JPMORGAN CHASE & CO
Form 424B2
March 25, 2019

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Subject to completion dated March 22, 2019

March , 2019 Registration Statement Nos. 333-222672 and 333-222672-01; Rule 424(b)(2)

JPMorgan Chase Financial Company LLC
Structured Investments

Callable Contingent Interest Notes Linked to the Lesser Performing of the Invesco QQQ Trust℠, Series 1, and the VanEck Vectors® Semiconductor ETF due April 1, 2021

Fully and Unconditionally Guaranteed by JPMorgan Chase & Co.

- The notes are designed for investors who seek a Contingent Interest Payment if, (1) with respect to any Review Date (other than the final Review Date), the closing price of one share of each of the Invesco QQQ Trust℠, Series 1, and the VanEck Vectors® Semiconductor ETF, which we refer to as the Funds or, (2) with respect to the final Review Date, the Final Value of each Fund is greater than or equal to 70.00% of its Initial Value, which we refer to as an Interest Barrier.
- The notes may be redeemed early, in whole but not in part, at our option on any of the Interest Payment Dates (other than the final Interest Payment Date).
- The earliest date on which the notes may be redeemed early is July 2, 2019.
- Investors in the notes should be willing to accept the risk of losing some or all of their principal and the risk that no Contingent Interest Payment may be made with respect to some or all Review Dates.
- Investors should also be willing to forgo fixed interest and dividend payments, in exchange for the opportunity to receive Contingent Interest Payments.
- The notes are unsecured and unsubordinated obligations of JPMorgan Chase Financial Company LLC, which we refer to as JPMorgan Financial, the payment on which is fully and unconditionally guaranteed by JPMorgan Chase & Co. **Any payment on the notes is subject to the credit risk of JPMorgan Financial, as issuer of the notes, and the credit risk of JPMorgan Chase & Co., as guarantor of the notes.**
- Payments on the notes are not linked to a basket composed of the Funds. Payments on the notes are linked to the performance of each of the Funds individually, as described below.
- Minimum denominations of $1,000 and integral multiples thereof
- The notes are expected to price on or about March 27, 2019 and are expected to settle on or about April 1, 2019.
- CUSIP: 48130WM57

Investing in the notes involves a number of risks. See "Risk Factors" beginning on page PS-10 of the accompanying product supplement, "Risk Factors" beginning on page US-1 of the accompanying underlying supplement and "Selected Risk Considerations" beginning on page PS-4 of this pricing supplement.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the notes or passed upon the accuracy or the adequacy of this pricing supplement or the accompanying product supplement, underlying supplement, prospectus supplement and prospectus. Any representation to the

contrary is a criminal offense.

	Price to Public (1)	Fees and Commissions (2)	Proceeds to Issuer
Per note	$1,000	$	$
Total	$	$	$

(1) See “Supplemental Use of Proceeds” in this pricing supplement for information about the components of the price to public of the notes.

(2) J.P. Morgan Securities LLC, which we refer to as JPMS, acting as agent for JPMorgan Financial, will pay all of the selling commissions it receives from us to other affiliated or unaffiliated dealers. In no event will these selling commissions exceed $8.00 per $1,000 principal amount note. See “Plan of Distribution (Conflicts of Interest)” in the accompanying product supplement.

If the notes priced today, the estimated value of the notes would be approximately $966.50 per $1,000 principal amount note. The estimated value of the notes, when the terms of the notes are set, will be provided in the pricing supplement and will not be less than $950.00 per $1,000 principal amount note. See “The Estimated Value of the Notes” in this pricing supplement for additional information.

The notes are not bank deposits, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and are not obligations of, or guaranteed by, a bank.

Pricing supplement to product supplement no 4-I dated April 5, 2018, underlying supplement no. 1-I dated April 5, 2018 and the prospectus and prospectus supplement, each dated April 5, 2018

Key Terms

Issuer: JPMorgan Chase Financial Company LLC, an indirect, wholly owned finance subsidiary of JPMorgan Chase & Co.

Guarantor: JPMorgan Chase & Co.

Funds: The Invesco QQQ Trust℠, Series 1 (Bloomberg ticker: QQQ), and the VanEck Vectors® Semiconductor ETF (Bloomberg ticker: SMH)

Contingent Interest Payments: If the notes have not been previously redeemed early and, (1) with respect to any Review Date (other than the final Review Date), the closing price of one share of each Fund or, (2) with respect to the final Review Date, the Final Value of each Fund is greater than or equal to its Interest Barrier, you will receive on the applicable Interest Payment Date for each $1,000 principal amount note a Contingent Interest Payment equal to at least $22.75 (equivalent to a Contingent Interest Rate of at least 9.10% per annum, payable at a rate of at least 2.275% per quarter) (to be provided in the pricing supplement).

If the notes have not been previously redeemed early and, (1) with respect to any Review Date (other than the final Review Date), the closing price of one share of either Fund or, (2) with respect to the final Review Date, the Final Value of either Fund is less than its Interest Barrier, no Contingent Interest Payment will be made with respect to that Review Date.

Contingent Interest Rate: At least 9.10% per annum, payable at a rate of at least 2.275% per quarter (to be provided in the pricing supplement)

Interest Barrier / Trigger Value: With respect to each Fund, 70.00% of its Initial Value

Pricing Date: On or about March 27, 2019

Original Issue Date (Settlement Date): On or about April 1, 2019

Review Dates*: June 27, 2019, September 27, 2019, December 27, 2019, March 27, 2020, June 29, 2020, September 28, 2020, December 28, 2020 and March 29, 2021 (final Review Date)

Ending Averaging Dates*: March 23, 2021, March 24, 2021, March 25, 2021, March 26, 2021 and the final Review Date

Early Redemption:

We, at our election, may redeem the notes early, in whole but not in part, on any of the Interest Payment Dates (other than the final Interest Payment Date) at a price, for each $1,000 principal amount note, equal to $1,000 *plus* the Contingent Interest Payment, if any, applicable to the immediately preceding Review Date. If we intend to redeem your notes early, we will deliver notice to The Depository Trust Company, or DTC, at least three business days before the applicable Interest Payment Date on which the notes are redeemed early.

Payment at Maturity:

If the notes have not been redeemed early and the Final Value of each Fund is greater than or equal to its Trigger Value, you will receive a cash payment at maturity, for each $1,000 principal amount note, equal to (a) $1,000 *plus* (b) the Contingent Interest Payment applicable to the final Review Date.

If the notes have not been redeemed early and the Final Value of either Fund is less than its Trigger Value, your payment at maturity per $1,000 principal amount note will be calculated as follows:

$1,000 + ($1,000 × Lesser Performing Fund Return)

If the notes have not been redeemed early and the Final Value of either Fund is less than its Trigger Value, you will lose more than 30.00% of your principal amount at maturity and could lose all of your principal amount at maturity.

Lesser Performing Fund: The Fund with the Lesser Performing Fund Return

Lesser Performing Fund Return: The lower of the Fund Returns of the Funds

Fund Return:

With respect to each Fund,

(Final Value – Initial Value)
Initial Value

Interest Payment Dates*: July 2, 2019, October 2, 2019, January 2, 2020, April 1, 2020, July 2, 2020, October 1, 2020, December 31, 2020 and the Maturity Date

Maturity Date*: April 1, 2021

* Subject to postponement in the event of a market disruption event and as described under "General Terms of Notes — Postponement of a Determination Date — Notes Linked to Multiple Underlyings" and "General Terms of Notes — Postponement of a Payment Date" in the accompanying product supplement

Initial Value: With respect to each Fund, the closing price of one share of that Fund on the Pricing Date

Final Value: With respect to each Fund, the arithmetic average of the closing prices of one share of that Fund on the Ending Averaging Dates

Share Adjustment Factor: With respect to each Fund, the Share Adjustment Factor is referenced in determining the closing price of one share of that Fund and is set equal to 1.0 on the Pricing Date. The Share Adjustment Factor of each Fund is subject to adjustment upon the occurrence of certain events affecting that Fund. See "The Underlyings — Funds — Anti-Dilution Adjustments" in the accompanying product supplement for further information.

How the Notes Work

Payment in Connection with Review Dates (Other than the Final Review Date)

Payment at Maturity If the Notes Have Not Been Redeemed Early

Total Contingent Interest Payments

The table below illustrates the hypothetical total Contingent Interest Payments per $1,000 principal amount note over the term of the notes based on a hypothetical Contingent Interest Rate of 9.10% per annum, depending on how many Contingent Interest Payments are made prior to early redemption or maturity. The actual Contingent Interest Rate will be provided in the pricing supplement and will be at least 9.10% per annum.

Number of Contingent Interest Payments	Total Contingent Interest Payments
8	$182.00
7	$159.25
6	$136.50
5	$113.75

4	$91.00
3	$68.25
2	$45.50
1	$22.75
0	$0.00

Hypothetical Payout Examples

The following examples illustrate payments on the notes linked to two hypothetical Funds, assuming a range of performances for the hypothetical Lesser Performing Fund on the Review Dates.

The hypothetical payments set forth below assume the following:

- the notes have not been redeemed early;
- an Initial Value for the Lesser Performing Fund of $100.00;
- an Interest Barrier and a Trigger Value for the Lesser Performing Fund of $70.00 (equal to 70.00% of its hypothetical Initial Value); and
- a Contingent Interest Rate of 9.10% per annum (payable at a rate of 2.275% per quarter).

The hypothetical Initial Value of the Lesser Performing Fund of $100.00 has been chosen for illustrative purposes only and may not represent a likely actual Initial Value of either Fund. The actual Initial Value of each Fund will be the closing price of one share of that Fund on the Pricing Date and will be provided in the pricing supplement. For historical data regarding the actual closing prices of one share of each Fund, please see the historical information set forth under “The Funds” in this pricing supplement.

Each hypothetical payment set forth below is for illustrative purposes only and may not be the actual payment applicable to a purchaser of the notes. The numbers appearing in the following examples have been rounded for ease of analysis.

Example 1 — Notes have NOT been redeemed early and the Final Value of the Lesser Performing Fund is greater than or equal to its Trigger Value.

