

SCIENTIFIC GAMES CORP  
Form DEF 14A  
April 30, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.        )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**SCIENTIFIC GAMES CORPORATION**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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April 30, 2014

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Scientific Games Corporation to be held at 10:30 a.m. (local time) on Wednesday, June 11, 2014, at Latham & Watkins LLP, 885 Third Avenue, 12th floor, New York, New York.

At the meeting, we will be electing nine members of our Board of Directors. We will also be considering an advisory vote to approve executive compensation, an amendment and restatement of our 2003 Incentive Compensation Plan and ratification of the appointment of Deloitte & Touche LLP as our independent auditor. These matters are described in detail in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement.

Even if you plan to attend the annual meeting in person, we encourage you to vote your shares right away using one of the advance voting methods described in the accompanying materials.

We look forward to seeing you at the annual meeting.

Sincerely,

David L. Kennedy  
*Vice Chairman, President and  
Chief Executive Officer*

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**SCIENTIFIC GAMES CORPORATION**  
**750 Lexington Avenue, 25th Floor**  
**New York, New York 10022**

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**NOTICE OF ANNUAL MEETING  
OF STOCKHOLDERS**

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Notice is hereby given that the annual meeting of stockholders of Scientific Games Corporation (the "Company") will be held at 10:30 a.m. (local time) on Wednesday, June 11, 2014, at Latham & Watkins LLP, 885 Third Avenue, 12th floor, New York, NY, for the following purposes:

1. To elect nine (9) members of the Board of Directors to serve for the ensuing year and until their respective successors are duly elected and qualified.
2. To approve, on an advisory basis, the compensation of the Company's named executive officers.
3. To approve the Amended and Restated 2003 Incentive Compensation Plan.
4. To ratify the appointment of Deloitte & Touche LLP as independent auditor for the fiscal year ending December 31, 2014.
5. To consider and act upon any other matter that may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on April 16, 2014 are entitled to receive notice of and to vote at the meeting and any adjournment thereof. A list of the holders will be open to the examination of stockholders for ten days prior to the date of the meeting, between the hours of 9:00 a.m. and 5:00 p.m., at the office of the Corporate Secretary of the Company at 750 Lexington Avenue, 25th Floor, New York, New York, 10022 and will be available for inspection at the meeting itself.

To obtain directions to attend the meeting and vote in person, please telephone the Company at (212) 754-2233.

Whether you plan to be personally present at the meeting or not, we encourage you to submit your vote by proxy as soon as possible using one of the advance voting methods (see page 1 for additional details).

**Important Notice Regarding the Availability of Proxy Materials for the  
Annual Meeting of Stockholders to be Held on June 11, 2014:**

**The Proxy Statement and 2013 Annual Report will be available  
on or about April 30, 2014 through the Investors link on our website at  
[www.scientificgames.com](http://www.scientificgames.com) or through [www.proxyvote.com](http://www.proxyvote.com)**

By Order of the Board of Directors  
Jack B. Sarno  
*Vice President Worldwide Legal Affairs  
and Corporate Secretary*

Dated: April 30, 2014

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**SCIENTIFIC GAMES CORPORATION**  
**750 Lexington Avenue, 25th Floor**  
**New York, New York 10022**

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**PROXY STATEMENT**

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**GENERAL INFORMATION**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of Scientific Games Corporation ("Scientific Games," the "Company," "we" or "us") of proxies to be voted at the annual meeting of stockholders to be held at 10:30 a.m. (local time) on Wednesday, June 11, 2014, at Latham & Watkins LLP, 885 Third Avenue, 12th floor, New York, NY, and any adjournment or postponement of the meeting, for the purposes set forth in the Notice of Annual Meeting of Stockholders.

**Notice and Access to Proxy Materials**

We expect our proxy materials, including this Proxy Statement and our 2013 Annual Report, to be made available to stockholders on or about April 30, 2014 through the Investors link on our website at [www.scientificgames.com](http://www.scientificgames.com) or through [www.proxyvote.com](http://www.proxyvote.com). In accordance with the rules of the Securities and Exchange Commission ("SEC"), most stockholders will not receive printed copies of these proxy materials unless they request them. Instead, most stockholders will receive by mail a "Notice of Internet Availability of Proxy Materials" that contains instructions as to how they can view our materials online, how they can request copies be sent to them by mail or electronically by email and how they can vote online (the "Notice").

**Stockholders Entitled to Vote**

All stockholders of record at the close of business on April 16, 2014 are entitled to vote at the meeting. At the close of business on April 16, 2014, 84,250,787 shares of common stock were outstanding. Each share is entitled to one vote on all matters that properly come before the meeting.

