SCIENTIFIC GAMES CORP
Form 10-Q
August 05, 2016
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, 2016

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	81-0422894
(State or other jurisdiction of incorporation or organization)	(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 ý	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 ý
The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of August 2, 2016:

Class A Common Stock: 87,523,669
Class B Common Stock: None

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL INFORMATION
AND OTHER INFORMATION
THREE AND SIX MONTHS ENDED JUNE 30, 2016

Glossary of Terms

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

Term or Acronym	Definition
2018 Notes	8.125% senior subordinated notes due 2018 issued by Scientific Games Corporation
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	refers to Scientific Games Corporation and its consolidated subsidiaries, unless otherwise specified or the context otherwise dictates
CSG	Beijing CITIC Scientific Games Technology Co., Ltd.
CSL	China Sports Lottery
CSP	Cooperative Services Program
D&A	depreciation and amortization
ESPP	employee stock purchase plan
EU	European Union
FASB	Financial Accounting Standards Board
GLB	Beijing Guard Libang Technology Co., Ltd.
Hellenic Lotteries	Hellenic Lotteries S.A.
ITL	International Terminal Leasing
LBO	licensed betting office
LNS	Lotterie Nazionali S.r.l.
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 in the Condensed Notes 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
PTG	Proprietary table games
R&D	research and development
RCN	Roberts Communications Network, LLC
RFP	Request for proposal

RMG	real-money gaming
RSU	restricted stock unit
SEC	Securities and Exchange Commission
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
SGI	Scientific Games International, Inc., a wholly-owned subsidiary of Scientific Games Corporation
SHFL	SHFL entertainment, Inc.
Shufflers	various models of automatic card shufflers, deck checkers and roulette chip sorters

Unsecured Notes	10.00% senior unsecured notes due 2022 issued by SGI
U.K.	United Kingdom of Great Britain and Northern Ireland
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

Intellectual Property Rights

® and ™ indicate U.S. trademarks. Marks are owned by their respective owners.

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," "target," "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, including by casino operators;
- 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, lottery and interactive gaming industries;
- 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 indebtedness, other obligations or future cash needs;
- inability to reduce or refinance our indebtedness;
- restrictions and covenants in debt agreements, including those that could result in acceleration of the maturity of our indebtedness;
- protection of intellectual property, inability to license third party intellectual property and the intellectual property rights of others;
- security and integrity of our products and systems and reliance on or failures in information technology and other 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 realize the anticipated benefits under its PMA with the Illinois lottery or from the disentanglement services performed in connection with the 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 our consortium's 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 complete or integrate such acquisitions or realize synergies in the anticipated amounts or within the contemplated time frames 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;
- incurrence of employee termination or restructuring costs and impairment or asset write-down charges;
- changes in estimates or judgments related to our impairment analysis of goodwill or other intangible assets;
- 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 (including those fluctuations related to the affirmative vote in the U.K. to withdraw from the EU), restrictions on the payment of dividends from earnings, restrictions on the import of products and financial instability, including the potential impact to our business resulting from the affirmative vote in the U.K. to withdraw from the EU and 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 key 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 (including labor disputes), 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 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016 and under Item 1A "Risk Factors" 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 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, lottery and interactive gaming industries than the same 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,	
	2016	2015	2016	2015
Revenue:				
Services	$363.5	$337.9	$713.8	$668.3
Product sales	214.8	218.1	412.4	417.5
Instant games	150.9	135.5	285.0	264.4
Total revenue	729.2	691.5	1,411.2	1,350.2
Operating expenses:				
Cost of services (1)	101.4	98.6	196.3	189.1
Cost of product sales (1)	100.7	107.9	195.1	205.8
Cost of instant games (1)	74.1	68.8	141.1	135.8
Selling, general and administrative	144.9	140.9	287.2	286.8
Research and development	51.7	48.0	101.5	94.9
Employee termination and restructuring	4.2	5.2	6.9	13.4
Depreciation and amortization	193.1	222.2	373.7	406.4
Operating income (loss)	59.1	(0.1)	109.4	18.0
Other (expense) income:				
Interest expense	(165.3)	(166.4)	(331.0)	(330.7)
Earnings from equity investments	8.0	3.3	11.2	6.4
Gain on early extinguishment of debt	25.2	—	25.2	—
Other income (expense), net	1.7	(4.3)	2.4	(9.9)
Total other expense, net	(130.4)	(167.4)	(292.2)	(334.2)
Net loss before income taxes	(71.3)	(167.5)	(182.8)	(316.2)
Income tax benefit	19.6	65.3	38.8	127.6
Net loss	$(51.7)	$(102.2)	$(144.0)	$(188.6)
Other comprehensive (loss) income:				
Foreign currency translation income (loss)	(35.1)	17.8	(36.7)	(88.4)
Pension and post-retirement gain (loss), net of tax	0.3	(0.7)	0.5	0.2
Derivative financial instruments unrealized gain, net of tax	4.6	6.0	3.6	1.1
Other comprehensive (loss) income	(30.2)	23.1	(32.6)	(87.1)
Comprehensive loss	$(81.9)	$(79.1)	$(176.6)	$(275.7)
Basic and diluted net loss per share:				
Basic	$(0.59)	$(1.19)	$(1.66)	$(2.20)
Diluted	$(0.59)	$(1.19)	$(1.66)	$(2.20)
Weighted average number of shares used in per share calculations:				
Basic shares	87.3	85.9	86.9	85.6
Diluted shares	87.3	85.9	86.9	85.6

