SCIENTIFIC GAMES CORP
Form 10-Q
August 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

{Mark One}

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

For the quarterly period ended June 30, 2012

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

For the transition period from to

Commission file number: 0-13063

SCIENTIFIC GAMES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	81-0422894
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

750 Lexington Avenue, New York, New York 10022
(Address of principal executive offices)
(Zip Code)

(212) 754-2233
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class A Common Stock: 91,502,855
Class B Common Stock: None

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

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

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

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

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

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited, in thousands, except per share amounts)

	Three Months Ended June 30, 2012	2011
Revenue:		
Instant tickets	$119,627	$130,419
Services	88,635	82,096
Sales	21,045	7,733
Total revenue	229,307	220,248
Operating expenses:		
Cost of instant tickets (1)	68,420	72,133
Cost of services (1)	45,273	41,460
Cost of sales (1)	14,238	5,361
Selling, general and administrative	47,171	43,426
Employee termination and restructuring	6,046	—
Depreciation and amortization	39,086	29,004
Operating income	9,073	28,864
Other (income) expense:		
Interest expense	24,185	26,409
Earnings from equity investments	(6,915)	(9,224)
Other	1,108	(876)
	18,378	16,309
Net (loss) income before income taxes	(9,305)	12,555
Income tax expense	3,284	5,536
Net (loss) income	$(12,589)	$7,019
Other comprehensive (loss) income:		
Foreign currency translation (loss) gain	(29,811)	13,371
Pension and post-retirement benefits gain (loss), net of tax	229	(29)
Derivative financial instruments (loss) gain, net of tax	(317)	462
Foreign currency forward contracts gain	2,040	—
Other comprehensive (loss) income	(27,859)	13,804
Comprehensive (loss) income	$(40,448)	$20,823
Basic and diluted net (loss) income per share:		
Basic	$(0.14)	$0.08
Diluted	$(0.14)	$0.08
Weighted average number of shares used in per share calculations:		
Basic shares	92,767	92,069
Diluted shares	92,767	92,565

(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 OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited, in thousands, except per share amounts)

	Six Months Ended June 30, 2012	2011
Revenue:		
Instant tickets	$242,951	$244,279
Services	178,921	155,843
Sales	42,010	16,782
Total revenue	463,882	416,904
Operating expenses:		
Cost of instant tickets (1)	138,383	139,366
Cost of services (1)	91,132	80,382
Cost of sales (1)	31,165	11,051
Selling, general and administrative	93,343	82,980
Employee termination and restructuring	8,921	—
Depreciation and amortization	69,604	59,908
Operating income	31,334	43,217
Other (income) expense:		
Interest expense	49,083	52,864
Earnings from equity investments	(15,760)	(18,574)
Other	630	(1,870)
	33,953	32,420
Net (loss) income before income taxes	(2,619)	10,797
Income tax expense	8,151	10,710
Net (loss) income	$(10,770)	$87
Other comprehensive (loss) income:		
Foreign currency translation (loss) gain	(3,795)	48,450
Pension and post-retirement benefits (loss), net of tax	(142)	(488)
Derivative financial instruments (loss) gain, net of tax	(197)	912
Foreign currency forward contracts gain	1,697	—
Other comprehensive (loss) income	(2,437)	48,874
Comprehensive (loss) income	$(13,207)	$48,961
Basic and diluted net (loss) income per share:		
Basic	$(0.12)	$0.00
Diluted	$(0.12)	$0.00
Weighted average number of shares used in per share calculations:		
Basic shares	92,625	91,978
Diluted shares	92,625	92,518

