SCIENTIFIC GAMES CORP
Form 10-Q
November 03, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from to

Commission file number: 0-13063
SCIENTIFIC GAMES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	81-0422894
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The registrant has the following number of shares outstanding of each of the registrant's classes of common stock as of October 27, 2016:

Class A Common Stock: 87,565,647
Class B Common Stock: None

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL INFORMATION
AND OTHER INFORMATION
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

Glossary of Terms

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

Term or Acronym	Definition
2015 10-K	2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016
2018 Notes	8.125% senior subordinated notes due 2018 issued by SGC
2020 Notes	6.250% senior subordinated notes due 2020 issued by SGI
2021 Notes	6.625% senior subordinated notes due 2021 issued by SGI
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Annual Meeting	the annual meeting of stockholders held on June 15, 2016
Bally	Bally Technologies, Inc.
Bally acquisition	the acquisition of Bally by the Company on November 21, 2014
Barcrest	Barcrest Group Limited
Coin-in	the amount wagered
Company	refers to SGC and its consolidated subsidiaries, unless otherwise specified or the context otherwise dictates
CSG	Beijing CITIC Scientific Games Technology Co., Ltd.
CSL	China Sports Lottery
CSP	Cooperative Services Program
D&A	depreciation, amortization and impairments (excluding goodwill)
ESPP	employee stock purchase plan
EU	European Union
FASB	Financial Accounting Standards Board
F/X	Foreign currency exchange
GLB	Beijing Guard Libang Technology Co., Ltd.
Guarantor Subsidiaries	refers to substantially all of SGC’s 100%-owned U.S. subsidiaries other than SGC’s 100%-owned U.S. Interactive social gaming subsidiaries
Hellenic Lotteries	Hellenic Lotteries S.A.
ITL	International Terminal Leasing
KPIs	Key Performance Indicators
LBO	licensed betting office
LNS	Lotterie Nazionali S.r.l.
Net win	Coin-in less payouts
Non-Guarantor Subsidiaries	refers to SGC’s U.S. subsidiaries that are not Guarantor Subsidiaries and SGC’s foreign subsidiaries
Northstar Illinois	Northstar Lottery Group, LLC
Northstar New Jersey	Northstar New Jersey Lottery Group, LLC
Note	refers to a note in the Condensed Notes to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q, unless otherwise indicated
Participation	with respect to our Gaming business, refers to gaming machines provided to customers through service or leasing arrangements in which we earn revenues and are paid based on: (1) a percentage of Net win; (2) fixed daily-fees; (3) a percentage of the Coin-in; or (4) a combination of a fixed daily-fee and a percentage of the Coin-in, and with respect to our Lottery business, refers to a

	contract or arrangement in which we earn revenues and are paid based on a percentage of retail sales
PMA	private management agreement
PPU	price-per-unit
PTG	Proprietary table games
R&D	research and development
RCN	Roberts Communications Network, LLC
RFP	Request for proposal

RMG	real-money gaming
RSU	restricted stock unit
SEC	Securities and Exchange Commission
Secured Notes	7.00% senior secured notes due 2022 issued by SGI
SG&A	selling, general and administrative
SGC	Scientific Games Corporation
SGI	Scientific Games International, Inc., a wholly-owned subsidiary of SGC
SHFL	SHFL entertainment, Inc.
Shufflers	various models of automatic card shufflers, deck checkers and roulette chip sorters
Unsecured Notes	10.00% senior unsecured notes due 2022 issued by SGI
U.K.	United Kingdom of Great Britain and Northern Ireland
U.S.	United States of America
U.S. GAAP	accounting principles generally accepted in the U.S.
VGT	video gaming terminal
VLT	video lottery terminal
WAP	wide-area progressive
WMS	WMS Industries, Inc.
WMS acquisition	the acquisition of WMS by the Company on October 18, 2013

Intellectual Property Rights

® and ™ indicate U.S. trademarks. Marks are owned by their respective owners.

Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q, we make "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements describe future expectations, plans, results or strategies and can often be identified by the use of terminology such as "may," "will," "estimate," "intend," "plan," "continue," "believe," "expect," "anticipate," "target," "should," "could," "potential," "opportunity," "goal" or similar terminology. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. These statements are based upon management's current expectations, assumptions and estimates and are not guarantees of timing, future results or performance. Actual results may differ materially from those contemplated in these statements due to a variety of risks and uncertainties and other factors, including, among other things:

- competition;
- U.S. and international economic and industry conditions, including declines in or slow growth of gross gaming revenues or lottery retail sales, reductions in or constraints on capital spending by gaming or lottery operators and bankruptcies of, or credit risk relating to, customers;
- limited growth from new gaming jurisdictions, slow addition of casinos in existing jurisdictions and declines in the replacement cycle of existing gaming machines;
- ownership changes and consolidation in the casino industry, including by casino operators;
- opposition to legalized gaming or the expansion thereof;
- inability to adapt to, and offer products that keep pace with, evolving technology;
- inability to develop successful gaming concepts and content;
- laws and government regulations, including those relating to gaming licenses and environmental laws;
- inability to identify and capitalize on trends and changes in the gaming, lottery and interactive gaming industries;
- dependence upon key providers in our social gaming business;
- inability to retain or renew, or unfavorable revisions of, existing contracts, and the inability to enter into new contracts;
- level of our indebtedness, higher interest rates, availability or adequacy of cash flows and liquidity to satisfy indebtedness, other obligations or future cash needs;
- inability to reduce or refinance our indebtedness;
- restrictions and covenants in debt agreements, including those that could result in acceleration of the maturity of our indebtedness;
- protection of intellectual property, inability to license third party intellectual property and the intellectual property rights of others;
- security and integrity of our products and systems and reliance on or failures in information technology and other systems;
- natural events that disrupt our operations or those of our customers, suppliers or regulators;
- inability to benefit from, and risks associated with, strategic equity investments and relationships, including (1) the inability of our joint venture to realize the anticipated benefits under its PMA with the Illinois lottery or from the disentanglement services performed in connection with the termination thereof, (2) the inability of our joint venture to meet the net income targets or other requirements under its agreement to provide marketing and sales services to the New Jersey Lottery or otherwise to realize the anticipated benefits under such agreement and (3) the failure to realize the anticipated benefits related to our consortium's instant lottery game concession in Greece;

- failure to achieve the intended benefits of the Bally acquisition, the WMS acquisition, our other recent acquisitions, or future acquisitions, including due to the inability to successfully complete or integrate such acquisitions or realize synergies in the anticipated amounts or within the contemplated time frames or cost expectations, or at all;
- disruption of current plans and operations in connection with our recent acquisitions (including in connection with the integration of Bally and WMS), including departure of key personnel or inability to recruit additional qualified personnel or maintain relationships with customers, suppliers or other third parties;
- incurrence of employee termination or restructuring costs and impairment or asset write-down charges;
- changes in estimates or judgments related to our impairment analysis of goodwill or other intangible assets;
- implementation of complex revenue recognition standards;
- fluctuations in our results due to seasonality and other factors;
- dependence on suppliers and manufacturers;
- risks relating to foreign operations, including fluctuations in foreign currency exchange rates (including those fluctuations related to the affirmative vote in the U.K. to withdraw from the EU), restrictions on the payment of dividends from earnings, restrictions on the import of products and financial instability, including the potential impact to our business resulting from the affirmative vote in the U.K. to withdraw from the EU and the potential impact to our instant lottery game concession or VLT lease arrangements resulting from the recent economic and political conditions in Greece;
- dependence on key employees;
- litigation and other liabilities relating to our business, including litigation and liabilities relating to our contracts and licenses, our products and systems, our employees (including labor disputes), intellectual property and our strategic relationships;
- influence of certain stockholders; and
- stock price volatility.

