SCIENTIFIC GAMES CORP
Form 10-Q
October 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2014

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of October 28, 2014:
Class A Common Stock: 84,829,084
Class B Common Stock: None

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
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AND OTHER INFORMATION
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

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Glossary of Terms

As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our" and the "Company" mean Scientific Games Corporation and its consolidated subsidiaries. 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.
Barcrest	Barcrest Group Limited, an indirect wholly owned subsidiary of Scientific Games Corporation
China Loans	RMB denominated loans due 2014
CSG	Beijing CITIC Scientific Games Technology Co., Ltd., the instant games supplier to the CSL, in which we have a 49% equity interest
CSL	China Sports Lottery
D&A	depreciation and amortization expense
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
GLB	Beijing Guard Libang Technology Co., Ltd., a provider of lottery systems and services to the China Welfare Lottery, in which we have a 50% equity interest
Global Draw	The Global Draw Limited, an indirect wholly owned subsidiary of Scientific Games Corporation
Hellenic Lotteries	Hellenic Lotteries S.A., the operator of the Greek state lotteries, in which we have a 16.5% equity interest
ITL	International Terminal Leasing, an entity that leases gaming machines to us for provision to our customers, in which we have a 50% equity interest
LAP	local-area progressive
LBO	licensed betting office
LNS	Lotterie Nazionali S.r.l., the operator of the Gratta e Vinci instant ticket lottery in Italy, in which we have a 20% equity interest
MD&A	Management’s discussion and analysis of financial condition and results of operations
Northstar Illinois	Northstar Lottery Group, LLC, the private manager of the Illinois lottery, in which we have a 20% equity interest
Northstar New Jersey	Northstar New Jersey Lottery Group, LLC, the operating entity that provides marketing and sales services to the New Jersey lottery, in which we have a 17.69% equity interest
Note	refers to a note to our Consolidated Financial Statements, unless otherwise specified
participation	with respect to our lottery business, refers to a contract or arrangement in which we are paid based on a percentage of retail sales
PMA	private management agreement
Provoloto	SG Provoloto, S. de R.L. de C.V., an indirect wholly owned subsidiary of Scientific Games Corporation until February 2014
R&D	research and development expense
RCN	Roberts Communications Network, LLC, a provider of communications services to racing and other customers, in which we have a 29.4% equity interest
RMB	Chinese Renminbi Yuan
RSU	restricted stock unit

SEC	Securities and Exchange Commission
SG&A	selling, general and administrative expense
SGMS Escrow Corp.	wholly owned unrestricted subsidiary of SGI
SGI	Scientific Games International, Inc., a direct wholly owned subsidiary of Scientific Games Corporation
Sportech	Sportech plc, an operator and supplier of sports pools and tote systems, in which we had a 20% equity interest until January 2014
U.S.	United States of America
U.S. GAAP	accounting principles generally accepted in the United States of America
VLT	video lottery terminal
WAP	wide-area progressive
WMS	WMS Industries Inc., a direct wholly owned subsidiary of Scientific Games Corporation

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," "should," "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 timing, 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 lottery retail sales or gross gaming revenues, reductions in or constraints on capital spending by gaming or lottery operators and credit risk relating to customers;
- slow growth of new gaming jurisdictions, slow addition of casinos in existing jurisdictions and declines in the replacement cycle of 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 or lottery concepts and content;
- laws and government regulation, 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;
- retention and renewal of existing contracts or entry into new or revised contracts;
- level of our indebtedness, higher interest rates, unavailability or inadequacy of cash flows and liquidity to satisfy obligations or future needs, and restrictions and covenants in our debt agreements;
- protection of our intellectual property, ability to license third party intellectual property and the intellectual property rights of others;
- security and integrity of our software and systems and reliance on or failures in our 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 meet the net income targets or otherwise to realize the anticipated benefits under its PMA with the Illinois lottery, (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 (including as a result of a protest) and (3) 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 WMS acquisition, including due to the inability to realize synergies in the anticipated amounts or within the contemplated time-frames or cost expectations, or at all;
- inability to complete future acquisitions, including the pending acquisition of Bally due to the failure to obtain the required approvals or debt financing or otherwise;
- litigation relating to the pending Bally acquisition;
- disruption of our current plans and operations in connection with the pending Bally acquisition (whether prior to its completion or following its completion, including in connection with the integration of Bally), 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 pending Bally acquisition;
- inability to successfully integrate future acquisitions, including Bally (including SHFL entertainment, Inc. and Dragonplay Ltd.) following completion of the pending Bally acquisition;
- failure to realize the intended benefits of the pending Bally acquisition, including the inability to realize the anticipated synergies in the anticipated amounts or within the contemplated time-frames or cost expectations, or at all;
- inability to control Bally until completion of the Bally acquisition;
- incurrence of restructuring costs, revenue recognition standards and impairment charges;
- 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 and restrictions on the import of our products;

- dependence on our 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 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.

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 lottery and gaming industries than the lottery and gaming 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) INCOME
(Unaudited, in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Instant games	$130.8	$129.7	$392.4	$379.0
Services	182.8	80.7	538.9	247.7
Product sales	102.0	24.0	289.3	62.3
Total revenue	415.6	234.4	1,220.6	689.0
Operating expenses:				
Cost of instant games (1)	69.7	70.6	212.5	210.3
Cost of services (1)	69.6	42.6	200.7	135.0
Cost of product sales (1)	59.9	13.3	161.2	39.3
Selling, general and administrative	95.6	45.6	282.6	139.1
Research and development	26.3	1.4	77.0	4.7
Employee termination and restructuring	1.9	—	12.4	0.3
Depreciation and amortization	100.4	35.2	290.5	111.1
Operating (loss) income	(7.8)	25.7	(16.3)	49.2
Other income (expense):				
Interest expense	(45.7)	(25.2)	(142.9)	(75.3)
Earnings (loss) from equity investments	(14.0)	3.4	(7.8)	13.0
Loss on early extinguishment of debt	—	—	(25.9)	—
Gain on sale of equity interest	—	—	14.5	—
Other income (expense), net	3.1	—	9.2	(0.8)
Total other expense	(56.6)	(21.8)	(152.9)	(63.1)
Net (loss) income from continuing operations before income taxes	(64.4)	3.9	(169.2)	(13.9)
Income tax expense	(5.4)	(4.3)	(18.0)	(11.2)
Net loss from continuing operations	$(69.8)	$(0.4)	$(187.2)	$(25.1)
Discontinued operations:				
Loss from discontinued operations	—	(0.1)	—	(2.7)
Gain on sale of assets	—	—	—	0.8
Income tax benefit	—	—	—	0.3
Net loss from discontinued operations	$—	$(0.1)	$—	$(1.6)
Net loss	$(69.8)	$(0.5)	$(187.2)	$(26.7)
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(57.8)	42.3	(47.7)	3.6
Pension and post-retirement gain (loss), net of tax	0.4	(0.5)	0.3	0.2
Derivative financial instruments unrealized (loss) gain, net of tax	2.3	(2.6)	(4.0)	(1.9)
Other comprehensive (loss) income	(55.1)	39.2	(51.4)	1.9
Comprehensive (loss) income	$(124.9)	$38.7	$(238.6)	$(24.8)

(1) Exclusive of depreciation and amortization.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (cont'd)
(Unaudited, in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic net loss per share:				
Continuing operations	$(0.82)	$(0.01)	$(2.22)	$(0.29)
Discontinued operations	—	—	—	(0.02)
Total basic net loss per share	$(0.82)	$(0.01)	$(2.22)	$(0.31)
Diluted net loss per share:				
Continuing operations	$(0.82)	$(0.01)	$(2.22)	$(0.29)
Discontinued operations	—	—	—	(0.02)
Total diluted net loss per share	$(0.82)	$(0.01)	$(2.22)	$(0.31)
Weighted average number of shares used in per share calculations:				
Basic shares	84.7	85.1	84.5	84.9
Diluted shares	84.7	85.1	84.5	84.9

See accompanying notes to consolidated financial statements.

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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$132.5	$153.7
Restricted cash	12.1	10.9
Accounts receivable, net	297.3	346.0
Notes receivable, net	128.1	158.7
Inventories	170.9	137.8
Deferred income taxes, current portion	36.2	31.0
Prepaid expenses, deposits and other current assets	72.9	119.3
Total current assets	850.0	957.4
Property and equipment, net	739.6	773.1
Long-term notes receivable	55.5	72.6
Goodwill	1,168.7	1,183.1
Intangible assets, net	500.3	411.1
Software, net	306.8	343.5
Equity investments	298.7	367.2
Other assets	119.3	128.4
Total assets	$4,038.9	$4,236.4
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Debt payments due within one year	$30.9	$30.4
Accounts payable	94.3	140.9
Accrued liabilities	266.9	280.3
Total current liabilities	392.1	451.6
Deferred income taxes	146.6	138.0
Other long-term liabilities	216.1	109.6
Long-term debt, excluding current installments	3,178.4	3,162.2
Total liabilities	3,933.2	3,861.4
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value $0.01 per share: 199.3 shares authorized; 102.0 and 100.4 shares issued and 84.8 and 85.2 shares outstanding, respectively	1.0	1.0
Additional paid-in capital	736.6	737.8
Accumulated loss	(423.6)	(236.4)
Treasury stock, at cost: 17.2 and 15.2 shares held, respectively	(175.2)	(145.7)
Accumulated other comprehensive (loss) income	(33.1)	18.3
Total stockholders' equity	105.7	375.0
Total liabilities and stockholders' equity	$4,038.9	$4,236.4