(1) Exclusive of D&A.
See accompanying condensed notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except par value)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 101.4	$ 128.7
Restricted cash	24.5	20.2
Accounts receivable, net	501.3	487.1
Notes receivable, net	140.0	167.7
Inventories	249.0	248.5
Prepaid expenses, deposits and other current assets	120.9	123.3
Total current assets	1,137.1	1,175.5
Long-term restricted cash	17.4	17.9
Long-term notes receivable, net	43.8	51.3
Property and equipment, net	695.5	794.0
Goodwill	2,992.5	3,013.7
Intangible assets, net	1,891.9	1,920.0
Software, net	443.2	485.9
Equity investments	199.8	228.5
Other assets	43.9	45.4
Total assets	$ 7,465.1	$ 7,732.2
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 49.7	$ 50.3
Accounts payable	178.6	159.8
Accrued liabilities	417.1	443.8
Total current liabilities	645.4	653.9
Deferred income taxes	173.9	228.2
Other long-term liabilities	245.1	188.9
Long-term debt, excluding current portion	8,067.6	8,156.7
Total liabilities	9,132.0	9,227.7
Commitments and contingencies (see Note 16)		
Stockholders' deficit:		
Class A common stock, par value $0.01 per share: 199.3 shares authorized; 104.7 and 103.7 shares issued and 87.5 and 86.5 shares outstanding, respectively	1.0	1.0
Additional paid-in capital	771.1	765.9
Accumulated loss	(2,009.0)	(1,865.0)
Treasury stock, at cost, 17.2 shares	(175.2)	(175.2)
Accumulated other comprehensive loss	(254.8)	(222.2)
Total stockholders' deficit	(1,666.9)	(1,495.5)
Total liabilities and stockholders' deficit	$ 7,465.1	$ 7,732.2

See accompanying condensed notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(144.0)	$(188.6)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	373.7	406.4
Change in deferred income taxes	(57.0)	(145.7)
Stock-based compensation	12.5	12.1
Non-cash interest expense	20.2	19.0
Earnings from equity investments, net	(11.2)	(6.4)
Distributed earnings from equity investments	16.3	19.9
Gain on early extinguishment of debt	(25.2)	—
Changes in current assets and liabilities:		
Accounts and notes receivable, net	14.4	23.7
Inventories	(3.4)	18.4
Other current assets and liabilities	15.2	10.8
Accounts payable	7.7	(9.4)
Accrued liabilities	(26.1)	(44.7)
Other, net	(1.2)	(1.1)
Net cash provided by operating activities	191.9	114.4
Cash flows from investing activities:		
Property and equipment expenditures	(8.7)	(7.8)
Gaming and lottery operations expenditures	(76.8)	(103.7)
Intangible assets and software expenditures	(47.1)	(31.3)
Proceeds from asset sales	3.1	—
Changes in other assets and liabilities and other	3.0	8.5
Restricted cash	(3.8)	1.0
Distributions of capital on equity investments	22.5	35.2
Net cash used in investing activities	(107.8)	(98.1)
Cash flows from financing activities:		
Borrowings under revolving credit facility	160.0	110.0
Repayments under revolving credit facility	(175.0)	(120.0)
Payments on long-term debt	(25.2)	(26.2)
Repurchase of notes	(39.9)	—
Payments on license obligations	(25.0)	(18.7)
Contingent earnout payments	—	(0.5)
(Redemptions) issuance of common stock under stock-based compensation plans	(4.4)	0.9
Net cash used in financing activities	(109.5)	(54.5)
Effect of exchange rate changes on cash and cash equivalents	(1.9)	(4.5)
Decrease in cash and cash equivalents	(27.3)	(42.7)
Cash and cash equivalents, beginning of period	128.7	171.8
Cash and cash equivalents, end of period	$101.4	$129.1

