

SCIENTIFIC GAMES CORP
Form 10-Q
November 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____ to _____

Commission file number: 0-13063
SCIENTIFIC GAMES CORPORATION
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of
incorporation or organization)

81-0422894
(I.R.S. Employer Identification No.)

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

(702) 897-7150
(Registrant’s telephone number, including area code)

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

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

Large accelerated filer “ Accelerated filer ✓

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 November 5, 2015:

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Class A Common Stock: 86,231,747

Class B Common Stock: None

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
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AND OTHER INFORMATION
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Glossary of Terms

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

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

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

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

Intellectual Property Rights

Brands and product names protected by intellectual property rights (including trademarks and copyrights) that the Company owns are identified herein as italicized text.

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;

•opposition to legalized gaming or the expansion thereof;

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

•inability to develop successful gaming concepts and content;

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

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

•dependence upon key providers in our social gaming business;

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

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

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

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

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

inability to benefit from, and risks associated with, strategic equity investments and relationships, including (1) the inability of our joint venture to realize the anticipated benefits under its private management agreement 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 the award to our consortium of an instant lottery game concession in Greece;

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

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

inability to complete or successfully integrate future acquisitions;

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

dependence on 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, intellectual property and our strategic relationships;

influence of certain stockholders; and

stock price volatility.

Additional information regarding risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated in forward-looking statements is included from time to time in our filings with the SEC, including under Item 1A "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on March 17, 2015. Forward-looking statements speak only as of the date they are made and, except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(Unaudited, in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenue:				
Services	\$340.5	\$182.8	\$1,008.8	538.9
Product sales	193.5	102.0	611.0	289.3
Instant games	137.6	130.8	402.0	392.4
Total revenue	671.6	415.6	2,021.8	1,220.6
Operating expenses:				
Cost of services (1)	85.5	69.6	274.6	200.7
Cost of product sales (1)	87.4	59.9	293.2	161.2
Cost of instant games (1)	77.1	69.7	212.9	212.5
Selling, general and administrative	136.8	95.6	423.6	282.6
Research and development	45.9	26.3	140.8	77.0
Employee termination and restructuring	5.6	1.9	19.0	12.4
Depreciation and amortization	286.5	100.4	692.9	290.5
Goodwill impairment	535.0	—	535.0	—
Operating loss	(588.2)	(7.8)	(570.2)	(16.3)
Other (expense) income:				
Interest expense	(166.8)	(45.7)	(497.5)	(142.9)
Earnings (loss) from equity investments	3.0	(14.0)	9.4	(7.8)
Loss on early extinguishment of debt	—	—	—	(25.9)
Gain on sale of equity interest	—	—	—	14.5
Other (expense) income, net	(7.5)	3.1	(17.4)	9.2
Total other expense, net	(171.3)	(56.6)	(505.5)	(152.9)
Net loss before income taxes	(759.5)	(64.4)	(1,075.7)	(169.2)
Income tax benefit (expense)	81.3	(5.4)	208.9	(18.0)
Net loss	\$(678.2)	\$(69.8)	\$(866.8)	\$(187.2)
Other comprehensive (loss) income:				
Foreign currency translation loss	(47.9)	(57.8)	(136.3)	(47.7)
Pension and post-retirement gain, net of tax	0.8	0.4	1.0	0.3
Derivative financial instruments unrealized gain (loss), net of tax	(1.9)	2.3	(0.8)	(4.0)
Other comprehensive loss	(49.0)	(55.1)	(136.1)	(51.4)
Comprehensive loss	\$(727.2)	\$(124.9)	\$(1,002.9)	\$(238.6)
Basic and diluted net loss per share:				
Basic	\$(7.88)	\$(0.82)	\$(10.10)	\$(2.22)
Diluted	\$(7.88)	\$(0.82)	\$(10.10)	\$(2.22)
Weighted average number of shares used in per share calculations:				
Basic shares	86.1	84.7	85.8	84.5
Diluted shares	86.1	84.7	85.8	84.5

(1) Exclusive of depreciation and amortization.