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(187.2)	$(26.7)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	290.5	111.7
Change in deferred income taxes	5.2	1.5
Stock-based compensation	18.1	17.3
Non-cash interest expense	12.8	5.1
Loss (earnings) from equity investments, net	7.8	(13.0)
Distributed earnings from equity investments	22.5	28.8
Loss on early extinguishment of debt	25.9	—
Gain on sale of equity interest	(14.5)	—
Changes in current assets and liabilities, net of effects of acquisitions:		
Accounts and notes receivable	80.8	9.6
Inventories	(30.9)	(9.3)
Accounts payable	(36.5)	(18.2)
Accrued liabilities	1.2	(2.4)
Other current assets and liabilities	41.6	(4.8)
Other	(3.9)	(4.0)
Net cash provided by operating activities	233.4	95.6
Cash flows from investing activities:		
Additions to property and equipment	(32.4)	(22.9)
Lottery and gaming services expenditures	(73.1)	(51.3)
Intangible assets and software expenditures	(70.8)	(38.1)
Proceeds from asset disposals	0.5	10.9
Change in other assets and liabilities, net	—	(0.2)
Additions to equity method investments	(43.3)	(65.0)
Distributions of capital on equity investments	45.4	19.4
Proceeds from sale of equity interest	44.9	—
Restricted cash	(1.1)	30.8
Business acquisitions, net of cash acquired	—	(0.4)
Net cash used in investing activities	(129.9)	(116.8)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	347.9	3.9
Payments on long-term debt	(377.3)	(13.4)
Payments of financing fees	(22.8)	(2.0)
Payments on license obligations	(7.0)	—
Common stock repurchases	(29.5)	—
Contingent earnout payments	(10.2)	—
Net redemptions of common stock under stock-based compensation plans	(19.1)	(2.1)
Net cash used in financing activities	(118.0)	(13.6)
Effect of exchange rate changes on cash and cash equivalents	(6.7)	(0.7)
Decrease in cash and cash equivalents	(21.2)	(35.5)

Cash and cash equivalents, beginning of period	153.7	109.0
Cash and cash equivalents, end of period	$132.5	$73.5

See accompanying notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
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 diversified supplier of technology-based products and services to the gaming and lottery industries. Our portfolio includes instant and draw-based lottery games; gaming machines and game content; server-based lottery and gaming systems; sports betting technology; loyalty and rewards programs; and interactive products and services. Upon our acquisition of WMS in October 2013, we significantly expanded our global gaming business.
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 Company's accounts and subsidiaries that are wholly owned and 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 the 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 of these financial statements. In the opinion of management, we have made all adjustments necessary to present fairly our consolidated financial position, results of operations, comprehensive (loss) income and cash flows for the periods presented. Such adjustments are of a normal, recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 Annual Report on Form 10-K. Interim results of operations are not necessarily indicative of results of operations for a full year.
In our Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended September 30, 2013, we reclassified $1.4 million and $4.7 million, respectively, of R&D expense previously included within SG&A to conform to the current-year presentation.
On March 25, 2013, we completed the sale of our installed base of gaming machines in our pub business as discussed in Note 3 (Acquisitions and Dispositions) in this Quarterly Report on Form 10-Q. The results of the discontinued pub operations for the three and nine months ended September 30, 2013 are presented herein in accordance with ASC 205, Presentation of Financial Statements - Discontinued Operations. There were no results of operations for this business for the three or nine months ended September 30, 2014.
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 2013 Annual Report on Form 10-K except for the addition of our lease accounting policy and an update to our minimum guarantees policy as described below.
Lease Accounting
We account for assets held under leases in accordance with ASC 840, Leases. For leases classified as operating leases, we record expense on a straight-line basis over the base term of the lease agreements. For assets accounted for as capital leases, we record the lower of the net present value of the future minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the asset or the period of the related lease.
Minimum Guarantees
We enter into long-term license agreements in which we are obligated to pay a minimum guaranteed amount of royalties, typically annually. We account for the minimum guaranteed obligations within other long-term liabilities at the onset of the license arrangement and record a corresponding licensed asset within intangible assets, net. The licensed assets related to the minimum guaranteed obligations are amortized over the term of the license agreement and included in depreciation and amortization. The long-term liability related to the minimum guaranteed obligations

is reduced as royalty payments are made under the license agreement. The weighted average remaining term of our license agreements with minimum guaranteed obligations was six years and four years as of September 30, 2014 and December 31, 2013, respectively. Our total minimum guaranteed obligations reflected in our Consolidated Balance Sheets were $178.3 million and $216.0 million as of September

30, 2014 and December 31, 2013, respectively. Additionally, our remaining expected future payments of minimum guaranteed obligations is $10.6 million (with $27.4 million of payments made through September 30, 2014), $29.2 million, $28.9 million, $28.7 million and $80.9 million in the years ending December 31, 2014, 2015, 2016, 2017 and 2018 and thereafter, respectively.

Recently Issued Accounting Guidance

In January 2014, the FASB issued ASU 2014-05, Service Concession Arrangements (Topic 853), a consensus of the FASB Emerging Issues Task Force, which specified that an operating entity should not account for a service concession arrangement within the scope of the update as a lease in accordance with ASC 840, Leases. The guidance is effective for fiscal years beginning after December 15, 2014. We do not expect ASU 2014-05 to have a material effect on our financial condition, results of operations or cash flows.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for reporting discontinued operations and modifies related disclosure requirements. The new guidance is effective on a prospective basis for fiscal years beginning after December 15, 2014, and interim periods thereafter. We do not expect ASU 2014-08 to have a material effect on our financial condition, results of operations or cash flows.

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." ASU 2014-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016 (early adoption is not permitted). We are currently evaluating the impact of adopting ASU 2014-09.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, Compensation—Stock Compensation, as it relates to such awards. ASU 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. We do not expect ASU 2014-12 to have a material effect on our financial condition, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern: Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to perform interim and annual assessments as to whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and for annual periods and interim periods thereafter. Early adoption is permitted. We do not expect ASU 2014-15 to have a material effect on our financial condition, results of operations or cash flows.

(2) Reportable Business Segment Information

We report our operations in three business segments—Instant Products, Lottery Systems and Gaming—representing our different products and services. These are our reportable segments under ASC 280, Segment Reporting. The Instant Products and Lottery Systems business segments are managed by one executive and the Gaming business segment is managed by a different executive, both of whom report to our chief executive officer (who is our "chief operating

decision maker" under applicable accounting standards). Our three business segments represent the aggregation of similar operating segments. Our Instant Products business segment is comprised of our instant products operating segment, which provides instant lottery games and related value-added services, as well as licensed brands that are printed on instant lottery games and other promotional lottery products. Our Lottery Systems business segment is comprised of our lottery systems operating segment, which provides products and services to lottery operators generally comprised of a central system, customized computer software, data communication services, support and/or related equipment. Our Gaming business segment includes (1) our gaming operating segment, which generally sells new and used gaming machines, conversion kits and parts, and leases or otherwise provides gaming machines, systems and content, to commercial, tribal and governmental gaming operators, and (2) our interactive

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operating segment, which provides social gaming entertainment and game server services for real-money gaming. 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 2013 Annual Report on Form 10-K.

Effective in the fourth quarter of 2013, we revised our business and operating segments to reflect the reorganization of our business following the WMS acquisition and the resulting changes in the financial information regularly reviewed by our chief executive officer. Based on that review, we moved our video systems operating segment from the Lottery Systems business segment to the Gaming business segment. This change, which was effective as of December 31, 2013, had no impact on the Company's consolidated financial statements for any periods. Business segment information for the three and nine months ended September 30, 2013 has been adjusted to reflect this change.

The following tables present revenue, cost of revenue, SG&A, R&D, employee termination and restructuring, D&A, operating (loss) income from continuing operations and earnings (loss) from equity investments by business segment for the three and nine months ended September 30, 2014 and 2013. Certain unallocated expenses managed at the corporate level, comprised primarily of general and administrative costs and other income (expense), net, are not allocated to our business segments. Segment results for 2013 below do not include the results of WMS, which we acquired in October 2013. The increase in unallocated corporate costs for the three and nine months ended September 30, 2014 primarily related to the inclusion of WMS results.

	Three Months Ended September 30, 2014			
	Instant Products	Lottery Systems	Gaming	Total
Revenue:				
Instant games	$130.8	$—	$—	$130.8
Services	—	48.2	134.6	182.8
Product sales	3.2	30.5	68.3	102.0
Total revenue	134.0	78.7	202.9	415.6
Cost of instant games (1)	69.7	—	—	69.7
Cost of services (1)	—	30.4	39.2	69.6
Cost of product sales (1)	2.4	24.6	32.9	59.9
Selling, general and administrative	12.2	5.6	42.4	60.2
Research and development	0.5	0.9	24.9	26.3
Employee termination and restructuring	0.4	—	1.5	1.9
Depreciation and amortization	8.9	16.0	69.8	94.7
Segment operating income (loss) from continuing operations	$39.9	$1.2	$(7.8)	$33.3
Unallocated corporate costs				41.1
Consolidated operating loss from continuing operations				$(7.8)
Earnings (loss) from equity investments	$(15.4)	$0.1	$1.3	$(14.0)

(1) Exclusive of depreciation and amortization.

