1,052	(8,711)
Other current assets and liabilities	6,297	14,491
Other	208	(1)
Net cash provided by operating activities	97,583	103,136
Cash flows from investing activities:		
Capital expenditures	(3,613)	(3,329)
Lottery and gaming systems expenditures	(22,191)	(31,502)
Other intangible assets and software expenditures	(18,372)	(18,009)
Change in other assets and liabilities, net	(9,323)	(767)
Net equity investments	(33,799)	(126,810)
Business acquisitions, net of cash acquired		(5,906)
Net cash used in investing activities	(87,298)	(186,323)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		105,541
Payment on long-term debt	(4,661)	(91,507)
Payment of financing fees	(2,623)	(6,778)
Purchases of treasury stock		(18,227)
Net proceeds from issuance of common stock	(1,353)	(394)
Net cash (used in) provided by financing activities	(8,637)	(11,365)
Effect of exchange rate changes on cash and cash equivalents	1,327	(14,753)
Increase (decrease) in cash and cash equivalents	2,975	(109,305)
Cash and cash equivalents, beginning of period	124,281	260,131
Change in cash and cash equivalents of held for sale operations at June 30, 2010		627
Cash and cash equivalents, end of period	\$ 127,256	\$ 151,453

See accompanying notes to consolidated financial statements

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Non-cash investing and financing activities

For the six months ended June 30, 2011 and 2010

During the six months ended June 30, 2011 we contributed approximately \$37,000 to International Terminal Leasing (ITL) which is described in Note 3 of the Notes to Consolidated Financial Statements herein, including a non-cash investment of \$8,200 out of our total investment in ITL of approximately \$37,000 as of June 30, 2011. There were no significant non-cash investing and financing activities for the six months ended June 30, 2010.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except per share amounts)

Notes to Consolidated Financial Statements

(1) Consolidated Financial Statements

Basis of Presentation

The Consolidated Balance Sheet as of June 30, 2011, the Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010, have been prepared by Scientific Games Corporation and are unaudited. When used in these notes, the terms we, us, our and the Company refer to Scientific Games Corporation and all entities included in our consolidated financial statements unless otherwise specified or the context otherwise indicates. In the opinion of management, all adjustments necessary to present fairly our consolidated financial position as of June 30, 2011, the results of our operations for the three and six months ended June 30, 2011 and 2010 and our cash flows for the six months ended June 30, 2011 and 2010 have been made. Such adjustments are of a normal, recurring nature.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2010 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results of operations for the full year.

Significant Accounting Policies

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in our 2010 Annual Report on Form 10-K. There have been no changes to our significant accounting policies during the period ended June 30, 2011 except as discussed below.

In September 2009, the Financial Accounting Standards Board (FASB) amended the Accounting Standards Codification (ASC) as summarized in Accounting Standards Update (ASU) 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. As summarized in ASU 2009-14, ASC Topic 985 has been amended to remove from the scope of industry-specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product s essential functionality. As summarized in ASU 2009-13, ASC Topic 605 has been amended: (1) to provide updated guidance on whether

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multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) to require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of the selling price; and (3) to eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The accounting changes summarized in ASU 2009-14 and ASU 2009-13 are both effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application.

We adopted these amendments to the ASC on January 1, 2011 on a prospective basis as applicable to our revenue generated from licensing branded properties that are coupled with a service component, where we also purchase and distribute prizes on behalf of lottery authorities. The impact of these accounting changes was not material to our consolidated financial statements for the three and six months ended June 30, 2011.

Table of Contents*Basic and Diluted Net Income (Loss) Per Share*

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net income (loss) per share available to common stockholders for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Income (numerator)				
Net income (loss)	\$ 7,019	\$ (4,343)	\$ 87	\$ 544
Shares (denominator)				
Weighted-average basic common shares outstanding	92,069	93,552	91,978	93,771
Effect of dilutive securities-stock rights	496		540	593
Weighted-average diluted common shares outstanding	92,565	93,552	92,518	94,364
Basic and diluted per share amounts				
Basic net income (loss) per share	\$ 0.08	\$ (0.05)	\$ 0.00	\$ 0.01
Diluted net income (loss) per share	\$ 0.08	\$ (0.05)	\$ 0.00	\$ 0.01

The weighted-average diluted common shares outstanding for the three and six months ended June 30, 2011 excludes the effect of approximately 7,967 and 7,690 weighted-average stock rights outstanding, respectively, because their effect would be anti-dilutive. For the three months ended June 30, 2010, there were no dilutive stock rights outstanding due to the net loss reported for the period. The weighted-average diluted common shares outstanding for the six months ended June 30, 2010 excludes the effect of approximately 6,408 weighted-average stock rights outstanding, because their effect would be anti-dilutive.