Date	Closing Price of One Share / Final Value of Lesser Performing Fund	Payment (per $1,000 principal amount note)
First Review Date	$95.00	$22.75
Second Review Date	$85.00	$22.75
Third through Seventh Review Dates	Less than Interest Barrier	$0
Final Review Date	$90.00	$1,022.75
	Total Payment	$1,068.25 (6.825% return)

Because the notes have not been redeemed early and the Final Value of the Lesser Performing Fund is greater than or equal to its Trigger Value, the payment at maturity, for each $1,000 principal amount note, will be $1,022.75 (or $1,000 *plus* the Contingent Interest Payment applicable to the final Review Date). When added to the Contingent Interest Payments received with respect to the prior Review Dates, the total amount paid, for each $1,000 principal amount note, is $1,068.25.

Example 2 — Notes have NOT been redeemed early and the Final Value of the Lesser Performing Fund is less than its Trigger Value.

Date	Closing Price of One Share / Final Value of Lesser Performing Fund	Payment (per $1,000 principal amount note)
First Review Date	$40.00	$0
Second Review Date	$45.00	$0
Third through Seventh Review Dates	Less than Interest Barrier	$0
Final Review Date	$50.00	$500.00

Total Payment $500.00 (-50.00% return)

Because the notes have not been redeemed early, the Final Value of the Lesser Performing Fund is less than its Trigger Value and the Lesser Performing Fund Return is -50.00%, the payment at maturity will be $500.00 per $1,000 principal amount note, calculated as follows:

$1,000 + [$1,000 × (-50.00%)] = $500.00

The hypothetical returns and hypothetical payments on the notes shown above apply **only if you hold the notes for their entire term.** These hypotheticals do not reflect the fees or expenses that would be associated with any sale in the secondary market. If these fees and expenses were included, the hypothetical returns and hypothetical payments shown above would likely be lower.

Selected Risk Considerations

An investment in the notes involves significant risks. These risks are explained in more detail in the "Risk Factors" sections of the accompanying product supplement and underlying supplement.

- **YOUR INVESTMENT IN THE NOTES MAY RESULT IN A LOSS —**
The notes do not guarantee any return of principal. If the notes have not been redeemed early and the Final Value of either Fund is less than its Trigger Value, you will lose 1% of the principal amount of your notes for every 1% that the Final Value of the Lesser Performing Fund is less than its Initial Value. Accordingly, under these circumstances, you will lose more than 30.00% of your principal amount at maturity and could lose all of your principal amount at maturity.

- **THE NOTES DO NOT GUARANTEE THE PAYMENT OF INTEREST AND MAY NOT PAY ANY INTEREST AT ALL —**
If the notes have not been redeemed early, we will make a Contingent Interest Payment only if, (1) with respect to any Review Date (other than the final Review Date), the closing price of one share of each Fund or, (2) with respect to the final Review Date, the Final Value of each Fund is greater than or equal to its Interest Barrier. If, (1) with respect to any Review Date (other than the final Review Date), the closing price of one share of either Fund or, (2) with respect to the final Review Date, the Final Value of either Fund is less than its Interest Barrier, no Contingent Interest Payment will be made with respect to that Review Date. Accordingly, if, (1) with respect to each Review Date (other than the final Review Date), the closing price of one share of either Fund and, (2) with respect to the final Review Date, the Final Value of either Fund is less than its Interest Barrier, you will not receive any interest payments over the term of the notes.

- **CREDIT RISKS OF JPMORGAN FINANCIAL AND JPMORGAN CHASE & CO. —**
Investors are dependent on our and JPMorgan Chase & Co.'s ability to pay all amounts due on the notes. Any actual or potential change in our or JPMorgan Chase & Co.'s creditworthiness or credit spreads, as determined by the market for taking that credit risk, is likely to adversely affect the value of the notes. If we and JPMorgan Chase & Co. were to default on our payment obligations, you may not receive any amounts owed to you under the notes and you could lose your entire investment.

- **AS A FINANCE SUBSIDIARY, JPMORGAN FINANCIAL HAS NO INDEPENDENT OPERATIONS AND HAS LIMITED ASSETS —**

As a finance subsidiary of JPMorgan Chase & Co., we have no independent operations beyond the issuance and administration of our securities. Aside from the initial capital contribution from JPMorgan Chase & Co., substantially all of our assets relate to obligations of our affiliates to make payments under loans made by us or other intercompany agreements. As a result, we are dependent upon payments from our affiliates to meet our obligations under the notes. If these affiliates do not make payments to us and we fail to make payments on the notes, you may have to seek payment under the related guarantee by JPMorgan Chase & Co., and that guarantee will rank *pari passu* with all other unsecured and unsubordinated obligations of JPMorgan Chase & Co.

- **THE APPRECIATION POTENTIAL OF THE NOTES IS LIMITED TO THE SUM OF ANY CONTINGENT INTEREST PAYMENTS THAT MAY BE PAID OVER THE TERM OF THE NOTES,** regardless of any appreciation of either Fund, which may be significant. You will not participate in any appreciation of either Fund.

- **POTENTIAL CONFLICTS —** We and our affiliates play a variety of roles in connection with the notes. In performing these duties, our and JPMorgan Chase & Co.'s economic interests are potentially adverse to your interests as an investor in the notes. It is possible that hedging or trading activities of ours or our affiliates in connection with the notes could result in substantial returns for us or our affiliates while the value of the notes declines. Please refer to "Risk Factors — Risks Relating to Conflicts of Interest" in the accompanying product supplement.

- **YOU ARE EXPOSED TO THE RISK OF DECLINE IN THE PRICE OF ONE SHARE OF EACH FUND —**

Payments on the notes are not linked to a basket composed of the Funds and are contingent upon the performance of each individual Fund. Poor performance by either of the Funds over the term of the notes may negatively affect whether you will receive a Contingent Interest Payment on any Interest Payment Date and your payment at maturity and will not be offset or mitigated by positive performance by the other Fund.

- **YOUR PAYMENT AT MATURITY WILL BE DETERMINED BY THE LESSER PERFORMING FUND. THE BENEFIT PROVIDED BY THE TRIGGER VALUE MAY TERMINATE ON THE FINAL REVIEW DATE —**

If the Final Value of either Fund is less than its Trigger Value and the notes have not been redeemed early, the benefit provided by the Trigger Value will terminate and you will be fully exposed to any depreciation of the Lesser Performing Fund.

- **THE OPTIONAL EARLY REDEMPTION FEATURE MAY FORCE A POTENTIAL EARLY EXIT —**

If we elect to redeem your notes early, the term of the notes may be reduced to as short as approximately three months and you will not receive any Contingent Interest Payments after the applicable Interest Payment Date. There is no guarantee that you would be able to reinvest the proceeds from an investment in the notes at a comparable return and/or with a comparable interest rate for a similar level of risk. Even in cases where we elect to redeem your notes before maturity, you are not entitled to any fees and commissions described on the front cover of this pricing supplement.

- **YOU WILL NOT RECEIVE DIVIDENDS ON EITHER FUND OR THE SECURITIES HELD BY EITHER FUND OR HAVE ANY RIGHTS WITH RESPECT TO THE FUNDS OR THOSE SECURITIES.**

- **THERE ARE RISKS ASSOCIATED WITH THE FUNDS —**

The Funds are subject to management risk, which is the risk that the investment strategies of the applicable Fund's investment adviser, the implementation of which is subject to a number of constraints, may not produce the intended results. These constraints could adversely affect the market prices of the shares of the Funds and, consequently, the value of the notes.

- **THE PERFORMANCE AND MARKET VALUE OF EACH FUND, PARTICULARLY DURING PERIODS OF MARKET VOLATILITY, MAY NOT CORRELATE WITH THE PERFORMANCE OF THAT FUND'S UNDERLYING INDEX AS WELL AS THE NET ASSET VALUE PER SHARE —**

Each Fund does not fully replicate its Underlying Index (as defined under "The Funds" below) and may hold securities different from those included in its Underlying Index. In addition, the performance of each Fund will reflect additional transaction costs and fees that are not included in the calculation of its Underlying Index. All of these factors may lead to a lack of correlation between the performance of each Fund and its Underlying Index. In addition, corporate actions with respect to the equity securities underlying a Fund (such as mergers and spin-offs) may impact the variance between the performances of that Fund and its Underlying Index. Finally, because the shares of each Fund are traded on a securities exchange and are subject to market supply and investor demand, the market value of one share of each Fund may differ from the net asset value per share of that Fund.

During periods of market volatility, securities underlying each Fund may be unavailable in the secondary market, market participants may be unable to calculate accurately the net asset value per share of that Fund and the liquidity of that Fund may be adversely affected. This kind of market volatility may also disrupt the ability of market participants to create and redeem shares of a Fund. Further, market volatility may adversely affect, sometimes materially, the prices at which market participants are willing to buy and sell shares of a Fund. As a result, under these circumstances, the market value of shares of a Fund may vary substantially from the net asset value per share of that Fund. For all of the foregoing reasons, the performance of each Fund may not correlate with the performance of its Underlying Index as well as the net asset value per share of that Fund, which could materially and adversely affect the value of the notes

in the secondary market and/or reduce any payment on the notes.

- **NON-U.S. SECURITIES RISK —**

Some of the equity securities held by the Funds have been issued by non-U.S. companies. Investments in securities linked to the value of such non-U.S. equity securities involve risks associated with the home countries of the issuers of those non-U.S. equity securities.