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	Three Months Ended September 30, 2013			
	Instant Products	Lottery Systems	Gaming	Total
Revenue:				
Instant games	$129.7	$—	$—	$129.7
Services	—	48.6	32.1	80.7
Product sales	3.1	13.6	7.3	24.0
Total revenue	132.8	62.2	39.4	234.4
Cost of instant games (1)	70.6	—	—	70.6
Cost of services (1)	—	27.1	15.5	42.6
Cost of product sales (1)	2.2	7.3	3.8	13.3
Selling, general and administrative	11.5	5.3	6.3	23.1
Research and development	0.1	0.9	0.4	1.4
Depreciation and amortization	9.2	13.4	12.4	35.0
Segment operating income from continuing operations	$39.2	$8.2	$1.0	$48.4
Unallocated corporate costs				22.7
Consolidated operating income from continuing operations				$25.7
Earnings (loss) from equity investments	$5.2	$0.1	$(1.9)	$3.4

(1) Exclusive of depreciation and amortization.

	Nine Months Ended September 30, 2014			
	Instant Products	Lottery Systems	Gaming	Total
Revenue:				
Instant games	$392.4	$—	$—	$392.4
Services	—	149.3	389.6	538.9
Product sales	9.4	63.3	216.6	289.3
Total revenue	401.8	212.6	606.2	1,220.6
Cost of instant games (1)	212.5	—	—	212.5
Cost of services (1)	—	90.4	110.3	200.7
Cost of product sales (1)	6.5	50.8	103.9	161.2
Selling, general and administrative	38.9	17.1	132.9	188.9
Research and development	1.0	1.7	74.3	77.0
Employee termination and restructuring	1.6	—	8.9	10.5
Depreciation and amortization	26.2	44.6	200.2	271.0
Segment operating income (loss) from continuing operations	$115.1	$8.0	$(24.3)	$98.8
Unallocated corporate costs				115.1
Consolidated operating loss from continuing operations				$(16.3)
Earnings (loss) from equity investments	$(12.4)	$1.3	$3.3	$(7.8)

(1) Exclusive of depreciation and amortization.

	Nine Months Ended September 30, 2013			
	Instant Products	Lottery Systems	Gaming	Total
Revenue:				
Instant games	$379.0	$—	$—	$379.0
Services	—	146.1	101.6	247.7
Product sales	10.1	35.2	17.0	62.3
Total revenue	389.1	181.3	118.6	689.0
Cost of instant games (1)	210.3	—	—	210.3
Cost of services (1)	—	82.0	53.0	135.0
Cost of product sales (1)	7.2	22.4	9.7	39.3
Selling, general and administrative	35.5	16.0	19.3	70.8
Research and development	0.4	3.1	1.2	4.7
Employee termination and restructuring	0.3	—	—	0.3
Depreciation and amortization	27.0	38.8	44.8	110.6
Segment operating income (loss) from continuing operations	$108.4	$19.0	$(9.4)	$118.0
Unallocated corporate costs				68.8
Consolidated operating income from continuing operations				$49.2
Earnings (loss) from equity investments	$15.8	$0.7	$(3.5)	$13.0

(1) Exclusive of depreciation and amortization.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Reportable business segment operating income from continuing operations	$33.3	$48.4	$98.8	$118.0
Unallocated corporate costs	(41.1)	(22.7)	(115.1)	(68.8)
Consolidated operating (loss) income from continuing operations	(7.8)	25.7	(16.3)	49.2
Interest expense	(45.7)	(25.2)	(142.9)	(75.3)
Earnings (loss) from equity investments	(14.0)	3.4	(7.8)	13.0
Loss on early extinguishment of debt	—	—	(25.9)	—
Gain on sale of equity interest	—	—	14.5	—
Other income (expense), net	3.1	—	9.2	(0.8)
Net (loss) income from continuing operations before income taxes	$(64.4)	$3.9	$(169.2)	$(13.9)

In evaluating segment financial performance, we focus on operating income as a segment's measure of profit or loss. Segment operating income is income before other income (expense), net, interest expense, earnings (loss) from equity investments, loss on early extinguishment of debt, gain on sale of equity interest, unallocated corporate costs and income taxes. The accounting policies of the business segments are the same as those described in our summary of significant accounting policies in Note 1 (Description of the Business and Summary of Significant Accounting Policies) in this Quarterly Report on Form 10-Q and Note 1 (Description of the Business and Summary of Significant Accounting Policies) in our 2013 Annual Report on Form 10-K.

(3) Acquisitions and Dispositions

Pending Acquisition of Bally

On August 1, 2014, we entered into a merger agreement pursuant to which we agreed to acquire Bally, a leading supplier of gaming machines, table game products, systems, and interactive gaming solutions, for $83.30 in cash per

common share. The aggregate transaction value is approximately $5.1 billion, including the refinancing of approximately $1.8 billion of existing Bally net debt.

We received early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), in August 2014, which satisfied one of the conditions to closing the merger. The closing of the merger remains subject to approval of the merger by Bally stockholders, receipt of certain gaming regulatory approvals and other customary closing conditions.

The merger agreement contains certain termination rights for both Scientific Games and Bally and further provides that, in connection with termination of the merger agreement under specified circumstances, (1) we may be required to pay to Bally a termination fee of $105.0 million if all the conditions to closing have been met and the merger is not consummated because of a breach by our lenders of their obligations to finance the transaction, (2) we may be required to pay to Bally a termination fee of $105.0 million if the parties are unable to obtain the gaming regulatory approvals that are conditions to closing and (3) Bally may be required to pay us a termination fee of $80.0 million under specified circumstances, including, but not limited to, a change in the Bally board’s recommendation of the merger or in connection with Bally’s termination of the merger agreement to enter into a written definitive agreement for a “superior proposal” (as defined in the merger agreement).

The transaction is expected to be completed in the fourth quarter. However, no assurance can be given that the transaction will be completed.

Acquisitions

On October 18, 2013, we acquired WMS, a global gaming supplier with a diversified suite of products and strong content creation capabilities, for $1,485.9 million.

Subsequent to the filing of our 2013 Annual Report on Form 10-K, we adjusted the estimated fair values of certain WMS assets 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 a decrease in goodwill of approximately $3.8 million related to the recognition of non-U.S.-based current and deferred tax assets and liabilities. We have applied the adjustment retrospectively to the opening balance sheet at October 18, 2013.

We have completed the allocation of the purchase price, which resulted in the purchase price exceeding the aggregate fair value of the acquired assets and assumed liabilities at the acquisition date by $381.8 million. Such excess amount has been recognized as goodwill within our Gaming segment. We attribute this goodwill to enhanced financial and operational scale, market diversification, opportunities for synergies and other strategic benefits. None of the goodwill associated with the acquisition is deductible for income tax purposes and, as such, no deferred taxes have been recorded related to goodwill.

	At October 18, 2013	
Current assets	$503.9	
Long-term notes receivable	76.2	
Property, plant and equipment, net	465.8	
Goodwill	381.8	
Intangible assets	325.0	
Intellectual property	201.2	
Other long-term assets	7.8	
Total assets	1,961.7	
Current liabilities	(158.9	)
Deferred income taxes	(166.6	)
Long-term liabilities	(150.3	)
Total liabilities	(475.8	)
Total equity purchase price	$1,485.9	

As required by ASC 805, Business Combinations, the following unaudited pro forma financial information for the three and nine months ended September 30, 2013 gives effect to the WMS acquisition as if it had been completed on January 1, 2012. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the operating results actually would have been had the WMS acquisition been completed on January 1, 2012. The unaudited pro forma financial information does not purport to project the future

operating results of the Company. The unaudited pro forma financial information does not reflect (1) any anticipated synergies (or costs to achieve anticipated

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synergies) or (2) the impact of non-recurring items directly related to the WMS acquisition.

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Revenue from Consolidated Statements of Operations and Comprehensive (Loss) Income	$234.4	$689.0
Add: WMS revenue not reflected in Consolidated Statements of Operations and Comprehensive (Loss) Income	166.4	547.1
Unaudited pro forma revenue	$400.8	$1,236.1

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Net loss from continuing operations from Consolidated Statements of Operations and Comprehensive (Loss) Income	$(0.4)	$(25.1)
Add: WMS net loss from continuing operations not reflected in Consolidated Statements of Operations and Comprehensive (Loss) Income plus pro forma adjustments (1), (2), (3) and (4) below	(25.4)	(45.0)
Unaudited pro forma net loss from continuing operations	$(25.8)	$(70.1)

Unaudited pro forma amounts reflect the following adjustments:

(1) An adjustment to reflect additional D&A of $8.4 million and $28.9 million for the three and nine months ended September 30, 2013, respectively, that would have been incurred assuming the fair value adjustments to intangible assets and property and equipment had been applied on January 1, 2012.

(2) An adjustment to reverse acquisition-related fees and expenses of $3.5 million and $20.5 million for the three and nine months ended September 30, 2013, respectively.

(3) An adjustment to reflect additional interest expense of $20.4 million and $61.0 million for the three and nine months ended September 30, 2013, respectively, that would have been incurred assuming our new credit facilities were in place as of January 1, 2012.

(4) An adjustment of $0.5 million and $3.0 million to reverse the U.S. tax benefit and expense of WMS for the three and nine months ended September 30, 2013, respectively, under the assumption that the U.S. taxable income of WMS would have been offset by U.S. tax attributes of the Company.

Dispositions

On March 25, 2013, we completed the sale of our installed base of gaming terminals in our pub business for £0.5 million. There were no results of operations for this business for the three and nine months ended September 30, 2014. The components of our loss from discontinued operations for the three and nine months ended September 30, 2013 are presented below:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Revenue:		
Services	$—	$1.8
Operating expenses:		
Cost of services (1)	0.1	3.0
Selling, general and administrative	—	1.0
Depreciation and amortization	—	0.5

Loss from discontinued operations	(0.1)	(2.7)
Other expense	—	—
Gain on sale of assets	—	0.8
Income tax benefits	—	0.3
Net loss from discontinued operations	$(0.1)	$(1.6)

(1) Exclusive of depreciation and amortization.