(2) Operating Segment Information

We operate in three segments: Printed Products Group; Lottery Systems Group; and Diversified Gaming Group. During the first quarter of 2011 we reviewed the allocation of overhead expenses to our reportable segments in light of the realignment of our management structure. Based on this review, we determined to no longer allocate certain overhead expenses to our reportable segments. This change, which was effective January 1, 2011, had no impact on the Company's consolidated balance sheets or its statements of operations, cash flows or changes in stockholders' equity for any periods. Prior period segment information has been adjusted to reflect the change in segment reporting.

The following tables represent revenue, cost of revenue, depreciation, amortization, selling, general and administrative expenses and operating income for the three and six months ended June 30, 2011 and 2010, by reportable segments. Corporate expenses, including interest expense, other (income) expense and corporate depreciation and amortization, are not allocated to the reportable segments.

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Three Months Ended June 30, 2011

	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Revenue:				
Instant tickets	\$ 130,419	\$	\$	\$ 130,419
Services		51,196	30,900	82,096
Sales	2,087	5,634	12	7,733
Total revenue	\$ 132,506	\$ 56,830	\$ 30,912	\$ 220,248
Cost of instant tickets (1)	\$ 72,133	\$	\$	\$ 72,133
Cost of services (1)		26,220	15,240	41,460
Cost of sales (1)	1,238	4,123		5,361
Selling, general and administrative expenses	13,112	5,524	3,636	22,272
Depreciation and amortization	8,208	11,879	8,789	28,876
Segment operating income	\$ 37,815	\$ 9,084	\$ 3,247	\$ 50,146
Unallocated corporate costs				21,282
Consolidated operating income				\$ 28,864

Three Months Ended June 30, 2010

	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Revenue:				
Instant tickets	\$ 118,439	\$	\$	\$ 118,439
Services		53,517	47,493	101,010
Sales	2,731	8,666	2,187	13,584
Total revenue	\$ 121,170	\$ 62,183	\$ 49,680	\$ 233,033
Cost of instant tickets (1)	\$ 68,227	\$	\$	\$ 68,227
Cost of services (1)		25,637	29,534	55,171
Cost of sales (1)	1,969	6,186	1,445	9,600
Selling, general and administrative expenses	11,730	6,858	5,181	23,769
Write-down of assets held for sale			5,874	5,874
Depreciation and amortization	8,429	10,839	7,686	26,954
Segment operating income	\$ 30,815	\$ 12,663	\$ (40)	\$ 43,438
Unallocated corporate costs				16,907
Consolidated operating income				\$ 26,531

(1) Exclusive of depreciation and amortization.

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Six Months Ended June 30, 2011				
	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Revenue:				
Instant tickets	\$ 244,279	\$	\$	\$ 244,279
Services		100,412	55,431	155,843
Sales	3,857	12,807	118	16,782
Total revenue	\$ 248,136	\$ 113,219	\$ 55,549	\$ 416,904
Cost of instant tickets (1)				
Cost of services (1)	\$ 139,366	\$	\$	\$ 139,366
Cost of sales (1)	2,244	8,772	35	11,051
Selling, general and administrative expenses	23,492	9,796	6,562	39,850
Depreciation and amortization	16,568	23,246	19,837	59,651
Segment operating income	\$ 66,466	\$ 19,217	\$ 921	\$ 86,604
Unallocated corporate costs				43,387
Consolidated operating income				\$ 43,217

Six Months Ended June 30, 2010				
	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Revenue:				
Instant tickets	\$ 227,538	\$	\$	\$ 227,538
Services		101,704	93,010	194,714
Sales	5,601	18,377	3,142	27,120
Total revenues	\$ 233,139	\$ 120,081	\$ 96,152	\$ 449,372
Cost of instant tickets (1)				
Cost of services (1)	\$ 132,144	\$	\$	\$ 132,144
Cost of sales (1)	3,977	13,645	2,244	19,866
Selling, general and administrative expenses	21,970	12,239	11,554	45,763
Write-down of assets held for sale			5,874	5,874
Depreciation and amortization	16,966	21,653	15,867	54,486
Segment operating income	\$ 58,082	\$ 20,234	\$ 3,310	\$ 81,626
Unallocated corporate costs				33,592
Consolidated operating income				\$ 48,034

(1) Exclusive of depreciation and amortization.

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The following table provides a reconciliation of segment operating income to consolidated income before income taxes for each period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Reported segment operating income	\$ 50,146	\$ 43,438	\$ 86,604	\$ 81,626
Unallocated corporate costs	(21,282)	(16,907)	(43,387)	(33,592)
Consolidated operating income	28,864	26,531	43,217	48,034
Interest expense	(26,409)	(24,845)	(52,864)	(49,559)
Earnings from equity investments	9,224	13,631	18,574	29,443
Other income (expense), net	876	(6,584)	1,870	(12,566)
Income before income taxes	\$ 12,555	\$ 8,733	\$ 10,797	\$ 15,352

In evaluating financial performance, we focus on operating income as a segment's measure of profit or loss. Operating income is income before interest income, interest expense, earnings from equity investments, unallocated corporate expenses and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 1 of the Notes to Consolidated Financial Statements in our 2010 Annual Report on Form 10-K).