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands, except per share amounts)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net (loss) income	$(10,770)	$87
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	69,604	59,908
Change in deferred income taxes	513	768
Stock-based compensation	11,622	9,702
Non-cash interest expense	4,006	4,107
Earnings from equity investments	(15,760)	(18,574)
Distributed earnings from equity investments	26,179	28,760
Changes in current assets and liabilities, net of effects of acquisitions		
Accounts receivable	20,794	13,664
Inventories	(5,686)	191
Accounts payable	(9,876)	(8,587)
Accrued liabilities	(9,118)	1,052
Other current assets and liabilities	2,326	6,297
Other	(478)	208
Net cash provided by operating activities	83,356	97,583
Cash flows from investing activities:		
Capital expenditures	(4,311)	(3,613)
Lottery and gaming systems expenditures	(19,356)	(22,191)
Other intangible assets and software expenditures	(26,701)	(18,372)
Equity method investments	—	(40,066)
Distributions of capital on equity investments	18,404	6,267
Business acquisitions, net of cash acquired	(12,991)	—
Change in other assets and liabilities, net	(1,437)	(9,323)
Net cash used in investing activities	(46,392)	(87,298)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	11,316	—
Payments on long-term debt	(32,572)	(4,661)
Payments of financing fees	(57)	(2,623)
Purchases of treasury stock	(1,895)	—
Net redemptions of common stock under stock-based compensation plans	(3,595)	(1,353)
Net cash used in financing activities	(26,803)	(8,637)
Effect of exchange rate changes on cash and cash equivalents	(2,132)	1,327
Increase in cash and cash equivalents	8,029	2,975
Cash and cash equivalents, beginning of period	104,402	124,281
Cash and cash equivalents, end of period	$112,431	$127,256

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands, except per share amounts)

Non-cash investing and financing activities

For the six months ended June 30, 2012 and 2011

On June 8, 2012, we acquired the equity interests of SG Provoloto, S. de R.L. de C.V. ("Provoloto") for approximately $9,720 (subject to certain adjustments), including an estimated earn-out payable to the sellers of approximately $2,000 contingent on the future performance of the acquired business. The acquisition is described in Note 14 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q.
During the six months ended June 30, 2011, we contributed approximately $37,000 to International Terminal Leasing ("ITL"), including a non-cash investment of $8,200. Our investment in ITL is described in Note 16 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K. As of June 30, 2012, our total investment in ITL was $25,949.

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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 Sheets as of June 30, 2012 and December 31, 2011, the Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2012 and 2011 and the Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 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, 2012, our results of operations and comprehensive income for the three and six months ended June 30, 2012 and 2011, and our cash flows for the six months ended June 30, 2012 and 2011 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 2011 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2012 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 2011 Annual Report on Form 10-K. There have been no changes to our significant accounting policies during the period ended June 30, 2012, except as discussed below.
In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance to clarify the intent of the application of existing fair value measurement and disclosure requirements and amend certain requirements for measuring fair value or for disclosing information about fair value measurements. The guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts in fair value measurement. Additionally, for fair value measurements categorized within Level 3 of the fair value hierarchy, the new guidance clarifies that quantitative disclosure about unobservable inputs should be disclosed and requires a description of the valuation processes and the sensitivity of the fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. We adopted the guidance on January 1, 2012. The adoption did not have a material impact on our financial statements.
In June 2011, the FASB issued guidance on presentation of comprehensive income. The guidance eliminates the option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity is required to present net income and other comprehensive income either in one continuous statement or in two separate but consecutive statements. The guidance also requires presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements. However, the effective date pertaining to this requirement was deferred by an update issued by the FASB in December 2011. We adopted the guidance on January 1, 2012.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The guidance provides an entity with the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines the fair value of a reporting unit is greater than its carrying amount, then the two-step goodwill impairment test is not required. We adopted the guidance on January 1, 2012, and will apply the guidance in our next annual goodwill impairment evaluation.

In July 2012, the FASB issued guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment. The guidance is effective for fiscal years beginning after September 15, 2012 and early adoption is permitted. The guidance provides an entity with the option to first perform a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired.

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If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to perform the currently prescribed quantitative impairment test by comparing the fair value of the asset with the carrying amount. We adopted the guidance on July 1, 2012, and will apply the guidance in our next annual indefinite-lived intangible asset impairment evaluation.
Our policy is to periodically review the estimated useful lives of our fixed assets. Our review during the three months ended June 30, 2012 indicated lower estimated useful lives for our gaming terminals deployed to our U.K. licensed betting office ("LBO") customers relative to historical estimates due to changes in the replacement cycle of these terminals. As a result, effective April 1, 2012, we revised the estimated useful lives of our gaming terminals currently deployed to our LBO customers. This change increased depreciation expense for the three months ended June 30, 2012 but was not material to our consolidated financial position or results of operations as of and for the three and six months ended June 30, 2012.

