SCIENTIFIC GAMES CORP
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

{Mark One}

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

For the quarterly period ended September 30, 2010

OR

o 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 x No o

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 x No o

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

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

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

The registrant has the following number of shares outstanding of each of the registrant s classes of common stock as of November 5, 2010:

Class A Common Stock**: 91,607,449**

Class B Common Stock: **None**

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

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AND OTHER INFORMATION

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Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q we make forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements describe future expectations, plans, results or strategies and can often be identified by the use of terminology such as may, will, estimate, intend, continue, believe, expect, anticipate, could, potential, opportu terminology. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located in the material set forth under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors but may be found in other locations as well. These statements are based upon the Company s current expectations, assumptions and estimates and are not guarantees of future results or performance. Actual results may differ materially from those projected in these statements due to a variety of risks and uncertainties and other factors, including, among other things: competition; material adverse changes in economic and industry conditions; technological change; retention and renewal of existing contracts and entry into new or revised contracts; inability to fully realize, and risks associated with, our deferred tax assets; availability and adequacy of cash flows to satisfy obligations and indebtedness or future needs; protection of intellectual property; security and integrity of software and systems; laws and government regulation, including those relating to gaming licenses, permits and operations; inability to identify, complete and integrate future acquisitions; inability to benefit from, and risks associated with, our joint ventures and strategic investments and relationships; failure of our joint venture to enter into the Illinois Lottery private management agreement (including as a result of a protest) or failure to meet the related net income targets or otherwise realize the anticipated benefits under such agreement; seasonality; inability to identify and capitalize on trends and changes in the lottery and gaming industries; inability to enhance and develop successful gaming concepts; dependence on suppliers and manufacturers; liability for product defects; fluctuations in foreign currency exchange rates and other factors associated with foreign operations; influence of certain stockholders; dependence on key personnel; failure to perform on contracts; resolution of pending or future litigation; labor matters; and stock price volatility. Additional information regarding risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated in forward-looking statements is set forth from time to time in our filings with the Securities and Exchange Commission (SEC), including under the heading Risk Factors in our most recent Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q. Forward-looking statements speak only as of the date they are made, and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of September 30, 2010 and December 31, 2009

(Unaudited, in thousands, except per share amounts)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 249,570	$ 260,131
Accounts receivable, net of allowance for doubtful accounts of $2,406 and $2,140 as of September 30, 2010 and December 31, 2009, respectively	167,265	177,967
Inventories	74,857	73,940
Deferred income taxes, current portion	15,838	22,557
Prepaid expenses, deposits and other current assets	45,549	47,031
Assets held for sale	88,638	91,102
Total current assets	641,717	672,728
Property and equipment, at cost	796,339	751,713
Less: accumulated depreciation	(329,634)	(283,274)
Property and equipment, net	466,705	468,439
Goodwill, net	766,356	772,732
Intangible assets, net	72,343	79,822
Other assets and investments	440,271	298,071
Total assets	$ 2,387,392	$ 2,291,792
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Debt payments due within one year	$ 8,401	$ 24,808
Accounts payable	45,206	57,309
Accrued liabilities	130,157	122,989
Liabilities held for sale	18,945	20,097
Total current liabilities	202,709	225,203
Deferred income taxes	36,603	37,418
Other long-term liabilities	60,840	67,158
Long-term debt, excluding current installments	1,468,875	1,342,255
Total liabilities	1,769,027	1,672,034
Commitments and contingencies		
Stockholders equity:		
Class A common stock, par value $0.01 per share, 199,300 shares authorized, and 91,572 and 93,883 shares outstanding as of September 30, 2010 and December 31, 2009, respectively	976	939

Additional paid-in capital		673,346		651,348
Accumulated earnings		27,428		18,180
Treasury stock, at cost, 5,748 and 3,130 shares held as of September 30, 2010 and December 31, 2009, respectively		(74,460)		(48,125)
Accumulated other comprehensive loss		(8,925)		(2,584)
Total stockholders equity		618,365		619,758
Total liabilities and stockholders equity	$	2,387,392	$	2,291,792

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2010 and 2009

(Unaudited, in thousands, except per share amounts)

	Three Months Ended September 30, 2010		2009	
Revenues:				
Instant tickets	$	115,968	$	117,744
Services		92,813		104,279
Sales		12,280		17,123
Total revenues		221,061		239,146
Operating expenses:				
Cost of instant tickets (1)		67,138		69,897
Cost of services (1)		57,723		57,876
Cost of sales (1)		7,977		10,513
Selling, general and administrative expenses		36,435		38,861
Write-down of assets held for sale		2,155		
Employee termination costs		602		
Depreciation and amortization		27,284		32,049
Operating income		21,747		29,950
Other expense (income):				
Interest expense		24,617		22,736
Equity in earnings of joint ventures		(13,031)		(14,180)
Loss (gain) on early extinguishment of debt		2,236		(550)
Other income, net		(3,011)		(27)
		10,811		7,979
Income before income taxes		10,936		21,971
Income tax expense		2,232		6,865
Net income	$	8,704	$	15,106
Basic and diluted net income per share:				
Basic net income per share	$	0.09	$	0.16
Diluted net income per share	$	0.09	$	0.16
Weighted-average number of shares used in per share calculations:				
Basic shares		91,844		92,727
Diluted shares		92,240		94,028

(1) Exclusive of depreciation and amortization.

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Nine Months Ended September 30, 2010 and 2009

(Unaudited, in thousands, except per share amounts)

	Nine Months Ended September 30, 2010	2009
Revenues:		
Instant tickets	$ 343,506	$ 340,616
Services	287,527	309,999
Sales	39,400	44,249
Total revenues	670,433	694,864
Operating expenses:		
Cost of instant tickets (1)	199,282	202,608
Cost of services (1)	167,336	175,070
Cost of sales (1)	27,843	30,898
Selling, general and administrative expenses	115,543	119,479
Write-down of assets held for sale	8,029	
Employee termination costs	602	3,920
Depreciation and amortization	82,017	93,453
Operating income	69,781	69,436
Other expense (income):		
Interest expense	74,176	62,940
Equity in earnings of joint ventures	(42,474)	(44,758)
Loss (gain) on early extinguishment of debt	2,236	(4,594)
Other expense (income), net	9,555	(1,013)
	43,493	12,575
Income before income taxes	26,288	56,861
Income tax expense	17,040	46,599
Net income	$ 9,248	$ 10,262
Basic and diluted net income per share:		
Basic net income per share	$ 0.10	$ 0.11
Diluted net income per share	$ 0.10	$ 0.11
Weighted-average number of shares used in per share calculations:		
Basic shares	93,122	92,577
Diluted shares	93,648	93,859

(1) Exclusive of depreciation and amortization.