(3) Equity Method Investments

Lotterie Nazionali S.r.l. / Consorzio Lotterie Nazionali

We are a 20% equity owner in Lotterie Nazionali S.r.l. ("LNS"), a joint venture comprised principally of us, Lottomatica Group S.p.A. ("Lottomatica") and Arianna 2001, a company owned by the Federation of Italian Tobacconists, that was awarded the concession from the Italian Monopoli di Stato to be the exclusive operator of the Italian Gratta e Vinci instant ticket lottery beginning on October 1, 2010. The concession has an initial term of nine years (subject to a performance evaluation during the fifth year) and could be extended by the Monopoli di Stato for an additional nine years. LNS succeeded Consorzio Lotterie Nazionali ("CLN"), a consortium comprised of essentially the same group that owns LNS, as holder of the concession. Under the new concession, we are the primary supplier of instant lottery tickets for the joint venture, as we were under the prior concession. CLN, which had held the concession since 2004, is being wound up and the bulk of its assets have been transferred to LNS. LNS paid \$800,000 in upfront fees under the terms of the new concession. We paid our pro rata share of these fees in 2010 (\$160,000). The upfront fees associated with the new concession are amortized by LNS (anticipated to be approximately \$89,000 each year of the new concession on a pre-tax basis), which reduces our earnings from our equity investment in LNS. Our share of the amortization is expected to be approximately \$18,000 each year on a pre-tax basis. In light of the corporate structure of LNS, we record our earnings from our equity investment in LNS on an after-tax basis under applicable accounting rules, which impacts the comparability of our results of operations associated with LNS with our results of operations associated with CLN, since we recorded earnings from our equity investment in CLN on a pre-tax basis. Subject to applicable limitations, we are entitled to receive from LNS annual cash dividends as well as periodic return of capital payments over the life of the concession. In April 2011, we received a dividend of \$22,012 from CLN. In May 2011, we received \$10,504 from LNS comprised of a dividend of \$4,238 and a return of capital payment of \$6,266.

Northstar Lottery Group, LLC

We are a 20% equity owner in Northstar Lottery Group, LLC (Northstar), a joint venture with GTECH Corporation, a subsidiary of Lottomatica, that was formed to bid for the agreement to be the private manager for the Illinois lottery for a ten-year term. Northstar was selected as the private manager following a competitive procurement and entered into a private management agreement with the State of Illinois on January 18, 2011 (the PMA). As the private manager, Northstar will, subject to the oversight of the Illinois lottery, manage the day-to-day operations of the lottery including lottery game development and portfolio management, retailer recruitment and training, supply of goods and services and overall marketing strategy. Under the terms of the PMA, Northstar is entitled to receive annual incentive compensation payments to the extent it is successful in increasing the lottery's net income above specified target levels, subject to a cap of 5% of the applicable year's net income. Northstar will be responsible for payments to the State to the extent such targets are not achieved, subject to a similar cap. Northstar is expected to be reimbursed on a monthly basis for most of its operating expenses under the PMA. Under our agreement with Northstar, we will be responsible for the design, development, manufacturing, warehousing and distribution of instant lottery tickets and will be compensated based on a percentage of retail sales.

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On January 26, 2011, the Appellate Court of Illinois upheld a constitutional challenge to the revenue statute that, among other things, amended the lottery law to facilitate the PMA on grounds that the statute impermissibly addressed more than one subject. On July 11, 2011, the Illinois Supreme Court reversed the Appellate Court decision and upheld the revenue statute. Operations under the PMA commenced on July 1, 2011. We contributed \$10,000 to Northstar in March 2011 and additional \$2,000 in July 2011. We account for our interest in Northstar under the equity method of accounting.

International Terminal Leasing

As contemplated by our strategic agreements with Video B Holdings Limited (Video B), a subsidiary of Playtech Limited, relating to our license of Video B s back-end technology platform for our gaming machines, we formed ITL with Video B in the first quarter of 2011. The purpose of ITL is to acquire gaming terminals using funds contributed to the capital of ITL by each partner. The gaming terminals, which will employ Video B s software, will be leased to whichever Company subsidiary is to provide the terminals to third-party customers. We account for our interest in ITL under the equity method of accounting. The equity interest of each partner is expected to vary based on the respective capital contributions from the partners; however, each partner has joint control regarding operating decisions of ITL. Intra-entity profits and losses will be eliminated as necessary. As of June 30, 2011 our investment in ITL was \$37,002 which is included in Other Assets and Investments. The impact of ITL on our Consolidated Statements of Operations for the three or six months ended June 30, 2011 was not material.