**Voting Procedures**

You may vote your shares by proxy without attending the meeting. You may vote your shares by proxy over the Internet by following the instructions provided in the Notice, or, if you receive printed proxy materials, you can also vote by mail or telephone pursuant to instructions provided on the proxy card. If you are voting over the Internet or by telephone, you will need to provide the control number that is printed on the Notice or proxy card that you receive.

If you are the record holder of your shares, you may also vote your shares in person at the meeting. If you are not the record holder of your shares (*i.e.*, they are held in "street" name by a broker, bank or other nominee), you must first obtain a proxy issued in your name from the record holder giving you the right to vote the shares at the meeting.

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**Voting Matters**

Stockholders are being asked to vote on the following matters at the annual meeting:

<b>Proposal</b>	<b>Board's Recommendation</b>
<p>Proposal 1: Election of Directors (page 4)                      The Board and the Nominating and Corporate Governance Committee believe that the nine (9) director nominees possess a combination of qualifications, experience and judgment necessary for a well-functioning Board and the effective oversight of the Company.</p>	<p>FOR each Nominee</p>
<p>Proposal 2: Advisory Approval of Compensation of Named Executive Officers (page 54)                      The Company has designed its executive compensation programs to attract and retain executive talent, foster excellent business performance and align compensation with the long-term interests of our stockholders. The Board and the Compensation Committee value stockholders' opinions and will take into account the outcome of the advisory vote when considering future executive compensation decisions.</p>	<p>FOR</p>
<p>Proposal 3: Approval of the Amended and Restated 2003 Incentive Compensation Plan (page 57)                      The Compensation Committee and the Board have adopted a proposal, subject to stockholder approval, to consolidate the stockholder-approved equity compensation plan that the Company assumed in connection with its recent acquisition of WMS Industries Inc. with the Company's 2003 Incentive Compensation Plan. The consolidation of the two plans under the proposed amendment would, among other things, facilitate the administration of consistent equity compensation programs across the combined company. The proposed amendment would not increase the aggregate number of shares available for issuance under the two plans.</p>	<p>FOR</p>
<p>Proposal 4: Ratification of the Appointment of Deloitte &amp; Touche LLP as Independent Auditor (page 71)                      The Audit Committee has appointed Deloitte &amp; Touche LLP to serve as our independent auditor for the fiscal year ending December 31, 2014. As a matter of good corporate governance, stockholders are being asked to ratify the Audit Committee's appointment of Deloitte &amp; Touche LLP.</p> <p>All valid proxies received prior to the meeting will be voted in accordance with the instructions specified by the stockholder. If a proxy card is returned without instructions, the persons named as proxy holders on your proxy card will vote in accordance with the above recommendations of the Board.</p>	<p>FOR</p>

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

**Changing Your Vote**

A stockholder may revoke a proxy at any time prior to its being voted by delivering written notice to the Corporate Secretary of the Company, by delivering a properly executed later-dated proxy (including over the Internet or by telephone), or by voting in person at the meeting.

**Quorum**

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote at the meeting constitutes a quorum for the transaction of business.

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**Vote Required**

Assuming a quorum is present, directors will be elected (Proposal 1) by a plurality of the votes cast in person or by proxy at the meeting.

The proposals to approve, on an advisory basis, the compensation of named executive officers (Proposal 2), to approve the Amended and Restated 2003 Incentive Compensation Plan (Proposal 3) and to ratify the appointment of our independent auditor (Proposal 4) require the affirmative vote of a majority of the shares entitled to vote represented at the meeting.

**Effect of Withheld Votes or Abstentions**

If you vote "WITHHOLD" in the election of directors or vote "ABSTAIN" (rather than vote "FOR" or "AGAINST") with respect to any other proposal, your shares will count as present for purposes of determining whether a quorum is present. A "WITHHOLD" vote will have no effect on the outcome of the election of directors (Proposal 1) and an "ABSTAIN" vote will have the effect of a negative vote on the other proposals (Proposals 2 through 4).

**Effect of Broker Non-Votes**

A broker "non-vote" occurs when a broker or nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have discretionary voting power on that item and has not received specific instructions from the owner. If any broker "non-votes" occur at the meeting, the broker "non-votes" will count for purposes of determining whether a quorum is present but will not have an effect on any proposals presented for your vote. A broker or other nominee holding shares for a beneficial owner may not vote these shares with respect to the election of directors (Proposal 1), advisory approval of the compensation of the Company's named executive officers (Proposal 2) or approval of the Amended and Restated 2003 Incentive Compensation Plan (Proposal 3) without specific instructions from the beneficial owner as to how to vote with respect to such proposals. Brokers and other nominees will have discretionary voting power to vote without instructions from the beneficial owner on the ratification of the appointment of our independent auditor (Proposal 4) and, accordingly, your shares may be voted by your broker or nominee on Proposal 4 without your instructions.