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2010 and 2009

(Unaudited, in thousands, except per share amounts)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income	$ 9,248	$ 10,262
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	82,017	93,453
Change in deferred income taxes	11,541	34,350
Stock-based compensation	17,383	25,903
Non-cash interest expense	5,276	11,234
Undistributed equity in earnings of joint ventures	(8,062)	(13,778)
Write-down of assets held for sale	8,029	
Loss (gain) on early extinguishment of debt	2,236	(4,594)
Changes in current assets and liabilities, net of effects of acquisitions		
Accounts receivable	7,012	4,144
Inventories	(2,375)	2,070
Accounts payable	(8,970)	(8,701)
Accrued liabilities	(3,463)	(23,743)
Other current assets and liabilities	22,886	45,432
Other	483	(38)
Net cash provided by operating activities	143,241	175,994
Cash flows from investing activities:		
Capital expenditures	(6,873)	(9,135)
Wagering systems expenditures	(45,257)	(44,870)
Other intangible assets and software expenditures	(26,335)	(26,040)
Change in other assets and liabilities, net	(571)	3,611
Investment in joint venture	(127,314)	
Business acquisitions, net of cash acquired	(12,493)	(89,453)
Net cash used in investing activities	(218,843)	(165,887)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	355,541	259,658
Payment on long-term debt	(242,758)	(183,632)
Payment of financing fees	(12,969)	(11,535)
Purchases of treasury stock	(26,334)	(5,539)
Net proceeds from issuance of common stock	(2,067)	2,191
Net cash provided by financing activities	71,413	61,143
Effect of exchange rate changes on cash and cash equivalents	(8,965)	1,189
(Decrease) increase in cash and cash equivalents	(13,154)	72,439
Cash and cash equivalents, beginning of period	260,131	140,639
Change in cash and cash equivalents of held for sale operations at September 30, 2010	2,593	
Cash and cash equivalents, end of period	$ 249,570	$ 213,078

See accompanying notes to consolidated financial statements

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except per share amounts)

Notes to Consolidated Financial Statements

(1) Consolidated Financial Statements

Basis of Presentation

The Consolidated Balance Sheet as of September 30, 2010, the Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009, have been prepared by Scientific Games Corporation and are unaudited. When used in these notes, the terms we, us, our and the Company refer to Scientific Games Corporation and all entities included in our consolidated financial statements unless otherwise specified or the context otherwise indicates. In our opinion, all adjustments necessary to present fairly our consolidated financial position as of September 30, 2010, the results of our operations for the three and nine months ended September 30, 2010 and 2009 and our cash flows for the nine months ended September 30, 2010 and 2009 have been made. Such adjustments are of a normal, recurring nature.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2009 Annual Report on Form 10-K. The results of operations for the period ended September 30, 2010 are not necessarily indicative of the operating results for a full year.

In order to provide users of our financial statements better visibility into our revenue streams, beginning with our results for the year ended December 31, 2009, we segregated revenues related to our instant ticket fulfillment/services businesses from other service revenues.

Basic and Diluted Net Income Per Share

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net income per share available to common stockholders for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended	Nine Months Ended

	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Income (numerator)				
Net income	$ 8,704	$ 15,106	$ 9,248	$ 10,262
Shares (denominator)				
Weighted-average basic common shares outstanding	91,844	92,727	93,122	92,577
Effect of dilutive securities-stock rights	396	1,301	526	1,282
Weighted-average diluted common shares outstanding	92,240	94,028	93,648	93,859
Basic and diluted per share amounts				
Basic net income per share	$ 0.09	$ 0.16	$ 0.10	$ 0.11
Diluted net income per share	$ 0.09	$ 0.16	$ 0.10	$ 0.11

The weighted-average diluted common shares outstanding for the three and nine months ended September 30, 2010 excludes the effect of approximately 6,917 and 6,496 weighted-average stock rights outstanding, respectively, because their effect would be anti-dilutive. The weighted-average diluted common shares outstanding for the three and nine months ended September 30, 2009 excludes the effect of approximately 5,774 and 6,470 weighted-average stock rights outstanding, respectively, because their effect would be anti-dilutive.

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(2) Operating Segment Information

We operate in three segments: Printed Products Group; Lottery Systems Group; and Diversified Gaming Group.

The following tables represent revenues, cost of revenues, depreciation, amortization, selling, general and administrative expenses, write-down of assets held for sale, segment employee termination costs and operating income for the three and nine month periods ended September 30, 2010 and 2009, by reportable segments. Corporate expenses, including interest expense, other (income) expense, (gain) loss on early extinguishment of debt, corporate depreciation and amortization and corporate employee termination costs, are not allocated to the reportable segments.

	Three Months Ended September 30, 2010			
	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Revenues:				
Instant tickets	$ 115,968	$	$	$ 115,968
Services		46,630	46,183	92,813
Sales	1,024	6,141	5,115	12,280
Total revenues	$ 116,992	$ 52,771	$ 51,298	$ 221,061
Cost of instant tickets (1)	$ 67,138	$	$	$ 67,138
Cost of sevices (1)		26,450	31,273	57,723
Cost of sales (1)	954	4,063	2,960	7,977
Selling, general and administrative expenses	12,479	7,889	6,117	26,485
Write-down of assets held for sale			2,155	2,155
Employee termination costs			602	602
Depreciation and amortization	8,184	10,969	8,005	27,158
Segment operating income	$ 28,237	$ 3,400	$ 186	$ 31,823
Unallocated corporate expenses				10,076
Consolidated operating income				$ 21,747

(1) Exclusive of depreciation and amortization.