Sportech Plc

Upon the closing of the sale of our racing and venue management businesses (the Racing Business) to Sportech Plc (Sportech) on October 5, 2010, we received an equity interest in Sportech of approximately 20% of the shares then outstanding. Sportech operates football pools and associated games through various distribution channels including direct mail and telephone, agent-based collection and via the Internet. Sportech also operates a portfolio of online casino, poker, bingo and fixed-odds games through its e-Gaming division. Our interest in Sportech is accounted for under the equity method of accounting. We record our equity interest in Sportech on a 90-day lag as allowed under Accounting Standards Codification 323, *Investments Equity Method and Joint Ventures*.

Shandong Inspur Scientific Games Technology, Ltd.

On April 16, 2007, we invested approximately \$750 to establish Shandong Inspur Scientific Games Technology, Ltd. (SIST). On February 1, 2011, we sold our interest in SIST resulting in a gain of \$397.

Table of Contents**(4) Comprehensive Income (Loss)**

The following presents a reconciliation of net income (loss) to comprehensive income (loss) for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss)	\$ 7,019	\$ (4,343)	\$ 87	\$ 544
Other comprehensive income (loss):				
Foreign currency translation (loss) gain	13,342	(34,384)	47,962	(63,248)
Gain on derivative financial instruments (1)	462	321	912	287
Total other comprehensive income (loss)	13,804	(34,063)	48,874	(62,961)
Comprehensive income (loss)	\$ 20,823	\$ (38,406)	\$ 48,961	\$ (62,417)

(1) For the three and six months ending June 30, 2011, the change is net of income taxes of approximately \$308 and \$608, respectively. For the three and six months ending June 30, 2010, the change is net of income taxes of approximately \$217 and \$194, respectively.

(5) Inventories

Inventories consist of the following:

	June 30, 2011	December 31, 2010
Parts and work-in-process	\$ 25,646	\$ 23,224
Finished goods	43,583	45,520
	\$ 69,229	\$ 68,744

Parts and work-in-process includes costs for equipment expected to be sold. Costs incurred for equipment associated with specific lottery and gaming contracts not yet placed in service are classified as construction in progress in property and equipment and are not depreciated.

(6) Long-Term Debt*Credit Agreement*

The Company and its wholly owned subsidiary, Scientific Games International, Inc. (SGI), entered into a credit agreement, dated as of June 9, 2008 and amended and restated as of February 12, 2010 (as amended from time to time, the Credit Agreement), among SGI, the Company, the several lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement provides for a \$250,000 senior secured revolving credit facility and senior secured term loan credit facilities under which \$566,409 of borrowings are outstanding as of June 30, 2011. The Credit Agreement is scheduled to mature on June 9, 2013.

On March 11, 2011, the Company and SGI entered into an amendment (the Amendment) to the Credit Agreement. Under the Amendment, from and after December 31, 2010, consolidated EBITDA (as such term is defined in the Credit Agreement) will generally include the Company's share of the earnings of the Company's joint venture that holds the Italian instant ticket concession, whether or not such earnings have been distributed to the Company, before interest expense (other than interest expense in respect of debt of such joint venture if such debt exceeds \$25,000), income tax expense and depreciation and amortization expense, provided that the amount of consolidated EBITDA attributable to the Company's interest in such joint venture that would not have otherwise been permitted to be included in consolidated EBITDA prior to giving effect to the Amendment will be capped at \$25,000 in any period of four consecutive quarters (or \$30,000 in the case of any such period ending on or prior to June 30, 2012). Prior to giving effect to the Amendment, consolidated EBITDA generally included only the Company's share of the earnings of such joint venture that was distributed to the Company. In addition, under the terms of the Amendment, any cash compensation expense incurred but not paid in a particular period will be added back for purposes of determining consolidated EBITDA so long as no cash payment in respect thereof is required prior to the scheduled maturity of the borrowings under the Credit Agreement. Consolidated EBITDA is relevant

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for determining whether the Company is in compliance with the financial ratios required to be maintained under the terms of the Credit Agreement.

The Amendment also provides that up to \$100,000 of unrestricted cash and cash equivalents of the Company and its subsidiaries in excess of \$15,000 will be netted against consolidated total debt for purposes of determining the Company's consolidated leverage ratio and consolidated senior debt ratio (as such terms are defined in the Credit Agreement) as of any date from and after December 31, 2010.

A summary of the terms of the Credit Agreement, including the financial ratios that the Company is required to maintain under the terms of the Credit Agreement (which ratios were not adjusted by the Amendment), is included in Note 8 of the Notes to Consolidated Financial Statements in our 2010 Annual Report on Form 10-K. For more information regarding the Amendment, see our Current Report on Form 8-K filed with the SEC on March 14, 2011.

As of June 30, 2011, we had approximately \$196,604 available for additional borrowing or letter of credit issuances under our revolving credit facility. There were no borrowings and \$53,396 in outstanding letters of credit under our revolving credit facility as of June 30, 2011. Our ability to borrow under the Credit Agreement will depend on us remaining in compliance with the covenants contained in the Credit Agreement.