Additional information regarding risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated in forward-looking statements is included from time to time in our filings with the SEC, including under Item 1A "Risk Factors" in our 2015 10-K and under Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the period ended June 30, 2016. Forward-looking statements speak only as of the date they are made and, except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited, in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Services	$356.4	$340.5	$1,070.2	$1,008.8
Product sales	225.9	193.5	638.3	611.0
Instant games	137.7	137.6	422.7	402.0
Total revenue	720.0	671.6	2,131.2	2,021.8
Operating expenses:				
Cost of services (1)	98.0	85.5	294.3	274.6
Cost of product sales (1)	104.6	87.4	299.7	293.2
Cost of instant games (1)	71.7	77.1	212.8	212.9
Selling, general and administrative	152.8	136.8	440.0	423.6
Research and development	53.9	45.9	155.4	140.8
Restructuring and other	13.8	5.6	20.7	19.0
Depreciation, amortization and impairments	191.7	286.5	565.4	692.9
Goodwill impairment	—	935.0	—	935.0
Operating income (loss)	33.5	(988.2)	142.9	(970.2)
Other (expense) income:				
Interest expense	(165.4)	(166.8)	(496.4)	(497.5)
Earnings from equity investments	7.3	3.0	18.5	9.4
Gain on early extinguishment of debt	—	—	25.2	—
Other income (expense), net	6.0	(7.5)	8.4	(17.4)
Total other expense, net	(152.1)	(171.3)	(444.3)	(505.5)
Net loss before income taxes	(118.6)	(1,159.5)	(301.4)	(1,475.7)
Income tax benefit	19.7	81.3	58.5	208.9
Net loss	$(98.9)	$(1,078.2)	$(242.9)	$(1,266.8)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	1.9	(47.9)	(34.8)	(136.3)
Pension and post-retirement gain, net of tax	0.2	0.8	0.7	1.0
Derivative financial instruments unrealized gain (loss), net of tax	3.1	(1.9)	6.7	(0.8)
Other comprehensive income (loss)	5.2	(49.0)	(27.4)	(136.1)
Comprehensive loss	$(93.7)	$(1,127.2)	$(270.3)	$(1,402.9)
Basic and diluted net loss per share:				
Basic	$(1.13)	$(12.52)	$(2.79)	$(14.76)
Diluted	$(1.13)	$(12.52)	$(2.79)	$(14.76)
Weighted average number of shares used in per share calculations:				
Basic shares	87.5	86.1	87.1	85.8
Diluted shares	87.5	86.1	87.1	85.8

(1) Exclusive of D&A.
See accompanying condensed notes to consolidated financial statements.

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

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 120.9	$ 128.7
Restricted cash	24.3	20.2
Accounts receivable, net	465.3	487.1
Notes receivable, net	129.0	167.7
Inventories	270.1	248.5
Prepaid expenses, deposits and other current assets	126.0	123.3
Total current assets	1,135.6	1,175.5
Long-term restricted cash	17.3	17.9
Long-term notes receivable, net	43.6	51.3
Property and equipment, net	663.8	794.0
Goodwill	2,991.0	3,013.7
Intangible assets, net	1,841.0	1,920.0
Software, net	431.1	485.9
Equity investments	206.5	228.5
Other assets	46.7	45.4
Total assets	$ 7,376.6	$ 7,732.2
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 49.6	$ 50.3
Accounts payable	173.6	159.8
Accrued liabilities	495.3	443.8
Total current liabilities	718.5	653.9
Deferred income taxes	129.9	228.2
Other long-term liabilities	244.4	188.9
Long-term debt, excluding current portion	8,033.8	8,156.7
Total liabilities	9,126.6	9,227.7
Commitments and contingencies (see Note 16)		
Stockholders' deficit:		
Class A common stock, par value $0.01 per share: 199.3 shares authorized; 104.8 and 103.7 shares issued and 87.6 and 86.5 shares outstanding, respectively	1.0	1.0
Additional paid-in capital	781.7	765.9
Accumulated loss	(2,107.9)	(1,865.0)
Treasury stock, at cost, 17.2 shares	(175.2)	(175.2)
Accumulated other comprehensive loss	(249.6)	(222.2)
Total stockholders' deficit	(1,750.0)	(1,495.5)
Total liabilities and stockholders' deficit	$ 7,376.6	$ 7,732.2

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(242.9)	$(1,266.8)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation, amortization and impairments	565.4	692.9
Change in deferred income taxes	(100.7)	(223.3)
Stock-based compensation	23.5	19.5
Non-cash interest expense	30.3	29.0
Earnings from equity investments, net	(18.5)	(9.4)
Distributed earnings from equity investments	16.7	20.9
Gain on early extinguishment of debt	(25.2)	—
Goodwill impairment	—	935.0
Changes in current assets and liabilities:		
Accounts and notes receivable, net	53.5	43.7
Inventories	(30.3)	36.8
Other current assets and liabilities	17.8	11.8
Accounts payable	4.1	(17.7)
Accrued liabilities	51.2	(17.4)
Other, net	(2.1)	0.5
Net cash provided by operating activities	342.8	255.5
Cash flows from investing activities:		
Capital expenditures	(214.4)	(233.6)
Proceeds from asset sales	3.1	—
Changes in other assets and liabilities and other	3.0	10.1
Restricted cash	(3.5)	9.3
Distributions of capital on equity investments	24.0	37.0
Net cash used in investing activities	(187.8)	(177.2)
Cash flows from financing activities:		
Borrowings under revolving credit facility	270.0	110.0
Repayments under revolving credit facility	(315.0)	(180.0)
Payments on long-term debt	(37.6)	(38.8)
Repurchase of notes	(39.9)	—
Payments on license obligations	(34.5)	(32.0)
Contingent earnout payments	—	(0.5)
(Redemptions) issuance of common stock under stock-based compensation plans	(4.7)	0.4
Net cash used in financing activities	(161.7)	(140.9)
Effect of exchange rate changes on cash and cash equivalents	(1.1)	(7.1)
Decrease in cash and cash equivalents	(7.8)	(69.7)
Cash and cash equivalents, beginning of period	128.7	171.8
Cash and cash equivalents, end of period	$120.9	$102.1
Supplemental cash flow information:		
Cash paid for interest	$433.5	$424.4
Income taxes paid/(received)	9.8	(9.1)
Non-cash investing and financing transactions:		

Disposal of fully depreciated assets	38.9	59.9
Non-cash additions to intangible assets related to license agreements	91.3	9.1

See accompanying condensed notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, amounts in USD, table amounts in millions, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies
Description of the Business
We are a leading developer of technology based products and services and associated content for the worldwide gaming, lottery and interactive gaming industries. Our portfolio includes gaming machines and game content, casino management systems, table game products and services, instant and draw based lottery games, server based gaming and lottery systems, sports betting technology, lottery content and services, loyalty and rewards programs, interactive gaming and social casino solutions. We also gain access to technologies and pursue global expansion through strategic acquisitions and equity investments. We report our operations in three business segments—Gaming, Lottery and Interactive.
Basis of Presentation and Principles of Consolidation
The accompanying consolidated financial statements of the Company have been prepared in accordance with SEC and U.S. GAAP requirements. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, as well as those subsidiaries in which we have a controlling financial interest. Investments in other entities in which we do not have a controlling financial interest but we exert significant influence are accounted for in our consolidated financial statements using the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.
In the opinion of management, we have made all adjustments necessary to present fairly our consolidated financial position, results of operations and comprehensive loss and cash flows for the periods presented. Such adjustments are of a normal, recurring nature. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2015 10-K. Interim results of operations are not necessarily indicative of results of operations for a full year.
Significant Accounting Policies
There have been no changes to our significant accounting policies described in Note 1 in our 2015 10-K.
New Accounting Guidance - Recently Adopted

In July 2015, the FASB issued ASU No. 2015-11, Inventory: Simplifying the Measurement of Inventory. ASU 2015-11 changes the criteria for measuring inventory within the scope of the ASU. Inventory will now be measured at the lower of cost and net realizable value, while the concept of market value will be eliminated. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We adopted this guidance prospectively at the beginning of the second quarter of 2016. The adoption of this guidance did not have a material effect on our financial condition, results of operations, or cash flows.