	Three Months Ended September 30, 2009			
	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Revenues:				
Instant tickets	$ 117,744	$	$	$ 117,744
Services		52,343	51,936	104,279
Sales	3,035	13,144	944	17,123
Total revenues	$ 120,779	$ 65,487	$ 52,880	$ 239,146
Cost of instant tickets (1)	$ 69,897	$	$	$ 69,897

Cost of services (1)				26,741		31,135		57,876
Cost of sales (1)		2,199		7,733		581		10,513
Selling, general and administrative expenses		11,768		8,169		5,614		25,551
Depreciation and amortization		8,216		11,452		12,209		31,877
Segment operating income	$	28,699	$	11,392	$	3,341	$	43,432
Unallocated corporate expenses								13,482
Consolidated operating income							$	29,950

(1) Exclusive of depreciation and amortization.

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	Nine Months Ended September 30, 2010							
		Printed Products Group		Lottery Systems Group		Diversified Gaming Group		Totals
Revenues:								
Instant tickets	$	343,506	$		$		$	343,506
Services				148,334		139,193		287,527
Sales		6,625		24,518		8,257		39,400
Total revenues	$	350,131	$	172,852	$	147,450	$	670,433
Cost of instant tickets (1)	$	199,282	$		$		$	199,282
Cost of sevices (1)				78,760		88,576		167,336
Cost of sales (1)		4,931		17,708		5,204		27,843
Selling, general and administrative expenses		38,714		23,973		17,671		80,358
Write-down of assets held for sale						8,029		8,029
Employee termination costs						602		602
Depreciation and amortization		25,150		32,622		23,872		81,644
Segment operating income	$	82,054	$	19,789	$	3,496	$	105,339
Unallocated corporate expenses								35,558
Consolidated operating income							$	69,781

(1) Exclusive of depreciation and amortization.

	Nine Months Ended September 30, 2009							
		Printed Products Group		Lottery Systems Group		Diversified Gaming Group		Totals
Revenues:								
Instant tickets	$	340,616	$		$		$	340,616
Services				159,414		150,585		309,999
Sales		9,776		31,088		3,385		44,249
Total revenues	$	350,392	$	190,502	$	153,970	$	694,864
Cost of instant tickets (1)	$	202,608	$		$		$	202,608
Cost of services (1)				83,511		91,559		175,070
Cost of sales (1)		6,728		22,027		2,143		30,898
Selling, general and administrative expenses		34,141		23,042		17,283		74,466
Employee termination costs		2,016		125		433		2,574
Depreciation and amortization		24,095		32,882		35,959		92,936
Segment operating income	$	80,804	$	28,915	$	6,593	$	116,312
Unallocated corporate expenses								45,530
Corporate employee termination costs								1,346
Consolidated operating income							$	69,436

(1) Exclusive of depreciation and amortization.

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The following table provides a reconciliation of segment operating income to consolidated income before income taxes for each period:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Reported segment operating income	$ 31,823	$ 43,432	$ 105,339	$ 116,312
Unallocated corporate expenses	(10,076)	(13,482)	(35,558)	(45,530)
Corporate employee termination costs				(1,346)
Consolidated operating income	21,747	29,950	69,781	69,436
Interest expense	(24,617)	(22,736)	(74,176)	(62,940)
Equity in earnings of joint ventures	13,031	14,180	42,474	44,758
(Loss) gain on early extinguishment of debt	(2,236)	550	(2,236)	4,594
Other income (expense), net	3,011	27	(9,555)	1,013
Income before income taxes	$ 10,936	$ 21,971	$ 26,288	$ 56,861

In evaluating financial performance, we focus on operating income as a segment s measure of profit or loss. Operating income is income before interest income, interest expense, equity in earnings of joint ventures, corporate expenses and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 1 of our Notes to Consolidated Financial Statements in our 2009 Annual Report on Form 10-K).

(3) Equity Investments in Joint Ventures

Consorzio Lotterie Nazionali / Lotterie Nazionali S.r.l.

During the last six years, Consorzio Lotterie Nazionali (CLN), a consortium consisting principally of us, Lottomatica Group S.p.A. and Arianna 2001, a company owned by the Federation of Italian Tobacconists, held the concession from the Italian Monopoli di Stato to be the exclusive operator of the Italian Gratta e Vinci instant ticket lottery. Under our contract with CLN, we supplied instant lottery tickets, game development services, marketing support, the instant ticket management system and systems support. We also participated in the profits or losses of CLN as a 20% equity owner, and assisted Lottomatica Group S.p.A. in the lottery operations. We accounted for this investment using the equity method of accounting. For the three and nine months ended September 30, 2010, we recorded income of $10,832 and $35,168, respectively, representing our share of the pre-tax earnings of CLN. For the three and nine months ended September 30, 2009, we recorded income of $11,235 and $37,812, respectively, representing our share of the pre-tax earnings of CLN. CLN s concession expired on September 30, 2010.

In October 2009, the members of CLN tendered for a new concession to operate the Gratta e Vinci instant ticket lottery upon the termination of CLN s concession. The members of CLN were awarded the sole concession on May 13, 2010 by the Monopoli di Stato. Our bidding group formed and capitalized a new vehicle, Lotterie Nazionali S.r.l. (LNS), to hold the concession. LNS is responsible for upfront fees associated with the new concession totaling 800,000. We are responsible for our pro rata share of this amount, or 160,000, of which 104,000 was paid to LNS during the second quarter of 2010 and 56,000 was paid to LNS in October 2010. The new concession has an initial term of nine years (subject to a performance evaluation during the fifth year) and could be extended by the Monopoli di Stato for an additional nine years. CLN s concession was originally scheduled to expire on May 31, 2010 and the new concession was scheduled to begin on June 1, 2010. However, due to the delay in completing the tender process, the Monopoli di Stato extended the expiration of CLN s concession to September 30, 2010 in order to provide sufficient time to transition to the new concession. The new concession began on October 1, 2010.

We will be the primary supplier of instant tickets to LNS under our agreement with LNS, and will participate in the profits or losses of LNS as a 20% equity owner. We will record 20% of LNS s net income or losses on our Consolidated Statement of Operations as equity in earnings of joint ventures (whereas we recorded 20% of CLN s pre-tax earnings under our accounting for our interest in CLN). The upfront fees associated with the new concession will be amortized by LNS (anticipated to be approximately 89,000 per year of the new concession), which will reduce our equity in earnings of joint ventures. Our share of the amortization is expected to be approximately 18,000 per year of the new concession on a pre-tax basis. Subject to applicable limitations, we are entitled to receive annual cash dividends as well as periodic return of capital payments over the life of the concession.