We were in compliance with our covenants under the Credit Agreement as of June 30, 2011.

Outstanding Debt and Capital Leases

As of June 30, 2011, we had total debt outstanding of \$1,390,814 including \$566,409 outstanding under our term loan facilities under the Credit Agreement, \$345,365 in aggregate principal amount of SGI's 9.25% senior subordinated notes due 2019 (the 2019 Notes), \$200,000 in aggregate principal amount of SGI's 7.875% senior subordinated notes due 2016 (the 2016 Notes), \$250,000 in aggregate principal amount of the Company's 8.125% senior subordinated notes due 2018 (the 2018 Notes), and loans denominated in Chinese Renminbi Yuan (RMB) totaling RMB178,500 of which RMB116,000 matures in December 2012 and RMB62,500 matures in January 2013.

On May 6, 2011, we paid the remaining £628 aggregate principal amount outstanding of the promissory notes we issued to defer a portion of the earn-out payable in connection with our acquisition of The Global Draw Limited (Global Draw) in 2006.

(7) Derivative Financial Instruments

Effective October 17, 2008, SGI entered into a three-year interest rate swap agreement (the Hedge) with JPMorgan. Under the Hedge, which is designated as a cash flow hedge, SGI pays interest on a \$100,000 notional amount of debt at a fixed rate of 3.49% and receives interest on a \$100,000 notional amount of debt at the prevailing three-month LIBOR rate. The objective of the Hedge is to eliminate the variability of cash

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flows attributable to the LIBOR component of interest expense paid on \$100,000 of our variable-rate debt. As of June 30, 2011, the Hedge was measured at a fair value of \$968 using Level 2 valuation techniques of the fair value hierarchy and included in accrued liabilities on the Consolidated Balance Sheet.

Hedge effectiveness is measured quarterly on a retrospective basis using the cumulative dollar-offset approach in which the cumulative changes in the cash flows of the actual swap are compared to the cumulative changes in the cash flows of the hypothetical swap. The effective portion of the Hedge is recorded in other comprehensive income (loss) and the ineffective portion of the Hedge, if any, is recorded in the Consolidated Statements of Operations. During the three and six months ended June 30, 2011, we recorded a gain of approximately \$462 and \$912, respectively, in other comprehensive income (loss). During the three and six months ended June 30, 2010, we recorded a gain of approximately \$321 and \$287, respectively, in other comprehensive income (loss). There was no ineffective portion of the Hedge recorded in the Consolidated Statements of Operations in either period. Amounts recorded in other comprehensive income (loss) that were deferred on the effective hedged forecasted transactions are reclassified to earnings when the interest expense related to the hedged item affects earnings.

Table of Contents**(8) Goodwill and Intangible Assets**

The following disclosure presents certain information regarding our intangible assets as of June 30, 2011 and December 31, 2010. Amortizable intangible assets are amortized over their estimated useful lives with no estimated residual values.

Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance as of June 30, 2011			
Amortizable intangible assets:			
Patents	\$ 12,394	\$ 4,809	\$ 7,585
Customer lists	29,903	19,573	10,330
Licenses	77,123	52,427	24,696
Intellectual property	18,273	18,217	56
Lottery contracts	1,500	1,144	356
	139,193	96,170	43,023
Non-amortizable intangible assets:			
Trade name	37,754	2,118	35,636
Total intangible assets	\$ 176,947	\$ 98,288	\$ 78,659
Balance as of December 31, 2010			
Amortizable intangible assets:			
Patents	\$ 12,106	\$ 4,321	\$ 7,785
Customer lists	30,083	19,009	11,074
Licenses	62,124	46,381	15,743
Intellectual property	17,833	17,719	114
Lottery contracts	1,500	1,093	407
	123,646	88,523	35,123
Non-amortizable intangible assets:			
Trade name	37,608	2,118	35,490
Total intangible assets	\$ 161,254	\$ 90,641	\$ 70,613

The aggregate intangible amortization expense for the three and six months ended June 30, 2011 was approximately \$3,700 and \$7,500, respectively. The aggregate intangible amortization expense for the three and six months ended June 30, 2010 was approximately \$3,300 and \$7,500, respectively.

The table below reconciles the change in the carrying amount of goodwill, by reporting segment, for the period from December 31, 2010 to June 30, 2011. In the six months ended June 30, 2011, we recorded an increase in goodwill of approximately \$17,000 as a result of foreign currency translation.

Goodwill	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Balance as of December 31, 2010	\$ 335,481	186,944	241,490	763,915
Adjustments	2,614	7,355	7,043	17,012
Balance as of June 30, 2011	\$ 338,095	194,299	248,533	780,927

(9) Pension and Other Post-Retirement Plans

We have defined benefit pension plans for our U.K.-based union employees and certain Canadian-based employees (the U.K. Plan and the Canadian Plan, respectively). Retirement benefits under the U.K. Plan are based on an employee's average compensation over the two years preceding retirement. Retirement benefits under the Canadian Plan are generally based on the number of years of credited service. Our policy is to fund the minimum contribution permissible by the respective tax authorities.