See accompanying condensed notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, table amounts in millions, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies
Description of the Business
We are a leading developer of technology based products and services and associated content for the worldwide gaming, lottery and interactive gaming industries. Our portfolio includes gaming machines and game content, casino management systems, table game products and services, instant and draw based lottery games, server based gaming and lottery systems, sports betting technology, lottery content and services, loyalty and rewards programs, interactive gaming and social casino solutions. We also gain access to technologies and pursue global expansion through strategic acquisitions and equity investments. We report our operations in three business segments—Gaming, Lottery and Interactive.
Basis of Presentation and Principles of Consolidation
The accompanying consolidated financial statements of the Company have been prepared in accordance with SEC and U.S. GAAP requirements. All monetary values set forth in these financial statements are in United States dollars ("USD" or "$") unless otherwise stated herein. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, as well as those subsidiaries in which we have a controlling financial interest. Investments in other entities in which we do not have a controlling financial interest but we exert significant influence are accounted for in our consolidated financial statements using the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.
In the opinion of management, we have made all adjustments necessary to present fairly our consolidated financial position, results of operations and comprehensive loss and cash flows for the periods presented. Such adjustments are of a normal, recurring nature. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2015 Annual Report on Form 10-K. Interim results of operations are not necessarily indicative of results of operations for a full year.
Significant Accounting Policies
There have been no changes to our significant accounting policies described in Note 1 (Description of the Business and Summary of Significant Accounting Policies) in our 2015 Annual Report on Form 10-K.
New Accounting Guidance - Recently Adopted

In July 2015, the FASB issued ASU No. 2015-11, Inventory: Simplifying the Measurement of Inventory. ASU 2015-11 changes the criteria for measuring inventory within the scope of the ASU. Inventory will now be measured at the lower of cost and net realizable value, while the concept of market value will be eliminated. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this guidance prospectively at the beginning of the second quarter of 2016. The adoption of this guidance did not have a material effect on our financial condition, results of operations, or cash flows.

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amended guidance simplifies the accounting for equity investments and eliminates the requirements in Topic 323 that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. We adopted this guidance prospectively at the beginning of the first quarter of 2016. The adoption of this guidance did not have a material effect on our financial condition, results of operations or cash flows.

New Accounting Guidance - Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers. The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue from contracts with customers. The guidance (including subsequent amendments) supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The ASU may be adopted using a full retrospective approach or reporting the cumulative effect as of the date of adoption. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years with earlier adoption permitted for fiscal years beginning after December 15, 2016. We are currently evaluating the impact of adopting this guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amended guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is expected to result in a significant portion of our operating leases, where we are the lessee, to be recognized on our Consolidated Balance Sheets. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with earlier adoption permitted. We are currently evaluating the impact and timing of adopting this guidance.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amended guidance is intended to simplify several aspects of accounting for share-based payment award transactions, including income tax consequences, accounting for forfeitures, and classification of awards as either equity or liabilities and classification in the statement of cash flows. ASU 2016-09 has separate transition guidance for each element of the new standard and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years with earlier adoption permitted. We are currently evaluating the impact of adopting this guidance.

We do not expect that any other recently issued accounting guidance will have a significant effect on our financial statements.

(2) Business Segments

We report our operations in three business segments—Gaming, Lottery and Interactive—representing our different products and services. These are our reportable segments under ASC 280, Segment Reporting. Each of our business segments is managed by a separate executive who reports to our chief executive officer (who is our "chief operating decision maker" as defined under applicable accounting standards). Our three business segments represent separate standalone businesses based on the industries in which we operate. Our Gaming business segment generally sells gaming machines, VLTs and conversion kits and parts, leases or otherwise provides gaming machines, server-based systems and content, sells and supports casino-management systems-based software and hardware, and sells and leases PTG content and Shufflers, including automatic card shufflers, deck checkers and roulette chip sorters, to commercial, tribal and governmental gaming operators. Our Lottery business segment provides instant lottery games and related value-added services, as well as licensed brands utilized in instant lottery games and loyalty and reward services. Our Lottery business segment also provides systems products and services generally comprised of point-of-sale terminals, a central system, customized computer software, data communication services, support and/or related equipment. Our Interactive business segment provides social gaming and RMG services to online casino operators through our remote game servers. Additional discussion regarding the products and services from which each reportable business segment derives its revenue is included in Note 1 (Description of the Business and Summary of Significant Accounting Policies) in our 2015 Annual Report on Form 10-K.

The following tables present revenue, cost of revenue, SG&A, R&D, employee termination and restructuring, D&A, operating income and earnings from equity investments for the three and six months ended June 30, 2016 and 2015, respectively, by business segment. Certain unallocated corporate amounts consisted primarily of general and administrative expenses, other income (expense) and D&A.