(4) Restructuring Plans

We recorded pre-tax employee termination and restructuring costs of $1.9 million and $0 for the three months ended September 30, 2014 and 2013, respectively, and recorded pre-tax employee termination and restructuring costs of $12.4 million and $0.3 million for the nine months ended September 30, 2014 and 2013, respectively. Employee termination and restructuring initiatives reported in the nine months ended September 30, 2013 were related to initiatives that were completed as of September 30, 2013 and therefore, are not included in the tables below.

WMS Integration-Related Restructuring Plan

Upon our acquisition of WMS in October 2013, we began integrating Scientific Games and WMS and implementing our plans to streamline our operations and cost structure. We have recorded costs that meet the criteria under ASC 420, Exit and Disposal Cost Obligations, in each of our segments associated with integration activities that have been initiated in the relevant period. These costs include employee severance costs, costs relating to the exiting of facilities and costs related to exiting two immaterial businesses.

Unallocated corporate employee termination costs primarily related to terminations of certain executives, including our former chief executive officer, in the fourth quarter of 2013.

Other Restructuring Plans

In December 2013, we initiated a plan to exit our Provoloto instant lottery game operations in Mexico, which was completed during the three months ended March 31, 2014. In June 2014, we initiated a plan to exit our paper roll conversion operations in the U.S., which are immaterial to our operations. Employee termination and restructuring costs related to these initiatives are included in our Instant Products segment.

Employee Termination and Restructuring Costs by Segment

The following table presents a summary of employee termination and restructuring costs by segment related to the restructuring plans described above, including the costs incurred during the three and nine months ended September 30, 2014, the cumulative costs incurred through September 30, 2014 since the relevant restructuring activities were initiated and the total expected costs related to the relevant restructuring activities that have been initiated. As additional integration-related activities are initiated, we expect to incur additional costs related to those activities.

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Business Segment		Employee Termination Costs	Property Costs	Other	Total
Instant Products	Three months ended September 30, 2014	$ —	$0.4	$—	$0.4
	Nine months ended September 30, 2014	1.0	0.4	0.2	1.6
	Cumulative	1.0	0.4	4.9	6.3
	Expected Total	1.0	0.4	4.9	6.3
Lottery Systems	Three months ended September 30, 2014	—	—	—	—
	Nine months ended September 30, 2014	—	—	—	—
	Cumulative	0.4	—	—	0.4
	Expected Total	0.4	—	—	0.4
Gaming	Three months ended September 30, 2014	1.4	—	0.1	1.5
	Nine months ended September 30, 2014	6.8	0.4	1.7	8.9
	Cumulative	10.6	1.4	5.5	17.5
	Expected Total	10.6	1.4	5.6	17.6
Unallocated corporate	Three months ended September 30, 2014	—	—	—	—
	Nine months ended September 30, 2014	1.7	0.2	—	1.9
	Cumulative	8.6	2.3	—	10.9
	Expected Total	8.6	2.3	—	10.9
Total	Three months ended September 30, 2014	$ 1.4	$0.4	$0.1	$1.9
	Nine months ended September 30, 2014	$ 9.5	$1.0	$1.9	$12.4
	Cumulative	$ 20.6	$4.1	$10.4	$35.1
	Expected Total	$ 20.6	$4.1	$10.5	$35.2

The following table presents a summary of employee termination and restructuring costs and changes in the related accruals.

	Employee Termination Costs	Property Costs	Other	Total
Balance as of December 31, 2013	$9.3	$2.8	$0.1	$12.2
Additional accruals	9.5	1.0	1.9	12.4
Cash payments	(12.1)	(0.9)	(1.9)	(14.9)
Non-cash expense	0.5	(0.6)	1.6	1.5
Balance as of September 30, 2014	$7.2	$2.3	$1.7	$11.2

(5) Basic and Diluted Net Loss Per Share

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net loss per share available to common stockholders for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss				
Net loss from continuing operations	$(69.8)	$(0.4)	$(187.2)	$(25.1)
Net loss from discontinued operations	—	(0.1)	—	(1.6)
Net loss	$(69.8)	$(0.5)	$(187.2)	$(26.7)
Weighted average number of shares used in per share calculations:				
Basic shares	84.7	85.1	84.5	84.9
Diluted shares	84.7	85.1	84.5	84.9
Basic net loss per share:				
Continuing operations	$(0.82)	$(0.01)	$(2.22)	$(0.29)
Discontinued operations	—	—	—	(0.02)
Total basic net loss per share	$(0.82)	$(0.01)	$(2.22)	$(0.31)
Diluted net loss per share:				
Continuing operations	$(0.82)	$(0.01)	$(2.22)	$(0.29)
Discontinued operations	—	—	—	(0.02)
Total diluted net loss per share	$(0.82)	$(0.01)	$(2.22)	$(0.31)

For all periods presented, basic and diluted net loss per share is the same, as any additional common stock equivalents would be anti-dilutive. We excluded 1.7 million and 3.4 million of stock options from the weighted average diluted common shares outstanding as of September 30, 2014 and 2013, respectively, which would have been anti-dilutive due to the net loss in those periods. In addition, we excluded 4.0 million and 5.1 million of RSUs from the calculation of weighted average diluted common shares outstanding as of September 30, 2014 and 2013, respectively, which would have been anti-dilutive due to the net loss in those periods.

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

Accounts and Notes Receivable

The following summarizes the components of our current and long-term accounts and notes receivable, net, as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Current:		
Accounts receivable	$307.9	$360.4
Notes receivable	135.5	164.3
Allowance for doubtful accounts	(18.0)	(20.0)
Current accounts and notes receivable, net	$425.4	$504.7
Long-term:		
Notes receivable	55.5	72.6
Total accounts and notes receivable, net	$480.9	$577.3

Credit Quality of Notes Receivable

We carry our notes receivable at face amounts less an allowance for doubtful accounts and imputed interest. Interest income is recognized ratably over the life of the note receivable and any related fees or costs to establish the notes are expensed as incurred, as they are considered insignificant. Actual or imputed interest, if any, is determined based on stated rates or current market rates at the time the note originated and is recorded as interest income in other income

(expense), net, ratably over the payment period. We impute interest income on notes receivable with terms greater than one year that do not contain a stated interest rate. The interest rates on our outstanding notes receivable ranged from 4.0% to 10.4% at September 30, 2014. Our policy is to generally recognize interest on our notes receivable until the note receivable is deemed non-performing, which we

define as a note on which payments are over 180 days past due. The amount of our non-performing notes was immaterial at September 30, 2014.

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

The government authorities in Argentina limit the exchange of pesos into U.S. dollars and the transfer of funds from Argentina. Our accounts and notes receivable, net, from customers in Argentina at September 30, 2014 was $24.9 million, which is denominated in U.S. dollars, although, under the terms of our arrangements with our customers in Argentina, they are required to pay us in pesos at the spot exchange rate between the peso and the U.S. dollar on the date of payment. In evaluating the collectability of customer receivables in Argentina at September 30, 2014, we specifically evaluated recent payments, receivable aging, any additional security or collateral we had (bills of exchange, pledge agreements, etc.) and other facts and circumstances relevant to our customers' ability to pay. Our customers in Argentina have continued to pay us in pesos based on the spot exchange rate between the peso and the U.S. dollar on the payment date. We collected $27.5 million of outstanding receivables from customers in Argentina during the nine months ended September 30, 2014.

Recent government actions and challenges affecting the gaming industry in Mexico have increased the credit quality risk with respect to certain of our current Mexico customers. Our accounts and notes receivable, net, from customers in Mexico at September 30, 2014 was $36.1 million. We collected $14.2 million of outstanding receivables from customers in Mexico during the nine months ended September 30, 2014.

The following summarizes the components of total notes receivable, net, as of September 30, 2014 and December 31, 2013:

	September 30, 2014	Balances over 90 days past due	December 31, 2013	Balances over 90 days past due
Notes receivable:				
Domestic	$48.1	$2.2	$65.1	$0.4
International	142.9	8.2	171.8	8.7
Total notes receivable	191.0	10.4	236.9	9.1
Notes receivable allowance for doubtful accounts:				
Domestic	—	—	—	—
International	(7.4)	(4.7)	(5.6)	(3.3)
Total notes receivable allowance for doubtful accounts	(7.4)	(4.7)	(5.6)	(3.3)
Note receivable, net	$183.6	$5.7	$231.3	$5.8

At September 30, 2014, 3.1% of our total notes receivable, net, was past due by over 90 days compared to 2.5% at December 31, 2013.

The following tables detail our evaluation of notes receivable for impairment as of September 30, 2014 and December 31, 2013:

	September 30, 2014	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Notes receivable:			
Domestic	$48.1	$6.7	$41.4
International	142.9	78.9	64.0
Total notes receivable	$191.0	$85.6	$105.4

	December 31, 2013	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Notes receivable:			
Domestic	$65.1	$4.8	$60.3
International	171.8	99.7	72.1
Total notes receivable	$236.9	$104.5	$132.4

The following table reconciles the allowance for doubtful notes receivable from December 31, 2013 to September 30, 2014:

	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Beginning balance at December 31, 2013	$5.6	$5.6	$—
Charge-offs	(0.1)	(0.1)	—
Recoveries	—	—	—
Provision	1.9	1.9	—
Ending balance at September 30, 2014	$7.4	$7.4	$—

Modifications to original financing terms are exceptions to our cash collection process and are a function of collection activities with the customer. If a customer requests a modification of financing terms during the collection process, we evaluate the proposed modification in relation to the recovery of our gaming machines, generally seek additional security and recognize any additional interest income ratably over the remaining new financing term. Additionally, we often take the opportunity to simplify the customer's future payments by consolidating several notes (each typically representing an individual purchase transaction) into one note. In those instances, the aging of any outstanding receivable balance would be adjusted to reflect the new payment terms. Any such modifications generally do not include a concession on the amount owed and generally result only in a delay of payments relative to the original terms.