Northstar Lottery Group, LLC

On July 29, 2010, we entered into an agreement with GTECH Corporation, a subsidiary of Lottomatica Group S.p.A. to form a joint venture called Northstar Lottery Group, LLC (Northstar), to bid in a competitive procurement to be the private manager of the Illinois Lottery for a ten-year term. We are a 20% equity owner in Northstar. On September 15, 2010, Northstar was selected as the private manager. As the private manager, Northstar will be responsible for the day-to-day operations of the Illinois Lottery and its core functions, including, among other services, lottery game development, supply of goods and services, and marketing and advertising, subject to oversight by the lottery. We will be responsible for the design, development, manufacturing, warehousing and distribution of instant lottery tickets and will be compensated based on a percentage of retail sales. We will also be entitled to our pro rata share of Northstar s earnings. Under the contemplated terms of the private management agreement, Northstar will receive annual incentive compensation payments to the extent it is successful in increasing the Illinois Lottery s net income above certain target levels, subject to a cap of 5% of the applicable year s net income. Northstar will be responsible for payments to the State of Illinois to the extent such targets are not achieved, subject to a similar cap. Northstar is expected to be reimbursed for most of its operating expenses under the arrangement. Operations under the new arrangement are scheduled to commence on July 1, 2011 following a transition period. There was no financial impact from this equity interest in the third quarter of 2010. Two protests against the award to Northstar have been filed by other bidders, which protests remain pending as of the date of this Quarterly Report on Form 10-Q.

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(4) Comprehensive Income

The following presents a reconciliation of net income to comprehensive income for the three and nine month periods ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 8,704	$ 15,106	$ 9,248	$ 10,262
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	56,592	5,343	(6,656)	43,651
Gain on derivative financial instruments	27	1,349	315	2,150
Other comprehensive (loss) income	56,619	6,692	(6,341)	45,801
Comprehensive income	$ 65,323	$ 21,798	$ 2,907	$ 56,063

(5) Inventories

Inventories consist of the following:

	September 30, 2010	December 31, 2009
Parts and work-in-process	$ 26,870	$ 26,643
Finished goods	47,987	47,297
	$ 74,857	$ 73,940

Point of sale terminals we manufacture may be sold to customers or included as part of long-term wagering system contracts. Parts and work-in-process includes costs for equipment expected to be sold. Costs incurred for equipment associated with specific wagering system contracts not yet placed in service are classified as construction in progress in property and equipment and are not depreciated until placed into service.

(6) Long-Term Debt

Issuance of 8.125% Senior Subordinated Notes

On September 22, 2010, the Company issued $250,000 in aggregate principal amount of its 8.125% Senior Subordinated Notes due 2018 (the 2018 Notes) at a price of 100% 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 2018 Notes were issued pursuant to an indenture dated as of September 22, 2010 (the 2018 Indenture) among the Company, the subsidiary guarantors party thereto and The Bank of Nova Scotia Trust Company of New York, as trustee.

The 2018 Notes bear interest at the rate of 8.125% per annum, which accrues from September 22, 2010 and is payable semiannually in arrears on March 15 and September 15 of each year, commencing on March 15, 2011. The 2018 Notes mature on September 15, 2018, unless earlier redeemed or repurchased by the Company, and are subject to the terms and conditions set forth in the 2018 Indenture.

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The Company may redeem some or all of the 2018 Notes at any time prior to September 15, 2014 at a price equal to 100% of the principal amount of the 2018 Notes plus accrued and unpaid interest, if any, to the date of redemption plus a make whole premium. The Company may redeem some or all of the 2018 Notes for cash at any time on or after September 15, 2014 at the prices specified in the 2018 Indenture. In addition, at any time on or prior to September 15, 2013, the Company may redeem up to 35% of the initially outstanding aggregate principal amount of the 2018 Notes at a redemption price of 108.125% 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. Additionally, if a holder of 2018 Notes is required to be licensed, qualified or found suitable under any applicable gaming laws or regulations and that holder does not become so licensed or qualified or is not found to be suitable, then the Company will have the right, subject to certain notice provisions set forth in the 2018 Indenture, (1) to require that holder to dispose of all or a portion of those 2018 Notes or (2) to redeem the 2018 Notes of that holder at a redemption price calculated as set forth in the 2018 Indenture. If the Company experiences a change in control, as defined in the 2018 Indenture, or the Company or any of its restricted subsidiaries sells certain of its assets, then the Company must offer to repurchase the 2018 Notes on the terms set forth in the 2018 Indenture.

The 2018 Notes are subordinated to all of the Company s existing and future senior debt, including the Company s guarantee of the indebtedness of its subsidiary, Scientific Games International, Inc. (SGI), under its credit facilities, will rank equally with all of the Company s existing and future senior subordinated debt, including the Company s 6.25% senior subordinated notes due 2012 (the 2012 Notes), the Company s guarantee of SGI s 7.875% senior subordinated notes due 2016 (the 2016 Notes), and the Company s guarantee of SGI s 9.25% senior subordinated notes due 2019 (the 2019 Notes), and will rank senior to all of the Company s future debt that is expressly subordinated to the 2018 Notes. The 2018 Notes will be guaranteed on a senior subordinated unsecured basis by all of the Company s wholly owned domestic subsidiaries. The guarantees of the 2018 Notes will be subordinated to all of the guarantors existing and future senior debt, including, in the case of SGI, indebtedness under its credit facilities and, in the case of each of the other guarantors, their guarantees of SGI s indebtedness under its credit facilities, will rank equally with all of their existing and future senior subordinated debt, including, in the case of SGI, the 2016 Notes and the 2019 Notes and its guarantee of the 2012 Notes, and, in the case of the other guarantors, their guarantees of the 2012 Notes, the 2016 Notes and the 2019 Notes, and will rank senior to all of their future debt that is expressly subordinated to the guarantees of the 2018 Notes. The 2018 Notes will be structurally subordinated to all of the liabilities of the Company s non-guarantor subsidiaries.