	Three Months Ended June 30, 2016			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$236.0	$ 44.1	$ 83.4	$363.5
Product sales	205.9	8.9	—	214.8
Instant games	—	150.9	—	150.9
Total revenue	441.9	203.9	83.4	729.2
Operating expenses:				
Cost of services (1)	44.4	26.8	30.2	101.4
Cost of product sales (1)	93.4	7.3	—	100.7
Cost of instant games (1)	—	74.1	—	74.1
Selling, general and administrative	61.2	17.8	26.8	105.8
Research and development	38.5	2.6	8.4	49.5
Employee termination and restructuring	3.4	0.2	0.5	4.1
Depreciation and amortization	154.3	17.2	3.8	175.3
Segment operating income	$46.7	$ 57.9	$ 13.7	$118.3
Unallocated corporate costs				(59.2)
Consolidated operating income				$59.1
Earnings from equity investments	$1.4	$ 6.6	$ —	$8.0

(1) Exclusive of D&A.

	Three Months Ended June 30, 2015			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$240.4	$ 45.9	$ 51.6	$337.9
Product sales	209.3	8.8	—	218.1
Instant games	—	135.5	—	135.5
Total revenue	449.7	190.2	51.6	691.5
Operating expenses:				
Cost of services (1)	53.1	27.5	18.0	98.6
Cost of product sales (1)	100.9	7.0	—	107.9
Cost of instant games (1)	—	68.8	—	68.8
Selling, general and administrative	71.2	16.4	15.2	102.8
Research and development	41.1	1.5	5.4	48.0
Employee termination and restructuring	2.7	—	0.3	3.0
Depreciation and amortization	181.5	20.0	5.4	206.9
Segment operating (loss) income	$(0.8)	$ 49.0	$ 7.3	$55.5
Unallocated corporate costs				(55.6)
Consolidated operating loss				$(0.1)
Earnings from equity investments	$1.8	$ 1.5	$ —	$3.3

(1) Exclusive of D&A.

	Six Months Ended June 30, 2016			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$468.6	$89.2	$ 156.0	$713.8
Product sales	395.0	17.4	—	412.4
Instant games	—	285.0	—	285.0
Total revenue	863.6	391.6	156.0	1,411.2
Operating expenses:				
Cost of services (1)	85.6	54.9	55.8	196.3
Cost of product sales (1)	181.2	13.9	—	195.1
Cost of instant games (1)	—	141.1	—	141.1
Selling, general and administrative	129.1	34.3	51.3	214.7
Research and development	76.7	5.2	15.7	97.6
Employee termination and restructuring	5.0	1.3	0.5	6.8
Depreciation and amortization	295.9	35.0	7.5	338.4
Segment operating income	$90.1	$105.9	$ 25.2	$221.2
Unallocated corporate costs				(111.8)
Consolidated operating income				$109.4
Earnings from equity investments	$1.4	$9.8	$ —	$11.2

(1) Exclusive of D&A.

	Six Months Ended June 30, 2015			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$478.3	$ 91.5	$ 98.5	$668.3
Product sales	397.2	20.3	—	417.5
Instant games	—	264.4	—	264.4
Total revenue	875.5	376.2	98.5	1,350.2
Operating expenses:				
Cost of services (1)	98.6	55.9	34.6	189.1
Cost of product sales (1)	188.7	17.1	—	205.8
Cost of instant games (1)	—	135.8	—	135.8
Selling, general and administrative	145.4	33.5	30.3	209.2
Research and development	80.9	3.1	10.9	94.9
Employee termination and restructuring	6.9	0.2	1.0	8.1
Depreciation and amortization	324.8	41.3	10.5	376.6
Segment operating income	$30.2	$ 89.3	$ 11.2	$130.7
Unallocated corporate costs				(112.7)
Consolidated operating income				$18.0
Earnings from equity investments	$1.7	$ 4.7	$ —	$6.4

(1) Exclusive of D&A.

The following table presents a reconciliation of business segment operating income to net loss before income taxes for each period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Business segment operating income	$118.3	$55.5	$221.2	$130.7
Unallocated corporate costs	(59.2)	(55.6)	(111.8)	(112.7)
Consolidated operating income (loss)	59.1	(0.1)	109.4	18.0
Interest expense	(165.3)	(166.4)	(331.0)	(330.7)
Earnings from equity investments	8.0	3.3	11.2	6.4
Gain on early extinguishment of debt	25.2	—	25.2	—
Other income (expense), net	1.7	(4.3)	2.4	(9.9)
Net loss before income taxes	$(71.3)	$(167.5)	$(182.8)	$(316.2)

In evaluating financial performance, we focus on operating income (loss) as a segment's measure of profit or loss. The accounting policies of our business segments are the same as those described in our summary of significant accounting policies in Note 1 (Description of the Business and Summary of Significant Accounting Policies) in our 2015 Annual Report on Form 10-K.

(3) Restructuring Plans

We began integrating Scientific Games and WMS subsequent to the WMS acquisition in October 2013. This integration was completed during the first quarter of 2016. We began integrating Scientific Games and Bally subsequent to its acquisition in November 2014 by implementing our plans to streamline our operations and cost structure.