The following summarizes the notes receivable financing terms that were modified during the nine months ended September 30, 2014:

	Nine Months Ended September 30, 2014			
	# of Customers	# of Notes	Pre-Modification Investment	Post-Modification Investment
Financing term modifications:				
International (1)	9	28	$12.8	$12.8
Total financing term modifications	9	28	$12.8	$12.8

(1) The modifications are detailed below:

- One customer for which 12 notes were consolidated into one note aggregating $4.0 million, with an average 28-month payment extension;
- One customer for which three notes were consolidated into one note aggregating $3.1 million, with an average four-month payment extension;
- One customer with a note for $2.3 million for which original payment terms were extended by nine months;

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- One customer for which four notes were consolidated into one note aggregating $1.4 million, with an average five-month extension, and another note for $0.2 million for which original payment terms were extended by seven months;
- One customer for which two notes were consolidated into one note aggregating $0.7 million, with an average 15-month payment extension;
- One customer with a note for $0.5 million for which original payment terms were extended by 21 months;
- One customer with a note for $0.3 million for which original payment terms were extended by 27 months;
- One customer for which two notes were consolidated into one note aggregating $0.2 million, with an average 14-month payment extension; and
- One customer with a note for $0.1 million for which original payment terms were extended by 21 months.

In certain international jurisdictions, we offer extended financing terms related to our customers. Such financing activities subject us to increased credit risk, which could be exacerbated by, among other things, unfavorable economic conditions or political or economic instability in those regions. Our notes receivable were concentrated in the following international gaming jurisdictions at September 30, 2014:

Peru	25	%
Mexico	17	%
Argentina	12	%
Colombia	10	%
Other (less than 5% individually)	11	%
Total international notes receivable as a percentage of total notes receivable	75	%

(7) Inventories

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

	September 30, 2014	December 31, 2013
Parts and work-in-process	$70.4	$62.1
Finished goods	100.5	75.7
Inventory	$170.9	$137.8

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

(8) Property and Equipment

The following table presents certain information regarding our lottery and gaming equipment at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Lottery equipment	$358.8	$350.3
Less: accumulated depreciation	(237.7)	(210.6)
Net lottery equipment	121.1	139.7
Gaming equipment	478.3	439.7
Less: accumulated depreciation	(223.9)	(145.0)
Net gaming equipment	254.4	294.7
Total lottery and gaming equipment, net	$375.5	$434.4

The following table presents certain information regarding our other property and equipment, including capital leases, at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Land	$25.1	$25.6
Buildings and leasehold improvements	182.2	181.6
Machinery and equipment	269.3	239.1
Furniture and fixtures	25.6	30.1
Transportation equipment	4.4	6.4
Construction in progress	12.0	33.4
Capital leases	41.8	—
Less: accumulated depreciation	(196.3)	(177.5)
Total other property and equipment, net	$364.1	$338.7
Total property and equipment, net	$739.6	$773.1

Depreciation expense for the three and nine months ended September 30, 2014 was $58.5 million and $166.8 million, respectively. Depreciation expense for the three and nine months ended September 30, 2013 was $23.7 million and $78.2 million, respectively. Depreciation expense is excluded from cost of instant games, cost of services, cost of product sales and other operating expenses and is separately stated within depreciation and amortization on the Consolidated Statements of Operations and Comprehensive (Loss) Income. Accumulated amortization of capital lease assets was $3.4 million and $0 as of September 30, 2014 and December 31, 2013, respectively.

(9) Intangible Assets and Goodwill

Intangible Assets

The following presents certain information regarding our intangible assets as of September 30, 2014 and December 31, 2013. Amortizable intangible assets are generally 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 September 30, 2014			
Amortizable intangible assets:			
Patents	$17.1	$8.0	$9.1
Customer lists	161.3	37.2	124.1
Licenses	309.2	82.4	226.8
Intellectual property	8.5	6.6	1.9
Brand name	39.3	3.8	35.5
Non-compete agreements	0.3	0.2	0.1
Lottery contracts	1.5	1.5	—
	537.2	139.7	397.5
Non-amortizable intangible assets:			
Trade name	104.9	2.1	102.8
Total intangible assets	$642.1	$141.8	$500.3
Balance as of December 31, 2013			
Amortizable intangible assets:			
Patents	$14.5	$7.1	$7.4
Customer lists	161.9	24.0	137.9
Licenses	181.0	59.9	121.1
Intellectual property	8.6	5.7	2.9
Brand name	39.3	0.6	38.7
Non-compete agreements	0.4	0.2	0.2
Lottery contracts	1.5	1.4	0.1
	407.2	98.9	308.3
Non-amortizable intangible assets:			
Trade name	104.9	2.1	102.8
Total intangible assets	$512.1	$101.0	$411.1

Acquired intangible assets related to customer relationships and long-term licenses are amortized over a weighted average useful life of approximately 13.6 years and 2.9 years, respectively. The increase in the carrying amount of licenses for the nine months ended September 30, 2014 primarily reflected the recording of approximately $106 million associated with a long-term license agreement, which was amended and extended in the first quarter of 2014. The carrying value of the licensed asset increased to reflect the additional minimum guaranteed obligations under the amended license agreement. For additional information regarding licensed assets with minimum guaranteed obligations, see Note 1 (Description of the Business and Summary of Significant Accounting Policies) in this Quarterly Report on Form 10-Q.

The aggregate intangible amortization expense for the three and nine months ended September 30, 2014 was $18.1 million and $49.0 million, respectively. The aggregate intangible amortization expense for the three and nine months ended September 30, 2013 was $5.2 million and $15.0 million, respectively. These amounts are included in depreciation and amortization in our Consolidated Statements of Operations and Comprehensive (Loss) Income.

Goodwill

The table below reconciles the change in the carrying amount of goodwill by reportable segment from December 31, 2012 to September 30, 2014.

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Goodwill	Instant Products	Lottery Systems	Gaming	Totals
Balance as of December 31, 2012	$328.0	$210.7	$262.7	$801.4
Acquisitions	—	—	381.8	381.8
Impairments	(5.4)	—	—	(5.4)
Foreign currency adjustments	(2.4)	2.7	5.0	5.3
Reallocation of goodwill	20.0	(39.7)	19.7	—
Balance as of December 31, 2013	340.2	173.7	669.2	1,183.1
Foreign currency adjustments	(2.8)	(6.0)	(5.6)	(14.4)
Balance as of September 30, 2014	$337.4	$167.7	$663.6	$1,168.7

Subsequent to the filing of our 2013 Annual Report on Form 10-K, we adjusted the estimated fair values of certain WMS assets acquired 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 a decrease in goodwill of approximately $3.8 million related to the recognition of non-U.S.-based current and deferred tax assets and liabilities. We have applied the adjustment retrospectively to the Consolidated Balance Sheet as of December 31, 2013.

(10) Software

The following table presents certain information regarding our software as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Software	$500.8	$457.7
Accumulated amortization	(194.0)	(114.2)
Software, net	$306.8	$343.5

Amortization expense for the three and nine months ended September 30, 2014 was $23.8 million and $74.7 million, respectively. Amortization expense for the three and nine months ended September 30, 2013 was $6.3 million and $17.9 million, respectively. Amortization expense is excluded from cost of instant games, cost of services, cost of product sales and other operating expenses and is separately stated within depreciation and amortization on the Consolidated Statements of Operations and Comprehensive (Loss) Income.

(11) Equity Method Investments

The following provides an update for events that occurred during the nine months ended September 30, 2014 related to our equity method investments, which are disclosed in Note 11 (Equity Investments) in our 2013 Annual Report on Form 10-K.

Northstar Illinois

Under the terms of a PMA, Northstar Illinois is entitled to receive annual incentive compensation payments from the lottery to the extent it is successful in increasing the Illinois lottery's net income (as defined in the PMA) above specified target levels, subject to a cap of 5% of the applicable year's net income, and is responsible for annual payments to the lottery to the extent such targets are not achieved, subject to a similar cap. During the three months ended June 30, 2014, we understand that Northstar Illinois recorded a liability related to an estimated shortfall payment for the lottery's fiscal year ended June 30, 2014. We recorded a charge of $8.0 million, representing our 20% share of that liability, in earnings (loss) from equity investments in our Consolidated Statements of Operations and Comprehensive (Loss) Income during the three months ended June 30, 2014. During the three months ended September 30, 2014, we contributed $13.5 million to Northstar Illinois primarily to fund our pro rata share of shortfall payments that are payable to the lottery under the PMA.

Northstar Illinois and the State have disagreed regarding the State’s calculation of net income for each of the lottery fiscal years during the term of the PMA. In August 2014, we understand that the Governor’s office of the State of Illinois directed the Illinois Department of Lottery to end the PMA with Northstar Illinois. Although an agreement has not yet been reached between Northstar Illinois and the lottery, in light of the direction by the Governor’s office to the lottery to end the PMA with Northstar Illinois and the status of discussions among the parties, in the September 2014 quarter, the Company recorded a non-cash impairment charge of $19.7 million to write down its investment in

Northstar Illinois.

Sportech

In January 2014, we completed the sale of our 20% equity interest in Sportech for cash proceeds of £27.8 million, or $44.9 million, resulting in a gain of approximately £9 million, or $14.5 million, which is reflected as a gain on sale of equity interest in our Consolidated Statements of Operations and Comprehensive (Loss) Income.