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The Board is elected by our stockholders to oversee the management of the business and affairs of the Company. The Board serves as the ultimate decision-making body of the Company, except for those matters reserved for or shared with stockholders. The Board appoints our executives, who are charged with conducting the business and affairs of the Company, subject to oversight by the Board.

**Nominees for Election**

The Board has nominated for election to the Board the nine (9) persons named below to serve for a one-year term and until their successors have been duly elected and qualified or until their earlier death, resignation or removal. Each of the director nominees is presently serving as a director and each of the nominees, other than Debra G. Perelman, who joined the Board in April 2014, was previously elected to the Board by our stockholders. Four of the nominees (Messrs. Perelman and Schwartz and Madams Townsend and Perelman) were designated for election to the Board by MacAndrews & Forbes Holdings Inc., our largest stockholder, pursuant to its rights under a stockholders' agreement with us (discussed more fully below).

The Board recommends that you vote in favor of the election of each of the nominees named below as directors of the Company for the ensuing year, and the persons named as proxies on the enclosed proxy card will vote the proxies received by them for the election of each of the nominees unless otherwise specified on those proxy cards. All of the nominees have indicated a willingness to serve as directors; however, if any nominee becomes unavailable to serve before the election, proxies may be voted for a substitute nominee selected by the Board, or the Board may decide to reduce the number of directors.

The name, age, business experience and certain other information regarding each of the nominees for director are set forth below.

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>	<b>Director Since</b>
Ronald O. Perelman	71	Director (Chairman)	2003
David L. Kennedy	67	Director (Vice Chairman; President and Chief Executive Officer)	2009
Peter A. Cohen	67	Director (Vice Chairman)	2000
Gerald J. Ford	69	Director	2005
Paul M. Meister	61	Director	2012
Debra G. Perelman	40	Director	2014
Michael J. Regan	72	Director	2006
Barry F. Schwartz	65	Director	2003
Frances F. Townsend	52	Director	2010

*Ronald O. Perelman* was named Chairman of the Board in November 2013. Mr. Perelman has been Chairman of the Board and Chief Executive Officer of MacAndrews & Forbes Holdings Inc., a diversified holding company, and various affiliates since 1980. Mr. Perelman is also Chairman of the Board of Revlon Consumer Products Corporation and Revlon, Inc. During the past five years, Mr. Perelman has also served as Chairman of the Board of M & F Worldwide Corp.

*David L. Kennedy* became President and Chief Executive Officer of the Company in November 2013. Mr. Kennedy continues to serve as a Vice Chairman of the Board, a position he has held since October 2009. Mr. Kennedy served as an executive of the Company from November 2010 until March 2012, including as Chief Administrative Officer from April 2011 until March 2012. Mr. Kennedy also serves as Vice Chairman of the Board of Revlon, Inc. and is a director of Revlon Consumer Products Corporation. Mr. Kennedy has held senior executive positions with MacAndrews & Forbes Holdings Inc., Revlon, Inc. and The Coca-Cola Company and affiliates during his 40-year business career.

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*Peter A. Cohen* has served as Vice Chairman of the Board since September 2004. Mr. Cohen is Chairman and Chief Executive Officer of Cowen Group, Inc., a diversified financial services company. Mr. Cohen was a founding partner and principal of Ramius LLC, a private investment management firm formed in 1994 that was combined with Cowen in late 2009. From November 1992 to May 1994, Mr. Cohen was Vice Chairman of the Board and a director of Republic New York Corporation, as well as a member of its executive management committee. Mr. Cohen was Chairman and Chief Executive Officer of Shearson Lehman Brothers from 1983 to 1990.

*Gerald J. Ford* has been a financial institutions entrepreneur and private investor involved in numerous mergers and acquisitions of private and public sector financial institutions over the past 30 years. Mr. Ford was Chairman of the Board and Chief Executive Officer of Golden State Bancorp Inc. from September 1998 until its merger with Citigroup Inc. in November 2002. Mr. Ford is Chairman of Hilltop Holdings, Inc. and a director of Freeport-McMoRan Copper & Gold Inc. and SWS Group, Inc. During the past five years, Mr. Ford has also served as Chairman of the Boards of First Acceptance Corporation and Pacific Capital Bancorp and as a director of McMoRan Exploration Company.