We recorded pre-tax employee termination and restructuring costs of $4.2 million and $5.2 million for the three months ended June 30, 2016 and 2015, respectively, and $6.9 million and $13.4 million for the six months ended June 30, 2016 and 2015, respectively. No new material employee termination and restructuring plans were initiated during the six months ended June 30, 2016. We expect to complete the integration-related restructuring plan actions discussed below relating to the Bally integration during 2016. All other employee termination and restructuring actions reported in 2015 were completed as of March 31, 2016.

The following table presents a summary of employee termination and restructuring costs by business segment related to the restructuring plans described above, including the costs incurred during the three and six months ended June 30, 2016, the cumulative costs incurred through June 30, 2016 from initiation of the relevant restructuring activities and the total expected costs related to the relevant restructuring activities that have been initiated. As additional integration-related activities are initiated, we expect to incur additional costs related to those activities.

Business Segment		Employee Termination Costs	Property Costs	Other	Total
Gaming	Three Months Ended June 30, 2016	$ 2.2	$ —	$ 1.2	$ 3.4
	Six Months Ended June 30, 2016	3.4	0.4	1.2	5.0
	Cumulative	24.6	0.4	2.8	27.8
	Expected Total	27.1	0.4	2.8	30.3
Lottery	Three Months Ended June 30, 2016	—	—	0.2	0.2
	Six Months Ended June 30, 2016	1.1	—	0.2	1.3
	Cumulative	2.3	—	0.2	2.5
	Expected Total	2.3	—	0.2	2.5
Interactive	Three Months Ended June 30, 2016	0.2	—	0.3	0.5
	Six Months Ended June 30, 2016	0.2	—	0.3	0.5
	Cumulative	2.7	—	2.0	4.7
	Expected Total	2.7	—	2.0	4.7
Unallocated corporate (1)	Three Months Ended June 30, 2016	0.1	—	—	0.1
	Six Months Ended June 30, 2016	0.1	—	—	0.1
	Cumulative	6.4	4.3	2.1	12.8
	Expected Total	8.9	4.3	2.1	15.3

Total	Three Months Ended June 30, 2016	$ 2.5	$ —	$ 1.7	$ 4.2
	Six Months Ended June 30, 2016	$ 4.8	$ 0.4	$ 1.7	$ 6.9
	Cumulative	$ 36.0	$ 4.7	$ 7.1	$ 47.8
	Expected Total	$ 41.0	$ 4.7	$ 7.1	$ 52.8

(1) Cumulative unallocated corporate employee termination costs primarily includes cash severance paid to our former chief executive officer and special termination benefits related to the retirement of our former chief financial officer.

The following table presents a summary of restructuring charges and the changes in the restructuring accrual during the six months ended June 30, 2016:

	Employee Termination Costs	Property Costs	Other	Total
Balance as of December 31, 2015	$ 7.3	$ 0.8	$1.4	$9.5
Additional accruals	4.8	0.4	1.7	6.9
Cash payments	(6.2)	(0.9)	(0.2)	(7.3)
Balance as of June 30, 2016	$ 5.9	$ 0.3	$2.9	$9.1

(4) Basic and Diluted Net Loss Per Share

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net loss per share available to common stockholders for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Loss (numerator):				
Net loss	$(51.7)	$(102.2)	$(144.0)	$(188.6)
Shares (denominator):				
Basic weighted-average common shares outstanding	87.3	85.9	86.9	85.6
Diluted weighted-average common shares outstanding	87.3	85.9	86.9	85.6
Basic and diluted net loss per share amounts:				
Basic net loss per share	$(0.59)	$(1.19)	$(1.66)	$(2.20)
Diluted net loss per share	$(0.59)	$(1.19)	$(1.66)	$(2.20)

Basic and diluted net loss per share were the same for all periods presented as all common stock equivalents would be anti-dilutive. We excluded 3.0 million and 1.9 million of stock options from the diluted weighted-average common shares outstanding as of June 30, 2016 and 2015, respectively, and 5.3 million and 6.4 million of RSUs from the calculation of diluted weighted-average common shares outstanding as of June 30, 2016 and 2015, respectively.

(5) Accounts and Notes Receivable and Credit Quality of Notes Receivable

Accounts and Notes Receivable

The following summarizes the components of current and long-term accounts and notes receivable, net:

	June 30, 2016	December 31, 2015
Current:		
Accounts receivable	$514.0	$ 497.7
Notes receivable	154.5	180.4
Allowance for doubtful accounts	(27.2)	(23.3)
Current accounts and notes receivable, net	$641.3	$ 654.8
Long-term:		
Notes receivable, net	43.8	51.3
Total accounts and notes receivable, net	$685.1	$ 706.1

Credit Quality of Notes Receivable

We have provided extended payment terms and development financing to certain customers in the form of notes receivable. We carry our notes receivable at face amounts less an allowance for doubtful accounts and imputed interest, if any. Interest income is recognized ratably over the life of the note receivable and any related fees or costs to establish the notes are expensed as incurred, as they are considered insignificant. Actual or imputed interest, if any, is determined based on stated rates or current market rates at the time the note originated and is recorded as interest income in other income (expense), net, ratably over the payment period. We generally impute interest income on notes receivable with terms greater than one year that do not contain a stated interest rate. The interest rates on our outstanding notes receivable ranged from 3.25% to 10.42% at June 30, 2016 and December 31, 2015.