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 (loss) income per share available to common stockholders for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income (numerator)				
Net (loss) income	$(12,589)	$7,019	$(10,770)	$87
Shares (denominator)				
Weighted average basic common shares outstanding	92,767	92,069	92,625	91,978
Effect of dilutive securities-stock rights	—	496	—	540
Weighted average diluted common shares outstanding	92,767	92,565	92,625	92,518
Basic and diluted per share amounts				
Basic net (loss) income per share	$(0.14)	$0.08	$(0.12)	$0.00
Diluted net (loss) income per share	$(0.14)	$0.08	$(0.12)	$0.00

The weighted-average diluted common shares outstanding for the three and six months ended June 30, 2012 excludes the effect of approximately 5,913 and 4,308 weighted-average stock rights outstanding, respectively, because their effect would be anti-dilutive. There were no dilutive stock rights for the three and six months ended June 30, 2012 due to the net loss reported for the periods. 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.

(2) Reportable Segment Information
We report our operations in three business segments: Printed Products; Lottery Systems and Gaming.
The following tables set forth financial information for the three and six months ended June 30, 2012 and 2011 by reportable segments. Corporate expenses and corporate depreciation and amortization are not allocated to the reportable segments and are presented as unallocated corporate expenses.

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	Three Months Ended June 30, 2012			
	Printed Products	Lottery Systems	Gaming	Total
Revenue:				
Instant tickets	$119,627	$—	$—	$119,627
Services	—	51,114	37,521	88,635
Sales	3,082	13,506	4,457	21,045
Total revenue	122,709	64,620	41,978	229,307
Cost of instant tickets (1)	68,420	—	—	68,420
Cost of services (1)	—	26,963	18,310	45,273
Cost of sales (1)	1,991	8,729	3,518	14,238
Selling, general and administrative	11,844	6,198	7,878	25,920
Employee termination and restructuring	4,507	—	1,539	6,046
Depreciation and amortization	12,813	12,278	13,845	38,936
Segment operating income (loss)	$23,134	$10,452	$(3,112)	$30,474
Unallocated corporate expenses				(21,401)
Consolidated operating income				$9,073

(1) Exclusive of depreciation and amortization.

	Three Months Ended June 30, 2011			
	Printed Products	Lottery Systems	Gaming	Total
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	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 expenses				(21,282)
Consolidated operating income				$28,864

(1) Exclusive of depreciation and amortization.

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	Six Months Ended June 30, 2012			
	Printed Products	Lottery Systems	Gaming	Total
Revenue:				
Instant tickets	$242,951	$—	$—	$242,951
Services	—	104,120	74,801	178,921
Sales	5,245	24,977	11,788	42,010
Total revenue	248,196	129,097	86,589	463,882
Cost of instant tickets (1)	138,383	—	—	138,383
Cost of services (1)	—	56,322	34,810	91,132
Cost of sales (1)	3,401	16,684	11,080	31,165
Selling, general and administrative	22,859	13,251	13,986	50,096
Employee termination and restructuring	4,507	—	4,414	8,921
Depreciation and amortization	20,816	24,076	24,413	69,305
Segment operating income (loss)	$58,230	$18,764	$(2,114)	$74,880
Unallocated corporate expenses				(43,546)
Consolidated operating income				$31,334

(1) Exclusive of depreciation and amortization.

	Six Months Ended June 30, 2011			
	Printed Products	Lottery Systems	Gaming	Total
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)	139,366	—	—	139,366
Cost of services (1)	—	52,188	28,194	80,382
Cost of sales (1)	2,244	8,772	35	11,051
Selling, general and administrative	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 expenses				(43,387)
Consolidated operating income				$43,217

(1) Exclusive of depreciation and amortization.

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The following table provides a reconciliation of reportable segment operating income to net (loss) income before income taxes for each period:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Reported segment operating income	$30,474	$50,146	$74,880	$86,604
Unallocated corporate expenses	(21,401)	(21,282)	(43,546)	(43,387)
Consolidated operating income	9,073	28,864	31,334	43,217
Interest expense	24,185	26,409	49,083	52,864
Earnings from equity investments	(6,915)	(9,224)	(15,760)	(18,574)
Other	1,108	(876)	630	(1,870)
Net (loss) income before income taxes	$(9,305)	$12,555	$(2,619)	$10,797

In evaluating financial performance, we focus on operating income as a segment's measure of profit or loss. Segment operating income is income before unallocated corporate expenses, interest expense, earnings from equity investments, other income (expense) and income taxes. The accounting policies of the reportable segments are the same as those described in our summary of significant accounting policies.