*Paul M. Meister* is Chairman and Chief Executive Officer of inVentiv Health, Inc., a provider of commercial, consulting and clinical research services to the pharmaceutical and biotech industries. He is also co-founder and Chief Executive Officer of Liberty Lane Partners, LLC, a private investment company with diverse investments in healthcare and distribution-related industries. Mr. Meister was Chairman of Thermo Fisher Scientific Inc., a scientific instruments, equipment and supplies company, from November 2006 until April 2007. He was previously Vice Chairman of Fisher Scientific International, Inc., a predecessor to Thermo Fisher, from March 2001 to November 2006, and Vice Chairman and Chief Financial Officer of Fisher Scientific from March 1991 to March 2001. Prior to Fisher Scientific, Mr. Meister held executive positions with the Henley Group, Wheelabrator Technologies and Abex, Inc. Mr. Meister is a director of LKQ Corporation, Inc. During the past five years, Mr. Meister has also served as a director of M & F Worldwide Corp.

*Debra G. Perelman* is a Senior Vice President of MacAndrews & Forbes Holdings Inc. Ms. Perelman leads the Strategy and Innovation division within MacAndrews & Forbes, focused on new technology-related investment strategies, innovation-led portfolio acquisitions and overall long-term portfolio management. She joined MacAndrews & Forbes in 2004 as Vice President. Prior to joining MacAndrews & Forbes, Ms. Perelman held various positions in corporate finance and brand marketing at Revlon, Inc. Ms. Perelman serves as a founding board member and Vice Chairman at the Child Mind Institute, an Advisory Board member for the Social Enterprise Program at Columbia Business School and a trustee of the NYU Langone Medical Center and the Children's Museum of the Arts. Ms. Perelman is the daughter of the Chairman of our Board.

*Michael J. Regan* is a former Vice Chairman and Chief Administrative Officer of KPMG LLP and was the lead audit partner for many Fortune 500 companies during his 40-year tenure with KPMG. Mr. Regan is a director of DynaVox Inc. and Lifetime Brands, Inc. During the past five years, Mr. Regan has also served as a director of Citadel Broadcasting Corporation.

*Barry F. Schwartz* has been Executive Vice Chairman and Chief Administrative Officer of MacAndrews & Forbes Holdings Inc. and various affiliates since October 2007. Prior to that, he was Executive Vice President and General Counsel of MacAndrews & Forbes and various affiliates since 1993 and Senior Vice President of MacAndrews & Forbes and various affiliates from 1989 to 1993. Mr. Schwartz is a director of Harland Clarke Holdings Corp. and Revlon Consumer Products Corporation. During the past five years, Mr. Schwartz has also served as a director of M & F Worldwide Corp.

*Frances F. Townsend* has been the Senior Vice President of Worldwide Government, Legal and Business Affairs of MacAndrews & Forbes Holdings Inc. since October 2010. Ms. Townsend was a corporate partner at the law firm of Baker Botts LLP from April 2009 to October 2010. Prior to that, she was Assistant to President George W. Bush for Homeland Security and Counterterrorism and chaired the

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Homeland Security Council from May 2004 until January 2008. Prior to serving the President, Ms. Townsend was the first Assistant Commandant for Intelligence for the U.S. Coast Guard and spent 13 years at the U.S. Department of Justice in various senior positions. She also serves on numerous governmental advisory and nonprofit boards, chairs the Board of the Intelligence and National Security Alliance, and is a member of the Council on Foreign Relations and the Trilateral Commission. Ms. Townsend is a director of SIGA Technologies, Inc., The Western Union Company and Freeport-McMoRan Copper & Gold Inc.

*Designees of MacAndrews & Forbes Holdings Inc.*

Messrs. Perelman and Schwartz and Madams Townsend and Perelman were designated for election to the Board by MacAndrews & Forbes Holdings Inc. pursuant to its rights under a stockholders' agreement with us dated September 6, 2000, as supplemented by agreements dated June 26, 2002, October 10, 2003 and February 15, 2007. The stockholders' agreement was originally entered into with holders of our Series A Convertible Preferred Stock in connection with the initial issuance of such preferred stock and provides for, among other things, the right of the holders to designate up to four members of our Board based on their ownership of preferred stock or the common stock issued upon conversion thereof. All of the preferred stock was converted into common stock in August 2004. MacAndrews & Forbes Holdings Inc., which owned approximately 92% of the preferred stock prior to conversion and currently owns approximately 38.6% of our outstanding common stock, currently has the right to designate up to four directors based on its level of share ownership. The percentages that must be maintained in order to designate directors are as follows: (a) 20% to designate four directors; (b) 16% to designate three directors; (c) 9% to designate two directors; and (d) 4.6% to designate one director. Such percentages, in each case, are to be determined based on our fully diluted common stock subject to certain exclusions of common stock or other securities that may be issued in the future.

*Qualifications of Directors*

Our directors are responsible for overseeing the management of the Company's business and affairs, which requires highly skilled and experienced individuals. The Nominating and Corporate Governance Committee is responsible for evaluating and making recommendations to the Board concerning the appropriate size and needs of the Board with the objective of maintaining the necessary experience, skills and independence on the Board. The Nominating and Corporate Governance Committee and the Board believe that there are general qualifications that are applicable to all directors and other skills and experience that should be represented on the Board as a whole, but not necessarily by each director. The Nominating and Corporate Governance Committee and the Board consider the experience and qualifications of prospective directors individually and in the context of the Board's overall composition.