- **RISKS ASSOCIATED WITH THE SEMICONDUCTOR SECTOR WITH RESPECT TO THE VANECK VECTORS® SEMICONDUCTOR ETF —**

All or substantially all of the equity securities held by the VanEck Vectors® Semiconductor ETF are issued by companies whose primary line of business is directly associated with the semiconductor sector. As a result, the value of the notes may be subject to greater volatility and be more adversely affected by a single economic, political or regulatory occurrence affecting this sector than a different investment linked to securities of a more broadly diversified group of issuers. Competitive pressures may have a

significant effect on the financial condition of companies in the semiconductor industry. The VanEck Vectors® Semiconductor ETF is subject to the risk that companies that are in the semiconductor industry may be similarly affected by particular economic or market events. As product cycles shorten and manufacturing capacity increases, these companies may become increasingly subject to aggressive pricing, which hampers profitability. Semiconductor companies are vulnerable to wide fluctuations in securities prices due to rapid product obsolescence. Many semiconductor companies may not successfully introduce new products, develop and maintain a loyal customer base or achieve general market acceptance for their products, and failure to do so could have a material adverse effect on their business, results of operations and financial condition. Reduced demand for end-user products, underutilization of manufacturing capacity, and other factors could adversely impact the operating results of companies in the semiconductor industry. Semiconductor companies typically face high capital costs and such companies may need additional financing, which may be difficult to obtain. They also may be subject to risks relating to research and development costs and the availability and price of components. Moreover, they may be heavily dependent on intellectual property rights and may be adversely affected by loss or impairment of those rights. Some of the companies involved in the semiconductor industry are also engaged in other lines of business unrelated to the semiconductor business, and they may experience problems with these lines of business, which could adversely affect their operating results. The international operations of many semiconductor companies expose them to risks associated with instability and changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations, tariffs and trade disputes, competition from subsidized foreign competitors with lower production costs and other risks inherent to international business. The semiconductor industry is highly cyclical, which may cause the operating results of many semiconductor companies to vary significantly. Companies in the semiconductor industry also may be subject to competition from new market entrants. The stock prices of companies in the semiconductor industry have been and will likely continue to be extremely volatile compared to the overall market. These factors could affect the semiconductor sector and could affect the value of the equity securities held by the VanEck Vectors® Semiconductor ETF and the price of the VanEck Vectors® Semiconductor ETF during the term of the notes, which may adversely affect the value of your notes.

- **THE ANTI-DILUTION PROTECTION FOR THE FUNDS IS LIMITED —**

The calculation agent will make adjustments to the Share Adjustment Factor for each Fund for certain events affecting the shares of that Fund. However, the calculation agent will not make an adjustment in response to all events that could affect the shares of the Funds. If an event occurs that does not require the calculation agent to make an adjustment, the value of the notes may be materially and adversely affected.

- **THE RISK OF THE CLOSING PRICE OF ONE SHARE OF A FUND OR THE FINAL VALUE OF A FUND FALLING BELOW ITS INTEREST BARRIER OR TRIGGER VALUE IS GREATER IF THE PRICE OF ONE SHARE OF THAT FUND IS VOLATILE.**

- **LACK OF LIQUIDITY —**

The notes will not be listed on any securities exchange. Accordingly, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which JPMS is willing to buy the notes. You may not be able to sell your notes. The notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your notes to maturity.

- **THE FINAL TERMS AND VALUATION OF THE NOTES WILL BE PROVIDED IN THE PRICING SUPPLEMENT —**

You should consider your potential investment in the notes based on the minimums for the estimated value of the notes and the Contingent Interest Rate.

- **THE ESTIMATED VALUE OF THE NOTES WILL BE LOWER THAN THE ORIGINAL ISSUE PRICE (PRICE TO PUBLIC) OF THE NOTES —**

The estimated value of the notes is only an estimate determined by reference to several factors. The original issue price of the notes will exceed the estimated value of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. See “The Estimated Value of the Notes” in this pricing supplement.

- **THE ESTIMATED VALUE OF THE NOTES DOES NOT REPRESENT FUTURE VALUES OF THE NOTES AND MAY DIFFER FROM OTHERS’ ESTIMATES —**

See “The Estimated Value of the Notes” in this pricing supplement.

- **THE ESTIMATED VALUE OF THE NOTES IS DERIVED BY REFERENCE TO AN INTERNAL FUNDING RATE —**

The internal funding rate used in the determination of the estimated value of the notes may differ from the market-implied funding rate for vanilla fixed income instruments of a similar maturity issued by JPMorgan Chase & Co. or its affiliates. Any difference may

be based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed income instruments of JPMorgan Chase & Co. This internal funding rate is based on certain market inputs and assumptions, which may prove to be incorrect, and is intended to approximate the prevailing market replacement funding rate for the notes. The use of an internal funding rate and any potential changes to that rate may have an adverse effect on the terms of the notes and any secondary market prices of the notes. See "The Estimated Value of the Notes" in this pricing supplement.

- **THE VALUE OF THE NOTES AS PUBLISHED BY JPMS (AND WHICH MAY BE REFLECTED ON CUSTOMER ACCOUNT STATEMENTS) MAY BE HIGHER THAN THE THEN-CURRENT ESTIMATED VALUE OF THE NOTES FOR A LIMITED TIME PERIOD —**

We generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. See "Secondary Market Prices of the Notes" in this pricing supplement for additional information relating to this initial period. Accordingly, the estimated value of your notes during this initial period may be lower than the value of the notes as published by JPMS (and which may be shown on your customer account statements).

- **SECONDARY MARKET PRICES OF THE NOTES WILL LIKELY BE LOWER THAN THE ORIGINAL ISSUE PRICE OF THE NOTES —**

Any secondary market prices of the notes will likely be lower than the original issue price of the notes because, among other things, secondary market prices take into account our internal secondary market funding rates for structured debt issuances and, also, because secondary market prices may exclude selling commissions, projected hedging profits, if any, and estimated hedging costs that are included in the original issue price of the notes. As a result, the price, if any, at which JPMS will be willing to buy the notes from you in secondary market transactions, if at all, is likely to be lower than the original issue price. Any sale by you prior to the Maturity Date could result in a substantial loss to you.

- **SECONDARY MARKET PRICES OF THE NOTES WILL BE IMPACTED BY MANY ECONOMIC AND MARKET FACTORS —**

The secondary market price of the notes during their term will be impacted by a number of economic and market factors, which may either offset or magnify each other, aside from the selling commissions, projected hedging profits, if any, estimated hedging costs and the prices of one share of the Funds. Additionally, independent pricing vendors and/or third party broker-dealers may publish a price for the notes, which may also be reflected on customer account statements. This price may be different (higher or lower) than the price of the notes, if any, at which JPMS may be willing to purchase your notes in the secondary market. See "Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors" in the accompanying product supplement.

The Funds

The Invesco QQQ Trust℠, Series 1 is an exchange-traded fund that seeks to provide investment results that, before expenses, generally correspond to the price and yield performance of the NASDAQ-100 Index®, which we refer to as the Underlying Index with respect to the Invesco QQQ Trust℠, Series 1. The NASDAQ-100 Index® is a modified market capitalization-weighted index of stocks of the 100 largest non-financial companies listed on The NASDAQ Stock Market based on market capitalization. For additional information about the Invesco QQQ Trust℠, Series 1, see "Fund Descriptions — The PowerShares QQQ Trust℠, Series 1" in the accompanying underlying supplement, subject to the following sentence. Effective June 4, 2018, the name of the Invesco QQQ Trust℠, Series 1 was changed from PowerShares QQQ Trust℠, Series 1, to its current name and effective on or about June 4, 2018, the name of the sponsor of the Invesco QQQ Trust℠, Series 1 was changed to Invesco Capital Management LLC.

The VanEck Vectors® Semiconductor ETF is an exchange-traded fund of VanEck Vectors ETF Trust, a registered investment company, that seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the MVIS® US Listed Semiconductor 25 Index, which we refer to as the Underlying Index with respect to the VanEck Vectors® Semiconductor ETF. The MVIS® U.S. Listed Semiconductor 25 Index is designed to track the performance of the largest and most liquid U.S. exchange-listed companies that derive at least 50% (25% for current components) of their revenues from semiconductors. For additional information about the VanEck Vectors® Semiconductor ETF, see Annex A in this pricing supplement.

Historical Information

The following graphs set forth the historical performance of each Fund based on the weekly historical closing prices from January 3, 2014 through March 15, 2019. The closing price of one share of the Invesco QQQ Trust℠, Series 1, on March 21, 2019 was $182.57. The closing price of one share of the VanEck Vectors® Semiconductor ETF on March 21, 2019 was $109.89. We obtained the closing prices above and below from the Bloomberg Professional® service ("Bloomberg"), without independent verification. The closing prices above and below may have been adjusted by Bloomberg for actions taken by the Funds, such as stock splits.

The historical closing prices of one share of each Fund should not be taken as an indication of future performance, and no assurance can be given as to the closing price of one share of either Fund on the Pricing Date, any Review Date or any Ending Averaging Date. There can be no assurance that the performance of the Funds will result in the return of any of your principal amount or the payment of any interest.

Tax Treatment

You should review carefully the section entitled “Material U.S. Federal Income Tax Consequences” in the accompanying product supplement no. 4-I. In determining our reporting responsibilities we intend to treat (i) the notes for U.S. federal income tax purposes as prepaid forward contracts with associated contingent coupons and (ii) any Contingent Interest Payments as ordinary income, as described in the section entitled “Material U.S. Federal Income Tax Consequences — Tax Consequences to U.S. Holders — Notes Treated as Prepaid Forward Contracts with Associated Contingent Coupons” in the accompanying product supplement. Based on the advice of Davis Polk & Wardwell LLP, our special tax counsel, we believe that this is a reasonable treatment, but that there are other reasonable treatments that the IRS or a court may adopt, in which case the timing and character of any income or loss on the notes could be materially affected. In addition, in 2007 Treasury and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require investors in these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments and the relevance of factors such as the nature of the underlying property to which the instruments are linked. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially affect the tax consequences of an investment in the notes, possibly with retroactive effect. The discussions above and in the accompanying product supplement do not address the consequences to taxpayers subject to special tax accounting rules under Section 451(b) of the Code. You should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments and the issues presented by the notice described above.

Non-U.S. Holders — Tax Considerations. The U.S. federal income tax treatment of Contingent Interest Payments is uncertain, and although we believe it is reasonable to take a position that Contingent Interest Payments are not subject to U.S. withholding tax (at least if an applicable Form W-8 is provided), a withholding agent may nonetheless withhold on these payments (generally at a rate of 30%, subject to the possible reduction of that rate under an applicable income tax treaty), unless income from your notes is effectively connected with your conduct of a trade or business in the United States (and, if an applicable treaty so requires, attributable to a permanent establishment in the United States). If you are not a United States person, you are urged to consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the notes in light of your particular circumstances.

Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax (unless an income tax treaty applies) on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities. Section 871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (such an index, a “Qualified Index”). Additionally, a recent IRS notice excludes from the scope of Section 871(m) instruments issued prior to January 1, 2021 that do not have a delta of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes (each an “Underlying Security”). Based on certain determinations made by us, we expect that Section 871(m) will not apply to the notes with regard to Non-U.S. Holders. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If necessary, further

information regarding the potential application of Section 871(m) will be provided in the pricing supplement for the notes. You should consult your tax adviser regarding the potential application of Section 871(m) to the notes.