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amended guidance simplifies the accounting for equity investments and eliminates the requirements in Topic 323 that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. We adopted this guidance prospectively at the beginning of the first quarter of 2016. The adoption of this guidance did not have a material effect on our financial condition, results of operations or cash flows.

New Accounting Guidance - Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers. The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue from contracts with customers. The guidance (including subsequent amendments) supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The ASU may be adopted using a full retrospective approach or using a modified retrospective application approach. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years with earlier adoption permitted for fiscal years beginning after December 15, 2016. We are currently evaluating the impact of adopting this guidance and anticipate the adoption to occur at the beginning of the first quarter of 2018, using a modified retrospective application approach.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amended guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is expected to result in a significant portion of our operating leases, where we are the lessee, to be recognized on our Consolidated Balance Sheets. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier adoption permitted. We are currently evaluating the impact and timing of adopting this guidance.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amended guidance is intended to simplify several aspects of accounting for share-based payment award transactions, including income tax consequences, accounting for forfeitures, classification of awards as either equity or liabilities and classification in the statement of cash flows. ASU 2016-09 has separate transition guidance for each element of the new standard and is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years with earlier adoption permitted. We are currently evaluating the impact of adopting this guidance.

We do not expect that any other recently issued accounting guidance will have a significant effect on our financial statements.

(2) Business Segments

We report our operations in three business segments—Gaming, Lottery and Interactive—representing our different products and services. Our Gaming business segment generally sells gaming machines, VGTs, VLTs and conversion kits and parts, leases or otherwise provides gaming machines, server-based systems and content, sells and supports casino-management systems-based software and hardware, and sells and leases PTG content and Shufflers to commercial, tribal and governmental gaming operators. Our Lottery business segment provides instant lottery games and related value-added services, as well as licensed brands utilized in instant lottery games and loyalty and reward services. Our Lottery business segment also provides systems products and services generally comprised of point-of-sale terminals, a central system, customized computer software, data communication services, support and/or related equipment. Our Interactive business segment provides social gaming and RMG services to online casino operators through our remote game servers. Additional discussion regarding the products and services from which each reportable business segment derives its revenue is included in Note 1 in our 2015 10-K.

In evaluating financial performance, we focus on operating income (loss) as a segment's measure of profit or loss. The accounting policies of our business segments are the same as those described in our summary of significant accounting policies in Note 1 in our 2015 10-K. The following tables present the Company's segment information:

	Three Months Ended September 30, 2016				
	Gaming	Lottery	Interactive	Corporate(1)	Total
Total revenue	$448.2	$186.6	$ 85.2	$ —	$720.0
Restructuring and other	—	0.5	(0.4)	13.7	13.8
Depreciation, amortization and impairments	154.0	15.2	3.7	18.8	191.7
Operating income (loss)	51.5	43.2	9.6	(70.8)	33.5
Interest expense					(165.4)
Earnings from equity investments					7.3
Other income (expense), net					6.0
Net loss before income taxes					$(118.6)

(1) Includes corporate amounts not allocated to the business segments.

	Three Months Ended September 30, 2015				
	Gaming	Lottery	Interactive	Corporate(1)	Total
Total revenue	$429.1	$191.3	$ 51.2	$ —	$671.6
Restructuring and other	3.2	—	0.5	1.9	5.6
Depreciation, amortization and impairments	245.1	21.6	5.4	14.4	286.5
Goodwill impairment	935.0	—	—	—	935.0
Operating income (loss)	(985.3)	41.3	6.3	(50.5)	(988.2)
Interest expense					(166.8)
Earnings from equity investments					3.0
Other income (expense), net					(7.5)
Net loss before income taxes					$(1,159.5)

(1) Includes corporate amounts not allocated to the business segments.

	Nine Months Ended September 30, 2016				
	Gaming	Lottery	Interactive	Corporate(1)	Total
Total revenue	$1,311.8	$578.2	$ 241.2	$ —	$2,131.2
Restructuring and other	5.0	1.8	0.1	13.8	20.7
Depreciation, amortization and impairments	449.9	50.2	11.2	54.1	565.4
Operating income (loss)	141.6	149.1	34.8	(182.6)	142.9
Interest expense					(496.4)
Earnings from equity investments					18.5
Gain on early extinguishment of debt					25.2
Other income (expense), net					8.4
Net loss before income taxes					$(301.4)

(1) Includes corporate amounts not allocated to the business segments.

	Nine Months Ended September 30, 2015				
	Gaming	Lottery	Interactive	Corporate(1)	Total
Total revenue	$1,304.6	$567.5	$ 149.7	$ —	$2,021.8
Restructuring and other	10.1	0.2	1.5	7.2	19.0
Depreciation, amortization and impairments	569.9	62.9	15.9	44.2	692.9
Goodwill impairment	935.0	—	—	—	935.0
Operating income (loss)	(955.1)	130.6	17.5	(163.2)	(970.2)
Interest expense					(497.5)
Earnings from equity investments					9.4
Other income (expense), net					(17.4)
Net loss before income taxes					$(1,475.7)

(1) Includes corporate amounts not allocated to the business segments.

(3) Restructuring and other

Restructuring and other includes charges or expenses attributable to: (i) employee severance; (ii) management changes; (iii) restructuring and integration; (iv) cost savings initiatives; and (v) other unusual items. In the three and nine months ended September 30, 2016, approximately $10.3 million and $17.2 million, respectively, of Restructuring and other were related to items (i) and (iii) set forth above.

We began integrating Scientific Games and WMS subsequent to the WMS acquisition in October 2013. This integration was completed during the first quarter of 2016. We began integrating Scientific Games and Bally subsequent to the Bally acquisition in November 2014 by implementing our plans to streamline our operations and cost structure.

Although we have substantially completed the actions under the above-described restructuring plans, we remain focused on cost efficiencies and will execute additional initiatives in the future, if necessary, in order to streamline our operations and cost structure. We do not expect to incur additional material costs related to our previously announced integration plans. The amounts currently accrued and previously expensed as Restructuring and other were $5.8 million as of September 30, 2016. During the three and nine months ended September 30, 2016, we made cash payments on these restructuring plans totaling $3.4 million and $10.7 million, respectively.

Refer to Subsequent Events Note 17.

(4) Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share were the same for all periods presented as all common stock equivalents would be anti-dilutive. We excluded 3.2 million and 1.9 million of stock options from the diluted weighted-average common shares outstanding as of September 30, 2016 and 2015, respectively, and 5.6 million and 6.0 million of RSUs from the calculation of diluted weighted-average common shares outstanding as of September 30, 2016 and 2015, respectively.

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

Accounts and Notes Receivable

The following summarizes the components of current and long-term accounts and notes receivable, net:

	September 30, 2016	December 31, 2015
Current:		
Accounts receivable	$ 478.3	$ 497.7
Notes receivable	143.6	180.4
Allowance for doubtful accounts and notes	(27.6)	(23.3)
Current accounts and notes receivable, net	$ 594.3	$ 654.8
Long-term:		
Notes receivable, net of allowance of $0.2 and $0.3	43.6	51.3
Total accounts and notes receivable, net	$ 637.9	$ 706.1

Credit Quality of Notes Receivable

The interest rates on our outstanding notes receivable ranged from 3.25% to 10.42% at September 30, 2016 and December 31, 2015.