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The following table sets forth the combined amount of net periodic benefit cost recognized for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Components of net periodic pension benefit cost:				
Service cost	\$ 462	\$ 471	\$ 923	\$ 943
Interest cost	1,173	1,237	2,347	2,473
Expected return on plan assets	(1,162)	(1,226)	(2,324)	(2,451)
Amortization of actuarial gains	95	140	189	280
Amortization of prior service costs	(3)	11	(5)	22
Net periodic cost	\$ 565	\$ 633	\$ 1,130	\$ 1,267

We have a 401(k) plan for U.S.-based employees who are not covered by a collective bargaining agreement. We contribute 37.5 cents on the dollar for the first 6% of participant contributions for a match of up to 2.25% of eligible compensation.

(10) Income Taxes

The effective tax rates of 44.1% and 99.2%, respectively, for the three and six months ended June 30, 2011 were determined using an estimated annual effective tax rate and after considering any discrete items for such periods. Due to a valuation allowance against our U.S. deferred tax assets, the effective tax rate for the three and six months ended June 30, 2011 does not include the benefit of the current year forecasted U.S. tax loss. Income tax expense for the three and six months ended June 30, 2011 is primarily due to income tax expense in foreign jurisdictions.

The effective tax rates of 149.7% and 96.5%, respectively, for the three and six months ended June 30, 2010 were determined using an estimated annual effective tax rate and after considering any discrete items for such periods. The effective tax rate for the three and six months ended June 30, 2010 includes the impact of a valuation allowance against certain U.S. state deferred tax assets.

In 2010, we established a valuation allowance of \$149,583 against the U.S. deferred tax assets that, in the judgment of management, are more likely than not to expire before they can be utilized. In assessing the recoverability of our deferred tax assets, we analyzed all evidence, both positive and negative. We considered, among other things, our deferred tax liabilities, our historical earnings and losses, projections of future income, and tax-planning strategies available to us. We have not changed our assessment regarding the recoverability of our U.S. deferred tax assets for the three and six months ended June 30, 2011.

(11) Stockholders Equity

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The following demonstrates the change in the number of shares of Class A common stock outstanding during the six months ended June 30, 2011 and during the fiscal year ended December 31, 2010:

	Six Months Ended June 30, 2011	Twelve Months Ended December 31, 2010
Shares outstanding as of beginning of period	91,725	93,883
Shares issued as part of equity-based compensation plans and the Employee Stock Purchase Plan (ESPP), net of RSUs surrendered	389	461
Shares repurchased into treasury stock		(2,619)
Shares outstanding as of end of period	92,114	91,725

(12) Stock-Based Compensation

We offer stock-based compensation through the use of stock options and restricted stock units (RSUs). We grant stock options to employees and directors under our equity-based compensation plans with exercise prices that are not less than the fair

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market value of our common stock at the date of grant. The terms of the stock option and RSU awards, including the vesting schedule of such awards, are determined at our discretion subject to the terms of the applicable equity-based compensation plan. Options granted over the last several years have generally been exercisable in four or five equal installments beginning on the first anniversary of the date of grant with a maximum term of ten years. RSUs typically vest in four or five equal installments beginning on the first anniversary of the date of grant or when certain performance measures are met. There are 13,500 shares of common stock authorized for awards under our 2003 Incentive Compensation Plan (the "Plan") plus available shares from a preexisting equity-based compensation plan, which plans were approved by our stockholders. We also have outstanding stock options granted as part of inducement stock option awards that are not approved by stockholders prior to being granted. We record compensation cost for all stock options and RSUs based on the fair value at the grant date.

The Company may grant certain awards that are contingent upon the Company achieving certain performance targets. Upon determining the performance target is probable, the fair value of the award is recognized over the service period. Certain equity awards may be settled in cash or shares. The fair value of these awards is measured each reporting period and recorded as a liability and corresponding compensation expense. As the fair value changes each reporting period, the corresponding liability and compensation expense are adjusted, such that the liability and cumulative compensation expense equal the total fair value of the obligation upon the reporting date.

In connection with A. Lorne Weil becoming Chief Executive Officer, the Company entered into an amendment to his employment agreement effective December 2, 2010. Pursuant to the amendment, the Company awarded to Mr. Weil sign-on equity awards consisting of 1,000 stock options with an exercise price of \$9.00 per share (representing an approximately 12% premium to the market value of our common stock on the date of grant) and a ten-year term and 1,000 RSUs, which awards have a four-year vesting schedule, with 25% scheduled to vest on December 31, 2011 and on each of the next three anniversaries of such date (such options and RSUs, the "time-vesting equity awards"). Mr. Weil was also awarded additional performance-conditioned awards consisting of 1,000 stock options with an exercise price of \$8.06 per share (representing the market value of our common stock on the date of grant) and 1,000 RSUs, which awards have a five-year vesting schedule, with 20% of such options and RSUs scheduled to vest each year if specified performance targets are met (subject to certain "carryover" vesting provisions as described in the employment agreement amendment) (such performance-conditioned stock options and RSUs, the "performance-conditioned equity awards").