FATCA. Withholding under legislation commonly referred to as "FATCA" could apply to payments with respect to the notes that are treated as U.S.-source "fixed or determinable annual or periodical" income ("FDAP Income") for U.S. federal income tax purposes (such as interest, if the notes are recharacterized, in whole or in part, as debt instruments, or Contingent Interest Payments if they are otherwise treated as FDAP Income). If the notes are recharacterized, in whole or in part, as debt instruments, withholding could also apply to payments of gross proceeds of a taxable disposition, including an early redemption or redemption at maturity, although under recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply to payments of gross proceeds (other than any amount treated as FDAP Income). You should consult your tax adviser regarding the potential application of FATCA to the notes.

In the event of any withholding on the notes, we will not be required to pay any additional amounts with respect to amounts so withheld.

The Estimated Value of the Notes

The estimated value of the notes set forth on the cover of this pricing supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the notes, valued using the internal funding rate described below, and (2) the derivative or derivatives underlying the economic terms of the notes. The estimated value of the notes does not represent a minimum price at which JPMS would be willing to buy your notes in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the estimated value of the notes may differ from the market-implied funding rate for vanilla fixed income instruments of a similar maturity issued by JPMorgan Chase & Co. or its affiliates. Any difference may be based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed income instruments of JPMorgan Chase & Co. This internal funding rate is based on certain market inputs and assumptions, which may prove to be incorrect, and is intended to approximate the prevailing market replacement funding rate for the notes. The use of an internal funding rate and any potential changes to that rate may have an adverse effect on the terms of the notes and any secondary market prices of the notes. For additional information, see "Selected Risk Considerations — The Estimated Value of the Notes Is Derived by Reference to an Internal Funding Rate" in this pricing supplement.

The value of the derivative or derivatives underlying the economic terms of the notes is derived from internal pricing models of our affiliates. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the estimated value of the notes is determined when the terms of the notes are set based on market conditions and other relevant factors and assumptions existing at that time.

The estimated value of the notes does not represent future values of the notes and may differ from others' estimates. Different pricing models and assumptions could provide valuations for the notes that are greater than or less than the estimated value of the notes. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the notes could change significantly based on, among other things, changes in market conditions, our or JPMorgan Chase & Co.'s creditworthiness, interest rate movements and other relevant factors, which may impact the price, if any, at which JPMS would be willing to buy notes from you in secondary market transactions.

The estimated value of the notes will be lower than the original issue price of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions paid to JPMS and other affiliated or unaffiliated dealers, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. A portion of the profits, if any, realized in hedging our obligations under the notes may be allowed to other affiliated or unaffiliated dealers, and we or one or more of our affiliates will retain any remaining hedging profits. See "Selected Risk Considerations — The Estimated Value of the Notes Will Be Lower Than the Original Issue Price (Price to Public) of the Notes" in this pricing supplement.

Secondary Market Prices of the Notes

For information about factors that will impact any secondary market prices of the notes, see "Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors" in the accompanying product supplement. In addition, we generally expect that some of the costs

included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. These costs can include selling commissions, projected hedging profits, if any, and, in some circumstances, estimated hedging costs and our internal secondary market funding rates for structured debt issuances. This initial predetermined time period is intended to be the shorter of six months and one-half of the stated term of the notes. The length of any such initial period reflects the structure of the notes, whether our affiliates expect to earn a profit in connection with our hedging activities, the estimated costs of hedging the notes and when these costs are incurred, as determined by our affiliates. See "Selected Risk Considerations — The Value of the Notes as Published by JPMS (and Which May Be Reflected on Customer Account Statements) May Be Higher Than the Then-Current Estimated Value of the Notes for a Limited Time Period" in this pricing supplement.

Supplemental Use of Proceeds

The notes are offered to meet investor demand for products that reflect the risk-return profile and market exposure provided by the notes. See "How the Notes Work" and "Hypothetical Payout Examples" in this pricing supplement for an illustration of the risk-return profile of the notes and "The Funds" in this pricing supplement for a description of the market exposure provided by the notes.

The original issue price of the notes is equal to the estimated value of the notes plus the selling commissions paid to JPMS and other affiliated or unaffiliated dealers, plus (minus) the projected profits (losses) that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes, plus the estimated cost of hedging our obligations under the notes.

Supplemental Plan of Distribution

We expect that delivery of the notes will be made against payment for the notes on or about the Original Issue Date set forth on the front cover of this pricing supplement, which will be the third business day following the Pricing Date of the notes (this settlement cycle being referred to as "T+3"). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisors.

Additional Terms Specific to the Notes

You may revoke your offer to purchase the notes at any time prior to the time at which we accept such offer by notifying the applicable agent. We reserve the right to change the terms of, or reject any offer to purchase, the notes prior to their issuance. In the event of any changes to the terms of the notes, we will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes, in which case we may reject your offer to purchase.

You should read this pricing supplement together with the accompanying prospectus, as supplemented by the accompanying prospectus supplement relating to our Series A medium-term notes of which these notes are a part, and the more detailed information contained in the accompanying product supplement and the accompanying underlying supplement. This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures,

fact sheets, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in the “Risk Factors” sections of the accompanying product supplement and the accompanying underlying supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

- Product supplement no. 4-I dated April 5, 2018: http://www.sec.gov/Archives/edgar/data/19617/000095010318004519/dp87528_424b2-ps4i.pdf
- Underlying supplement no. 1-I dated April 5, 2018: http://www.sec.gov/Archives/edgar/data/19617/000095010318004514/crt_dp87766-424b2.pdf
- Prospectus supplement and prospectus, each dated April 5, 2018: http://www.sec.gov/Archives/edgar/data/19617/000095010318004508/dp87767_424b2-ps.pdf

Our Central Index Key, or CIK, on the SEC website is 1665650, and JPMorgan Chase & Co.’s CIK is 19617. As used in this pricing supplement, “we,” “us” and “our” refer to JPMorgan Financial.

Annex A

The VanEck Vectors® Semiconductor ETF

All information contained in this pricing supplement regarding the VanEck Vectors® Semiconductor ETF (the "Semiconductor Fund") has been derived from publicly available information, without independent verification. This information reflects the policies of, and is subject to change by, VanEck Vectors ETF Trust (the "VanEck Trust") and Van Eck Associates Corporation ("Van Eck"). Van Eck is currently the investment adviser to the Semiconductor Fund. The Semiconductor Fund is an exchange-traded fund that trades on the NYSE Arca, Inc. under the ticker symbol "SMH."

The Semiconductor Fund seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the MVIS® US Listed Semiconductor 25 Index (the "Semiconductor Index"). For more information about the Semiconductor Index, please see "The MVIS® US Listed Semiconductor 25 Index" below.

The Semiconductor Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the Semiconductor Index by investing in a portfolio of securities that generally replicates the Semiconductor Index.

The Semiconductor Fund's return may not match the return of the Semiconductor Index for a number of reasons. For example, the Semiconductor Fund incurs a number of operating expenses not applicable to the Semiconductor Index and incurs costs associated with buying and selling securities, especially when rebalancing the Semiconductor Fund's securities holdings to reflect changes in the composition of the Semiconductor Index, which are not factored into the return of the Semiconductor Index. Transaction costs, including brokerage costs, will decrease the Semiconductor Fund's net asset value to the extent not offset by the transaction fee payable by an authorized participant. Market disruptions and regulatory restrictions could have an adverse effect on the Semiconductor Fund's ability to adjust its exposure to the required levels in order to track the Semiconductor Index. Errors in the Semiconductor Index data, the Semiconductor Index computations and/or the construction of the Semiconductor Index in accordance with its methodology may occur from time to time and may not be identified and corrected by the Semiconductor Index provider for a period of time or at all, which may have an adverse impact on the Semiconductor Fund and its shareholders. In addition, the Semiconductor Fund may not invest in certain securities included in the Semiconductor Index, or invest in them in the exact proportions in which they are represented in the Semiconductor Index. The Semiconductor Fund's performance may also deviate from the return of the Semiconductor Index due to legal restrictions or limitations imposed by the governments of certain countries, certain listing standards of the Semiconductor Fund's listing exchange, a lack of liquidity on stock exchanges in which the securities trade, potential adverse tax consequences or other regulatory reasons (such as diversification requirements). The Semiconductor Fund may value certain of its investments and/or other assets based on fair value prices. To the extent the Semiconductor Fund calculates its net asset value based on fair value prices and the value of the Semiconductor Index is based on securities' closing prices (*i.e.*, the value of the Semiconductor Index is not based on fair value prices), the Semiconductor Fund's ability to track the Semiconductor Index may be adversely affected. In addition, any issues the Semiconductor Fund encounters with regard to currency convertibility (including the cost of borrowing funds, if any) and repatriation may also increase the index tracking risk. For tax efficiency purposes, the Semiconductor Fund may sell certain securities, and that sale may cause the Semiconductor Fund to realize a loss and deviate from the performance of the Semiconductor Index. In light of the factors discussed above, the Semiconductor Fund's return may deviate significantly from the return of the Semiconductor Index. Changes to the composition of the Semiconductor Index in connection with a rebalancing or reconstitution of the Semiconductor Index may cause the Semiconductor Fund to experience increased volatility, during which time the Semiconductor Fund's index tracking risk may be heightened.

The VanEck Trust is a registered investment company that consists of numerous separate investment portfolios, including the Semiconductor Fund. Information provided to or filed with the SEC by the VanEck Trust pursuant to the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, can be located by reference to SEC file numbers 333-123257 and 811-10325, respectively, through the SEC's website at http://www.sec.gov.

The MVIS® US Listed Semiconductor 25 Index

All information contained in this pricing supplement regarding the Semiconductor Index, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information, without independent verification. This information reflects the policies of, and is subject to change by, MV Index Solutions GmbH ("MVIS"). The Semiconductor Index was developed by MVIS and is maintained and published by MVIS. The Semiconductor Index is calculated by Solactive AG. MVIS has no obligation to continue to publish, and may discontinue the publication of, the Semiconductor Index.

The Semiconductor Index is reported by Bloomberg L.P. under the ticker symbol "MVSMH."