LNS

During the nine months ended September 30, 2014, we received a distribution of capital of €20.7 million, or $28.0 million, and a dividend of €13.3 million, or $18.2 million, net of withholding taxes, from LNS.

ITL

During the nine months ended September 30, 2014, we contributed €29.4 million, or $40.6 million, to ITL. During the nine months ended September 30, 2014, we received a distribution of capital of €11.9 million, or $17.4 million, from ITL.

RCN

During the nine months ended September 30, 2014, we received a dividend of $4.3 million from RCN.

(12) Long-Term and Other Debt

Outstanding Debt

The following reflects our outstanding debt as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Revolver, varying interest rate, due 2018	$—	$—
Term loan, varying interest rate, due 2020 (1)	2,272.9	2,288.8
2018 Notes	250.0	250.0
2019 Notes (2)	—	346.3
2020 Notes	300.0	300.0
2021 Notes (3)	347.7	—
China Loans, varying interest rates	—	7.4
Capital lease obligations, 3.9% interest as of September 30, 2014 payable monthly through 2019	38.7	0.1
Total long-term debt outstanding and capital lease obligations	3,209.3	3,192.6
Less: debt and capital lease payments due within one year	(30.9)	(30.4)
Long-term debt, net of current installments	$3,178.4	$3,162.2

(1) Total of $2,282.8 million less amortization of a loan discount in the amount of $9.9 million as of September 30, 2014. Total of $2,300.0 million less amortization of a loan discount in the amount of $11.2 million as of December 31, 2013.

(2) Total of $350.0 million less amortization of a loan discount in the amount of $3.7 million as of December 31, 2013.

(3) Total of $350.0 million less amortization of a loan discount in the amount of $2.3 million as of September 30, 2014.

Senior Secured Credit Facilities

In connection with the WMS acquisition, the Company and certain of its subsidiaries entered into a credit agreement dated as of October 18, 2013, by and among SGI, as the borrower, the Company, as a guarantor, Bank of America, N.A., as administrative agent, and the lenders and other agents party thereto, providing for senior secured credit facilities in an aggregate principal amount of $2,600.0 million, including a $300.0 million revolving credit facility, which has dollar and multi-currency tranches, and a $2,300.0 million term loan facility. The term loan facility was used, in part, to finance the consideration paid in the WMS acquisition, to repay all indebtedness under our and WMS' prior credit agreements and to pay related acquisition and financing fees and expenses. Up to $200.0 million of the revolving credit facility is available for issuances of letters of credit. The term loan is scheduled to mature on October 18, 2020 and the revolving credit facility is scheduled to mature on October 18, 2018 (subject to accelerated maturity under certain circumstances).

SGI is required to pay commitment fees to revolving lenders on the actual daily unused portion of the revolving commitments at a rate of 0.50% per annum through maturity, subject to a step-down to 0.375% based upon certain first lien net

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leverage ratios. The credit facilities contain customary events of default (subject to customary grace periods and materiality thresholds). Upon the occurrence of certain events of default, the obligations under the credit facilities may be accelerated and the commitments may be terminated.

Borrowings under the credit agreement (including the term loans under the Escrow Credit Agreement discussed below, after they are assumed by SGI) are guaranteed by the Company and each of its current and future direct and indirect wholly owned domestic subsidiaries (other than SGI), subject to certain customary exceptions as set forth in the credit agreement.

Contemplated Financing for Bally Acquisition

In connection with the pending Bally acquisition, we entered into a commitment letter with Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., Deutsche Bank AG New York Branch and certain of their respective affiliates, which was subsequently joined by Fifth Third Bank, HSBC Securities (USA) Inc., HSBC Bank USA, N.A., PNC Capital Markets LLC and PNC Bank, National Association as additional commitment parties. Pursuant to the commitment letter, the commitment parties have agreed to provide the financing necessary to fund the consideration to be paid pursuant to the terms of the merger agreement (the “Debt Financing”). The commitment letter contemplates that the Debt Financing will consist of, among other things, (1) a senior secured incremental term loan facility (in an originally contemplated principal amount of $1,735.0 million), (2) a senior secured increase in the revolving credit facility (in an originally contemplated principal amount of $350.0 million), (3) if applicable, amendments to, or the refinancing of, Scientific Games’ existing credit facilities, consisting of (a) a senior secured term loan facility in a total principal amount of $2,294.0 million and (b) a senior secured revolving credit facility in a total principal amount of $650 million, and (4) senior secured notes and senior unsecured notes yielding $3,450.0 million in aggregate gross cash proceeds and/or to the extent that the issuance of such notes yields less than $3,450.0 million in aggregate gross cash proceeds or such cash proceeds are otherwise unavailable, a senior secured bridge loan facility and a senior unsecured bridge loan facility up to an aggregate principal amount of $3,450 million (less the cash proceeds received from the notes and available for use, if any). The funding of the Debt Financing is contingent on the satisfaction of certain conditions set forth in the commitment letter. The merger is not conditioned on our obtaining the proceeds of any financing, including the Debt Financing.

In connection with the pending Bally acquisition, on October 1, 2014, the Company entered into an amendment to its existing credit agreement to, among other things, (1) effective as of October 1, 2014, permit the Bally acquisition and the transactions related thereto, including the incurrence of term loans by SGMS Escrow Corp., and (2) effective as of the consummation of the Bally acquisition (and the satisfaction of the other conditions contemplated by the amendment), (A) increase the Company’s existing revolving credit facility by $267.6 million, (B) permit SGI to assume the term loans under the Escrow Credit Agreement (as defined below) as incremental term loans under the existing credit agreement and (C) modify the financial covenant applicable to the revolving credit facility under the existing credit agreement such that it will be tested each quarter, irrespective of usage of that revolving credit facility. As a result of the amendment, the applicable margin for the existing term loans under the credit agreement (1) prior to the consummation of the Bally acquisition, will remain at 3.25% per annum for eurodollar (LIBOR) loans and 2.25% per annum for base rate loans and (2) from and after the consummation of the Bally acquisition, will be 5.00% per annum for eurodollar (LIBOR) loans and 4.00% per annum for base rate loans. There will be no change to the borrowing rate applicable to loans borrowed or to letters of credit issued under the revolving credit facility after the consummation of the Bally acquisition.

In addition, on October 1, 2014, SGMS Escrow Corp. entered into an escrow credit agreement (the “Escrow Credit Agreement”) by and among SGMS Escrow Corp., as borrower, the lenders and other agents from time to time party thereto, and Bank of America, N.A., as administrative agent. The Escrow Credit Agreement provides for $2.0 billion of new term loans, the net proceeds of which are expected to provide a portion of the funds to be used to finance the Bally acquisition. Upon and in connection with the consummation of the Bally acquisition, the term loans under the Escrow Credit Agreement will be assumed by SGI and become incremental term loans under the existing credit agreement.

The term loans under the Escrow Credit Agreement (including after they are assumed by SGI and become incremental term loans under the existing credit agreement) are scheduled to mature on October 1, 2021 (subject to accelerated maturity under certain circumstances) and amortize in equal quarterly installments beginning on the last day of the

first of March, June, September or December to occur after completion of the Bally acquisition, in an amount equal to 1.00% per annum of the stated principal amount thereof, with the remaining balance due at final maturity. Interest on the new term loans is payable at a rate equal to the eurodollar (LIBOR) rate or the base rate, plus an applicable margin, in each case, subject to a eurodollar (LIBOR) rate floor of 1.00% or a base rate floor of 2.00%, as applicable. The applicable margin for the incremental term loans (under the Escrow Credit Agreement and, if and when assumed by SGI, the existing credit agreement) is 5.00% per annum for eurodollar (LIBOR) loans and 4.00% per annum for base rate loans.

Borrowings under the Escrow Credit Agreement are solely the obligation of SGMS Escrow Corp., are not guaranteed by the Company or any of its subsidiaries, and are secured by a pledge of amounts deposited into a secured escrow account of SGMS Escrow Corp. In the event that the Bally acquisition is not consummated, SGMS Escrow Corp. will repay amounts borrowed under the Escrow Credit Agreement, plus accrued interest thereon, with amounts deposited into a secured escrow account of SGMS Escrow Corp. and other amounts that may be contributed by the Company and its other subsidiaries to SGMS Escrow Corp. and deposited into that escrow account from time to time.

The term loans under the Escrow Credit Agreement were funded into escrow, less original issue discount, by the lenders on October 17, 2014 and began accruing interest, initially at the LIBOR rate plus the applicable margin referred to above, beginning on October 18, 2014. Interest for the prospective month was funded into escrow by the Company on October 16, 2014.

Upon closing of the Bally acquisition, we expect to incur approximately $170 million of financing fees in connection with the term loans and revolving credit facility under the Escrow Credit Agreement and with respect to the remaining financing commitments under the commitment letter for the Bally acquisition. We also anticipate incurring fees related to our additional financing activities during the balance of the quarter ending December 31, 2014.

For further information regarding the Debt Financing, please see the full text of our existing credit agreement, the commitment letter, the amendment to our credit agreement and the Escrow Credit Agreement, copies of which are filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on October 18, 2013, Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on August 4, 2014, and Exhibit 10.1 and Exhibit 10.2 to our Current Report on Form 8-K filed with SEC on October 7, 2014, respectively. The foregoing summaries of the terms of the existing credit agreement, the commitment letter, the amendment to the existing credit agreement and the Escrow Credit Agreement are qualified in their entirety by reference to the respective exhibit.