The performance-conditioned stock options will expire, and the performance-conditioned RSUs will be forfeited, on March 15, 2016 to the extent that such awards remain unvested on such date. Any performance-conditioned stock options that have vested by March 15, 2016 will expire ten years from the date of grant. Delivery of shares in respect of vested performance-vesting RSUs will occur on March 15, 2016, provided that such RSUs will be forfeited to the extent that sufficient shares are not available under the Plan for such delivery. The performance-vesting stock options will not be exercisable to the extent that sufficient shares are not available under the Plan for the delivery of the shares issuable upon such exercise. In addition, to the extent that sufficient shares are not available under the Plan for the delivery of the shares underlying the 500 time-vesting RSUs that are scheduled to vest on December 31, 2013 and December 31, 2014 or the delivery of the shares issuable upon the exercise of 200 of the time-vesting stock options that are scheduled to become exercisable on December 31, 2014, the Company will settle such delivery in cash. See the Company's Current Report on Form 8-K filed with the SEC on December 3, 2010 for additional information regarding these sign-on equity awards, including information regarding the performance targets with respect to the performance-conditioned equity awards.

In January 2011, the Company awarded an aggregate of 475 equity awards to certain officers consisting of approximately 113 performance-conditioned stock options, approximately 113 time-vesting stock options (with an exercise price of \$10.02 per share and a ten-year term) and 250 time-vesting stock options (with an exercise price of \$9.98 per share and a ten-year term), which options will not be exercisable to the extent that sufficient shares are not available under the Plan for the delivery of the shares issuable upon such exercise.

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The equity awards that will be forfeited or not exercisable and the equity awards that will be settled in cash, as the case may be, to the extent that sufficient shares are not available under the Plan at the time of delivery of the underlying shares, are not deemed to be granted for accounting purposes as stock-based equity awards (and are not reflected as granted in 2011 or 2010, as the case may be, or outstanding as of June 30, 2011 or December 31, 2010 in the tables below). Excluding the awards described in the preceding sentence, we had approximately 972 and 2,119 shares available for grants of equity awards under our equity-based compensation plans (excluding 480 and 514 shares available under our employee stock purchase plan) as of June 30, 2011 and December 31, 2010, respectively.

On July 19, 2011, we commenced a stockholder-approved exchange offer to allow eligible employees and directors the opportunity to exchange all (but not less than all) of their outstanding stock options with an exercise price greater than \$11.99 that were granted before July 19, 2010, whether vested or unvested, for a lesser number of new RSUs. The exchange ratios were established in order to comply with the terms of the option exchange approved by our stockholders and so that we are unlikely to incur accounting expense as a result of the option exchange. The exchange offer is currently set to expire on August 15, 2011. New RSUs granted in the exchange offer will be scheduled to vest on the later of the first anniversary of the acceptance date of exchange offer

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and the date on which the corresponding option would have vested. Eligible options granted under the Plan that are surrendered and accepted by us for exchange will be returned to the pool of available shares under the Plan.

Stock Options

A summary of the changes in stock options outstanding under our equity-based compensation plans during the six months ended June 30, 2011 is presented below:

	Number of Options	Weighted Average Remaining Contract Term (Years)		Weighted Average Exercise Price Per Share		Aggregate Intrinsic Value
Options outstanding as of December 31, 2010	6,751	6.0	\$	20.72	\$	1,814
Granted	754					
Exercised	(2)					15
Cancelled	(307)					
Options outstanding as of March 31, 2011	7,196	6.4		19.42		654
Granted	20					
Exercised	(2)					11
Cancelled	(51)					
Options outstanding as of June 30, 2011	7,163	6.1		19.41		3,288
Options exercisable as of June 30, 2011	4,444	4.5	\$	23.36	\$	1,132

The weighted-average grant date fair value of options granted during the three months ended June 30, 2011 and March 31, 2011 was \$4.61 and \$4.62, respectively. For the three and six months ended June 30, 2011, we recognized stock-based compensation expense of approximately \$1,700 and \$3,400, respectively, related to the vesting of stock options and the related tax benefit of approximately \$630 and \$1,260, respectively. For the three and six months ended June 30, 2010, we recognized stock-based compensation expense of approximately \$2,100 and \$4,000, respectively, related to the vesting of stock options and the related tax benefit of approximately \$700 and \$1,300, respectively.

As of June 30, 2011, we had unearned compensation of approximately \$13,900 relating to stock option awards that will be amortized over a weighted-average period of approximately two years.