(3) Equity Method Investments

Our equity method investments are described in Note 16 of the Notes to Consolidated Financial Statements of our 2011 Annual Report on Form 10-K.

On January 21, 2010, we entered into a joint venture with Playtech Services (Cyprus) Limited ("Playtech"), a subsidiary of Playtech Limited, in which we and Playtech each had a 50% interest in two entities, Sciplay International S.a.r.l. and Sciplay (Luxembourg) S.a.r.l. (collectively "Sciplay"). Sciplay focuses on providing end-to-end offerings of products and services that enable lotteries and certain other gaming operators to offer internet gaming solutions in a manner that is consistent with applicable regulatory regimes. On January 23, 2012, we entered into an agreement with Playtech that restructured this strategic relationship from a joint venture arrangement to a license arrangement. Under the agreement, Playtech will license its internet gaming software to us on a non-exclusive basis for use by certain categories of our current and prospective customers, including U.S. casinos and lotteries worldwide. As part of the restructuring the Sciplay-related entities became wholly owned subsidiaries of Scientific Games. The impact on our consolidated balance sheet and consolidated results of operations and comprehensive income as of and for the three and six months ended June 30, 2012 was not material.

The condensed combined summary financial information for the six months ended June 30, 2012 and 2011 presented below represents 100% of the financial results of all of our equity method investees owned during the periods indicated.

	Six Months Ended June 30, 2012	2011
Revenue	$494,400	$461,983
Revenue less cost of revenue	226,736	250,775
Net Income	67,030	74,067

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(4) Inventories

Inventories consist of the following:

	June 30, 2012	December 31, 2011
Parts and work-in-process	$34,403	$35,444
Finished goods	49,181	44,298
	$83,584	$79,742

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.

(5) Long-Term Debt

Credit Agreement

We are party to a credit agreement, dated as of June 9, 2008, as amended and restated as of August 25, 2011 (as so amended, the “Credit Agreement”), among Scientific Games International, Inc. ("SGI"), as borrower, the Company, as a guarantor, the several lenders from time to time parties 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 $562,625 of term loan borrowings were outstanding as of June 30, 2012, including an unamortized discount of $245. As of June 30, 2012, there were $37,687 in outstanding letters of credit and $212,313 available for borrowing or additional letter of credit issuances under the revolving credit facility. Amounts under the revolving credit facility may be borrowed, repaid and re-borrowed by SGI from time to time until maturity. Voluntary prepayments and commitment reductions under the Credit Agreement are permitted at any time in whole or in part, without premium or penalty (other than break-funding costs), upon proper notice and subject to a minimum dollar requirement. Pursuant to the August 2011 amendment to the Credit Agreement, the scheduled maturity date of the revolving credit facility commitments and the outstanding term loans was extended from June 9, 2013 to June 30, 2015.

The Credit Agreement contains customary covenants, including negative covenants that, among other things, limit the ability of the Company and its subsidiaries to incur additional indebtedness, pay dividends or make distributions or certain other restricted payments, purchase or redeem capital stock, make investments or extend credit, engage in certain transactions with affiliates, engage in sale-leaseback transactions, consummate certain asset sales, effect a consolidation or merger, sell, transfer, lease or otherwise dispose of all or substantially all assets, prepay or modify certain indebtedness, or create certain liens and other encumbrances on assets.

Our ability to borrow under the Credit Agreement will depend on us remaining in compliance with the covenants contained in the Credit Agreement, including the maintenance of the applicable financial ratios. 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, is included in Note 8 of the Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

We were in compliance with the covenants under the Credit Agreement as of June 30, 2012.

In February 2012, we refinanced the approximately $16,400 of revolving credit facility and term loan commitments that were not extended in connection with the August 2011 amendment and extended the maturity dates of these commitments to June 30, 2015. In connection with the refinancing, we paid $57 of fees and expenses to the new lenders.