We monitor the credit quality of our accounts and notes receivable by reviewing an aging of customer invoices. Invoices are considered past due if a scheduled payment is not received within the agreed-upon terms. We also review a variety of other relevant qualitative information such as collection experience, economic conditions and customer-specific financial conditions to evaluate credit risk in recording the allowance for doubtful accounts or as an indicator of an impaired loan. Where possible, we seek payment deposits, collateral, pledge agreements, bills of exchange, foreign bank letters of credit, post-dated checks or personal guarantees with respect to notes receivable from our customers. However, the majority of our international notes receivable do not have these features. Currently, we have not sold our notes receivable to third parties; therefore, we do not have any off-balance sheet liabilities for factored receivables.

Over the past few years, the government authorities in Argentina had limited the exchange of pesos into USD and the transfer of funds from Argentina. In December 2015, the newly elected government removed the limitations of the previous government and also devalued the "official" peso to the market rate. Our accounts and notes receivable, net, from customers in Argentina at June 30, 2016 was $19.0 million, which is denominated in USD, although, under the terms of our arrangements with our customers in Argentina, they are required to pay us in pesos at the spot exchange rate between the peso and the USD on the date of payment. With the recent devaluation of the peso, our customers will now have to pay more pesos to reduce their obligations. In evaluating the collectability of customer receivables in Argentina at June 30, 2016, we specifically evaluated recent government actions, payments, receivables aging, any additional security or collateral we had (bills of exchange, pledge agreements, etc.) and other facts and circumstances relevant to our customers' ability to pay. Our customers in Argentina have continued to pay us in pesos based on the spot exchange rate between the peso and the USD on the payment date. We collected $11.4 million of outstanding receivables from customers in Argentina during the six months ended June 30, 2016.

Government actions and challenges affecting the gaming industry in Mexico have increased the credit quality risk with respect to certain of our current Mexico customers. Our accounts and notes receivable, net, from these certain customers in Mexico at June 30, 2016 was $36.4 million. We collected $14.4 million of outstanding receivables from these certain customers during the six months ended June 30, 2016.

The following summarizes the components of total notes receivable, net:

	June 30, 2016	Balances over 90 days past due	December 31, 2015	Balances over 90 days past due
Notes receivable:				
Domestic	$39.6	$ 2.0	$ 62.4	$ 2.6
International	159.0	41.5	169.8	26.6
Total notes receivable	198.6	43.5	232.2	29.2
Notes receivable allowance for doubtful accounts:				
Domestic	(2.3)	(2.3)	(2.6)	(2.5)
International	(12.5)	(12.5)	(10.6)	(9.5)
Total notes receivable allowance for doubtful accounts	(14.8)	(14.8)	(13.2)	(12.0)
Notes receivable, net	$183.8	$ 28.7	$ 219.0	$ 17.2

At June 30, 2016, 15.6% of our total notes receivable, net, was past due by over 90 days, compared to 7.9% at December 31, 2015.

The following tables detail our evaluation of notes receivable for impairment as of June 30, 2016 and December 31, 2015:

	June 30, 2016	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Notes receivable:			
Domestic	$39.6	$ 13.7	$ 25.9
International	159.0	81.7	77.3
Total notes receivable	$198.6	$ 95.4	$ 103.2

	December 31, 2015	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Notes receivable:			
Domestic	$ 62.4	$ 20.7	$ 41.7
International	169.8	101.8	68.0
Total notes receivable	$ 232.2	$ 122.5	$ 109.7

The following table reconciles the allowance for doubtful notes receivable from December 31, 2015 to June 30, 2016:

	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Beginning balance at December 31, 2015	$13.2	$ 12.9	$ 0.3
Charge-offs	(1.3)	(1.3)	—
Recoveries	(0.2)	(0.2)	—
Provision	3.1	3.1	—
Ending balance at June 30, 2016	$14.8	$ 14.5	$ 0.3

The following table reconciles the allowance for doubtful notes receivable from December 31, 2014 to June 30, 2015:

	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Beginning balance at December 31, 2014	$5.9	$ 5.9	$ —
Charge-offs	(2.1)	(2.1)	—
Recoveries	(0.5)	(0.4)	(0.1)
Provision	6.4	5.2	1.2
Ending balance at June 30, 2015	$9.7	$ 8.6	$ 1.1

For the six months ended June 30, 2016 and 2015, we had no significant modifications to the original financing terms.