Restricted Stock Units

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A summary of the changes in RSUs outstanding under our equity-based compensation plans during the six months ended June 30, 2011 is presented below:

	Number of Restricted Shares		Weighted Average Grant Date Fair Value Per Share
Non-vested units as of December 31, 2010	2,440	\$	15.13
Granted	917		8.92
Vested	(482)		18.43
Cancelled	(16)		15.52
Non-vested units as of March 31, 2011	2,859	\$	12.58
Granted	32		9.47
Vested	(44)		25.31
Cancelled	(26)		13.66
Non-vested units as of June 30, 2011	2,821	\$	12.34

For the three and six months ended June 30, 2011, we recognized stock-based compensation expense of approximately \$3,300 and \$6,200 related to the vesting of RSUs and the related tax benefit of approximately \$1,240 and \$2,240, respectively. For the three and six months ended June 30, 2010, we recognized equity-based compensation expense of approximately \$3,300 and \$8,500, respectively, related to the vesting of RSUs and the related tax benefit of approximately \$1,300 and \$3,300, respectively.

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As of June 30, 2011, we had unearned compensation of approximately \$32,300 relating to RSUs that will be amortized over a weighted-average period of approximately two years.

(13) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries

We conduct substantially all of our business through our domestic and foreign subsidiaries. SGI's obligations under the Credit Agreement, the 2016 Notes and the 2019 Notes are fully and unconditionally and jointly and severally guaranteed by Scientific Games Corporation (the "Parent Company") and our 100%-owned domestic subsidiaries other than SGI (the "Guarantor Subsidiaries"). Our 2018 Notes, which were issued by the Parent Company, are fully and unconditionally and jointly and severally guaranteed by our 100% owned domestic subsidiaries, including SGI.

Presented below is condensed consolidating financial information for (i) the Parent Company, (ii) SGI, (iii) the Guarantor Subsidiaries and (iv) our 100%-owned foreign subsidiaries and our non-100%-owned domestic and foreign subsidiaries (collectively, the "Non-Guarantor Subsidiaries") as of June 30, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and 2010. The condensed consolidating financial information has been presented to show the nature of assets held, results of operations and cash flows of the Parent Company, SGI, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries assuming the guarantee structures of our obligations as disclosed in Note 8 of the Notes to Consolidated Financial Statements in our 2010 Annual Report on Form 10-K for all periods presented. The condensed consolidating financial information has also been recast for all periods presented to reflect entities included in the sale of the Racing Business as non-guarantors.

The condensed consolidating financial information reflects the investments of the Parent Company in the Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting. Corporate interest and administrative expenses have not been allocated to the subsidiaries.

Table of Contents**SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES****SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET****As of June 30, 2011**

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	\$ 30,903	\$ 137	\$	\$ 103,394	\$ (7,178)	\$ 127,256
Accounts receivable, net		51,295	41,924	73,552		166,771
Inventories		26,375	14,388	28,466		69,229
Other current assets	14,382	3,337	6,466	28,438		52,623
Property and equipment, net	2,617	167,434	37,003	229,630		436,684
Investment in subsidiaries	606,561	706,241		856,910	(2,169,712)	
Goodwill		273,656	78,618	428,653		780,927
Intangible assets		41,655	28,838	8,166		78,659
Intercompany balances	136,895		202,139		(339,034)	
Other assets	17,836	77,161	10,892	402,754	(6,101)	502,542
Total assets	\$ 809,194	\$ 1,347,291	\$ 420,268	\$ 2,159,963	\$ (2,522,025)	\$ 2,214,691
Liabilities and stockholders' equity						
Current installments of long-term debt	\$	\$ 6,280	\$	\$ 3,199	\$	\$ 9,479
Other current liabilities	39,800	46,479	29,428	81,604	(7,179)	190,132
Long-term debt, excluding current installments	250,000	1,105,494		25,841		1,381,335
Other non-current liabilities	10,369	40,287	15,751	58,313		124,720
Intercompany balances		37,668		301,367	(339,035)	
Stockholders' equity	509,025	111,083	375,089	1,689,639	(2,175,811)	509,025
Total liabilities and stockholders' equity	\$ 809,194	\$ 1,347,291	\$ 420,268	\$ 2,159,963	\$ (2,522,025)	\$ 2,214,691

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	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	\$ 62,639	\$ 150	\$	\$ 62,770	\$ (1,278)	\$ 124,281
Accounts receivable, net		72,830	45,541	59,808		178,179
Inventories		29,416	16,210	23,118		68,744
Other current assets	14,997	2,783	4,564	20,117		42,461
Property and equipment, net	1,730	150,130	43,859	254,862		450,581
Investment in subsidiaries	510,260	670,471		386,690	(1,567,421)	
Goodwill		273,656	78,843	411,416		763,915
Intangible assets		42,170	20,481	7,962		70,613
Intercompany balances	133,483		164,982		(298,465)	
Other assets	18,457	98,933	6,046	335,429	(6,101)	452,764
Total assets	\$ 741,566	\$ 1,340,539	\$ 380,526	\$		