The 2018 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, engage in sale-leaseback transactions, consummate certain assets 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 2018 Indenture contains events of default customary for agreements of its type (with customary grace periods, as applicable) and provides that, upon the occurrence of an event of default arising from certain events of bankruptcy or insolvency with respect to the Company, all outstanding 2018 Notes will become due and payable immediately without further action or notice. If any other type of event of default occurs and is continuing, then the trustee or the holders of at least 25% in principal amount of the then outstanding 2018 Notes may declare all the 2018 Notes to be due and payable immediately.

In connection with the issuance of the 2018 Notes, the Company, the guarantors party thereto, and J.P. Morgan Securities LLC, as representative for the initial purchasers listed therein, entered into a registration rights agreement, dated as of September 22, 2010 (the Registration Rights Agreement). Under the Registration Rights Agreement, the Company and the guarantors agreed, for the benefit of the holders of the 2018 Notes, that they will file with the Securities and Exchange Commission (the SEC) within 180 days after the date the 2018 Notes are issued, and use their commercially reasonable efforts to cause to become effective, a registration statement relating to an offer to exchange the 2018 Notes for an issue of SEC-registered notes (the Exchange Notes) with terms identical to the 2018 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 the Company to effect the exchange offer, the Company and the guarantors will use their commercially reasonable efforts to cause to become effective a shelf registration statement relating to resales of the 2018 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 2018 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 September 22, 2012.

If the exchange offer registration statement is not filed within 180 days after the date the 2018 Notes were issued, or the exchange offer is not completed (or, if required, the shelf registration statement is not declared effective) on or before June 20, 2011 (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 2018 Notes

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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 2018 Notes were originally issued.

Tender Offer and Consent Solicitation

On October 6, 2010, the Company completed a tender offer pursuant to which it purchased $107,617 in aggregate principal amount of the 2012 Notes, including $107,562 aggregate principal purchased as of September 30, 2010. In connection with the tender offer, the Company completed a consent solicitation under which tendering holders consented to proposed amendments to the indenture relating to the 2012 Notes to eliminate substantially all restrictive covenants and certain default provisions in the indenture governing the 2012 Notes. As of September 30, 2010, $79,513 in aggregate principal amount of the 2012 Notes were outstanding. As of the date of this Quarterly Report on Form 10-Q, $79,458 in aggregate principal amount of the 2012 Notes were outstanding.

Credit Agreement

On June 17, 2010, the Company entered into a first incremental amendment to the credit agreement, dated as of June 9, 2008 (as amended, the Credit Agreement) among SGI, as borrower, the Company, as guarantor, certain subsidiaries of the Company party thereto, as subsidiary guarantors, the lenders party thereto and JPMorgan Chase Bank, N.A. (JPMorgan), as administrative agent. Pursuant to the amendment, several lenders provided an aggregate principal amount of $78,000 of senior secured term loans to SGI under a new incremental term loan facility pursuant to the Credit Agreement. The incremental term loan facility is, in all material respects, subject to the same terms and conditions as SGI s existing term loan facility under the Credit Agreement (described below).

In February 2010, the Company entered into certain amendments to the Credit Agreement in order to revise certain financial covenants and provide the Company with additional operating and financing flexibility so that the Company could execute pending and future strategic initiatives, including participation in the tender process for the Italian instant ticket concession, the sale of the racing and venue management businesses (the Racing Business) and the Company s strategic transactions with Playtech Limited or its affiliates (Playtech). For additional information regarding the amendments the Company entered into in February 2010, please refer to our Current Report on Form 8-K filed on February 19, 2010.

The Credit Agreement will terminate on June 9, 2013, provided that the revolving credit facility and the term loan credit facility will both mature on February 7, 2011 unless on such date either:

• no amounts remain outstanding under the two-year, senior unsecured promissory notes issued by certain of the Company s foreign subsidiaries to defer a portion of the earn-out payable in connection with our 2006 acquisition of Global Draw Limited (Global Draw) (which notes are guaranteed by the Company and certain of its U.S. subsidiaries, including SGI) (the Global Draw Promissory Notes); or

- the sum of the available revolving credit facility commitments plus the unrestricted cash of SGI and the guarantors under the Credit Agreement is not less than the sum of the principal amount of the Global Draw Promissory Notes then outstanding plus $50,000.

On June 25, 2010, we repaid approximately £27,506 of the approximately £28,100 in aggregate principal amount of the Global Draw Promissory Notes, leaving approximately £628 in aggregate principal amount of the Global Draw Promissory Notes outstanding.

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The revolving credit facility and the term loan credit facility will both mature on September 15, 2012, unless either:

- the 2012 Notes are refinanced, redeemed or defeased on or prior to such date; or

- the sum of the available revolving credit facility commitments plus the unrestricted cash of SGI and the guarantors under the Credit Agreement on such date is not less than the sum of the principal amount of the 2012 Notes then outstanding plus $50,000.

As of the date of this Quarterly Report on Form 10-Q, there is $79,458 in aggregate principal amount of the 2012 Notes outstanding.

We expect that we will be able to satisfy the conditions described above and thereby prevent the acceleration of such indebtedness. However, there can be no assurance that we will be able to satisfy those conditions or to repay any accelerated indebtedness under the Credit Agreement, or to repay any remaining amount due under the Global Draw Promissory Notes in 2011 or the 2012 Notes in 2012.

Amounts under the revolving credit facility may be borrowed, repaid and re-borrowed by SGI from time to time until maturity. Voluntary prepayments and commitment reductions under the Credit Agreement are permitted at any time in whole or in part, without premium or penalty (other than break-funding costs), upon proper notice and subject to a minimum dollar requirement.

Borrowings under the Credit Agreement bear interest at a rate per annum equal to, at SGI s option, either (1) a base rate determined by reference to the higher of (a) the prime rate of JPMorgan and (b) the federal funds effective rate plus 0.50%, or (2) a reserve-adjusted LIBOR rate, in each case plus an applicable margin. The applicable margin varies based on the Consolidated Leverage Ratio (as defined below) of the Company from 1.00% to 2.50% above the base rate for base rate loans, and from 2.00% to 3.50% above LIBOR for LIBOR-based loans. Until the delivery of the financial statements required under the Credit Agreement for the fiscal quarter ending March 31, 2010, the applicable margins for base rate loans and LIBOR-based loans were deemed to be 2.50% and 3.50%, respectively, regardless of the Consolidated Leverage Ratio.