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Outstanding Debt

As of June 30, 2012, our total debt was comprised principally of $562,625 outstanding under our term loan facilities under the Credit Agreement, including an unamortized discount of $245, $345,714 in aggregate principal amount of SGI's 9.25% senior subordinated notes due 2019 (the “2019 Notes”), including an unamortized discount of $4,286, $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 RMB 71,312 (the "China Loans"). In the first quarter of 2012, we repaid RMB 12,500 in aggregate principal amount of a China Loan and the outstanding letter of credit in support of this debt was reduced by $1,000. In the second quarter of 2012, we repaid the remaining RMB 166,000 in aggregate principal amount of this China Loan and the outstanding letter of credit of $28,200 in support of this debt was returned.

In May 2012, we entered into a new RMB 60,000 lending facility with a Chinese bank under which we have borrowed RMB 21,312 as of June 30, 2012. The facility requires graduated semi-annual principal payments through November 2014. In June 2012, we entered into a one-year RMB 50,000 term loan with another Chinese bank. A letter of credit in the amount of $6,500 was issued to support this term loan.

(6) Derivative Financial Instruments

In January 2012, we entered into foreign currency forward contracts with an aggregate notional amount of €23,500 to hedge a portion of the net investment in one of our subsidiaries that is denominated in Euros. The forward contracts provided for the sale of Euros for U.S. dollars at a weighted average exchange rate of 1.3194 with scheduled delivery between April and December 2012. In April 2012, a portion of the forward contracts settled and was replaced with new forward contracts to maintain the €23,500 aggregate notional amount. In June 2012, a portion of the remaining forward contracts settled and was not replaced. The remaining forward contract has a notional amount of €5,000 and provides for the sale of Euros for U.S. dollars at an exchange rate of 1.3225. We have designated the forward contracts as qualified hedges in accordance with Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging. The fair value of the forward contracts, and subsequent changes to the fair value, are recorded on the Consolidated Balance Sheet in "accrued liabilities" or "other assets", depending on the position of the forward contract, and in "accumulated other comprehensive loss" and are recorded on the Consolidated Statement of Operations and Comprehensive Income in "other comprehensive (loss) income". During the three and six months ended June 30, 2012, we recorded a gain associated with the forward contracts of approximately $2,040 and $1,697, respectively, in "other comprehensive (loss) income".

In accordance with ASC 323, Investments - Equity Method and Joint Ventures, we record our share of a derivative instrument held by Lotterie Nazionali S.r.l., the operator of the Gratta e Vinci instant ticket lottery in Italy ("LNS") in which we have a 20% equity investment. Changes in the fair value of the derivative instrument are recorded by LNS within Other comprehensive income in LNS' statement of comprehensive income. During the three and six months ended June 30, 2012, we recorded a loss, net of tax, associated with our share of this derivative instrument of $317 and $197, respectively, in "other comprehensive (loss) income" on our Consolidated Statement of Operations and Comprehensive Income and in "other assets" on our Consolidated Balance Sheet as of June 30, 2012.

(7) Intangible Assets and Goodwill

Subsequent to the filing of our 2011 Annual Report on Form 10-K, we adjusted the estimated fair values of certain of the assets acquired as part of our acquisition of Barcrest Group Limited ("Barcrest") on September 23, 2011 to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The adjustments resulted in an increase in goodwill of approximately $2,400, a decrease in inventory of approximately $2,000 and an increase in current liabilities of approximately of $400. We have applied the adjustment retrospectively to the Consolidated Balance Sheet as of

December 31, 2011.

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The following presents certain information regarding our intangible assets as of June 30, 2012 and December 31, 2011. Amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives with no estimated residual values.

Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance as of June 30, 2012			
Amortizable intangible assets:			
Patents	$13,379	$5,686	$7,693
Customer lists	40,160	22,464	17,696
Licenses	80,689	61,398	19,291
Intellectual property	23,546	18,895	4,651
Lottery contracts	1,500	1,246	254
Non-compete	235	7	228
	159,509	109,696	49,813
Non-amortizable intangible assets:			
Trade name	39,330	2,118	37,212
Total intangible assets	$198,839	$111,814	$87,025
Balance as of December 31, 2011			
Amortizable intangible assets:			
Patents	$12,941	$5,260	$7,681
Customer lists	35,742	20,511	15,231
Licenses	78,556	56,706	21,850
Intellectual property	23,335	18,102	5,233
Lottery contracts	1,500	1,195	305
Non-compete	—	—	—
	152,074	101,774	50,300
Non-amortizable intangible assets:			
Trade name	38,677	2,118	36,559
Total intangible assets	$190,751	$103,892	$86,859

The intangible amortization expense for the three and six months ended June 30, 2012 was approximately $4,400 and $8,400, respectively. The intangible amortization expense for the three and six months ended June 30, 2011 was approximately $3,700 and $7,500, respectively.