Senior Subordinated Notes

2021 Notes

On June 4, 2014, SGI issued $350.0 million in aggregate principal amount of 2021 Notes at a price of 99.321% of the principal amount thereof in a private offering to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and to persons outside the United States under Regulation S under the Securities Act. The 2021 Notes were issued pursuant to an indenture dated as of June 4, 2014 (the "2021 Notes Indenture").

The 2021 Notes bear interest at the rate of 6.625% per annum, which accrues from June 4, 2014 and is payable semiannually in arrears on May 15 and November 15 of each year, commencing on November 15, 2014. The 2021 Notes mature on May 15, 2021, unless earlier redeemed or repurchased, and are subject to the terms and conditions set forth in the 2021 Notes Indenture. In connection with the issuance of the 2021 Notes, the Company capitalized financing costs of $7.3 million.

SGI may redeem some or all of the 2021 Notes at any time prior to May 15, 2017 at a redemption price equal to 100% of the principal amount of the 2021 Notes plus accrued and unpaid interest, if any, to the date of redemption plus a “make whole” premium. SGI may redeem some or all of the 2021 Notes at any time on or after May 15, 2017 at the prices specified in the 2021 Notes Indenture. In addition, at any time on or prior to May 15, 2017, SGI may redeem up to 35% of the initially outstanding aggregate principal amount of the 2021 Notes at a redemption price of 106.625% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption, with the net cash proceeds from one or more equity offerings of the Company.

Upon the occurrence of a change of control (as defined in the 2021 Notes Indenture), SGI must make an offer to purchase the 2021 Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. In addition, following an asset sale (as defined in the 2021 Notes Indenture) and subject to the limitations contained in the 2021 Notes Indenture, SGI must make an offer to purchase certain amounts of the 2021 Notes using the net cash proceeds from such asset sale to the extent such proceeds are not applied as set forth in the 2021 Notes Indenture, at a purchase price equal to 100% of the principal amount of the 2021 Notes to be repurchased, plus accrued interest to the date of repurchase.

The 2021 Notes are unsecured senior subordinated obligations of SGI and are subordinated to all of SGI’s existing and future senior debt, rank equally with all of SGI's existing and future senior subordinated debt and rank senior to all of SGI's future debt that is expressly subordinated to the 2021 Notes. The 2021 Notes are guaranteed on an unsecured

senior subordinated basis by the Company and all of its 100%-owned U.S. subsidiaries (other than SGI). The 2021 Notes are structurally subordinated to all of the liabilities of the Company's non-guarantor subsidiaries.

The 2021 Notes Indenture contains certain covenants that, among other things, limit the Company's ability, and the ability of certain of 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, consummate certain asset sales, effect a consolidation or merger, or sell, transfer, lease or otherwise dispose of all or substantially all assets, or create certain liens and other encumbrances on assets. The 2021 Notes Indenture contains events of default customary for agreements of its type (with customary grace periods and maturity thresholds, as applicable).

In connection with the issuance of the 2021 Notes, SGI, the Company, the subsidiary guarantors party thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative for the initial purchasers listed therein, entered into a registration rights agreement, dated June 4, 2014 (the "Registration Rights Agreement"). Under the Registration Rights Agreement, SGI and the guarantors agreed, for the benefit of the holders of the 2021 Notes, that they will file with the SEC and use their commercially reasonable efforts to cause to become effective, a registration statement relating to an offer to exchange the 2021 Notes for an issue of SEC-registered notes (the "Exchange Notes") with terms identical to the 2021 Notes (except that the Exchange Notes will not be subject to restrictions on transfer or to any increase in annual interest rate as described below).

Under certain circumstances, including if applicable interpretations of the staff of the SEC do not permit SGI to effect the exchange offer, SGI and the guarantors will use their commercially reasonable efforts to cause to become effective a shelf registration statement relating to resales of the Notes and to keep that shelf registration statement effective until the first anniversary of the date such shelf registration statement becomes effective, or such shorter period that will terminate when all 2021 Notes covered by the shelf registration statement have been sold. The obligation to complete the exchange offer and/or file a shelf registration statement will terminate on the second anniversary of the date of the Registration Rights Agreement.

If the exchange offer is not completed (or, if required, the shelf registration statement is not declared effective) on or before June 4, 2015 (subject to the right of the Company to extend such date by up to 90 additional days under customary "blackout" provisions if the Company determines in good faith that it is in possession of material, non-public information), the annual interest rate borne by the 2021 Notes will be increased by 0.25% per annum for the first 90-day period immediately following such date and by an additional 0.25% per annum with respect to each subsequent 90-day period, up to a maximum additional rate of 1.00% per annum thereafter until the exchange offer is completed, the shelf registration statement is declared effective or the obligation to complete the exchange offer and/or file the shelf registration statement terminates, at which time the interest rate will revert to the original interest rate on the date the 2021 Notes were originally issued.

2019 Notes

On June 4, 2014, SGI completed a tender offer pursuant to which it purchased $140.6 million in aggregate principal amount of the 2019 Notes for total consideration of $1,051.25 for each $1,000 principle amount of the 2019 Notes tendered, plus accrued and unpaid interest to the applicable payment date.

On June 4, 2014, SGI delivered a notice of redemption with respect to all $209.4 million of the remaining outstanding principal amount of the 2019 Notes, and satisfied and discharged the indenture governing the 2019 Notes by depositing funds with the trustee sufficient to pay the redemption price of 104.625% of the principal amount of the 2019 Notes, plus accrued and unpaid interest to the redemption date. In accordance with the notice of redemption, the 2019 Notes were redeemed on July 4, 2014 and the redemption payment was made on July 7, 2014.

The purchase and redemption of the 2019 Notes were funded, in part, with the net proceeds from the issuance of the 2021 Notes. In connection with the purchase and redemption of the 2019 Notes, we recorded a loss on early extinguishment of debt of $25.9 million comprised primarily of the tender and redemption premiums and the write-off of previously deferred financing costs.

For additional information regarding our 2021 Notes and the repurchase and redemption of our 2019 Notes, see our Current Report on Form 8-K filed with the SEC on June 6, 2014. For additional information regarding our 2018 Notes, 2019 Notes and 2020 Notes, see Note 15 (Long-Term and Other Debt) in our 2013 Annual Report on Form 10-K.

We were in compliance with the covenants under our debt agreements as of September 30, 2014.

Other Debt

In September 2014, we repaid in full a $5.0 million China Loan with cash on hand.

Capital Leases

On March 31, 2014, we entered into a new leasing arrangement with ITL for the lease of gaming machines in connection with a long-term services contract with a customer. We completed the placement of the new gaming machines under this contract during the three months ended June 30, 2014 and recorded a capital lease asset and minimum lease liability

of $42.8 million. The terms of this leasing arrangement provide for repayment over five years with an interest rate of 3.9%. No additional capital leases were entered into during the three months ended September 30, 2014.

(13) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset and liability in an orderly transaction between market participants at the measurement date. We estimate fair value of our assets and liabilities utilizing an established three-level hierarchy as described in Note 16 (Fair Value Measurements) in our 2013 Annual Report on Form 10-K.

The fair value of our financial assets and liabilities is determined by reference to market data and other valuation techniques as appropriate. We believe the fair value of our financial instruments, which are principally cash and cash equivalents, accounts and notes receivable, other current assets, accounts payable and accrued liabilities, approximates their recorded values.

Interest rate swaption contract

In January 2014, we entered into a swaption contract with an aggregate notional value of $150.0 million. The swaption gives us the right, but not the obligation, to enter into a swap under which we would pay a fixed rate of 2.151% and receive interest on the notional amount based on a floating three-month LIBOR rate. We paid a premium of $0.9 million at the time we entered into the swaption and have no additional payment obligations. The cash settlement value depends on the extent to which the prevailing three-month LIBOR swap rate exceed the fixed rate under the swaption. To the extent the prevailing swap rate on the expiration date (April 15, 2015) exceeds the swaption fixed rate a payment would be due to us, which would effectively reduce our future interest costs. To the extent the prevailing swap rate is at or below the swaption fixed rate, we would not exercise the swaption and it would expire with no further cash payment from us or the counterparty.

The swaption is highly effective in offsetting our exposure to the variability of the three-month LIBOR rate associated with our variable rate debt. The effectiveness of the swaption is measured quarterly on a retrospective basis by comparing the cumulative change in the hedging instrument's fair value to the change in the underlying hedged transaction's fair value. In accordance with ASC 815, Derivatives and Hedging, we have designated the intrinsic value associated with the swaption as a qualifying hedge. We have elected to exclude the time value, inclusive of premium paid, from our qualifying hedging relationship. As a result, the time value of the swaption will be amortized over the period of the contract and recognized as interest expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income. We will recognize all gains and losses associated with the intrinsic value of the swaption in other comprehensive (loss) income in our Consolidated Statements of Operations and Comprehensive (Loss) Income until its expiration date. Realized gains, if any, owed by the counterparty at expiration will be recognized as a reduction to interest expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income by applying the effective interest method for the applicable periods.

As valuations for comparable swaptions are not publicly available, we categorized the swaption as Level 3 in the fair value hierarchy. We believe the estimated fair value for the swaption we hold is based on the most accurate information available for these types of derivative contracts. For the three and nine months ended September 30, 2014, there was no change in fair value associated with the intrinsic value of the swaption. The fair value of the swaption as of September 30, 2014 was $0.4 million, which is recorded in other current assets in our Consolidated Balance Sheets.