The Semiconductor Index is designed to track the performance of the largest and most liquid U.S.-listed companies that derive at least 50% (25% for current components) of their revenues from semiconductors. This includes companies engaged primarily in the

production of semiconductors and semiconductor equipment. The Semiconductor Index was launched on August 12, 2011 with a base index value of 1,000 as of September 29, 2000.

Index Composition and Maintenance

The Index Universe

The index universe includes only common stocks and stocks with similar characteristics from financial markets that are freely investable for foreign investors and that provide real-time and historical component and currency pricing. Limited partnerships are excluded. Companies from financial markets that are not freely investable for foreign investors or that do not provide real-time and historical component and currency pricing may still be eligible if they have a listing on an eligible exchange and if they meet all the size and liquidity requirements on that exchange.

Only stocks that have a full market capitalization exceeding US$50 million are eligible for the index universe.

Investable Index Universe

Companies with a free-float (or shares available to foreign investors) of less than 5% for existing index components or less than 10% for new components are ineligible for inclusion.

In addition to the above, stocks that are currently not in the Semiconductor Index must meet the following size and liquidity requirements:

- a full market capitalization exceeding US$150 million;
- a three-month average-daily-trading volume of at least US$1 million at the current review and also at the previous two reviews; and
- at least 250,000 shares traded per month over the last six months at the current review and also at the previous two reviews.

For stocks already in the Semiconductor Index the following applies:

- a full market capitalization exceeding US$75 million; and
- a three-month average-daily-trading volume of at least US$0.2 million in at least two of the latest three quarters (current review and also at previous two reviews)
- In addition, a three-month average-daily-trading volume of at least US$0.6 million at current review or at one of the previous two reviews; or
- at least 200,000 shares traded per month over the last six months at the current review or at one of the previous two reviews.

In case the number of investable stocks drops below the minimum component number for the respective index, current components remain investable.

Only one share line of each company is eligible. In case more than one share line fulfills the above size and liquidity rules, only the largest share line by free-float market capitalization is eligible. MVIS can, in exceptional cases (*e.g.*, significantly higher liquidity), decide for a different share line.

In case the free-float market capitalization of a non-component share line:

- exceeds the free-float market capitalization of a share line of the same company which is an index component by at least 25%; and
- fulfills all size and liquidity eligibility criteria for non-components,

- the current component share line will be replaced by the larger one. MVIS can, in exceptional cases (*e.g.*, significantly higher liquidity), decide to keep the current share line instead.

Index Constituent Selection

The Semiconductor Index is reviewed on a semi-annual basis in March and September.

The target coverage of the Semiconductor Index is 25 companies from the investable universe. Semiconductor Index constituents are selected using the following procedure:

(1) The largest 50 stocks (by full market capitalization) from the investable universe qualify.

(2) The 50 stocks are ranked in two different ways — by free-float market capitalization in descending order (the largest company receives rank "1") and then by three-month average-daily-trading volume in descending order (the most liquid company receives rank "1"). These two ranks are added up.

(3) The 50 stocks are then ranked by the sum of their two ranks in Step 2 in ascending order. If two companies have the same sum of ranks, the larger company is placed on top.

a. Initially, the highest ranked 25 companies made up the Semiconductor Index.

b. On-going, a 10-40 buffer is applied: the highest ranked 10 companies qualify. The remaining 15 companies are selected from the highest ranked remaining current Semiconductor Index components ranked between 11 and 40. If the number of selected companies is still below 25, then the highest ranked remaining stocks are selected until 25 companies have been selected.

Review Schedule

The reviews for the Semiconductor Index are based on the closing data on the last business day in February and August. If a company does not trade on the last business day in February or August, the last available price for this company will be used.

The underlying index data (*e.g.*, new number of shares, new free-float factors and new weighting cap factors) is announced on the second Friday in March or September. The weighting cap factors are based on closing data of the Wednesday prior to the second Friday in March or September. Changes to the Semiconductor Index are implemented and based on the closing prices of the third Friday in March or September. If the third Friday is not a business day, then the review will take place on the last business day before the third Friday. If a constituent of the Semiconductor Index does not trade on the third Friday in March or September, then the last available price for that index constituent will be used. Changes become effective on the next business day. The component changes to the Semiconductor Index are announced on the second Friday in March or September.

For purposes of this annex, "business day" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in Frankfurt.

Ongoing Maintenance

In addition to the periodic reviews, the Semiconductor Index is continually reviewed for corporate events (*e.g.,* mergers, takeovers, spin-offs, delistings and bankruptcies) that affect the Semiconductor Index components.

Deletions. For all corporate events that result in a stock deletion from the Semiconductor Index, the deleted stock will be replaced with the highest ranked non-component on the most recent selection list immediately only if the number of components in the Semiconductor Index would drop below 20. The replacement stock will be added at the same weight as the deleted stock. Only in case the number of components drop below its minimum due to a merger of two or more index components, the replacement stock will be added with its free-float market capitalization, weighted with the capping factor of the uncapped components in the small-weight group of the weighting scheme. In all other cases (*i.e.*, there is not replacement), the additional weight resulting from the deletion will be redistributed proportionally across all other components of the Semiconductor Index.

Changes to Free-Float Factor and Number of Shares. Changes to the number of shares or the free-float px;padding-top:2px;padding-bottom:2px;">

68.8

141.1

135.8

Selling, general and administrative

144.9

140.9

287.2

286.8

Research and development

51.7

48.0

101.5

94.9

Employee termination and restructuring

4.2

5.2

6.9

13.4

Depreciation and amortization

193.1

222.2

373.7

406.4

Operating income (loss)

59.1

(0.1
)

109.4

18.0

Other (expense) income:

Interest expense

(165.3
)

(166.4
)

(331.0
)

(330.7
)
Earnings from equity investments

8.0

3.3

11.2

6.4

Gain on early extinguishment of debt

25.2

—

25.2

—

Other income (expense), net

1.7

(4.3
)

2.4

(9.9
)
Total other expense, net

(130.4
)

(167.4
)

(292.2
)

(334.2
)
Net loss before income taxes

(71.3
)

(167.5
)

(182.8
)

(316.2
)
Income tax benefit

19.6

65.3

38.8

127.6

Net loss

$
(51.7
)

$
(102.2
)

$
(144.0
)

$
(188.6
)
Other comprehensive (loss) income:

Foreign currency translation income (loss)

(35.1
)

17.8

(36.7

)

(88.4
)
Pension and post-retirement gain (loss), net of tax

0.3

(0.7
)

0.5

0.2

Derivative financial instruments unrealized gain, net of tax

4.6

6.0

3.6

1.1

Other comprehensive (loss) income

(30.2
)

23.1

(32.6
)

(87.1
)
Comprehensive loss

$
(81.9
)

$
(79.1

)

$
(176.6
)

$
(275.7
)

Basic and diluted net loss per share:

Basic

$
(0.59
)

$
(1.19
)

$
(1.66
)

$
(2.20
)
Diluted

$

(0.59
)

$
(1.19
)

$
(1.66
)

$
(2.20
)

Weighted average number of shares used in per share calculations:

Basic shares

87.3

85.9

86.9

85.6

Diluted shares

87.3

85.9

86.9

85.6

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

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 101.4	$ 128.7
Restricted cash	24.5	20.2
Accounts receivable, net	501.3	487.1
Notes receivable, net	140.0	167.7
Inventories	249.0	248.5
Prepaid expenses, deposits and other current assets	120.9	123.3
Total current assets	1,137.1	1,175.5
Long-term restricted cash	17.4	17.9
Long-term notes receivable, net	43.8	51.3
Property and equipment, net	695.5	794.0
Goodwill	2,992.5	3,013.7
Intangible assets, net	1,891.9	1,920.0
Software, net	443.2	485.9
Equity investments	199.8	228.5
Other assets	43.9	45.4
Total assets	$ 7,465.1	$ 7,732.2
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 49.7	$ 50.3
Accounts payable	178.6	159.8
Accrued liabilities	417.1	443.8
Total current liabilities	645.4	653.9
Deferred income taxes	173.9	228.2
Other long-term liabilities	245.1	188.9
Long-term debt, excluding current portion	8,067.6	8,156.7
Total liabilities	9,132.0	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; 104.7 and 103.7 shares issued and 87.5 and 86.5 shares outstanding, respectively	1.0	1.0
Additional paid-in capital	771.1	765.9
Accumulated loss	(2,009.0)	(1,865.0)
Treasury stock, at cost, 17.2 shares	(175.2)	(175.2)
Accumulated other comprehensive loss	(254.8)	(222.2)
Total stockholders' deficit	(1,666.9)	(1,495.5)
Total liabilities and stockholders' deficit	$ 7,465.1	$ 7,732.2

See accompanying condensed notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(144.0)	$(188.6)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	373.7	406.4
Change in deferred income taxes	(57.0)	(145.7)
Stock-based compensation	12.5	12.1
Non-cash interest expense	20.2	19.0
Earnings from equity investments, net	(11.2)	(6.4)
Distributed earnings from equity investments	16.3	19.9
Gain on early extinguishment of debt	(25.2)	—
Changes in current assets and liabilities:		
Accounts and notes receivable, net	14.4	23.7
Inventories	(3.4)	18.4
Other current assets and liabilities	15.2	10.8
Accounts payable	7.7	(9.4)
Accrued liabilities	(26.1)	(44.7)
Other, net	(1.2)	(1.1)
Net cash provided by operating activities	191.9	114.4
Cash flows from investing activities:		
Property and equipment expenditures	(8.7)	(7.8)
Gaming and lottery operations expenditures	(76.8)	(103.7)
Intangible assets and software expenditures	(47.1)	(31.3)
Proceeds from asset sales	3.1	—
Changes in other assets and liabilities and other	3.0	8.5
Restricted cash	(3.8)	1.0
Distributions of capital on equity investments	22.5	35.2
Net cash used in investing activities	(107.8)	(98.1)
Cash flows from financing activities:		
Borrowings under revolving credit facility	160.0	110.0
Repayments under revolving credit facility	(175.0)	(120.0)
Payments on long-term debt	(25.2)	(26.2)
Repurchase of notes	(39.9)	—
Payments on license obligations	(25.0)	(18.7)
Contingent earnout payments	—	(0.5)
(Redemptions) issuance of common stock under stock-based compensation plans	(4.4)	0.9
Net cash used in financing activities	(109.5)	(54.5)
Effect of exchange rate changes on cash and cash equivalents	(1.9)	(4.5)
Decrease in cash and cash equivalents	(27.3)	(42.7)
Cash and cash equivalents, beginning of period	128.7	171.8
Cash and cash equivalents, end of period	$101.4	$129.1

See accompanying condensed notes to consolidated financial statements.