We have certain concentrations of outstanding notes receivable in international locations that impact our assessment of the credit quality of our notes receivable. We monitor the macroeconomic and political environment in each of these locations in our assessment of the credit quality of our notes receivable. We have not identified changes in the aforementioned factors in the nine months ended September 30, 2016 that require a reassessment of our receivable balances. The international locations with significant concentrations (generally deemed to be exceeding 10%) of our notes receivable are as follows:

- Mexico - Our accounts and notes receivable, net, from certain customers in Mexico at September 30, 2016 was $43.2 million. We collected $22.1 million of outstanding receivables from these customers during the nine months ended September 30, 2016.
- Peru - Our accounts and notes receivable, net, from certain customers in Peru at September 30, 2016 was $34.6 million. We collected $19.5 million of outstanding receivables from these customers during the nine months ended September 30, 2016.
- Argentina - Our accounts and notes receivable, net, from customers in Argentina at September 30, 2016 was $17.5 million denominated in USD. Our customers are required to and have continued to pay us in pesos at the spot exchange rate on the date of payment. We collected $17.7 million of outstanding receivables from customers in Argentina during the nine months ended September 30, 2016.

In addition to the macroeconomic and political factors noted above, we also evaluated recent payments, receivables aging, any additional security or collateral we had (bills of exchange, pledge agreements, etc.) and other facts and circumstances relevant to our customers' ability to pay.

The following summarizes the components of total notes receivable, net:

	September 30, 2016	Balances over 90 days past due	December 31, 2015	Balances over 90 days past due
Notes receivable:				
Domestic	$ 34.5	$ 0.8	$ 62.4	$ 2.6
International	152.9	34.1	169.8	26.6
Total notes receivable	187.4	34.9	232.2	29.2
Notes receivable allowances				
Domestic	(1.1)	(0.8)	(2.6)	(2.5)
International	(13.7)	(13.7)	(10.6)	(9.5)
Total notes receivable allowances	(14.8)	(14.5)	(13.2)	(12.0)
Notes receivable, net	$ 172.6	$ 20.4	$ 219.0	$ 17.2

At September 30, 2016, 11.8% of our total notes receivable, net, was past due by over 90 days, compared to 7.9% at December 31, 2015.

The following tables detail our evaluation of notes receivable for impairment and the changes in our notes receivable allowances:

	September 30, 2016			December 31, 2015		
	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Total
Notes receivable:						
Domestic	$10.4	$ 24.1	$34.5	$20.7	$ 41.7	$62.4
International	78.9	74.0	152.9	101.8	68.0	169.8
Total notes receivable	89.3	98.1	187.4	122.5	109.7	232.2
Allowance for notes receivable	(14.6)	(0.2)	(14.8)	(12.9)	(0.3)	(13.2)
Total notes receivable, net	$74.7	$ 97.9	$172.6	$109.6	$ 109.4	$219.0

	For the Nine Months Ended September 30, 2016			For the Nine Months Ended September 30, 2015		
	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Total
Provision	$(3.8)	$ —	$(3.8)	$(6.2)	$ (1.7)	$(7.9)
Charge-offs and recoveries	2.1	0.1	2.2	2.3	0.1	2.4

The fair value of notes receivable is estimated by discounting expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of September 30, 2016 and December 31, 2015, the fair value of notes receivable, net, approximated the carrying amount due to their short-term nature.

(6) Inventories

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

	September 30, 2016	December 31, 2015
Parts and work-in-process	$ 117.8	$ 118.3
Finished goods	152.3	130.2
Total inventories	$ 270.1	$ 248.5

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

During the nine months ended September 30, 2015, we recorded an impairment of $7.1 million related to the discontinuance of certain product lines as a result of the Bally acquisition. The impairment is included in Cost of product sales for the nine months ended September 30, 2015.

(7) Property and Equipment, net

Property and equipment, net consisted of the following:

	September 30, 2016	December 31, 2015
Land	$ 38.5	$ 38.5
Buildings and leasehold improvements	183.1	185.2
Gaming and lottery machinery and equipment	1,057.1	1,084.6
Furniture and fixtures	29.2	36.0
Construction in progress	22.5	25.5
Other property and equipment	263.7	271.0
Less: accumulated depreciation	(930.3)	(846.8)
Total property and equipment, net	$ 663.8	$ 794.0

Depreciation expense is excluded from Cost of services, Cost of product sales, Cost of instant games and Other operating expenses and is separately presented within D&A.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(in millions)	2016	2015	2016	2015
Depreciation expense	$80.9	$72.8	$248.3	$249.1

(8) Intangible Assets, net and Goodwill

Intangible Assets, net

The following tables present certain information regarding our intangible assets as of September 30, 2016 and December 31, 2015. Amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives with no estimated residual value, which materially approximates the expected pattern of use of these intangible assets.

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Amortizable intangible assets:						
Customer relationships	$879.2	$ (151.0)	$728.2	$877.7	$ (109.1)	$768.6
Intellectual property[(1)]	733.9	(195.3)	538.6	731.1	(124.5)	606.6
Licenses	417.8	(139.0)	278.8	326.1	(91.6)	234.5
Brand names	125.2	(29.1)	96.1	124.0	(18.9)	105.1
Trade names	97.4	(6.5)	90.9	97.5	(1.9)	95.6
Patents and other	27.8	(14.0)	13.8	27.1	(12.8)	14.3
	2,281.3	(534.9)	1,746.4	2,183.5	(358.8)	1,824.7
Non-amortizable intangible assets:						
Trade names	96.7	(2.1)	94.6	97.4	(2.1)	95.3
Total intangible assets	$2,378.0	$ (537.0)	$1,841.0	$2,280.9	$ (360.9)	$1,920.0

(1) December 31, 2015 net balance includes $33 million of in-process R&D assets that were not subject to amortization. These assets reached commercial feasibility at the end of the third quarter of 2016, with amortization commencing October 2016.

In January 2016, we amended and extended the terms of one of our existing license agreements through December 31, 2022. Under the terms of the amended agreement, we are obligated to pay aggregate minimum guarantees of $88.0 million over the life of the contract in exchange for the right to use certain licensed properties in game content themes, which are incorporated into our slot games, online games, lottery products and promotional materials. We account for the minimum guaranteed obligations within other long-term liabilities (or, with respect to the portion that is a current liability within accounts payable or accrued liabilities) at the onset of the license arrangement and record a corresponding licensed asset within Intangible assets, net. The current and long-term portions of our minimum guaranteed obligations related to the amended license agreement were $8.8 million and $74.6 million, respectively, and are recorded in Accounts payable and Other long-term liabilities, respectively, as of September 30, 2016.

Intangible amortization expense is included within D&A.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amortization expense	$60.9	$181.5	$188.8	$331.8

We recorded non-cash impairment charges of $103.6 million and $128.6 million in D&A for the three and nine months ended September 30, 2015, respectively, to reduce the gross carrying amount of two indefinite-lived trade name assets to their fair values. These assets were subsequently reclassified to finite-lived during the third quarter of 2015.

Goodwill

Based on the results of our third quarter 2015 interim goodwill impairment analysis for our SG gaming reporting unit, we recorded a $935.0 million non-cash impairment charge with no tax benefit for the three and nine months ended September 30, 2015. The impairment charge primarily resulted from a change in outlook for the SG gaming reporting unit due to market-related factors negatively impacting gaming machine unit demand and the number of gaming machines leased by our customers combined with fewer than anticipated new casino openings and expansions. All of these factors resulted in declines in our outlook for gaming machine sales and Participation game revenues.