Interest rate swap contracts

In August 2013, we entered into forward starting interest rate swap contracts with an aggregate notional value of $500.0 million. In October 2013, we entered into additional forward starting interest rate swap contracts with an aggregate notional value of $200.0 million. These hedges become effective in April 2015 and mature in January 2018. We entered into the forward starting interest rate swap contracts, which are designated as cash flow hedges of the future interest payment transactions in accordance with ASC 815, Derivatives and Hedging, in order to eliminate the variability of cash flows attributable to the LIBOR component of interest expense to be paid on our variable-rate debt. Under these hedges, we will pay interest on the notional amount of debt at a weighted average fixed rate of 2.151% and receive interest on the notional amount at the greater of 1% or the then prevailing three-month LIBOR rate beginning in April 2015.

These hedges are highly effective in offsetting our exposure to the variability of the three-month LIBOR rate associated with our variable-rate debt. The effectiveness of these hedges is measured quarterly on a retrospective basis by comparing the cumulative change in the hedging instrument's fair value to the change in the hedged transaction's fair value. To the extent these hedges have no ineffectiveness, all gains and losses from these hedges are recorded in other comprehensive (loss) income in our Consolidated Statements of Operations and Comprehensive (Loss) Income until the future underlying

interest payment transactions occur. Any realized gains or losses resulting from the hedges will be recognized (together with the hedged transaction) as interest expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income beginning in June 2015. For the three and nine months ended September 30, 2014, we recorded a gain, net of tax, of $2.2 million and a loss, net of tax, of $4.2 million, respectively, in other comprehensive (loss) income in our Consolidated Statements of Operations and Comprehensive (Loss) Income, representing the change in fair value associated with these hedges. The fair value of these hedges as of September 30, 2014 was $5.7 million, which is recorded in other long-term liabilities in our Consolidated Balance Sheets.

Foreign currency forward contracts

During 2012, we entered into foreign currency forward contracts for the sale of Euros for U.S. dollars at a weighted average rate of 1.319 to hedge a portion of the net investment in one of our subsidiaries that is denominated in Euros. Some of these foreign currency forward contracts settled in 2012. In May 2013, we settled the remaining €20.0 million in aggregate notional amount of the foreign currency forward contracts, which had a weighted average rate of 1.269%. We designated the forward contracts as qualified hedges in accordance with ASC 815, Derivatives and Hedging. Gains and losses from the foreign currency forward contracts were recorded in accumulated other comprehensive (loss) income in our Consolidated Balance Sheets until the investment was liquidated.

Other

In accordance with ASC 323, Investments - Equity Method and Joint Ventures, we record our share of a derivative instrument held by LNS. Changes in the fair value of the derivative instrument are recorded by LNS in other comprehensive income on LNS' statement of comprehensive income. During the three and nine months ended September 30, 2014 and 2013, our 20% share of the change associated with this derivative instrument was not material to our other comprehensive (loss) income in our Consolidated Statements of Operations and Comprehensive (Loss) Income and in equity investments in our Consolidated Balance Sheets.

(14) Stockholders' Equity

The following table presents the change in the number of shares of our Class A common stock outstanding during the nine months ended September 30, 2014 and during the fiscal year ended December 31, 2013:

	Nine Months Ended September 30, 2014	Twelve Months Ended December 31, 2013
Shares outstanding as of beginning of period	85.2	84.4
Shares issued as part of equity-based compensation plans and the ESPP, net of RSUs surrendered	1.6	1.1
Common stock repurchases	(2.0)	(0.3)
Shares outstanding as of end of period	84.8	85.2

On December 5, 2013, our board of directors approved an extension of our existing stock repurchase program to December 31, 2014. The program, originally announced in May 2010, was due to expire on December 31, 2013. Under the program, we are authorized to repurchase, from time to time through open market purchases or otherwise, shares of our outstanding common stock in an aggregate amount up to $200.0 million. As of December 31, 2013, we had $104.5 million available for potential repurchases under the program. During the first quarter of 2014, we repurchased approximately 2.0 million shares at an aggregate cost of $29.5 million, which was funded by cash flows from operations. There were no share repurchases during the second and third quarters of 2014. As of September 30, 2014, we had $75.0 million available for potential repurchases under the program.

During 2013, we repurchased 50,000 shares at an aggregate cost of $0.8 million, as well as 226,000 shares at a cost of approximately $2 million related to a cashless exercise of stock options.

(15) Stock-Based Compensation

We offer stock-based compensation in the form of stock options and RSUs. We also offer an 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 generally determined at the discretion of the

compensation committee of our board of directors, subject to the terms of the applicable equity-based compensation plan. Options granted over the last several years have generally become exercisable in four or five equal annual installments beginning on the first

anniversary of the date of grant or when certain performance targets are determined to have been met and have a maximum term of ten years. RSUs typically vest in four or five equal annual installments beginning on the first anniversary of the date of grant or when certain performance targets are determined to have been met. We record compensation cost for all stock options and RSUs based on the grant date fair value.

In connection with the WMS acquisition, we assumed the WMS Incentive Compensation Plan (2012 Restatement) (the "Legacy WMS Plan") and the outstanding awards under such plan, which were converted into Company equity awards using a customary exchange ratio. At the time of the assumption, there were 5.6 million shares available for future issuance under the WMS Plan excluding shares underlying outstanding awards. At the Company's annual meeting of stockholders on June 11, 2014, the Company’s stockholders approved an amendment and restatement of the Company’s 2003 Incentive Compensation Plan (the “2003 Plan”). Under the amended and restated 2003 Plan, the Legacy WMS Plan was merged into the 2003 Plan. As a result, the shares reserved and available under the two plans were combined into a single share pool, with such shares available for equity awards to any employee, non-employee director or other eligible service provider of the Company or its subsidiaries, including WMS. For additional information, see the Company's Current Report on Form 8-K filed with the SEC on June 17, 2014.

As a result of merging the plans, common stock authorized for awards increased from 13.5 million shares to 16.0 million shares under our amended and restated 2003 Plan plus available shares from a pre-existing equity-based compensation plan, which plans were approved by our stockholders. As of September 30, 2014, we had approximately 4.9 million shares available for grants of equity awards to our employees under our amended and restated 2003 Plan plus available shares from the pre-existing equity-based compensation plan.

Under the share counting rules of our 2003 Plan, awards may be outstanding relating to a greater number of shares than the aggregate remaining shares available under our 2003 Plan so long as awards will not result in delivery and vesting of shares in excess of the number then available under the plan. Shares available for future issuance do not include shares expected to be withheld in connection with outstanding awards to satisfy tax withholding obligations, which would be available for future awards under our 2003 Plan under the applicable share counting rules.

Our ESPP allows for a total of up to 1.0 million shares of Class A common stock to be purchased by eligible employees under offerings made each January 1 and July 1. Employees participate through payroll deductions up to a maximum of 15% of eligible compensation. The term of each offering period is six months and shares are purchased on the last day of the offering period at a 15% discount to the stock's market value. As of September 30, 2014, we had approximately 0.2 million shares available for issuance under the ESPP.

In May 2014, our largest shareholder became a beneficial owner of more than 40% of our common stock by acquiring additional shares in the open market. As a result, under the terms of the 2003 Plan, the vesting of certain stock options and RSUs granted under the 2003 Plan prior to June 7, 2011 accelerated. The accelerated vesting resulted in $1.9 million of incremental stock-based compensation expense for the three months ended June 30, 2014. No additional expense was recorded during the three months ended September 30, 2014 as a result of the acceleration.

Stock Options

A summary of the changes in stock options outstanding during the nine months ended September 30, 2014 is presented below:

	Number of Options	Weighted Average Remaining Contract Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding as of December 31, 2013	2.6	4.2	$10.46	$17.8
Granted	0.4		16.03	—
Exercised	—		—	0.2
Canceled	(1.1)		9.04	—
Options outstanding as of March 31, 2014	1.9	7.7	$12.62	$5.0
Granted	0.2		8.94	—
Exercised	—		—	0.1
Canceled	(0.1)		13.88	—
Options outstanding as of June 30, 2014	2.0	7.4	$12.34	$2.3
Granted	—		—	—
Exercised	(0.1)		9.11	0.1
Canceled	(0.2)		17.36	—
Options outstanding as of September 30, 2014	1.7	7.1	$11.71	$1.8
Options exercisable as of September 30, 2014	0.9	6.1	$11.01	$1.1

The weighted average grant date fair value of options awarded during the three months ended June 30, 2014 and March 31, 2014 was $4.81 and $8.86, respectively. No options were granted during the three months ended September 30, 2014, September 30, 2013, June 30, 2013 and March 31, 2013. For the three and nine months ended September 30, 2014, we recognized stock-based compensation expense of $0.3 million and $1.8 million, respectively, related to the service period of stock options and a related tax benefit of $0.1 million and $0.7 million, respectively, prior to consideration of any valuation allowance recorded against the tax benefit. For the three and nine months ended September 30, 2013, we recognized stock-based compensation expense of approximately $0.9 million and $2.7 million, respectively, related to the service period of stock options and the related tax benefit of approximately $0.4 million and $1.1 million, respectively, prior to consideration of any valuation allowance recorded against the tax benefit.

As of September 30, 2014, we had unrecognized compensation expense of $4.2 million relating to stock option awards that is scheduled to be amortized over a weighted average period of approximately two years.

Restricted Stock Units

A summary of the changes in RSUs outstanding during the nine months ended September 30, 2014 is presented below:

	Number of RSUs	Weighted Average Grant Date Fair Value Per RSU
Unvested units as of December 31, 2013	5.2	$11.93
Granted	1.4	16.02
Vested	(1.7)	10.09
Canceled	(0.1)	13.84
Unvested units as of March 31, 2014	4.8	$13.76
Granted	0.3	10.33
Vested	(0.4)	11.53
Canceled		