In its assessment of prospective directors, the Nominating and Corporate Governance Committee and the Board generally consider, among other factors, the individual's character and integrity, experience, judgment, independence and ability to work collegially, as well as the ability of a potential nominee to devote the time and effort necessary to fulfill his or her responsibilities as a director. The Nominating and Corporate Governance Committee and the Board also assess particular qualifications, attributes, skills and experience that they believe are important to be represented on the Board as a whole, in light of the Company's business. These include a high level of financial literacy, relevant chief executive officer or similar leadership experience, gaming and lottery industry experience, experience with global operations, exposure to the development and marketing of technology and consumer products, and legal and regulatory experience.

As a matter of practice, the Nominating and Corporate Governance Committee and the Board also consider the diversity of the backgrounds and experience of prospective directors as well as their personal characteristics (*e.g.*, gender, ethnicity, age) in evaluating, and making decisions regarding, Board composition, in order to facilitate Board deliberations that reflect a broad range of perspectives. The

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Nominating and Corporate Governance Committee and the Board believe that the Board is comprised of a diverse group of individuals.

The Nominating and Corporate Governance Committee and the Board believe that each nominee has valuable individual skills and experiences that, taken together, provide the variety and depth of knowledge, judgment and vision necessary for the effective oversight of the Company. As indicated in the foregoing biographies, the nominees have extensive experience in a variety of fields, including lottery and gaming (Mr. Kennedy and a number of our other long-serving directors), technology (Messrs. Kennedy and Meister, and Ms. Perelman), consumer products and marketing (Messrs. Kennedy, Perelman and Schwartz, and Ms. Perelman), government (Ms. Townsend), investment and financial services (Messrs. Cohen, Ford, Kennedy, Meister, Perelman and Schwartz, and Ms. Perelman), law (Mr. Schwartz and Ms. Townsend) and public accounting (Mr. Regan), each of which the Board believes provides valuable knowledge about important elements of our business. Most of our nominees have leadership experience at major companies or organizations that operate inside and outside the United States and/or experience on other companies' boards, which provides an understanding of ways other companies address various business matters, strategies, corporate governance and other issues. As indicated in the foregoing biographies, the nominees have each demonstrated significant leadership skills, including as a chief executive officer (Messrs. Cohen, Ford, Kennedy, Meister, Perelman and Schwartz), as a chief administrative officer of a major accounting firm (Mr. Regan) and as chair of the Homeland Security Council and an officer in the U.S. Coast Guard (Ms. Townsend). Ms. Perelman is currently serving in a leadership role at MacAndrews & Forbes focused on strategy and innovation. Ms. Townsend has extensive public policy, government or regulatory experience, which can provide valuable insight into issues faced by companies in regulated industries such as that of the Company. Mr. Kennedy has served and is currently serving as a senior executive of the Company, which service has given him a deep knowledge of the Company and its businesses and directly relevant management experience. The Nominating and Corporate Governance Committee and the Board believe that these skills and experiences, together with their other qualities, qualify each nominee to serve as a director of the Company.

## **THE BOARD RECOMMENDS A VOTE "FOR" EACH OF THE NINE (9) NOMINEES**

### **Corporate Governance**

*Overview.* The Company is committed to good corporate governance, which we believe promotes the long-term interests of our stockholders and strengthens Board and management accountability. Highlights of our corporate governance structure and policies include:

#### **Corporate Governance Highlights**

Annual election of all directors	Risk management oversight by the Board and committees
Nine independent director nominees (90%)	Code of Business Conduct (and related training)
Entirely independent Board committees (other than Executive and Finance Committee)	Executive compensation based on pay-for-performance philosophy
Regular executive sessions of independent directors	Cash and equity compensation clawback policy
Separate Chairman and Chief Executive Officer roles	Anti-hedging policy
Independent lead director	Stockholder right to call special meetings
Regular Board and committee self-evaluations	Stockholder right to act by written consent
Director and officer stock ownership guidelines	Absence of rights plan and other "anti-takeover" provisions

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*Director Independence.* The Board has adopted Director Independence Guidelines as a basis for determining that individual directors are independent under the standards of the NASDAQ Stock Market. This determination, which is made annually, helps assure the quality of the Board's oversight of

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management and reduces the possibility of damaging conflicts of interest. Under these standards, a director will not qualify as independent if:

- (1) the director has been employed by the Company (or any subsidiary) at any time within the past three years, other than service as an interim executive officer for a period of less than one year;
- (2) the director has an immediate family member who has been employed as an executive officer of the Company (or any subsidiary) at any time within the past three years;
- (3) the director or an immediate family member of the director has accepted any compensation (including any political contribution to a director or family member) from the Company (or any subsidiary) in excess of \$120,000 during any period of 12 consecutive months within the past three years other than (a) for Board or Board committee service, (b) in the case of the family member, as compensation for employment other than as an executive officer, (c) benefits under a tax-qualified retirement plan, or non-discretionary compensation, or (d) compensation for service as an interim executive officer for a period of less than one year;
- (4) the director or an immediate family member of the director is a partner, controlling shareholder or executive officer of an organization (including a charitable organization) that made payments to, or received payments from, the Company for property or services in the current year or in any of the past three years that exceed the greater of 5% of the recipient's consolidated gross revenues or \$200,000, other than (a) payments arising solely from investments in the Company's securities or (b) payments under non-discretionary charitable contribution matching programs;
- (5) the director or an immediate family member of the director is employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company served on the compensation committee of such other entity; or
- (6) the director or an immediate family member of the director is a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

In applying these standards, the Board determined that each of Messrs. Cohen, Ford, Meister, Perelman, Regan and Schwartz, and Madams Perelman and Townsend, qualify as independent directors and none has a business or other relationship that would interfere with the director's exercise of independent judgment. Mr. Kennedy does not qualify as an independent director in light of his current service as an executive officer of the Company.

The full text of the Board's Director Independence Guidelines, including information on the additional independence requirements applicable to Board committee members, can be accessed through the Investors Corporate Governance link on our website at [www.scientificgames.com](http://www.scientificgames.com).

*Corporate Governance Guidelines.* The Board has adopted Corporate Governance Guidelines that outline the structure, role and functioning of the Board and address various governance matters including director independence, the Board selection process, length of Board service, Board meetings and executive sessions of independent directors, Board and committee performance evaluations and management succession planning. The full text of these guidelines can be accessed through the Corporate Governance link in the Investors section of our website at [www.scientificgames.com](http://www.scientificgames.com).

*Board Leadership Structure.* As described above, the Board is comprised entirely of independent directors, other than Mr. Kennedy, our President and Chief Executive Officer. The Audit, Compensation, Compliance and Nominating and Corporate Governance Committees are comprised entirely of independent directors. The Board has the flexibility to select the leadership structure that is most appropriate for the Company and its stockholders and has determined that the Company and its stockholders are best served by not having a formal policy regarding whether the same individual should serve as both Chairman of the Board and Chief Executive Officer. This approach allows the Board to elect

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the most qualified director as Chairman of the Board, while maintaining the ability to separate the Chairman of the Board and Chief Executive Officer roles when deemed appropriate. The Chairman of the Board and Chief Executive Officer roles are currently held by two different individuals.

Messrs. Cohen and D. Kennedy currently serve as Vice Chairmen of the Board. The Board has also designated Mr. Cohen as the lead independent director. When the positions of Chairman of the Board and Chief Executive Officer are held by the same individual, Mr. Cohen's lead independent director responsibilities include presiding over regularly held executive sessions of independent directors, facilitating communication between the independent directors and the Chief Executive Officer, and coordinating the activities of the independent directors. Mr. Cohen also provides assistance to the Board and the committees of the Board in their evaluations of management's performance and he carries out other duties that the Board assigns to him from time to time in areas of governance and oversight.

The Executive and Finance Committee, which includes two independent directors (Messrs. Cohen and Perelman) as well as Mr. Kennedy, meets regularly to support the Board in the performance of its duties between regularly scheduled Board meetings, to implement the policy decisions of the Board and to provide strategic guidance and oversight to the Company.

The Board believes its current leadership structure is appropriate because it effectively allocates authority, responsibility, and oversight between management and the independent members of the Board.

*Board's Role in Risk Oversight.* The Board is responsible for overseeing management in the execution of its responsibilities and for assessing the Company's approach to risk management. The Board exercises these responsibilities on an ongoing basis as part of its meetings and through the Board's committees, each of which examines various components of enterprise risk as part of its responsibilities. An overall review of risk is inherent in the Board's consideration of the Company's strategies and other matters presented to the Board, including financial matters, investments, acquisitions and divestitures. The Board's role in risk oversight is consistent with the Company's leadership structure, with the Chief Executive Officer and other members of senior management having responsibility for managing the Company's risk exposure, and the Board and its committees providing oversight of those efforts.