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

(1) Description of the Business and Summary of Significant Accounting Policies
Description of the Business
We are a leading developer of technology based products and services and associated content for the worldwide gaming, 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. All monetary values set forth in these financial statements are in United States dollars ("USD" or "$") unless otherwise stated herein. 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 Annual Report on Form 10-K. Interim results of operations are not necessarily indicative of results of operations for a full year.
Significant Accounting Policies
There have been no changes to our significant accounting policies described in Note 1 (Description of the Business and Summary of Significant Accounting Policies) in our 2015 Annual Report on Form 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 reporting the cumulative effect as of the date of adoption. 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.

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 lease 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. ASU 2016-02 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, and 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. These are our reportable segments under ASC 280, Segment Reporting. Each of our business segments is managed by a separate executive who reports to our chief executive officer (who is our "chief operating decision maker" as defined under applicable accounting standards). Our three business segments represent separate standalone businesses based on the industries in which we operate. Our Gaming business segment generally sells gaming machines, 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, including automatic card shufflers, deck checkers and roulette chip sorters, 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 (Description of the Business and Summary of Significant Accounting Policies) in our 2015 Annual Report on Form 10-K.

The following tables present revenue, cost of revenue, SG&A, R&D, employee termination and restructuring, D&A, operating income and earnings from equity investments for the three and six months ended June 30, 2016 and 2015, respectively, by business segment. Certain unallocated corporate amounts consisted primarily of general and administrative expenses, other income (expense) and D&A.

	Three Months Ended June 30, 2016			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$236.0	$ 44.1	$ 83.4	$363.5
Product sales	205.9	8.9	—	214.8
Instant games	—	150.9	—	150.9
Total revenue	441.9	203.9	83.4	729.2
Operating expenses:				
Cost of services [1]	44.4	26.8	30.2	101.4
Cost of product sales [1]	93.4	7.3	—	100.7
Cost of instant games [1]	—	74.1	—	74.1
Selling, general and administrative	61.2	17.8	26.8	105.8
Research and development	38.5	2.6	8.4	49.5
Employee termination and restructuring	3.4	0.2	0.5	4.1
Depreciation and amortization	154.3	17.2	3.8	175.3
Segment operating income	$46.7	$ 57.9	$ 13.7	$118.3
Unallocated corporate costs				(59.2)
Consolidated operating income				$59.1
Earnings from equity investments	$1.4	$ 6.6	$ —	$8.0

(1) Exclusive of D&A.

	Three Months Ended June 30, 2015			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$240.4	$ 45.9	$ 51.6	$337.9
Product sales	209.3	8.8	—	218.1
Instant games	—	135.5	—	135.5
Total revenue	449.7	190.2	51.6	691.5
Operating expenses:				
Cost of services [1]	53.1	27.5	18.0	98.6
Cost of product sales [1]	100.9	7.0	—	107.9
Cost of instant games [1]	—	68.8	—	68.8
Selling, general and administrative	71.2	16.4	15.2	102.8
Research and development	41.1	1.5	5.4	48.0
Employee termination and restructuring	2.7	—	0.3	3.0
Depreciation and amortization	181.5	20.0	5.4	206.9
Segment operating (loss) income	$(0.8)	$ 49.0	$ 7.3	$55.5
Unallocated corporate costs				(55.6)
Consolidated operating loss				$(0.1)
Earnings from equity investments	$1.8	$ 1.5	$ —	$3.3

(1) Exclusive of D&A.

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	Six Months Ended June 30, 2016			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$468.6	$89.2	$ 156.0	$713.8
Product sales	395.0	17.4	—	412.4
Instant games	—	285.0	—	285.0
Total revenue	863.6	391.6	156.0	1,411.2
Operating expenses:				
Cost of services (1)	85.6	54.9	55.8	196.3
Cost of product sales (1)	181.2	13.9	—	195.1
Cost of instant games (1)	—	141.1	—	141.1
Selling, general and administrative	129.1	34.3	51.3	214.7
Research and development	76.7	5.2	15.7	97.6
Employee termination and restructuring	5.0	1.3	0.5	6.8
Depreciation and amortization	295.9	35.0	7.5	338.4
Segment operating income	$90.1	$105.9	$ 25.2	$221.2
Unallocated corporate costs				(111.8)
Consolidated operating income				$109.4
Earnings from equity investments	$1.4	$9.8	$ —	$11.2

(1) Exclusive of D&A.

	Six Months Ended June 30, 2015			
	Gaming	Lottery	Interactive	Total
Revenue:				
Services	$478.3	$ 91.5	$ 98.5	$668.3
Product sales	397.2	20.3	—	417.5
Instant games	—	264.4	—	264.4
Total revenue	875.5	376.2	98.5	1,350.2
Operating expenses:				
Cost of services (1)	98.6	55.9	34.6	189.1
Cost of product sales (1)	188.7	17.1	—	205.8
Cost of instant games (1)	—	135.8	—	135.8
Selling, general and administrative	145.4	33.5	30.3	209.2
Research and development	80.9	3.1	10.9	94.9
Employee termination and restructuring	6.9	0.2	1.0	8.1
Depreciation and amortization	324.8	41.3	10.5	376.6
Segment operating income	$30.2	$ 89.3	$ 11.2	$130.7
Unallocated corporate costs				(112.7)
Consolidated operating income				$18.0
Earnings from equity investments	$1.7	$ 4.7	$ —	$6.4

(1) Exclusive of D&A.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Business segment operating income	$118.3	$55.5	$221.2	$130.7
Unallocated corporate costs	(59.2)	(55.6)	(111.8)	(112.7)
Consolidated operating income (loss)	59.1	(0.1)	109.4	18.0
Interest expense	(165.3)	(166.4)	(331.0)	(330.7)
Earnings from equity investments	8.0	3.3	11.2	6.4
Gain on early extinguishment of debt	25.2	—	25.2	—
Other income (expense), net	1.7	(4.3)	2.4	(9.9)
Net loss before income taxes	$(71.3)	$(167.5)	$(182.8)	$(316.2)

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 (Description of the Business and Summary of Significant Accounting Policies) in our 2015 Annual Report on Form 10-K.

(3) Restructuring Plans

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 its acquisition in November 2014 by implementing our plans to streamline our operations and cost structure.

We recorded pre-tax employee termination and restructuring costs of $4.2 million and $5.2 million for the three months ended June 30, 2016 and 2015, respectively, and $6.9 million and $13.4 million for the six months ended June 30, 2016 and 2015, respectively. No new material employee termination and restructuring plans were initiated during the six months ended June 30, 2016. We expect to complete the integration-related restructuring plan actions discussed below relating to the Bally integration during 2016. All other employee termination and restructuring actions reported in 2015 were completed as of March 31, 2016.

The following table presents a summary of employee termination and restructuring costs by business segment related to the restructuring plans described above, including the costs incurred during the three and six months ended June 30, 2016, the cumulative costs incurred through June 30, 2016 from initiation of the relevant restructuring activities and the total expected costs related to the relevant restructuring activities that have been initiated. As additional integration-related activities

are initiated, we expect to incur additional costs related to those activities.

Business Segment		Employee Termination Costs	Property Costs	Other	Total
Gaming	Three Months Ended June 30, 2016	$ 2.2	$ —	$ 1.2	$ 3.4
	Six Months Ended June 30, 2016	3.4	0.4	1.2	5.0
	Cumulative	24.6	0.4	2.8	27.8
	Expected Total	27.1	0.4	2.8	30.3
Lottery	Three Months Ended June 30, 2016	—	—	0.2	0.2
	Six Months Ended June 30, 2016	1.1	—	0.2	1.3
	Cumulative	2.3	—	0.2	2.5
	Expected Total	2.3	—	0.2	2.5
Interactive	Three Months Ended June 30, 2016	0.2	—	0.3	0.5
	Six Months Ended June 30, 2016	0.2	—	0.3	0.5
	Cumulative	2.7	—	2.0	4.7
	Expected Total	2.7	—	2.0	4.7
Unallocated corporate (1)	Three Months Ended June 30, 2016	0.1	—	—	0.1
	Six Months Ended June 30, 2016	0.1	—	—	0.1
	Cumulative	6.4	4.3	2.1	12.8
	Expected Total	8.9	4.3	2.1	15.3

Total	Three Months Ended June 30, 2016	$ 2.5	$ —	$ 1.7	$ 4.2
	Six Months Ended June 30, 2016	$ 4.8	$ 0.4	$ 1.7	$ 6.9
	Cumulative	$ 36.0	$ 4.7	$ 7.1	$ 47.8
	Expected Total	$ 41.0	$ 4.7	$ 7.1	$ 52.8

(1) Cumulative unallocated corporate employee termination costs primarily includes cash severance paid to our former chief executive officer and special termination benefits related to the retirement of our former chief financial officer.

The following table presents a summary of restructuring charges and the changes in the restructuring accrual during the six months ended June 30, 2016:

	Employee Termination Costs	Property Costs	Other	Total
Balance as of December 31, 2015	$ 7.3	$ 0.8	$1.4	$9.5
Additional accruals	4.8	0.4	1.7	6.9
Cash payments	(6.2)	(0.9)	(0.2)	(7.3)
Balance as of June 30, 2016	$ 5.9	$ 0.3	$2.9	$9.1

(4) Basic and Diluted Net Loss Per Share

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net loss per share available to common stockholders for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Loss (numerator):				
Net loss	$(51.7)	$(102.2)	$(144.0)	$(188.6)
Shares (denominator):				
Basic weighted-average common shares outstanding	87.3	85.9	86.9	85.6
Diluted weighted-average common shares outstanding	87.3	85.9	86.9	85.6
Basic and diluted net loss per share amounts:				
Basic net loss per share	$(0.59)	$(1.19)	$(1.66)	$(2.20)
Diluted net loss per share	$(0.59)	$(1.19)	$(1.66)	$(2.20)

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 3.0 million and 1.9 million of stock options from the diluted weighted-average common shares outstanding as of June 30, 2016 and 2015, respectively, and 5.3 million and 6.4 million of RSUs from the calculation of diluted weighted-average common shares outstanding as of June 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:

	June 30, 2016	December 31, 2015
Current:		
Accounts receivable	$514.0	$ 497.7
Notes receivable	154.5	180.4
Allowance for doubtful accounts	(27.2)	(23.3)
Current accounts and notes receivable, net	$641.3	$ 654.8
Long-term:		
Notes receivable, net	43.8	51.3
Total accounts and notes receivable, net	$685.1	$ 706.1

Credit Quality of Notes Receivable

We have provided extended payment terms and development financing to certain customers in the form of notes receivable. We carry our notes receivable at face amounts less an allowance for doubtful accounts and imputed interest, if any. Interest income is recognized ratably over the life of the note receivable and any related fees or costs to establish the notes are expensed as incurred, as they are considered insignificant. Actual or imputed interest, if any, is determined based on stated rates or current market rates at the time the note originated and is recorded as interest income in other income (expense), net, ratably over the payment period. We generally impute interest income on notes receivable with terms greater than one year that do not contain a stated interest rate. The interest rates on our outstanding notes receivable ranged from 3.25% to 10.42% at June 30, 2016 and December 31, 2015.