The table below reconciles the change in the carrying amount of goodwill by business segment for the period from December 31, 2015 to September 30, 2016.

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Goodwill	Gaming	Lottery	Interactive	Totals
Balance as of December 31, 2015	$2,486.0	$417.9	$ 109.8	$3,013.7
Foreign currency adjustments	(27.1)	4.4	—	(22.7)
Balance as of September 30, 2016	$2,458.9	$422.3	$ 109.8	$2,991.0

(9) Software, net

Software, net consisted of the following:

	September 30, 2016	December 31, 2015
Software	$ 932.1	$ 854.2
Accumulated amortization	(501.0)	(368.3)
Software, net	$ 431.1	$ 485.9

Software amortization expense is included within D&A.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amortization expense	$44.2	$32.2	$122.6	$112.0

(10) Equity Investments

Equity investments totaled $206.5 million and $228.5 million as of September 30, 2016 and December 31, 2015, respectively. We received distributions and dividends totaling $40.7 million and $57.9 million during the nine months ended September 30, 2016 and 2015, respectively.

(11) Long-Term and Other Debt

Outstanding Debt and Capital Leases

The following reflects our outstanding debt:

	Principal	Unamortized debt discount	Unamortized deferred financing costs	Book value September 30, 2016
Senior Secured Credit Facilities:				
Revolver, varying interest rate, due 2018	$50.0	$ —	$ —	$50.0
Term Loan, varying interest rate, due 2020	2,236.8	(6.5)	(44.2)	2,186.1
Term Loan, varying interest rate, due 2021	1,965.0	(14.5)	(42.7)	1,907.8
2018 Notes	250.0	—	(1.5)	248.5
2020 Notes	243.5	—	(2.5)	241.0
2021 Notes	340.6	(1.5)	(4.8)	334.3
Secured Notes	950.0	—	(14.4)	935.6
Unsecured Notes	2,200.0	—	(37.5)	2,162.5
Capital lease obligations, 3.9% interest as of September 30, 2016 payable monthly through 2019	17.6	—	—	17.6
Total long-term debt outstanding	$8,253.5	$ (22.5)	$ (147.6)	$8,083.4
Less: current portion of long-term debt				(49.6)
Long-term debt, excluding current portion				$8,033.8

	Principal	Unamortized debt discount	Unamortized deferred financing costs	Book value December 31, 2015
Senior Secured Credit Facilities:				
Revolver, varying interest rate, due 2018	$95.0	$ —	$ —	$95.0
Term Loan, varying interest rate, due 2020	2,254.0	(7.8)	(52.5)	2,193.7
Term Loan, varying interest rate, due 2021	1,980.0	(16.7)	(49.2)	1,914.1
2018 Notes	250.0	—	(2.0)	248.0
2020 Notes	300.0	—	(3.6)	296.4
2021 Notes	350.0	(1.8)	(5.6)	342.6
Secured Notes	950.0	—	(16.4)	933.6
Unsecured Notes	2,200.0	—	(42.1)	2,157.9
Capital lease obligations, 3.9% interest as of December 31, 2015 payable monthly through 2019	25.7	—	—	25.7
Total long-term debt outstanding	$8,404.7	$ (26.3)	$ (171.4)	$8,207.0
Less: current portion of long-term debt				(50.3)
Long-term debt, excluding current portion				$8,156.7

Senior Secured Credit Facilities

We and certain of our subsidiaries are party to a credit agreement dated as of October 18, 2013, as amended, by and among SGI, as the borrower, SGC, as a guarantor, Bank of America, N.A., as administrative agent, and the lenders and other agents party thereto. This credit facility includes the term loans due in 2020 and 2021, each as set forth in the above table, and a $592.6 million revolving credit facility. Up to $350.0 million of the revolving credit facility is available for issuances of letters of credit.

All of the debt incurred under this credit agreement is subject to accelerated maturity depending on our liquidity at the times each of the 2018 Notes, 2020 Notes and 2021 Notes become due.

2020 Notes and 2021 Notes

During the second quarter of 2016, we repurchased and cancelled $56.5 million and $9.4 million of principal amount of the 2020 Notes and 2021 Notes, respectively, for $34.2 million and $5.7 million in cash, respectively, through separate open

market purchases. In connection with this transaction, we recorded a $25.2 million gain on early extinguishment of debt, net of a $0.8 million charge related to the write-off of unamortized debt discount and deferred financing costs associated with the extinguished debt.

Social Gaming Unrestricted Subsidiary Designation

In order to provide flexibility for potential future growth opportunities with respect to our social gaming business, during the third quarter of 2016 we designated certain of our wholly owned direct and indirect subsidiaries, which hold substantially all of the assets of, and operate, our social gaming business, as “Unrestricted Subsidiaries” under our credit agreement and each of the indentures governing the 2018 Notes, 2020 Notes, 2021 Notes, Secured Notes and Unsecured Notes. As a result of such designations, these social gaming subsidiaries are not guarantors under our credit agreement and indentures and are not obligated to comply with many of the covenants set forth in those agreements and that remain applicable to us and our restricted subsidiaries. In addition, except to the extent of cash distributions from these social gaming subsidiaries to us or our restricted subsidiaries, the assets, liabilities and financial results of these social gaming subsidiaries will be excluded from the calculation of the applicable financial metrics required by these agreements, including our credit agreement’s maintenance covenant, which is based on our consolidated net first lien leverage. Following these designations, the social gaming subsidiaries remain wholly owned direct and indirect subsidiaries of the Company.

For additional information regarding our senior secured credit facilities, 2018 Notes, 2020 Notes, 2021 Notes, Secured Notes, Unsecured Notes and capital lease obligations, see Note 15 in our 2015 10-K.

Fair Value of Debt

The estimated fair value of our long-term debt as of September 30, 2016 and December 31, 2015 was approximately $7,976.0 million and $6,931.6 million, respectively. We estimate the fair value of debt based on quoted market prices of our securities, if available, and indicative pricing derived from market information. We categorize inputs used to measure the fair value of debt as Level 2 in the fair value hierarchy due to the low volume and frequency of transactions in the market.

(12) Fair Value Measurements

We determine the fair value of our financial assets and liabilities by reference to market data and other valuation techniques as appropriate. We believe the fair value of our financial instruments, which are principally cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued liabilities, approximates their recorded values due to the short-term nature of these instruments. Our assets and liabilities measured at fair value on a recurring basis are described below.

Interest rate swap contracts

We hedge a portion of our variable rate debt to effectively fix the interest rates that we pay. We have interest rate swap contracts designated as cash flow hedges under ASC 815. Under these hedges, we pay interest at a weighted-average fixed rate of 2.151% and receive interest at the greater of 1% or the prevailing three-month LIBOR rate.

These hedges are highly effective in offsetting changes in our future expected cash flows due to the fluctuation in the three-month LIBOR rate associated with our variable rate debt. The effectiveness of these hedges is measured quarterly on a retrospective basis. As a result of the effective matching of the critical terms on our variable rate debt being hedged to the hedging instruments being used, we have not measured any hedge ineffectiveness to date. All gains and losses from these hedges are recorded in Other comprehensive income (loss) until the future underlying payment transactions occur. Any realized gains or losses resulting from the hedges will be recognized (together with the hedged transaction) as interest expense. We estimate the fair value of our interest rate swap contracts by discounting the future cash flows of both the fixed rate and variable rate interest payments based on market yield curves. The inputs used to measure the fair value of our interest rate swap contracts are categorized as Level 2 in the fair value hierarchy.