The table below reconciles the change in the carrying amount of goodwill, by reporting segment, from December 31, 2011 to June 30, 2012. For the six months ended June 30, 2012, we recorded an increase in goodwill of approximately $8,600 as a result of acquisitions and an increase of approximately $300 as a result of foreign currency translation.

Goodwill	Printed Products	Lottery Systems	Gaming	Totals
Balance as of December 31, 2011	$334,120	$186,620	$248,042	$768,782
Adjustments	4,863	(1,956)	6,049	8,956
Balance as of June 30, 2012	$338,983	$184,664	$254,091	$777,738

(8) 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 applicable regulatory 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, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Components of net periodic pension benefit cost:				
Service cost	$568	$462	$1,136	$923
Interest cost	1,147	1,173	2,294	2,347
Expected return on plan assets	(1,227)	(1,162)	(2,454)	(2,324)
Amortization of actuarial gains	251	95	502	189
Amortization of prior service costs	(19)	(3)	(38)	(5)
Net periodic cost	$720	$565	$1,440	$1,130

We have a 401(k) plan for U.S.-based employees. 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.

(9) Income Taxes

The effective tax rates of (35.3)% and 44.1%, respectively, for the three months ended June 30, 2012 and 2011 and the effective tax rates of (311.2)% and 99.2%, respectively, for the six months ended June 30, 2012 and 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, 2012 and 2011 does not include the benefit of the current year U.S. tax loss. Income tax expense for the three and six months ended June 30, 2012 and 2011 is primarily due to income tax expense in foreign jurisdictions.

(10) Stockholders' Equity

The following table sets forth the change in the number of shares of our Class A common stock outstanding during the six months ended June 30, 2012 and during the fiscal year ended December 31, 2011:

	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
Shares outstanding as of beginning of period	92,433	91,725
Shares issued as part of equity-based compensation plans and the Employee Stock Purchase Plan ("ESPP"), net of RSUs surrendered	394	708
Shares repurchased into treasury stock	(225)	—
Shares outstanding as of end of period	92,602	92,433

During the six months ended June 30, 2012, the Company repurchased 225 shares under its previously announced repurchase program for approximately $1,900. As of August 3, 2012, the Company has repurchased 1,336 shares for approximately $11,139 during 2012.

(11) Stock-Based Compensation

We offer stock-based compensation through the use of stock options and restricted stock units (“RSUs”). We also offer the ESPP.

We grant stock options to employees and directors under our equity-based compensation plans with exercise prices that are not less than the fair market value of our common stock on 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

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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 targets 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 were not approved by stockholders, as permitted by applicable stock exchange rules. We record compensation expense for all stock options and RSUs based on the fair value of the award at the grant date.

The Company may grant certain awards the vesting of which is contingent upon the Company achieving certain performance targets. Upon determining that the performance target is probable, the fair value of the award is recognized over the service period, subject to potential adjustment.

On February 22, 2012, the Company granted approximately 494 RSUs to certain executives, which awards have a four-year vesting schedule, with 25% scheduled to vest each year if specified performance targets are met subject to certain “carryover” vesting provisions. The performance targets and carryover vesting provisions are consistent with those applicable to the performance-conditioned sign-on RSUs and options awarded to our Chief Executive Officer in December 2010, which are described in Note 12 of the Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K. The performance-conditioned RSUs will be forfeited on March 15, 2016 to the extent that such awards remain unvested on such date.