We monitor the credit quality of our accounts and notes receivable by reviewing an aging of customer invoices. Invoices are considered past due if a scheduled payment is not received within the agreed-upon terms. We also review a variety of other relevant qualitative information such as collection experience, economic conditions and customer-specific financial conditions to evaluate credit risk in recording the allowance for doubtful accounts or as an indicator of an impaired loan. Where possible, we seek payment deposits, collateral, pledge agreements, bills of exchange, foreign bank letters of credit, post-dated checks or personal guarantees with respect to notes receivable from our customers. However, the majority of our international notes receivable do not have these features. Currently,

we have not sold our notes receivable to third parties; therefore, we do not have any off-balance sheet liabilities for factored receivables.

Over the past few years, the government authorities in Argentina had limited the exchange of pesos into USD and the transfer of funds from Argentina. In December 2015, the newly elected government removed the limitations of the previous government and also devalued the "official" peso to the market rate. Our accounts and notes receivable, net, from customers in Argentina at June 30, 2016 was $19.0 million, which is denominated in USD, although, under the terms of our arrangements with our customers in Argentina, they are required to pay us in pesos at the spot exchange rate between the peso and the USD on the date of payment. With the recent devaluation of the peso, our customers will now have to pay more pesos to reduce their obligations. In evaluating the collectability of customer receivables in Argentina at June 30, 2016, we specifically evaluated recent government actions, 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. Our customers in Argentina have continued to pay us in pesos based on the spot exchange rate between the peso and the USD on the payment date. We collected $11.4 million of outstanding receivables from customers in Argentina during the six months ended June 30, 2016.

Government actions and challenges affecting the gaming industry in Mexico have increased the credit quality risk with respect to certain of our current Mexico customers. Our accounts and notes receivable, net, from these certain customers in Mexico at June 30, 2016 was $36.4 million. We collected $14.4 million of outstanding receivables from these certain customers during the six months ended June 30, 2016.

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

	June 30, 2016	Balances over 90 days past due	December 31, 2015	Balances over 90 days past due
Notes receivable:				
Domestic	$39.6	$ 2.0	$ 62.4	$ 2.6
International	159.0	41.5	169.8	26.6
Total notes receivable	198.6	43.5	232.2	29.2
Notes receivable allowance for doubtful accounts:				
Domestic	(2.3)	(2.3)	(2.6)	(2.5)
International	(12.5)	(12.5)	(10.6)	(9.5)
Total notes receivable allowance for doubtful accounts	(14.8)	(14.8)	(13.2)	(12.0)
Notes receivable, net	$183.8	$ 28.7	$ 219.0	$ 17.2

At June 30, 2016, 15.6% 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 as of June 30, 2016 and December 31, 2015:

	June 30, 2016	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Notes receivable:			
Domestic	$39.6	$ 13.7	$ 25.9
International	159.0	81.7	77.3
Total notes receivable	$198.6	$ 95.4	$ 103.2

	December 31, 2015	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Notes receivable:			
Domestic	$ 62.4	$ 20.7	$ 41.7
International	169.8	101.8	68.0
Total notes receivable	$ 232.2	$ 122.5	$ 109.7

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The following table reconciles the allowance for doubtful notes receivable from December 31, 2015 to June 30, 2016:

	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Beginning balance at December 31, 2015	$13.2	$ 12.9	$ 0.3
Charge-offs	(1.3)	(1.3)	—
Recoveries	(0.2)	(0.2)	—
Provision	3.1	3.1	—
Ending balance at June 30, 2016	$14.8	$ 14.5	$ 0.3

The following table reconciles the allowance for doubtful notes receivable from December 31, 2014 to June 30, 2015:

	Total	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Beginning balance at December 31, 2014	$5.9	$ 5.9	$ —
Charge-offs	(2.1)	(2.1)	—
Recoveries	(0.5)	(0.4)	(0.1)
Provision	6.4	5.2	1.2
Ending balance at June 30, 2015	$9.7	$ 8.6	$ 1.1

For the six months ended June 30, 2016 and 2015, we had no significant modifications to the original financing terms.

In certain international jurisdictions, we offer extended payment terms to our customers. Such payment terms subject us to increased credit risk, which could be exacerbated by, among other things, unfavorable economic conditions or political or economic instability in those regions. Our notes receivable were concentrated in the following international gaming jurisdictions at June 30, 2016:

Mexico	26%
Peru	17%
Argentina	9 %
Columbia	6 %
Other (less than 5% individually)	22%
Total international notes receivable as a percentage of total notes receivable	80%

(6) Inventories

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

	June 30, 2016	December 31, 2015
Parts and work-in-process	$ 128.6	$ 118.3
Finished goods	120.4	130.2
Total inventories	$ 249.0	$ 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 three months ended June 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 the cost of product sales in our Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2015.

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(7) Property and Equipment, net

Property and equipment, net consisted of the following:

	June 30, 2016	December 31, 2015
Land	$38.4	$ 38.5
Buildings and leasehold improvements	184.7	185.2
Gaming and lottery machinery and equipment	1,048.5	1,084.6
Furniture and fixtures	31.4	36.0
Construction in progress	27.9	25.5
Other property and equipment	264.5	271.0
Less: accumulated depreciation	(899.9)	(846.8)
Total property and equipment, net	$695.5	$ 794.0

Depreciation expense for the three and six months ended June 30, 2016 was $86.8 million and $167.4 million, respectively. Depreciation expense for the three and six months ended June 30, 2015 was $93.9 million and $176.3 million, respectively. Depreciation expense is excluded from cost of services, cost of product sales, cost of instant games and other operating expenses and is separately included within D&A in the Consolidated Statements of Operations and Comprehensive Loss.

During the six months ended June 30, 2016, the Gaming and Lottery business segments disposed of certain gaming and lottery assets with gross balances of approximately $90.2 million and $3.1 million, respectively. These disposals did not result in receipt of material cash proceeds and had an immaterial impact on property and equipment, net in our Consolidated Balance Sheet as of June 30, 2016 and the Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2016.

During the three months ended June 30, 2015, the Gaming business segment disposed of certain fully depreciated gaming assets with a historical cost of $59.9 million. The disposal had no impact on property and equipment, net in our Consolidated Balance Sheet as of June 30, 2015 or D&A in the Consolidated Statements of Operations and Comprehensive Loss for three and six months ended June 30, 2015. In addition, during the three months ended June 30, 2015, we recorded an impairment of $5.2 million related to gaming equipment assets for certain product lines that were discontinued as a result of the Bally acquisition, and recorded an impairment of $4.9 million for a Reno, Nevada facility we sold later in the year. The impairments were included in D&A in our Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2015.

(8) Intangible Assets, net and Goodwill

Intangible Assets, net

The following tables present certain information regarding our intangible assets as of June 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.

Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance as of June 30, 2016			
Amortizable intangible assets:			
Patents	$26.3	$ (13.1)	$13.2
Customer relationships	877.7	(136.8)	740.9
Licenses	412.5	(121.8)	290.7
Intellectual property[1]	731.5	(170.3)	561.2
Trade names	97.4	(4.9)	92.5
Brand names	124.4	(25.6)	98.8
Non-compete agreements	0.2	(0.2)	—
	2,270.0	(472.7)	1,797.3
Non-amortizable intangible assets:			
Trade names	96.7	(2.1)	94.6
Total intangible assets	$2,366.7	$ (474.8)	$1,891.9
Balance as of December 31, 2015			
Amortizable intangible assets:			
Patents	$26.8	$ (12.5)	$14.3
Customer relationships	877.7	(109.1)	768.6
Licenses	326.1	(91.6)	234.5
Intellectual property[1]	731.1	(124.5)	606.6
Trade names	97.5	(1.9)	95.6
Brand names	124.0	(18.9)	105.1
Non-compete agreements	0.3	(0.3)	—
	2,183.5	(358.8)	1,824.7
Non-amortizable intangible assets:			
Trade names	97.4	(2.1)	95.3
Total intangible assets	$2,280.9	$ (360.9)	$1,920.0

(1) Includes $33 million of in-process R&D assets that will not be subject to amortization until they reach commercial feasibility.

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 in our Consolidated Balance Sheets. 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, in our Consolidated Balance Sheet as of June 30, 2016.

The aggregate intangible asset amortization expense for the three and six months ended June 30, 2016 was $62.3 million and $127.9 million, respectively. The aggregate intangible amortization expense for the three and six months ended June 30, 2015 was $87.2 million and $150.3 million, respectively. Intangible amortization expense is included within D&A in the Consolidated Statements of Operations and Comprehensive Loss.

As a result of an interim review of assets with indefinite useful lives, we recorded an impairment charge of $25.0 million in D&A in our Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2015 to reduce the gross carrying amount of one indefinite-lived trade name asset to its fair value (which was

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subsequently reclassified to finite-life during the third quarter of 2015).