During the term of the Credit Agreement, SGI will pay its lenders a fee, payable quarterly in arrears on the third business day after the last day of each of March, June, September and December and the last day of the revolving commitment period, equal to the product of (1) the available revolving credit facility commitments and (2) either 0.50% per annum if the Consolidated Leverage Ratio as of the most recent determination date is less than 4.25 to 1.00 or 0.75% per annum if the Consolidated Leverage Ratio as of the most recent determination date is greater than or equal to 4.25 to 1.00.

The Company and its direct and indirect 100%-owned domestic subsidiaries (other than SGI) have guaranteed the payment of SGI s obligations under the Credit Agreement. In addition, the obligations under the Credit Agreement are secured by a first priority, perfected lien on (1) substantially all the property and assets (real and personal, tangible and intangible) of the Company and its direct and indirect 100% owned domestic subsidiaries and (2) 100% of the capital stock (or other equity interests) of all of the Company s direct and indirect 100%-owned domestic subsidiaries and 65% of the capital stock (or other equity interests) of the direct foreign subsidiaries of SGI and the guarantors.

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

In addition, the Credit Agreement requires us to maintain the following financial ratios:

- a Consolidated Leverage Ratio as at the last day of each fiscal quarter not to exceed the ratio set forth below with respect to such fiscal quarter or with respect to the period during which such fiscal quarter ends:

- 5.75 to 1.00 (fiscal quarter ended December 31, 2009 through March 31, 2012);

- 5.50 to 1.00 (fiscal quarter ending June 30, 2012); and

- 5.25 to 1.00 (fiscal quarter ending September 30, 2012 and thereafter);

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Consolidated Leverage Ratio means, as of the last day of any period, the ratio of (1) Consolidated Total Debt (defined as the aggregate principal amount of our indebtedness, determined on a consolidated basis and required to be reflected on our balance sheet in accordance with Generally Accepted Accounting Principles (GAAP)) on such day, to (2) Consolidated EBITDA (as defined below) for the period of four consecutive fiscal quarters then ended.

- a Consolidated Senior Debt Ratio as at the last day of each fiscal quarter not to exceed the ratio set forth below with respect to such fiscal quarter or with respect to the period during which such fiscal quarter ends:

- 2.75 to 1.00 (fiscal quarter ended December 31, 2009 through June 30, 2012); and

- 2.50 to 1.00 (fiscal quarter ending September 30, 2012 and thereafter);

Consolidated Senior Debt Ratio means, as of the last day of any period, the ratio of (1) Consolidated Total Debt (other than the 2012 Notes, the 2016 Notes, the 2018 Notes and the 2019 Notes and any additional subordinated debt permitted under the Credit Agreement) to (2) Consolidated EBITDA for the period of four consecutive fiscal quarters then ended.

- a Consolidated Interest Coverage Ratio for any period of four consecutive fiscal quarters of not less than the ratio set forth below with respect to such period or with respect to the period during which such four consecutive fiscal quarters ends:

- 2.50 to 1.00 (four consecutive fiscal quarters ending December 31, 2009 and through June 30, 2010); and

- 2.25 to 1.00 (four consecutive fiscal quarters ending September 30, 2010 and thereafter).

Consolidated Interest Coverage Ratio means, for any period, the ratio of (1) Consolidated EBITDA for such period to (2) total cash interest expense with respect to all outstanding debt of the Company and its subsidiaries for such period.

Consolidated EBITDA means, for any period, Consolidated Net Income (*i.e.*, our consolidated net income (or loss) excluding, among other items, the income (or deficit) of our joint venture entities except to the extent that such income is actually received by us in the form of distributions or payments in respect of loans made by us to such joint venture entities in lieu of equity investments) for such period plus, to the extent reflected as a charge in the statement of such Consolidated Net Income for such period, the sum of:

- income tax expense;

- interest expense, amortization or write-off of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with debt;

- depreciation and amortization expense;

- amortization of intangibles (including goodwill) and organization costs;

- earn-out payments with respect to certain acquisitions that we have made, such as our acquisition of Global Draw, or any Permitted Acquisitions (defined generally as acquisitions of companies that are primarily engaged in the same or related line of business and that become subsidiaries of ours, or acquisitions of all or substantially all of the assets of another company or division or business unit of another company), including any loss or expense with respect to such earn-out payments;

- extraordinary charges or losses determined in accordance with GAAP;

- non-cash stock-based compensation expenses;

- up to $3,000 of expenses, charges or losses resulting from certain Peru investments;

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- the non-cash portion of any non-recurring write-offs or write-downs as required in accordance with GAAP;

- advisory fees and related expenses paid to advisory firms in connection with Permitted Acquisitions;

- Permitted Add-Backs (*i.e.*, (1) up to $15,000 (less the amount of certain permitted pro forma adjustments to Consolidated EBITDA in connection with material acquisitions) of charges incurred during any 12-month period in connection with (a) reductions in workforce, (b) contract losses, discontinued operations, shutdown expenses and cost reduction initiatives, (c) transaction expenses incurred in connection with potential acquisitions and divestitures, whether or not consummated, and (d) restructuring charges and transaction expenses incurred in connection with certain transactions with Playtech and (2) reasonable and customary costs incurred in connection with amendments to the Credit Agreement);

provided that the foregoing amounts do not include (1) write-offs or write-downs of accounts receivable or inventory and (2) except with respect to Permitted Add-Backs, any write-off or write-down to the extent it is in respect of cash payments to be made in a future period;

- to the extent treated as an expense in the period paid or incurred, certain payments, costs and obligations (up to a specified amount) made or incurred by us, whether directly or indirectly, in connection with any award of a concession to operate the instant ticket lottery in Italy, including up-front fees required under the applicable tender process;

- restructuring charges, transaction expenses and shutdown expenses incurred in connection with the disposition of all or part of the Racing Business, together with any charges incurred in connection with discontinued operations and cost-reduction initiatives associated with such disposition, in an aggregate amount (for all periods combined) not to exceed $7,325; and

- up to £5,250 during any four-quarter period of expenses or charges incurred in connection with the payment of license royalties or other fees to Playtech and for software services provided to Global Draw or Games Media Limited (Games Media) by Playtech;

minus, to the extent included in the statement of such Consolidated Net Income for such period, the sum of:

- interest income;

- extraordinary income or gains determined in accordance with GAAP; and

- income or gains with respect to earn-out payments with respect to acquisitions referred to above.