See accompanying condensed notes to consolidated financial statements.

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

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102.1	\$ 171.8
Restricted cash	17.2	27.2
Accounts receivable, net	470.6	468.4
Notes receivable, net	163.1	188.7
Inventories	243.8	265.6
Deferred income taxes	73.2	72.8
Prepaid expenses, deposits and other current assets	199.5	183.5
Total current assets	1,269.5	1,378.0
Long-term restricted cash	17.5	16.8
Long-term notes receivable	57.6	87.5
Property and equipment, net	868.4	1,012.8
Goodwill	3,485.2	4,108.3
Intangible assets, net	1,940.8	2,251.6
Software, net	527.0	592.7
Equity investments	227.0	288.2
Other assets	222.1	259.3
Total assets	\$8,615.1	\$9,995.2
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 50.4	\$ 50.6
Accounts payable	120.4	155.8
Accrued liabilities	443.6	453.9
Total current liabilities	614.4	660.3
Deferred income taxes	400.5	628.8
Other long-term liabilities	221.2	236.8
Long-term debt	8,359.8	8,465.4
Total liabilities	9,595.9	9,991.3
Commitments and contingencies		
Stockholders' (deficit) equity:		
Class A common stock, par value \$0.01 per share: 199.3 shares authorized; 103.4 and 102.3 shares issued and 86.2 and 85.1 shares outstanding, respectively	1.0	1.0
Additional paid-in capital	761.4	743.2
Accumulated loss	(1,337.5)	) (470.7)
Treasury stock, at cost: 17.2 and 17.2 shares held, respectively	(175.2)	) (175.2)
Accumulated other comprehensive loss	(230.5)	) (94.4)
Total stockholders' (deficit) equity	(980.8)	) 3.9
Total liabilities and stockholders' (deficit) equity	\$8,615.1	\$9,995.2

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(866.8	) \$(187.2
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	692.9	290.5
Change in deferred income taxes	(223.3	) 5.2
Stock-based compensation	19.5	18.1
Non-cash interest expense	29.0	12.8
Loss (earnings) from equity investments, net	(9.4	) 7.8
Distributed earnings from equity investments	20.9	22.5
Loss on early extinguishment of debt	—	25.9
Gain on sale of equity interest	—	(14.5
Goodwill impairment	535.0	—
Changes in current assets and liabilities, net of effects of acquisitions:		
Accounts and notes receivable, net	43.7	80.8
Inventories	36.8	(30.9
Accounts payable	(17.7	) (36.5
Accrued liabilities	(17.4	) 1.2
Other current assets and liabilities	11.8	41.6
Other, net	0.5	(3.9
Net cash provided by operating activities	255.5	233.4
Cash flows from investing activities:		
Additions to property and equipment	(15.7	) (32.4
Gaming and lottery operations expenditures	(151.1	) (73.1
Intangible assets and software expenditures	(66.8	) (70.8
Changes in other assets and liabilities and other	10.1	0.5
Additions to equity method investments	—	(43.3
Distributions of capital on equity investments	37.0	45.4
Proceeds from sale of equity interest	—	44.9
Restricted cash	9.3	(1.1
Net cash used in investing activities	(177.2	) (129.9
Cash flows from financing activities:		
Borrowings under revolving credit facility	110.0	—
Repayments under revolving credit facility	(180.0) —
Proceeds from issuance of long-term debt	—	347.9
Payments on long-term debt	(38.8	) (377.3
Payments of deferred financing fees	—	(22.8
Payments on license obligations	(32.0	) (7.0
Common stock repurchases	—	(29.5
Contingent earnout payments	(0.5	) (10.2
Net issuance (redemptions) of common stock under stock-based compensation plans	0.4	(19.1
Net cash used in financing activities	(140.9) (118.0
Effect of exchange rate changes on cash and cash equivalents	(7.1) (6.7