The following table shows the losses (gains) on our interest rate swap contracts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Losses (gains) recorded in accumulated other comprehensive loss, net of tax	$(2.7)	$1.7	$(6.3)	$1.0
Realized (gains) losses recorded in interest expense	2.0	(0.6)	6.1	1.1

We expect to reclassify additional losses of $8.2 million from accumulated other comprehensive loss to interest expense in the next twelve months. The following table shows the fair value of our hedges:

	September 30, 2016	December 31, 2015
Accrued liabilities	$ 8.2	$ 7.9
Other long-term liabilities	1.7	4.0
Total fair value	$ 9.9	$ 11.9

Other

As of September 30, 2016 and December 31, 2015, we had $15.3 million and $16.7 million of assets held for sale, respectively, which consisted of our Waukegan, Illinois manufacturing facility and a portion of our Chicago, Illinois R&D campus. During the second quarter of 2016, we sold the portion of our Chicago, Illinois R&D campus which was previously held for sale at a price that materially approximated the carrying amount, less selling costs. During the third quarter of 2016, we classified additional office buildings located in our Chicago, Illinois R&D campus as assets held for sale. The carrying amount of these buildings approximated the fair market value, less expected costs to sell. During the third quarter of 2016, we recorded a non-cash impairment charge of $5.7 million in D&A related to our Waukegan manufacturing facility. Assets held for sale are included within Prepaid expenses, deposits and other current assets and are reported at the lower of the carrying amount or fair market value, less expected costs to sell, which approximated the fair value as of September 30, 2016 and December 31, 2015. We measured the fair value of assets held for sale under a market approach and have categorized such measurements as Level 3 in the fair value hierarchy.

(13) Stockholders' Deficit

Stock-based and other incentive compensation

We provide stock-based compensation using stock options and RSUs. We also previously offered an ESPP through September 30, 2015, when the shares allocated to this plan were fully issued and the ESPP terminated in accordance with its terms. See Note 18 in our 2015 10-K. At the Annual Meeting, our stockholders approved the adoption of a new ESPP. The first offering period under the new ESPP will commence on January 1, 2017. A summary of our stock-based compensation plans follows:

	As of September 30, 2016
Options outstanding	3.2
Remaining unrecognized expense related to unvested options	$8.3
RSUs Outstanding	5.6
Remaining unrecognized expense related to unvested RSUs	$52.8

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock-based compensation expense recognized:				
Related to vesting of stock options	$2.9	$0.6	$4.2	$1.5
Related to vesting of RSUs	8.1	6.6	19.3	17.6
Total	$11.0	$7.2	$23.5	$19.1

On August 5, 2016, we announced that Kevin Sheehan succeeded M. Gavin Isaacs as President and Chief Executive Officer of the Company. On August 10, 2016, Mr. Sheehan received sign-on equity awards consisting of (a) 400,000 performance-conditioned restricted stock units that will vest based on achievement of specified performance conditions over a three-year period and (b) equity awards with a grant date value equal to approximately 250% of his base salary, prorated based on the number of days Mr. Sheehan will be employed in 2016, and consisting of (i) restricted stock units and stock options, each with a four-year vesting schedule and (ii) performance-conditioned stock options vesting over a four-year period.

(14) Employee Benefit Plans

We have defined benefit pension plans for our U.K.-based union employees (the "U.K. Plan") and certain Canadian-based employees (the "Canadian Plan"). Retirement benefits under the U.K. Plan are generally 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 applicable authorities. See Note 19 in our 2015 10-K. We recognized no material costs in 2015 and 2016 under these plans.

We have a 401(k) plan for U.S.-based employees. Those employees who participate in our 401(k) plan are eligible to receive matching contributions of 35% from us for participant contributions up to the first 6% of their compensation (as defined in the plan document). Contribution expense for the three months ended September 30, 2016 and 2015 was $2.8 million and $2.0 million, respectively. Contribution expense for the nine months ended September 30, 2016 and 2015 was $8.6 million and $7.8 million, respectively.

(15) Income Taxes

The effective income tax rates for the three and nine months ended September 30, 2016 were 16.6% and 19.4%, respectively, and 7.0% and 14.2% for the three and nine months ended September 30, 2015, respectively, and were determined using an estimated annual effective tax rate after considering any discrete items for such periods.
As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. The Company has remained in a three year cumulative loss in the U.S. federal tax jurisdiction. As of September 30, 2016, on the basis of this evaluation and considering the projected U.S. pre-tax losses for 2016 and the resulting net U.S. deferred tax asset position anticipated to occur during 2016, a valuation allowance has been contemplated as a component of the estimated annual effective tax rate in order to recognize only the portion of the benefit related to current year losses that is more likely than not to be realized.

As of December 31, 2015, the Company remained in a net U.S. deferred tax liability position and therefore a valuation allowance against its U.S. deferred tax assets was only necessary for certain state deferred tax assets and U.S. foreign tax credit carryforwards. The Company maintained other valuation allowances for certain non-U.S. jurisdictions with cumulative losses. The Company is projecting a pre-tax loss for its U.S. operations in 2016 in an amount that will more than exceed, on an after tax basis, the net deferred tax liability recorded as of December 31, 2015. Thus, we are projecting to be in a net U.S. deferred tax asset position at December 31, 2016, exclusive of the valuation allowance. Our effective income tax rate on foreign earnings is impacted by the mix of income and the statutory tax rates in our foreign jurisdictions, which range from a low of 0% to a high of 39%. The foreign jurisdictions that had the most impact on our foreign income tax expense (benefit) in the three and nine months ended September 30, 2016 included Austria, Bermuda, Canada, India, Ireland and the U.K.

(16) Litigation

The Company is involved in various legal proceedings, including those discussed below. We record an accrual for legal contingencies when it is both probable that a liability has been incurred and the amount or range of the loss can be reasonably estimated (although, as discussed below, there may be an exposure to loss in excess of the accrued liability). We evaluate our accruals for legal contingencies at least quarterly and, as appropriate, establish new accruals or adjust existing accruals to reflect (1) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments, (2) the advice and analyses of counsel and (3) the assumptions and judgment of management. Legal costs associated with our legal proceedings are expensed as incurred. We had accrued liabilities of $8.2 million and $16.4 million for all of our legal matters that were contingencies as of September 30, 2016 and December 31, 2015, respectively.

Substantially all of our legal contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss involves a series of complex judgments about future events. Consequently, the ultimate outcomes of our legal contingencies could result in losses in excess of amounts we have accrued. We may be unable to estimate a range of possible losses for some matters pending against the Company or its subsidiaries, even when the amount of damages claimed against the Company or its subsidiaries is stated because, among other things: (1) the claimed amount may be exaggerated or unsupported; (2) the claim may be based on a novel legal theory or involve a large number of parties; (3) there may be uncertainty as to the likelihood of a class being certified or the ultimate size of the class; (4) there may be uncertainty as to the outcome of pending appeals or motions; (5) the matter may not have progressed sufficiently through discovery or there may be significant factual or legal issues to be resolved or developed; and/or (6) there may be uncertainty as to the enforceability of legal judgments and outcomes in certain jurisdictions. Other matters have progressed sufficiently that we are able to estimate a range of possible loss. For those legal contingencies disclosed below, as well as those related to the previously disclosed settlement agreement entered into in February 2015 with SNAI S.p.a., as to which a loss is reasonably possible, whether in excess of a related accrued liability or where there is no accrued liability, and for which we are able to estimate a range of possible loss, the current estimated range is up to approximately $13.5 million in excess of the accrued liabilities (if any) related to those legal contingencies. This aggregate range represents management's estimate of additional possible loss in excess of the accrued liabilities (if any) with respect to these matters based on currently available information, including any damages claimed by the plaintiffs, and is subject to significant judgment and a variety of assumptions and inherent uncertainties. For example, at the time of making an estimate, management may have only preliminary, incomplete, or inaccurate information about the facts underlying a claim; its assumptions about the future rulings of the court or other tribunal on significant issues, or the behavior and incentives of adverse parties, regulators, indemnitors or co defendants, may prove to be wrong; and the outcomes it is attempting to predict are often not amenable to the use of statistical or other quantitative analytical tools. In addition, from time to time an outcome may occur that management had not accounted for in its estimate because it had considered that outcome to be remote. Furthermore, as noted above, the aggregate range does not include any matters for which the Company is not able to estimate a range of possible loss. Accordingly, the estimated aggregate range of possible loss does not represent our maximum loss exposure. Any such losses could have a material adverse impact on our results of operations, cash flows or financial condition. The legal proceedings underlying the estimated range will change from time to time and actual results may vary significantly from the current estimate.