Consolidated EBITDA is subject to certain adjustments in connection with material acquisitions and dispositions as provided in the Credit Agreement.

The Credit Agreement generally requires mandatory prepayments of the term loan credit facility with the net cash proceeds from (1) the incurrence of indebtedness by us (excluding certain permitted debt) and (2) the sale of assets that yields to us net cash proceeds in excess of $5,000 (excluding certain permitted asset sales) or any settlement of or payment in respect of any property or casualty insurance claim or any condemnation proceeding relating to any of our assets.

Under the terms of the Credit Agreement, SGI has the ability, subject to certain terms and conditions, to request additional tranches of term loans or to request an increase in the commitments under the revolving credit facility, or a combination thereof, in a maximum aggregate amount of $122,000 at a later date.

We were in compliance with our covenants under the Credit Agreement as of September 30, 2010.

As of September 30, 2010, the balance of outstanding loans under the term loan facilities under the Credit Agreement was $573,860.

As of September 30, 2010, we had approximately $150,832 available for additional borrowing or letter of credit issuances under our revolving credit facility. There were no borrowings and $56,548 in outstanding letters of credit under our revolving credit facility as of September 30, 2010. Our ability to borrow under the Credit Agreement will depend on us remaining in compliance with the covenants contained in the Credit Agreement, including the maintenance of the foregoing financial ratios.

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Convertible Debentures

On June 1, 2010, the remaining $9,943 in aggregate principal amount of our 0.75% convertible senior subordinated debentures due 2024 (the Convertible Debentures) was repurchased or redeemed at par. In accordance with the terms of the indenture governing the Convertible Debentures, holders thereof required the Company to repurchase for cash $9,935 in aggregate principal amount of the Convertible Debentures at a purchase price equal to 100% of the aggregate principal amount thereof, together with accrued but unpaid interest thereon. The Company redeemed $8 in aggregate principal amount of the Convertible Debentures at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued but unpaid interest thereon. In connection with the repurchase and redemption, we unwound the corresponding remaining portion of the bond hedge and warrant option.

(7) Derivative Financial Instruments

Effective October 17, 2008, SGI entered into a three-year interest rate swap agreement (the Hedge) with JPMorgan. Under the Hedge, which is designated as a cash flow hedge, SGI pays interest on a $100,000 notional amount of debt at a fixed rate of 3.49% and receives interest on a $100,000 notional amount of debt at the prevailing three-month LIBOR rate. The objective of the Hedge is to eliminate the variability of cash flows attributable to the LIBOR component of interest expense paid on $100,000 of our variable-rate debt. As of September 30, 2010, the Hedge was measured at a fair value of $3,252 using Level 2 valuation techniques of the fair value hierarchy and included in other long-term liabilities on the Consolidated Balance Sheet.

Hedge effectiveness is measured quarterly on a retrospective basis using the cumulative dollar-offset approach in which the cumulative changes in the cash flows of the actual swap are compared to the cumulative changes in the cash flows of the hypothetical swap. The effective portion of the Hedge is recorded in other comprehensive income (loss) and the ineffective portion of the Hedge, if any, is recorded in the Consolidated Statement of Operations. During the three and nine months ended September 30, 2010, we recorded a gain of approximately $27 and $315, respectively, in other comprehensive income (loss). During the three and nine months ended September 30, 2009, we recorded a gain of approximately $1,349 and $2,150, respectively in other comprehensive income (loss). There was no ineffective portion of the Hedge recorded in the Consolidated Statement of Operations. Amounts recorded in other comprehensive income (loss) that were deferred on the effective hedged forecasted transactions are reclassified to earnings when the interest expense related to the hedged item affects earnings.

During 2010, we entered into several short-term forward contracts (the Forwards) with various counterparties, some of which remain outstanding as of September 30, 2010. Under the Forwards, we locked in the price to purchase or sell a predetermined amount of Euros at a later date. The objective of the Forwards, which are not designated as hedges, was to mitigate the risk associated with cash payments required to be made by the Company in non-functional currencies.

As of September 30, 2010, the unsettled Forwards were measured in other assets and investments having a fair value of approximately $3,146 using Level 2 valuation techniques of the fair value hierarchy and matured on October 1, 2010 and the remaining Forwards are scheduled to mature on November 18, 2010.

During the three and nine months ended September 30, 2010, we recorded a gain of approximately $3,164 and a net loss of approximately $12,559, respectively, on forward contracts in our Consolidated Statements of Operations. The (gain) loss on forward contracts is included in other expense (income), net.

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(8) Goodwill and Intangible Assets

The following disclosure presents certain information regarding our intangible assets as of September 30, 2010 and December 31, 2009. Amortizable intangible assets are amortized over their estimated useful lives with no estimated residual values.

Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance as of September 30, 2010			
Amortizable intangible assets:			
Patents	$ 11,515	$ (4,106)	$ 7,409
Customer lists	30,224	(18,601)	11,623
Licenses	66,224	(49,120)	17,104
Intellectual property	17,943	(17,694)	249
Lottery contracts	4,745	(4,313)	432
	130,651	(93,834)	36,817
Non-amortizable intangible assets:			
Trade name	37,644	(2,118)	35,526
Total intangible assets	$ 168,295	$ (95,952)	$ 72,343
Balance as of December 31, 2009			
Amortizable intangible assets:			
Patents	$ 11,657	$ (4,073)	$ 7,584
Customer lists	29,706	(17,431)	12,275
Licenses	63,974	(41,825)	22,149
Intellectual property	18,581	(16,946)	1,635
Lottery contracts	4,907	(4,399)	508
	128,825	(84,674)	44,151
Non-amortizable intangible assets:			
Trade name	37,789	(2,118)	35,671
Total intangible assets	$ 166,614	$ (86,792)	$ 79,822

The aggregate intangible amortization expense for the three and nine months ended September 30, 2010 was approximately $3,400 and $10,900, respectively. The aggregate intangible amortization expense for the three and nine months ended September 30, 2009 was approximately $4,400 and $13,600, respectively.

The table below reconciles the change in the carrying amount of goodwill, by reporting segment, for the period from December 31, 2009 to September 30, 2010. In 2010, we recorded an increase of approximately $4,700 in goodwill associated with the acquisition of substantially all of the assets of GameLogic Inc. (GameLogic) and a decrease in goodwill of approximately $11,000 as a result of foreign currency translation.