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Decrease in cash and cash equivalents	(69.7) (21.2)
Cash and cash equivalents, beginning of period	171.8	153.7	
Cash and cash equivalents, end of period	\$ 102.1	\$ 132.5	

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 and lottery 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 and interactive gaming. We also gain access to technologies and pursue global expansion through strategic acquisitions and equity investments. As a result of our recent acquisitions of Bally and WMS, we have significantly expanded our global gaming and interactive businesses. 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 U.S. dollars ("\$\$") unless otherwise stated herein. The accompanying consolidated financial statements include the accounts of the Company and its 100%-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. We have evaluated subsequent events through the date these financial statements were issued. 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. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2014 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 2014 Annual Report on Form 10-K.

Recently Issued Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, 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 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." In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year to now be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early adoption of the standard is permitted but not before the original effective date of December 15, 2016. The ASU may be adopted using a full retrospective approach or reporting the cumulative effect as of the date of adoption. We are currently evaluating the impact of adopting this guidance.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 intends to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15 which amended Subtopic 835-30 for the presentation and subsequent measurement of

debt issuance costs associated with line-of-credit arrangements. In the amendment, an entity can defer and present debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We do not expect this guidance to have a material effect on our financial position, results of operations or cash flows.

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. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance.

In July 2015, the FASB issued ASU No. 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensus of the FASB Emerging Issues Task Force). ASU 2015-12 intends to simplify the measurement and presentation of fully benefit-responsive investment contracts. Under the amendments, fully benefit-responsive investment contracts are measured, presented, and disclosed only at contract value. A plan will continue to provide disclosures that help users understand the nature and risks of fully benefit-responsive investment contracts. ASU 2015-12 is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination. It requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this ASU 2015-16 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU with earlier application permitted for financial statements that have not been issued. We do not expect this guidance to have a material effect on our financial position, results of operations or cash flows.

(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 by applicable accounting standards). Our three business segments represent separate standalone businesses based on the industries in which we operate. 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 2014 Annual Report on Form 10-K.

In connection with the Bally acquisition in the fourth quarter of 2014, we reviewed our operating and business segments in light of certain changes in the financial information regularly reviewed by our chief executive officer and other factors. Based on this review, we combined our previous lottery-related Instant Products and Lottery Systems business segments into one "Lottery" segment. We also determined that the interactive operating segment should be disclosed as a separate business segment and not aggregated with the gaming operating segment, reflecting the growth of the interactive operating segment. These changes, which were effective prior to December 31, 2014, had no impact on our consolidated financial statements for any periods. Business segment information for the three and nine months ended September 30, 2014 has been adjusted to reflect these changes.

The following tables present revenue, cost of revenue, SG&A, R&D, employee termination and restructuring, D&A, goodwill impairment, operating income (loss) and earnings (loss) from equity investments by business segment for the three and nine months ended September 30, 2015 and 2014. Certain unallocated expenses managed at the corporate level, comprised primarily of general and administrative costs and other (expense) income, net, are not allocated to our business segments. Segment results for 2014 below do not include the results of Bally, which we acquired in November 2014. The increase in unallocated corporate costs for the three and nine months ended September 30, 2015 primarily relates to the inclusion of Bally's results.

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	Nine months ended September 30, 2015			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	\$722.6	\$136.5	\$149.7	\$1,008.8
Product sales	582.0	29.0	—	611.0
Instant games	—	402.0	—	402.0
Total revenue	1,304.6	567.5	149.7	2,021.8
Cost of services (1)	139.9	83.1	51.6	274.6
Cost of product sales (1)	268.8	24.4	—	293.2
Cost of instant games (1)	—	212.9	—	212.9
Selling, general and administrative	215.7	49.2	46.9	311.8
Research and development	120.3	4.2	16.3	140.8
Employee termination and restructuring	10.1	0.2	1.5	11.8
Depreciation and amortization	569.9	62.9	15.9	648.7