Colombia Litigation

Our subsidiary, SGI, owned a minority interest in Wintech de Colombia S.A., or Wintech (now liquidated), which formerly operated the Colombian national lottery under a contract with Empresa Colombiana de Recursos para la Salud, S.A. (together with its successors, "Ecosalud"), an agency of the Colombian government. The contract provided for a penalty against Wintech, SGI and the other shareholders of Wintech of up to $5.0 million if certain levels of lottery sales were not achieved. In addition, SGI delivered to Ecosalud a $4.0 million surety bond as a further guarantee of performance under the contract. Wintech started the instant lottery in Colombia but, due to difficulties beyond its control, including, among other factors, social and political unrest in Colombia, frequently interrupted telephone service and power outages, and competition from another lottery being operated in a province of Colombia that we believe was in violation of Wintech's exclusive license from Ecosalud, the projected sales level was not met for the year ended June 30, 1993.

In 1993, Ecosalud issued a resolution declaring that the contract was in default. In 1994, Ecosalud issued a liquidation resolution asserting claims for compensation and damages against Wintech, SGI and other shareholders of Wintech for, among other things, realization of the full amount of the penalty, plus interest, and the amount of the bond. SGI filed separate actions opposing each resolution with the Tribunal Contencioso of Cundinamarca in Colombia (the "Tribunal"), which upheld both resolutions. SGI appealed each decision to the Council of State. In May 2012, the Council of State upheld the contract default resolution, which decision was notified to us in August 2012. In October 2013, the Council of State upheld the liquidation resolution, which decision was notified to us in December 2013.

In July 1996, Ecosalud filed a lawsuit against SGI in the U.S. District Court for the Northern District of Georgia asserting many of the same claims asserted in the Colombia proceedings, including breach of contract, and seeking damages. In March 1997, the District Court dismissed Ecosalud's claims. Ecosalud appealed the decision to the U.S.

Court of Appeals for the Eleventh Circuit. The Court of Appeals affirmed the District Court's decision in 1998.

In June 1999, Ecosalud filed a collection proceeding against SGI to enforce the liquidation resolution and recover the claimed damages. In May 2013, the Tribunal denied SGI's merit defenses to the collection proceeding and issued an order of payment of approximately 90 billion Colombian pesos (or approximately $30.6 million), plus default interest potentially accrued since 1994 at a 12% statutory interest rate. SGI has filed an appeal to the Council of State, which appeal has stayed the payment order.

SGI believes it has various defenses, including on the merits, against Ecosalud's claims. Although we believe these claims will not result in a material adverse effect on our consolidated results of operations, cash flows or financial position, it is not feasible to predict the final outcome and there can be no assurance that these claims will not ultimately be resolved adversely to us or result in material liability.

Oregon State Lottery Matter

On December 31, 2014, a representative of a purported class of persons alleged to have been financially harmed by relying on the "auto hold" feature of various manufacturers' video lottery terminals played in Oregon, filed suit in the Circuit Court of Multnomah County, Oregon, against the Oregon State Lottery and various manufacturers, including WMS Gaming Inc. The suit alleges that the auto hold feature of video poker games is perceived by players as providing the best possible playing strategy that will maximize the odds of the player winning, when such auto hold feature does not maximize the players' odds of winning. The plaintiffs are seeking in excess of $134.0 million in monetary damages.

In April 2015, the court granted the Oregon State Lottery's motion to dismiss, stating the plaintiffs had not satisfied the Oregon Tort Claims Act. As a result of the dismissal, the court indicated that all claims against WMS Gaming Inc. were moot. In June 2015, plaintiffs filed an appeal. We intend to vigorously defend against the claims asserted in the lawsuit.

Shuffle Tech Matter

In April 2015, Shuffle Tech International, LLC, Aces Up Gaming, Inc. and Poydras-Talrick Holdings LLC brought a civil action in the United States District Court for the Northern District of Illinois against the Company, Bally and Bally Gaming, Inc., alleging monopolization of the market for card shufflers in violation of federal antitrust laws, fraudulent procurement of patents on card shufflers, unfair competition and deceptive trade practices. Specifically, the plaintiffs claim that the defendants utilized certain shuffler patents in a predatory manner to create and maintain a monopoly in the relevant shuffler market. The plaintiffs seek no less than $100.0 million in compensatory damages, treble damages and injunctive and declaratory relief. In June 2015, the defendants filed a motion to dismiss. In October 2015, the court dismissed all of the plaintiffs' claims against Bally and Bally Gaming, Inc. with prejudice, except for the claims of violation of antitrust laws related to the fraudulent procurement of patents on card shufflers. We intend to vigorously defend against the claims asserted in the lawsuit.

(17) Subsequent Events

On November 3, 2016, we announced that we began implementing a new business improvement initiative, which we expect will streamline our organization, increase our efficiencies, and significantly reduce our operating costs once the initiative is fully implemented. These cost savings are expected to be achieved across all our divisions and will encompass a combination of headcount reductions, facilities streamlining, and reductions in other operating costs. We anticipate Restructuring and other costs of approximately $20 million in the fourth quarter of 2016. The mostly cash payments related to this charge are anticipated to be incurred during the fourth quarter of 2016.

(18) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries

We conduct substantially all of our business through our U.S. and foreign subsidiaries. As of September 30, 2016, SGI's obligations under the 2020 Notes, the 2021 Notes, the Secured Notes and the Unsecured Notes were fully and unconditionally and jointly and severally guaranteed by SGC and the Guarantor Subsidiaries other than SGI. As of September 30, 2016, our 2018 Notes, which were issued by SGC, were fully and unconditionally and jointly and severally guaranteed by the Guarantor Subsidiaries. The guarantees of our 2018 Notes, 2020 Notes, 2021 Notes, Secured Notes and Unsecured Notes will terminate under the following customary circumstances: (1) the sale or disposition of the capital stock of the guarantor (including by consolidation or merger of the guarantor into another person); (2) the liquidation or dissolution of the guarantor; (3) the defeasance or satisfaction and discharge of the notes; (4) the release of the guarantor from any guarantees of indebtedness of SGC and SGI (or, in the case of the 2018 Notes, the release of the guarantor from any guarantees of indebtedness of SGC); and (5) in the case of the 2020 Notes, the 2021 Notes and the Secured Notes and the Unsecured Notes, the proper designation of the guarantor as an unrestricted subsidiary pursuant to the indenture governing the respective Notes.