The Company has implemented internal processes and controls to identify and manage risks and to communicate with the Board regarding risk management. These include an enterprise risk management program, regular internal management meetings that identify risks and discuss risk management, a Code of Business Conduct (and related training), a strong ethics and compliance function that includes suitability reviews of customers, partners, vendors and other persons/entities with which the Company does business, an internal and external audit process, internal approval processes and legal department review of contracts. In connection with these processes and controls, management regularly communicates with the Board, Board committees and individual directors regarding identified risks and the management of these risks. Individual directors often communicate directly with senior management on matters relating to risk management. In particular, the Board committee chairmen regularly communicate with members of senior management, including Mr. Kennedy, to discuss potential risks in connection with accounting and audit matters, compensation matters, compliance matters and financing-related matters.

The Board committees, which meet regularly and report to the full Board, play significant roles in carrying out the Board's risk oversight function. In particular, the Audit Committee oversees risks related to the Company's financial statements, the financial reporting process, accounting and certain legal matters. The Audit Committee also oversees the internal audit function and regularly meets in private with both the Vice President of Internal Audit (who reports functionally to the Chief Financial Officer and has a direct reporting line to the Audit Committee) and representatives of the Company's independent auditing firm. The Compensation Committee evaluates risks associated with the Company's compensation programs and discusses with management procedures to identify and mitigate such risks. See "Executive Compensation Compensation Discussion and Analysis Compensation Program as it Relates to Risk" below. The Compliance Committee is active in overseeing the Company's program with respect to

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compliance with the laws applicable to the Company's business, including gaming laws, as well as compliance with our Code of Business Conduct and related policies by employees, officers, directors and other representatives of the Company. In addition, the Compliance Committee oversees a compliance review process, which is designed to ensure that the vendors, consultants, customers and business partners of the Company are "suitable" or "qualified" as those terms are used by applicable gaming and lottery authorities, and regularly meets separately with the Vice President, Chief Compliance Officer and Director of Security (who reports functionally to the Chief Executive Officer and has a direct reporting line to the Compliance Committee).

*Board Meetings.* The Board held a total of eight meetings during 2013, including four at which executive sessions were held with no members of management present. During 2013, all incumbent directors attended at least 75% of the total number of meetings of the Board and committees of the Board on which they served.

*Board Committees.* The Board has five committees: the Audit Committee; the Compensation Committee; the Compliance Committee; the Executive and Finance Committee; and the Nominating and Corporate Governance Committee. All committees are comprised solely of independent directors with the exception of the Executive and Finance Committee, which is comprised of two independent directors as well as the President and Chief Executive Officer. The Board has approved charters for each Board committee, which can be accessed through the Investors Corporate Governance link on our website at [www.scientificgames.com](http://www.scientificgames.com). The current membership of each committee is as follows:

<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Compliance Committee</b>	<b>Executive and Finance Committee<sup>(1)</sup></b>	<b>Nominating and Corporate Governance Committee</b>
Michael J. Regan (Chair)	Peter A. Cohen (Chair)	Barry F. Schwartz (Chair)	Peter A. Cohen (Chair)	Gerald J. Ford (Chair)
Paul M. Meister	Paul M. Meister	Gerald J. Ford	David L. Kennedy	Michael J. Regan
Frances F. Townsend	Barry F. Schwartz	Frances F. Townsend	Ronald O. Perelman	Frances F. Townsend

(1) A. Lorne Weil, our former Chairman and Chief Executive Officer, served on the Executive and Finance Committee until his resignation from the Board in December 2013.

*Audit Committee.* The Audit Committee is responsible for hiring the Company's independent auditor and for overseeing the accounting, auditing and financial reporting processes of the Company. In the course of performing its functions, the Audit Committee reviews, with management and the independent auditor, the Company's internal accounting controls, the financial statements, the report and recommendations of the independent auditor, the scope of the audit, and the qualifications and independence of the auditor. The Audit Committee also oversees the Company's internal audit function. The Board has determined that each member of the Audit Committee is independent under the listing standards of the NASDAQ Stock Market and that Mr. Regan qualifies as an "audit committee financial expert" under the rules of the SEC. The Audit Committee held five meetings during 2013.

*Compensation Committee.* The Compensation Committee sets the compensation of the Chief Executive Officer and other senior executives of the Company, administers the equity incentive plans and executive compensation programs of the Company, determines eligibility for, and awards under, such plans and programs, and makes recommendations to the Board with regard to the adoption of new employee benefit plans and equity incentive plans and with respect to the compensation program for non-employee directors. The Board has determined that each member of the Compensation Committee is independent under the listing standards of the NASDAQ Stock Market. The Compensation Committee held eight meetings during 2013.

*Compliance Committee.* The Compliance Committee is responsible for providing oversight of the Company's program with respect to compliance with laws and regulations applicable to the business of the Company, including gaming and anticorruption laws, and with respect to compliance with the Code of



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Business Conduct by employees, officers, directors and other representatives of the Company. The Board has determined that each member of the Compliance Committee is independent under the listing standards of the NASDAQ Stock Market. The Compliance Committee held five meetings during 2013.