In certain international jurisdictions, we offer extended payment terms to our customers. Such payment terms subject us to increased credit risk, which could be exacerbated by, among other things, unfavorable economic conditions or political or economic instability in those regions. Our notes receivable were concentrated in the following international gaming jurisdictions at June 30, 2016:

Mexico	26%
Peru	17%
Argentina	9 %
Columbia	6 %
Other (less than 5% individually)	22%
Total international notes receivable as a percentage of total notes receivable	80%

(6) Inventories

Inventories consisted of the following as of the dates presented below:

	June 30, 2016	December 31, 2015
Parts and work-in-process	$ 128.6	$ 118.3
Finished goods	120.4	130.2
Total inventories	$ 249.0	$ 248.5

Parts and work-in-process include parts for gaming machines, lottery terminals and instant lottery ticket materials, as well as labor and overhead costs for work-in-process associated with the manufacturing of instant lottery games and lottery terminals. Our finished goods inventory primarily consists of gaming machines for sale, instant games for our Participation arrangements and our licensed branded merchandise.

During the three months ended June 30, 2015, we recorded an impairment of $7.1 million related to the discontinuance of certain product lines as a result of the Bally acquisition. The impairment is included in the cost of product sales in our Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2015.

(7) Property and Equipment, net

Property and equipment, net consisted of the following:

	June 30, 2016	December 31, 2015
Land	$38.4	$ 38.5
Buildings and leasehold improvements	184.7	185.2
Gaming and lottery machinery and equipment	1,048.5	1,084.6
Furniture and fixtures	31.4	36.0
Construction in progress	27.9	25.5
Other property and equipment	264.5	271.0
Less: accumulated depreciation	(899.9)	(846.8)
Total property and equipment, net	$695.5	$ 794.0

Depreciation expense for the three and six months ended June 30, 2016 was $86.8 million and $167.4 million, respectively. Depreciation expense for the three and six months ended June 30, 2015 was $93.9 million and $176.3 million, respectively. Depreciation expense is excluded from cost of services, cost of product sales, cost of instant games and other operating expenses and is separately included within D&A in the Consolidated Statements of Operations and Comprehensive Loss.

During the six months ended June 30, 2016, the Gaming and Lottery business segments disposed of certain gaming and lottery assets with gross balances of approximately $90.2 million and $3.1 million, respectively. These disposals did not result in receipt of material cash proceeds and had an immaterial impact on property and equipment, net in our Consolidated Balance Sheet as of June 30, 2016 and the Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2016.

During the three months ended June 30, 2015, the Gaming business segment disposed of certain fully depreciated gaming assets with a historical cost of $59.9 million. The disposal had no impact on property and equipment, net in our Consolidated Balance Sheet as of June 30, 2015 or D&A in the Consolidated Statements of Operations and Comprehensive Loss for three and six months ended June 30, 2015. In addition, during the three months ended June 30, 2015, we recorded an impairment of $5.2 million related to gaming equipment assets for certain product lines that were discontinued as a result of the Bally acquisition, and recorded an impairment of $4.9 million for a Reno, Nevada facility we sold later in the year. The impairments were included in D&A in our Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2015.

(8) Intangible Assets, net and Goodwill

Intangible Assets, net

The following tables present certain information regarding our intangible assets as of June 30, 2016 and December 31, 2015. Amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives with no estimated residual value, which materially approximates the expected pattern of use of these intangible assets.

Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance as of June 30, 2016			
Amortizable intangible assets:			
Patents	$26.3	$ (13.1)	$13.2
Customer relationships	877.7	(136.8)	740.9
Licenses	412.5	(121.8)	290.7
Intellectual property(1)	731.5	(170.3)	561.2
Trade names	97.4	(4.9)	92.5
Brand names	124.4	(25.6)	98.8
Non-compete agreements	0.2	(0.2)	—
	2,270.0	(472.7)	1,797.3
Non-amortizable intangible assets:			
Trade names	96.7	(2.1)	94.6
Total intangible assets	$2,366.7	$ (474.8)	$1,891.9
Balance as of December 31, 2015			
Amortizable intangible assets:			
Patents	$26.8	$ (12.5)	$14.3
Customer relationships	877.7	(109.1)	768.6
Licenses	326.1	(91.6)	234.5
Intellectual property(1)	731.1	(124.5)	606.6
Trade names	97.5	(1.9)	95.6
Brand names	124.0	(18.9)	105.1
Non-compete agreements	0.3	(0.3)	—
	2,183.5	(358.8)	1,824.7
Non-amortizable intangible assets:			
Trade names	97.4	(2.1)	95.3
Total intangible assets	$2,280.9	$ (360.9)	$1,920.0

(1) Includes $33 million of in-process R&D assets that will not be subject to amortization until they reach commercial feasibility.