Stock Options

A summary of the changes in stock options outstanding during the six months ended June 30, 2012 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, 2011	3,868	8.3	$9.67	$3,876
Granted	10		11.10	—
Exercised	(4)		6.16	20
Canceled	—		—	—
Options outstanding as of March 31, 2012	3,874	8.1	$9.68	$10,735
Granted	—		—	—
Exercised	—		—	—
Canceled	—		—	—
Options outstanding as of June 30, 2012	3,874	7.9	$9.68	$1,050
Options exercisable as of June 30, 2012	911	5.7	$12.50	$354

No options were granted during the three months ended June 30, 2012. The weighted average grant date fair value of options granted during the three months ended March 31, 2012 was $5.81. For the three and six months ended June 30, 2012, we recognized stock-based compensation expense of approximately $1,000 and $2,000, respectively, related to the vesting of stock options and the related tax benefit of approximately $380 and $760, respectively, prior to consideration of any valuation allowance recorded against the tax benefit. 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, prior to consideration of any valuation allowance recorded against the tax benefit.

As of June 30, 2012, we had unrecognized compensation expense of approximately $9,800 relating to stock option awards that will be amortized over a weighted-average period of approximately two years.

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Restricted Stock Units

A summary of the changes in RSUs outstanding during the six months ended June 30, 2012 is presented below:

	Number of RSUs	Weighted Average Grant Date Fair Value Per RSU
Unvested units as of December 31, 2011	4,771	$10.49
Granted	1,534	12.62
Vested	(660)	13.92
Canceled	(20)	12.02
Unvested units as of March 31, 2012	5,625	$10.66
Granted	130	8.80
Vested	(41)	19.91
Canceled	(30)	11.66
Unvested units as of June 30, 2012	5,684	10.55

For the three and six months ended June 30, 2012, we recognized stock-based compensation expense of approximately $4,900 and $9,600, respectively, related to the vesting of RSUs and the related tax benefit of approximately $1,870 and $3,660, respectively, prior to consideration of any valuation allowance recorded against the tax benefit. 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, prior to consideration of any valuation allowance recorded against the tax benefit.

As of June 30, 2012, we had unrecognized compensation expense of approximately $48,000 relating to RSUs that will be amortized over a weighted-average period of approximately two years.

(12) 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, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011. 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 reflecting the guarantee structures of our obligations as disclosed in Note 8 of the Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K for all periods presented.

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.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2012

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$35,800	$1,092	$—	$ 77,547	$(2,008)	$112,431
Accounts receivable, net	—	48,193	34,100	84,589	—	166,882
Inventories	—	25,681	16,024	41,879	—	83,584
Other current assets	6,655	4,104	4,666	27,539	—	42,964
Property and equipment, net	4,238	163,026	31,285	203,987	—	402,536
Investment in subsidiaries	522,824	768,570	—	842,791	(2,134,185)	—
Goodwill	—	273,656	78,618	425,464	—	777,738
Intangible assets	—	41,296	22,745	22,984	—	87,025
Intercompany balances	75,950	—	263,852	—	(339,802)	—
Other assets	74,665	19,872	14,590	343,677	(2,614)	450,190
Total assets	$720,132	$1,345,490	$465,880	$ 2,070,457	$(2,478,609)	$2,123,350
Liabilities and stockholders' equity						
Current installments of long-term debt	$—	$6,280	$—	$ 8,503	$—	$14,783
Other current liabilities	24,101	50,604	28,292	91,580	(2,001)	192,576
Long-term debt, excluding current installments	250,000	1,102,059	—	2,861	—	1,354,920
Other non-current liabilities	4,978	38,856	11,941	64,243	—	120,018
Intercompany balances	—	112,671	—	227,148	(339,819)	—
Stockholders' equity	441,053	35,020	425,647	1,676,122	(2,136,789)	441,053
Total liabilities and stockholders' equity	$720,132	$1,345,490	$465,880	$ 2,070,457	$(2,478,609)	$2,123,350