During the third quarter, we designated certain of our wholly owned direct and indirect subsidiaries that hold substantially all of the assets of, and operate, our social gaming business, as “Unrestricted Subsidiaries” under our credit agreement and each of the indentures governing the 2018 Notes, 2020 Notes, 2021 Notes, Secured Notes and Unsecured Notes. As a result of these designations, our 100%-owned social gaming subsidiaries are no longer guarantors under our credit agreement and indentures. Therefore, the historical condensed consolidating financial information presented has been reclassified to show the nature of assets held, results of operations and cash flows assuming the "Unrestricted Subsidiary" designations were in effect at the beginning of all periods presented, consistent with their status as non-guarantors as of September 30, 2016. The affected subsidiaries are no longer allocated interest in this condensed consolidating financial information due to their present status as non-guarantors. Accordingly, for all periods presented, we no longer present an allocation of interest to any entities, including the Unrestricted Subsidiaries, other than the legal entity issuer of the associated debt.

Presented below is condensed consolidating financial information for (1) SGC, (2) SGI, (3) the Guarantor Subsidiaries and (4) the Non-Guarantor Subsidiaries as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015. The condensed consolidating financial information has been presented to show the nature of assets held, results of operations and cash flows of SGC, SGI, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries assuming the guarantee structures of our credit agreement, the 2018 Notes, the 2020 Notes, the 2021 Notes, the Secured Notes and the Unsecured Notes were in effect at the beginning of the periods presented.

The condensed consolidating financial information reflects the investments of SGC in SGI and in the Guarantor Subsidiaries and Non-Guarantor Subsidiaries using the equity method of accounting. They also reflect the investments of the Guarantor Subsidiaries in the Non-Guarantor Subsidiaries. Net changes in intercompany due from/due to accounts are reported in the accompanying Supplemental Condensed Consolidating Statements of Cash Flows as investing activities if the applicable entities have a net investment (asset) in intercompany accounts and as a financing activity if the applicable entities have a net intercompany borrowing (liability) balance.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2016

	SGC (Parent and Issuer[1])	SGI (Issuer[2])	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$42.7	$0.5	$ —	$ 84.8	$(7.1)	$ 120.9
Restricted cash	—	—	24.2	0.1	—	24.3
Accounts receivable, net	—	58.2	193.2	213.9	—	465.3
Notes receivable, net	—	—	94.3	34.7	—	129.0
Inventories	—	37.9	93.2	156.8	(17.8)	270.1
Prepaid expenses, deposits and other current assets	32.2	17.5	35.2	41.1	—	126.0
Property and equipment, net	8.1	106.3	406.8	166.1	(23.5)	663.8
Investment in subsidiaries	3,166.1	859.5	888.1	—	(4,913.7)	—
Goodwill	—	188.3	1,931.7	871.0	—	2,991.0
Intangible assets, net	196.5	38.5	1,386.0	220.0	—	1,841.0
Intercompany balances	—	5,505.1	—	89.3	(5,594.4)	—
Software, net	71.0	22.9	285.5	51.7	—	431.1
Other assets	270.1	223.9	44.8	217.9	(442.6)	314.1
Total assets	$3,786.7	$7,058.6	$ 5,383.0	$ 2,147.4	$(10,999.1)	$ 7,376.6
Liabilities and stockholders' (deficit) equity						
Current portion of long-term debt	$—	$43.0	$ —	$ 6.6	$—	$ 49.6
Other current liabilities	66.7	194.0	206.9	208.4	(7.1)	668.9
Long-term debt, excluding current portion	248.5	7,774.2	—	11.1	—	8,033.8
Other long-term liabilities	179.4	12.1	517.4	108.0	(442.6)	374.3
Intercompany balances	5,042.1	—	552.3	—	(5,594.4)	—
Stockholders' (deficit) equity	(1,750.0)	(964.7)	4,106.4	1,813.3	(4,955.0)	(1,750.0)
Total liabilities and stockholders' (deficit) equity	$3,786.7	$7,058.6	$ 5,383.0	$ 2,147.4	$(10,999.1)	$ 7,376.6

1 - Issuer of obligations under the 2018 Notes.

2 - Issuer of obligations under the 2020 Notes, the 2021 Notes, the Secured Notes and the Unsecured Notes.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2015

	SGC (Parent and Issuer[1])	SGI (Issuer[2])	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$43.2	$—	$ 0.5	$ 85.0	$—	$ 128.7
Restricted cash	—	—	20.0	0.2	—	20.2
Accounts receivable, net	—	94.6	223.0	169.5	—	487.1
Notes receivable, net	—	—	114.2	53.5	—	167.7
Inventories	—	36.9	104.2	119.6	(12.2)	248.5
Prepaid expenses, deposits and other current assets	26.8	7.0	51.0	38.5	—	123.3
Property and equipment, net	8.2	106.4	501.1	189.8	(11.5)	794.0
Investment in subsidiaries	3,319.6	838.1	819.0	—	(4,976.7)	—
Goodwill	—	186.0	1,934.0	893.7	—	3,013.7
Intangible assets, net	138.3	39.8	1,505.0	236.9	—	1,920.0
Intercompany balances	—	5,857.1	—	—	(5,857.1)	—
Software, net	35.6	32.7	358.0	59.6	—	485.9
Other assets	232.5	123.4	51.8	241.7	(306.3)	343.1
Total assets	$3,804.2	$7,322.0	$ 5,681.8	$ 2,088.0	$(11,163.8)	$ 7,732.2
Liabilities and stockholders' (deficit) equity						
Current portion of long-term debt	$—	$43.0	$ —	$ 7.3	$—	$ 50.3
Other current liabilities	63.7	150.5	238.8	150.6	—	603.6
Long-term debt, excluding current portion	248.0	7,890.3	—	18.4	—	8,156.7
Other long-term liabilities	119.1	14.5	502.1	87.7	(306.3)	417.1
Intercompany balances	4,868.9	—	966.8	21.4	(5,857.1)	—
Stockholders' (deficit) equity	(1,495.5)	(776.3)	3,974.1	1,802.6	(5,000.4)	(1,495.5)
Total liabilities and stockholders' (deficit) equity	$3,804.2	$7,322.0	$ 5,681.8	$ 2,088.0	$(11,163.8)	$ 7,732.2

1 - Issuer of obligations under the 2018 Notes.

2 - Issuer of obligations under the 2020 Notes, the 2021 Notes, the Secured Notes and the Unsecured Notes.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
Three Months Ended September 30, 2016

	SGC (Parent and Issuer[1])	SGI (Issuer[2])	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$ 114.2	$ 330.8	$ 358.4	$ (83.4)	$ 720.0
Cost of services, cost of product sales and cost of instant games [3]	—	81.8	86.1	189.8	(83.4)	274.3
Selling, general and administrative	30.9	14.8	43.1	64.0	—	152.8
Research and development	2.1	1.6	38.3	11.9	—	53.9
Restructuring and other	14.3	0.2	(0.7)	—	—	13.8
Depreciation, amortization and impairments	13.8	8.7	140.6	28.6	—	191.7
Operating (loss) income	(61.1)	7.1	23.4	64.1	—	33.5
Interest expense	(5.3)	(159.5)	—	(0.6)	—	(165.4)
Other (expense) income, net	(13.9)	54.7	(26.7)	(0.8)	—	13.3
Net (loss) income before equity in income of subsidiaries and income taxes	(80.3)	(97.7)	(3.3)	62.7	—	(118.6)
Equity in income of subsidiaries	18.1	7.5	37.9	—	(63.5)	—
Income tax (expense) benefit	(36.7)	99.2	(16.9)	(25.9)	—	19.7
Net (loss) income	$ (98.9)	$ 9.0	$ 17.7	$ 36.8	$ (63.5)	$ (98.9