In January 2016, we amended and extended the terms of one of our existing license agreements through December 31, 2022. Under the terms of the amended agreement, we are obligated to pay aggregate minimum guarantees of $88.0 million over the life of the contract in exchange for the right to use certain licensed properties in game content themes, which are incorporated into our slot games, online games, lottery products and promotional materials. We account for the minimum guaranteed obligations within other long-term liabilities (or, with respect to the portion that is a current liability within accounts payable or accrued liabilities) at the onset of the license arrangement and record a corresponding licensed asset within intangible assets, net in our Consolidated Balance Sheets. The current and long-term portions of our minimum guaranteed obligations related to the amended license agreement were $8.8 million and $74.6 million, respectively, and are recorded in accounts payable and other long-term liabilities, respectively, in our Consolidated Balance Sheet as of June 30, 2016.

The aggregate intangible asset amortization expense for the three and six months ended June 30, 2016 was $62.3 million and $127.9 million, respectively. The aggregate intangible amortization expense for the three and six months ended June 30, 2015 was $87.2 million and $150.3 million, respectively. Intangible amortization expense is included within D&A in the Consolidated Statements of Operations and Comprehensive Loss.

As a result of an interim review of assets with indefinite useful lives, we recorded an impairment charge of $25.0 million in D&A in our Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2015 to reduce the gross carrying amount of one indefinite-lived trade name asset to its fair value (which was subsequently reclassified to finite-life during the third quarter of 2015).

Goodwill

The table below reconciles the change in the carrying amount of goodwill by business segment for the period from December 31, 2015 to June 30, 2016.

Goodwill	Gaming	Lottery	Interactive	Totals
Balance as of December 31, 2015	$2,486.0	$417.9	$ 109.8	$3,013.7
Foreign currency adjustments	(23.0)	1.8	—	(21.2)
Balance as of June 30, 2016	$2,463.0	$419.7	$ 109.8	$2,992.5

(9) Software, net

Software, net consisted of the following:

	June 30, 2016	December 31, 2015
Software	$894.8	$ 854.2
Accumulated amortization	(451.6)	(368.3)
Software, net	$443.2	$ 485.9

Amortization expense for the three and six months ended June 30, 2016 was $44.0 million and $78.4 million, respectively. Amortization expense for the three and six months ended June 30, 2015 was $41.1 million and $79.8 million, respectively. Amortization expense is included within D&A in the Consolidated Statements of Operations and Comprehensive Loss.

(10) Equity Investments

The following provides an update for events that occurred during the six months ended June 30, 2016 related to our equity investments, which are disclosed in Note 11 (Equity Investments) in our 2015 Annual Report on Form 10-K.

ITL

During the six months ended June 30, 2016, we received a distribution of capital of €2.8 million, or $3.1 million. During the six months ended June 30, 2015, we received a distribution of capital of €5.8 million, or $6.5 million.

RCN

During the six months ended June 30, 2016, we received a dividend of $1.4 million. During the six months ended June 30, 2015, we received a dividend of $1.8 million.

LNS

During the six months ended June 30, 2016, we received a dividend of €13.5 million, or $14.9 million, and a distribution capital of €17.6 million, or $19.4 million. During the six months ended June 30, 2015, we received a dividend of €12.9 million, or $14.5 million, and a distribution capital of €15.0 million, or $16.8 million.

(11) Long-Term and Other Debt

Outstanding Debt and Capital Leases

The following reflects our outstanding debt as of the dates indicated below:

	Principal	Unamortized debt discount	Unamortized deferred financing costs	Book value June 30, 2016
Senior Secured Credit Facilities:				
Revolver, varying interest rate, due 2018	$80.0	$ —	$ —	$80.0
Term Loan, varying interest rate, due 2020	2,242.5	(6.9)	(47.0)	2,188.6
Term Loan, varying interest rate, due 2021	1,970.0	(15.2)	(44.8)	1,910.0
2018 Notes	250.0	—	(1.6)	248.4
2020 Notes	243.5	—	(2.6)	240.9
2021 Notes	340.6	(1.6)	(5.1)	333.9
Secured Notes	950.0	—	(15.1)	934.9
Unsecured Notes	2,200.0	—	(39.1)	2,160.9
Capital lease obligations, 3.9% interest as of June 30, 2016 payable monthly through 2019	19.7	—	—	19.7
Total long-term debt outstanding	$8,296.3	$ (23.7)	$ (155.3)	$8,117.3
Less: current portion of long-term debt				(49.7)
Long-term debt, excluding current portion				$8,067.6

	Principal	Unamortized debt discount	Unamortized deferred financing costs	Book value December 31, 2015
Senior Secured Credit Facilities:				
Revolver, varying interest rate, due 2018				