

SCIENTIFIC GAMES CORP
Form 10-Q
November 04, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

{Mark One}

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

For the quarterly period ended September 30, 2008

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

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(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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of October 31, 2008:

Class A Common Stock: 92,877,876

Class B Common Stock: None

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THREE MONTHS ENDED SEPTEMBER 30, 2008

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Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q we make forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements describe future expectations, plans, results or strategies and can often be identified by the use of terminology such as may, will, estimate, intend, continue, believe, expect, anticipate, could, potential, opportunity, or other similar terminology. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located in the material set forth under the 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 projected in these statements due to a variety of risks and uncertainties and other factors, including, among other things: competition; material adverse changes in economic and industry conditions in our markets; technological change; retention and renewal of existing contracts and entry into new contracts; availability and adequacy of cash flow 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; seasonality; dependence on suppliers and manufacturers; factors associated with foreign operations; 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 set forth from time to time in our filings with the SEC, including under the heading Risk Factors in our most recent Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q. Forward-looking statements speak only as of the date they are made, and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents**SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of September 30, 2008 and December 31, 2007

(Unaudited, in thousands, except per share amounts)

PART 1. FINANCIAL INFORMATION**Item 1. Financial Statements**

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 161,770	\$ 29,403
Accounts receivable, net of allowance for doubtful accounts of \$8,860 and \$9,184 as of September 30, 2008 and December 31, 2007, respectively	241,237	203,074
Inventories	91,686	92,565
Deferred income taxes, current portion	15,849	15,929
Prepaid expenses, deposits and other current assets	72,171	56,906
Total current assets	582,713	397,877
Property and equipment, at cost	1,084,272	966,291
Less accumulated depreciation	(454,302)	(404,667)
Net property and equipment	629,970	561,624
Goodwill, net	702,032	716,856
Intangible assets, net	116,198	133,030
Other assets and investments	326,028	290,652
Total assets	\$ 2,356,941	\$ 2,100,039
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Debt payments due within one year	\$ 53,488	\$ 4,942
Accounts payable	65,991	64,108
Accrued liabilities	153,379	148,464
Total current liabilities	272,858	217,514
Deferred income taxes	52,632	51,661
Other long-term liabilities	89,320	97,024
Long-term debt, excluding current installments	1,217,594	1,072,625
Total liabilities	1,632,404	1,438,824
Commitments and contingencies		
Stockholders equity:		
Class A common stock, par value \$0.01 per share, 199,300 shares authorized, and 92,877 and 93,414 shares outstanding as of September 30, 2008 and December 31, 2007, respectively	929	934
Additional paid-in capital	551,294	521,902

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Accumulated earnings	171,636	97,323
Treasury stock, at cost, 2,140 and 1,140 shares held as of September 30, 2008 and December 31, 2007, respectively	(37,459)	(19,442)
Accumulated other comprehensive income	38,137	60,498
Total stockholders' equity	724,537	661,215
Total liabilities and stockholders' equity	\$ 2,356,941	\$ 2,100,039

See accompanying notes to consolidated financial statements.

Table of Contents**SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****Three Months Ended September 30, 2008 and 2007****(Unaudited, in thousands, except per share amounts)**

	Three Months Ended September 30,	
	2008	2007
Operating revenues:		
Services	\$ 265,430	\$ 244,526
Sales	26,505	22,374
	291,935	266,900
Operating expenses:		
Cost of services (exclusive of depreciation and amortization)	157,480	141,935
Cost of sales (exclusive of depreciation and amortization)	17,257	15,874
Selling, general and administrative expenses	41,937	43,738
Depreciation and amortization	36,487	61,266
Operating income	38,774	4,087
Other (income) expense:		
Interest expense	17,659	15,975
Equity in earnings of joint ventures	(13,356)	(8,344)
Other income, net	(818)	(123)
	3,485	7,508
Income (loss) before income taxes	35,289	(3,421)
Income tax expense (benefit)	9,879	(543)
Net income (loss)	\$ 25,410	\$ (2,878)
Basic and diluted net income per share:		
Basic net income (loss) per share	\$ 0.27	\$ (0.03)
Diluted net income (loss) per share	\$ 0.27	\$ (0.03)
Weighted-average number of shares used in per share calculations:		
Basic shares	92,841	92,737
Diluted shares	94,626	92,737

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Nine Months Ended September 30, 2008 and 2007

(Unaudited, in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2008	2007
Operating revenues:		
Services	\$ 764,044	\$ 690,180
Sales	90,867	88,563
	854,911	778,743
Operating expenses:		
Cost of services (exclusive of depreciation and amortization)	440,394	388,380
Cost of sales (exclusive of depreciation and amortization)	63,808	64,815
Selling, general and administrative expenses	140,775	123,378
Depreciation and amortization	106,099	122,600
Operating income	103,835	79,570
Other (income) expense:		
Interest expense	45,962	43,141
Equity in earnings of joint ventures	(48,612)	(31,623)
Early extinguishment of long-term debt	2,960	
Other income, net	(1,513)	(166)
	(1,203)	11,352
Income before income taxes	105,038	68,218
Income tax expense	30,725	19,230
Net income	\$ 74,313	\$ 48,988
Basic and diluted net income per share:		
Basic net income per share	\$ 0.80	\$ 0.53
Diluted net income per share	\$ 0.79	\$ 0.51
Weighted-average number of shares used in per share calculations:		
Basic shares	92,933	92,440
Diluted shares	94,588	95,894

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2008 and 2007

(Unaudited, in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2008	2007
Net cash provided by operating activities	\$ 145,597	\$ 141,592
Cash flows from investing activities:		
Capital expenditures	(10,886)	(27,430)
Wagering system expenditures	(123,479)	(108,927)
Other intangible assets and software expenditures	(33,711)	(28,608)
Change in other assets and liabilities, net	(1,826)	(25,732)
Business acquisitions, net of cash acquired	(3,174)	(102,840)
Net cash used in investing activities	(173,076)	(293,537)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit facility		