Goodwill	Printed Products Group	Lottery Systems Group	Diversified Gaming Group	Totals
Balance as of December 31, 2009	$ 329,659	$ 192,833	$ 250,240	$ 772,732
Adjustments	4,901	(4,267)	(7,010)	(6,376)
Balance as of September 30, 2010	$ 334,560	$ 188,566	$ 243,230	$ 766,356

(9) Pension and Other Post-Retirement Plans

We have defined benefit pension plans for our U.S.-based union employees, our U.K.-based union employees, and certain Canadian-based employees (the U.S. Plan, the U.K. Plan and the Canadian Plan, respectively). Retirement benefits under the U.S. Plan are based upon the number of years of credited service up to a maximum of 30 years for the majority of the employees. Retirement benefits under the U.K. Plan are based on an employee s average compensation over the two years preceding retirement. Retirement benefits under the Canadian Plan are generally based on the number of years of credited service. Our policy is to fund the minimum contribution permissible by the respective pension authorities.

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The following table sets forth the combined amount of net periodic benefit cost recognized for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Components of net periodic pension benefit cost:				
Service cost	$ 478	$ 371	$ 1,421	$ 1,114
Interest cost	1,226	1,052	3,699	3,156
Expected return on plan assets	(1,243)	(888)	(3,695)	(2,665)
Amortization of actuarial gains	124	119	403	357
Amortization of prior service costs	6	11	28	32
Net periodic cost	$ 591	$ 665	$ 1,856	$ 1,994

We have a 401(k) plan for U.S.-based employees who are not covered by a collective bargaining agreement. Effective January 1, 2010, we increased the matching contributions from 25 cents on the dollar for the first 6% of participant contributions for a match of up to 1.5% of eligible compensation to 37.5 cents on the dollar for the first 6% of participant contributions for a match of up to 2.25% of eligible compensation.

(10) Income Taxes

The effective tax rates of 20.4% and 64.8%, respectively, for the three and nine months ended September 30, 2010 were determined using an estimated annual effective tax rate and after considering any discrete items for such periods. The effective tax rate for the three and nine months ended September 30, 2010 includes the impact of a valuation allowance against certain U.S. state deferred tax assets and the release of certain reserves due to the expiration of statutes of limitation for tax-related claims.

The effective tax rates of 31.2% and 82.0%, respectively, for the three and nine months ended September 30, 2009 were determined using an estimated annual effective tax rate and considering any discrete items in such periods. The effective tax rate for the three and nine months ended September 30, 2009 includes the impact of a valuation allowance against the deferred tax asset related to foreign tax credits and the release of certain reserves related to tax settlements in the second quarter of 2009.

Deferred tax assets and liabilities are determined based on the difference between the book and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. We establish a valuation allowance for deferred tax assets for which realization is unlikely. When we establish or reduce the valuation allowance against our deferred tax assets, our income tax expense increases or decreases, respectively, in the period such determination is made.

During the second quarter of 2010, the Company determined that the net realizable value of its state deferred tax assets was $6,328 and therefore recorded a valuation allowance of $11,797. Our decision to reserve a portion of the Company s state deferred tax assets was primarily due to a revised forecast of future state taxable income.

(11) Stockholders Equity

The change in the number of shares of our Class A common stock outstanding during the nine months ended September 30, 2010 and during the fiscal year ended December 31, 2009 is as follows:

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
Shares outstanding as of beginning of period	93,883	92,601
Shares issued as part of equity-based compensation plans and the ESPP, net of restricted stock units surrendered for taxes	308	1,804
Shares repurchased into treasury stock	(2,619)	(522)
Shares outstanding as of end of period	91,572	93,883

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(12) Stock-Based Compensation

As of September 30, 2010, we had approximately 3,239 shares of our Class A common stock available for grants of equity awards under our equity-based compensation plans.

Stock Options

A summary of the changes in stock options outstanding under our equity-based compensation plans during the nine months ended September 30, 2010 is presented below:

	Number of Options	Weighted Average Remaining Contract Term (Years)	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Options outstanding as of December 31, 2009	6,160	5.7	$ 21.56	$ 8,642
Granted	497		15.60	
Exercised	(5)		12.21	14
Cancelled	(25)		27.08	
Options outstanding as of March 31, 2010	6,627	5.8	$ 21.10	$ 7,937
Granted	27		14.01	
Exercised	(2)		6.16	9
Cancelled	(440)		9.70	
Options outstanding as of June 30, 2010	6,212	6.0	$ 21.88	$ 1,822
Granted	55		10.25	
Exercised	(143)		3.14	1,109
Cancelled	(20)		25.38	
Options outstanding as of September 30, 2010	6,104	5.9	$ 22.20	$ 1,124
Options exercisable as of September 30, 2010	4,216	4.9	$ 23.23	$ 1,124

The weighted-average grant date fair value of options granted during the three months ended September 30, 2010, June 30, 2010 and March 31, 2010 was $5.13, $7.07 and $7.95, respectively. For the three and nine months ended September 30, 2010, we recognized stock-based compensation expense of approximately $1,800 and $5,800, respectively, related to the vesting of stock options and the related tax benefit of approximately $700 and $2,300, respectively. For the three and nine months ended September 30, 2009, we recognized stock-based compensation expense of approximately $2,900 and $10,700, respectively, related to the vesting of stock options and the related tax benefit of approximately $850 and $3,140, respectively. As of September 30, 2010, we had unearned compensation of approximately $12,200 relating to stock option awards that will be amortized over a weighted-average period of approximately two years.

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Restricted Stock Units (RSUs   )

A summary of the changes in RSUs outstanding under our equity-based compensation plans during the nine months ended September 30, 2010 is presented below:

	Number of Restricted Stock Units		Weighted Average Grant Date Fair Value Per Share
Non-vested RSUs as of December 31, 2009	1,586	$	19.54
Granted	897		15.49
Vested	(303)		20.38
Cancelled	(26)		17.49
Non-vested RSUs as of March 31, 2010	2,154	$	17.78
Granted	24		13.40
Vested	(39)		26.95
Cancelled			
Non-vested RSUs as of June 30, 2010	2,139	$	17.57
Granted	48		10.25
Vested	(55		