*Executive and Finance Committee.* The Executive and Finance Committee has broad authority to act on behalf of the Board in the oversight of the business and affairs of the Company between regular meetings of the Board and assists the Board in implementing Board policy decisions. The Executive and Finance Committee held 11 meetings during 2013.

*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee is responsible for identifying individuals who are qualified to become directors, recommending nominees for membership on the Board and on committees of the Board, reviewing and recommending corporate governance principles, procedures and practices and overseeing the annual self-assessment of the Board and its committees. The Board has determined that each member of the Nominating and Corporate Governance Committee is independent under the listing standards of the NASDAQ Stock Market. The Nominating and Corporate Governance Committee held five meetings during 2013.

The Nominating and Corporate Governance Committee does not have specific qualifications that must be met by a candidate for director and will consider individuals suggested as candidates by stockholders. A stockholder wishing to propose a nominee for director should submit a recommendation in writing to the Company's Corporate Secretary at least 120 days before the anniversary of the mailing date of the proxy materials applicable to the prior year's annual meeting, indicating the nominee's qualifications and other relevant biographical information and providing confirmation of the nominee's consent to serve as a director. The Nominating and Corporate Governance Committee will review the candidate's background, experience and abilities, and the contributions the candidate can be expected to make to the collective functioning of the Board and the needs of the Board at the time. In prior years, candidates have been identified through recommendations made by directors, the Chief Executive Officer and other third parties. The Nominating and Corporate Governance Committee anticipates that it would use these sources as well as stockholder recommendations to identify candidates in the future.

*Stockholder Communications with Directors.* Stockholders may communicate with the Board or an individual director by sending a letter to the Board or to a director's attention care of the Corporate Secretary of the Company at Scientific Games Corporation, 750 Lexington Avenue, 25th Floor, New York, New York 10022. The Corporate Secretary will open, log and deliver all such correspondence (other than advertisements, solicitations or communications that contain offensive or abusive content) to directors on a periodic basis, generally in advance of each Board meeting.

*Attendance at Stockholders' Meetings.* The Company encourages directors to attend the annual stockholders' meeting. Last year, seven of the nine directors then serving attended the annual meeting.

*Code of Ethics.* The Board has adopted a Code of Business Conduct that applies to all of our officers, directors and employees. The Code sets forth fundamental principles of integrity and business ethics and is intended to ensure ethical decision making in the conduct of professional responsibilities. Among the areas addressed by the Code are standards concerning conflicts of interest, confidential information and compliance with laws, regulations and policies. The full text of the Code can be accessed through the Corporate Governance link in the Investors section of our website at [www.scientificgames.com](http://www.scientificgames.com).

## **Director Compensation**

The compensation program for non-employee directors has historically consisted of annual retainers, meeting fees and equity awards. In late 2013, the Compensation Committee conducted a comprehensive review of the director compensation program with the assistance of Compensation Advisory Partners, LLC ("CAP"), its independent compensation consultant, in light of the larger size and scope of the business of the Company as a result of its acquisition of WMS Industries Inc. ("WMS") in October 2013. Based on this

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review, the Compensation Committee recommended, and the Board approved, certain changes to the director compensation program, which were implemented effective January 1, 2014.

Under the revised director compensation program, annual retainers for service by non-employee directors on the Board were increased from \$50,000 to \$75,000. Fees for attending Board and committee meetings, which were previously \$2,000 per meeting (other than meetings of the Executive and Finance Committee, which did not carry meeting fees), were eliminated. In lieu of the meeting fees, members of Board committees now receive annual committee retainers of \$10,000 per committee (or \$15,000, in the case of the Audit Committee). Annual retainers for committee chairmen were increased from \$10,000 to \$20,000 (or, in case of the chairman of the Audit Committee, from \$20,000 to \$35,000). Mr. Cohen will continue to receive \$250,000 for his service as a Vice Chairman of the Board without any additional retainers for his service as Chairman of the Executive and Finance Committee or Chairman of the Compensation Committee. The grant date value of the annual grants of restricted stock units ("RSUs") to eligible non-employee directors was increased from \$110,000 to \$160,000. New directors will continue to receive stock options for 10,000 shares (with a four-year vesting schedule) upon joining the Board. The table below presents a comparison of annual compensation for non-employee directors under the program in effect for 2013 and the revised program for 2014.

<b>Element of Compensation<sup>(1)</sup></b>	<b>2013 Program</b>	<b>2014 Program</b>
Annual Board Retainer	\$ 50,000	\$ 75,000
Annual Committee Retainer	\$ 0	\$ 10,000 <sup>(2)</sup>