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2011

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$24,042	$56	$—	$ 81,482	$(1,178)	$104,402
Accounts receivable, net	—	53,531	41,238	87,698	—	182,467
Inventories	—	23,714	16,884	39,144	—	79,742
Other current assets	8,699	3,409	5,117	23,277	—	40,502
Property and equipment, net	3,522	166,637	36,028	220,301	—	426,488
Investment in subsidiaries	551,256	721,909	—	909,379	(2,182,544)	—
Goodwill	—	273,656	78,618	416,508	—	768,782
Intangible assets	—	41,520	25,849	19,490	—	86,859
Intercompany balances	125,440	—	231,357	—	(356,797)	—
Other assets	17,002	82,748	12,265	367,209	(6,101)	473,123
Total assets	$729,961	$1,367,180	$447,356	$ 2,164,488	$(2,546,620)	$2,162,365
Liabilities and stockholders' equity						
Current installments of long-term debt	$—	$6,280	$—	$ 19,911	$—	$26,191
Other current liabilities	31,231	56,050	30,140	95,146	(1,211)	211,356
Long-term debt, excluding current installments	250,000	1,104,884	—	9,592	—	1,364,476
Other non-current liabilities	5,016	38,772	13,427	59,413	—	116,628
Intercompany balances	—	71,603	—	285,162	(356,765)	—
Stockholders' equity	443,714	89,591	403,789	1,695,264	(2,188,644)	443,714
Total liabilities and stockholders' equity	$729,961	$1,367,180	$447,356	$ 2,164,488	$(2,546,620)	$2,162,365

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Three Months Ended June 30, 2012

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$104,177	$10,601	$ 116,174	$(1,645)	$ 229,307
Cost of instant ticket revenue, cost of services and cost of sales (1)	—	33,115	34,533	63,009	(2,726)	127,931
Selling, general and administrative	15,126	14,170	2,937	15,705	(767)	47,171
Employee termination and restructuring	—	—	—	6,046	—	6,046
Depreciation and amortization	150	7,568	7,916	23,452	—	39,086
Operating income (loss)	(15,276)	49,324	(34,785)	7,962	1,848	9,073
Interest expense	5,305	18,605	—	275	—	24,185
Other (income) expense, net	(1,027)	42,589	(44,392)	(4,825)	1,848	(5,807)
Income (loss) before equity in income of subsidiaries, and income taxes	(19,554)	(11,870)	9,607	12,512	—	(9,305)
Equity in income (loss) of subsidiaries	8,324	9,589	—	—	(17,913)	—
Income tax expense	1,359	44	—	1,881	—	3,284
Net income (loss)	$(12,589)	$(2,325)	$9,607	$ 10,631	$(17,913)	$ (12,589)
Other comprehensive (loss) income	(27,859)	1,099	—	(28,627)	27,528	(27,859)
Comprehensive (loss) income	$(40,448)	$(1,226)	$9,607	$ (17,996)	$9,615	$ (40,448)

(1) Exclusive of depreciation and amortization.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Three Months Ended June 30, 2011

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$99,042	$16,278	$ 105,357	$(429)	$ 220,248
Cost of instant ticket revenue, cost of services and cost of sales (1)	—	29,506	36,854	53,988	(1,394)	118,954
Selling, general and administrative	14,891	12,199	2,517	15,247	(1,428)	43,426
Depreciation and amortization	128	7,548	4,664	16,664	—	29,004
Operating income (loss)	(15,019)	49,789	(27,757)	19,458	2,393	28,864
Interest expense	5,357	20,624	—	427	1	26,409
Other (income) expense, net	(998)	48,420	(50,615)	(9,299)	2,392	(10,100)
Income (loss) before equity in income of subsidiaries, and income taxes	(19,378)	(19,255)	22,858	28,330	—	12,555
Equity in income (loss) of subsidiaries	30,019	22,752	—	—	(52,771)	—
Income tax expense	3,622	(4)	8	1,910	—	5,536
Net income (loss)	$7,019	$3,501	$22,850	$ 26,420	$(52,771)	$ 7,019
Other comprehensive income (loss)	13,804	3,075	—	11,302	(14,377)	13,804
Comprehensive income (loss)	$20,823	$6,576	$22,850	$ 37,722	$(67,148)	$ 20,823

(1) Exclusive of depreciation and amortization.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Six Months Ended June 30, 2012

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$210,828	$20,150	$ 235,122	$(2,218)	$ 463,882
Cost of instant ticket revenue, cost of services and cost of sales (1)	—	66,105	68,747	130,180	(4,352)	260,680
Selling, general and administrative	30,647	28,907	6,569	28,636	(1,416)	93,343
Employee termination and restructuring	—	—	—	8,921	—	8,921
Depreciation and amortization	299	14,888	12,693	41,724	—	69,604
Operating income (loss)	(30,946)	100,928	(67,859)	25,		