Goodwill

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

Goodwill	Gaming	Lottery	Interactive	Totals
Balance as of December 31, 2015	$2,486.0	$417.9	$ 109.8	$3,013.7
Foreign currency adjustments	(23.0)	1.8	—	(21.2)
Balance as of June 30, 2016	$2,463.0	$419.7	$ 109.8	$2,992.5

(9) Software, net

Software, net consisted of the following:

	June 30, 2016	December 31, 2015
Software	$894.8	$ 854.2
Accumulated amortization	(451.6)	(368.3)
Software, net	$443.2	$ 485.9

Amortization expense for the three and six months ended June 30, 2016 was $44.0 million and $78.4 million, respectively. Amortization expense for the three and six months ended June 30, 2015 was $41.1 million and $79.8 million, respectively. Amortization expense is included within D&A in the Consolidated Statements of Operations and Comprehensive Loss.

(10) Equity Investments

The following provides an update for events that occurred during the six months ended June 30, 2016 related to our equity investments, which are disclosed in Note 11 (Equity Investments) in our 2015 Annual Report on Form 10-K.

ITL

During the six months ended June 30, 2016, we received a distribution of capital of €2.8 million, or $3.1 million. During the six months ended June 30, 2015, we received a distribution of capital of €5.8 million, or $6.5 million.

RCN

During the six months ended June 30, 2016, we received a dividend of $1.4 million. During the six months ended June 30, 2015, we received a dividend of $1.8 million.

LNS

During the six months ended June 30, 2016, we received a dividend of €13.5 million, or $14.9 million, and a distribution capital of €17.6 million, or $19.4 million. During the six months ended June 30, 2015, we received a dividend of €12.9 million, or $14.5 million, and a distribution capital of €15.0 million, or $16.8 million.

(11) Long-Term and Other Debt

Outstanding Debt and Capital Leases

The following reflects our outstanding debt as of the dates indicated below:

	Principal	Unamortized debt discount	Unamortized deferred financing costs	Book value June 30, 2016
Senior Secured Credit Facilities:				
Revolver, varying interest rate, due 2018	$80.0	$ —	$ —	$80.0
Term Loan, varying interest rate, due 2020	2,242.5	(6.9)	(47.0)	2,188.6
Term Loan, varying interest rate, due 2021	1,970.0	(15.2)	(44.8)	1,910.0
2018 Notes	250.0	—	(1.6)	248.4
2020 Notes	243.5	—	(2.6)	240.9
2021 Notes	340.6	(1.6)	(5.1)	333.9
Secured Notes	950.0	—	(15.1)	934.9
Unsecured Notes	2,200.0	—	(39.1)	2,160.9
Capital lease obligations, 3.9% interest as of June 30, 2016 payable monthly through 2019	19.7	—	—	19.7
Total long-term debt outstanding	$8,296.3	$ (23.7)	$ (155.3)	$8,117.3
Less: current portion of long-term debt				(49.7)
Long-term debt, excluding current portion				$8,067.6

	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, by and among SGI, as the borrower, us, as a guarantor, Bank of America, N.A., as administrative agent, and the lenders and other agents party thereto. Prior to the increase in the revolving credit facility and the assumption of the incremental term loans referred to below, the credit agreement provided for senior secured credit facilities in an aggregate principal amount of $2,600.0 million, including a $300.0 million revolving credit facility, which has USD and multi-currency tranches, and a $2,300.0 million term B-1 loan facility.

On October 1, 2014, in connection with the Bally acquisition, we amended our existing credit agreement pursuant to which our $300.0 million revolving credit facility was increased by $267.6 million effective upon the consummation of the Bally acquisition. In addition, we entered into an escrow credit agreement providing for a $2.0 billion senior secured

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incremental term B-2 loan facility (which became an incremental term B-2 loan facility under our existing credit agreement upon the consummation of the Bally acquisition).
On February 11, 2015, SGI entered into a lender joinder agreement to the credit agreement with an additional commitment lender. Pursuant to the joinder agreement, the amount of the revolving credit facility under the credit agreement was increased by $25.0 million to $592.6 million. Up to $350.0 million of the revolving credit facility is available for issuances of letters of credit.
All of the debt incurred under the Credit Agreement is subject to accelerated maturity depending on our liquidity at the time our 2018 Notes, 2020 Notes and 2021 Notes become due.
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.
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 (Long-Term and Other Debt) in our 2015 Annual Report on Form 10-K.
Fair Value of Debt
The estimated fair value of our long-term debt as of June 30, 2016 and December 31, 2015 was approximately $7,532.3 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
The fair value of our financial assets and liabilities is determined by reference to market data and other valuation techniques as appropriate. We believe the fair value of our financial instruments, which are principally cash and cash equivalents, accounts 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
In August 2013, we entered into forward starting interest rate swap contracts with an aggregate notional value of $500.0 million. In October 2013, we entered into additional forward starting interest rate swap contracts with an aggregate notional value of $200.0 million. Interest payments pursuant to these contracts started in April 2015 and these contracts will mature in January 2018. We entered into the forward starting interest rate swap contracts, which are designated as cash flow hedges of the future interest payment transactions in accordance with ASC 815, Derivatives and Hedging, in order to eliminate the variability of a portion of cash flows attributable to the LIBOR component of interest expense to be paid on our variable rate debt. Under these hedges, beginning in April 2015, we began to pay interest on the notional amount at a weighted-average fixed rate of 2.151% and began to receive interest on the notional amount at the greater of 1% or the then prevailing three-month LIBOR rate.
These hedges are highly effective in offsetting changes in our future expected cash flows due to 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 by comparing the cumulative change in the hedging instrument's fair value to the change in the hedged transaction's fair value. To the extent these hedges have no ineffectiveness, all gains and losses from these hedges are recorded in other comprehensive 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 in our Consolidated Statements of Operations and Comprehensive Loss.
For the three and six months ended June 30, 2016, we recorded gains, net of tax, of $4.6 million and $3.6 million, respectively, which represent the change in the fair value associated with these hedges, in other comprehensive income (loss) in our Consolidated Statements of Operations and Comprehensive Loss. For the three and six months ended June 30, 2015, we

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recorded gains, net of tax, of $5.6 million and $0.8 million, respectively, all of which is recorded in other comprehensive (loss) income in our Consolidated Statements of Operations and Comprehensive Loss related to these hedges. We realized losses of $2.0 million and $4.1 million, which represent reclassifications from accumulated other comprehensive loss to interest expense in our Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2016, respectively. The Company expects to reclassify additional losses of $8.2 million from accumulated other comprehensive loss to interest expense in the next twelve months. As of June 30, 2016, the fair value of these hedges was $11.8 million, of which $8.2 million is recorded in accrued liabilities and $3.6 million is recorded in other long-term liabilities in our Consolidated Balance Sheet. As of December 31, 2015, the fair value of these hedges was $11.9 million, of which $7.9 million is recorded in accrued liabilities and $4.0 million is recorded in other long-term liabilities in our Consolidated Balance Sheet. 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.

Other

As of June 30, 2016 and December 31, 2015, we had $14.5 million and $16.7 million of assets held for sale, respectively, which at year-end primarily 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. Each of these facilities was included in our Consolidated Balance Sheets within Prepaid expenses, deposits and other current assets and is reported at the lower of the carrying amount or fair market value, less expected costs to sell, which approximated the fair value as of June 30, 2016 and December 31, 2015. The inputs used to measure the fair value of our assets held for sale were based on market approach and are categorized as Level 3 in the fair value hierarchy.

Notes Receivable

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 June 30, 2016 and December 31, 2015, the fair value of the notes receivable, net, approximated the carrying amount due to the short-term nature of notes receivable.

(13) Stockholders' Deficit

Stock-based and other incentive compensation

We offer stock-based compensation in the form of stock options and RSUs. We also offered an ESPP through June 30, 2015, at which point in time the shares allocated to this plan were fully issued and the ESPP terminated in accordance with its terms. See Note 18 (Stock-Based and Other Incentive Compensation) in our 2015 Annual Report on Form 10-K. At our annual meeting of stockholders, held on June 15, 2016 (the "Annual Meeting"), our stockholders approved the adoption of a new ESPP, the terms of which are described in our annual proxy statement, filed on Schedule 14A with the SEC on April 29, 2016. The first offering period under the new ESPP will commence on January 1, 2017.

We may grant certain awards in which the vesting is contingent upon the Company achieving certain performance targets. Upon determining that the performance target is probable, the fair value of the award is recognized over the service period, subject to potential adjustment.

We grant stock options to employees and directors under our stock-based compensation plans with exercise prices that are not less than the fair market value of our common stock on the date of grant, as determined pursuant to the terms of the applicable stock-based compensation plan. The terms of the stock option and RSU awards, including the vesting schedule of such awards, are determined at our discretion subject to the terms of the applicable stock-based compensation plan. Options granted over the last several years have generally become exercisable in four equal installments beginning on the first anniversary of the date of grant or when certain performance targets are determined to have been met, in each case, with a maximum period to exercise of ten years. RSUs typically vest in four equal installments beginning on the first anniversary of the date of grant or when certain performance targets are determined to have been met. We record compensation cost for all stock options and RSUs based on the fair value at the grant

date and in the case of performance-based awards, compensation costs may be adjusted to reflect the likelihood of achieving the performance targets.

Stock Options

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For the three and six months ended June 30, 2016, we granted 1.2 million options with a weighted average grant date fair value of approximately $4.81. We had approximately 3.0 million and 0.9 million of options outstanding and options exercisable as of June 30, 2016, respectively.

For the three and six months ended June 30, 2016, we recognized stock-based compensation expense of $0.6 million and $1.3 million, respectively, related to the service period of stock options. For the three and six months ended June 30, 2015, we recognized stock-based compensation expense of $0.5 million and $0.9 million, respectively.
As of June 30, 2016, we had $10.2 million of unrecognized stock-based compensation relating to unvested stock options that will be amortized over a weighted average period of approximately two years.
Restricted Stock Units
A summary of the changes in RSUs outstanding under our stock-based compensation plans during the six months ended June 30, 2016 is presented below:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested RSUs as of December 31, 2015	5.6	$ 13.05
Granted	0.2	8.21
Vested	(0.8)	12.46
Canceled	(0.4)	12.56
Unvested RSUs as of March 31, 2016	4.6	$ 13.00
Granted	1.4	9.60
Vested	(0.6)	12.51
Canceled	(0.1)	13.35
Unvested RSUs as of June 30, 2016	5.3	$ 12.16

The weighted average grant date fair value of RSUs granted during the three and six months ended June 30, 2016 was $9.60 and $9.42, respectively. During the three and six months ended June 30, 2016 we recognized stock-based compensation expense of $5.4 million and $11.2 million, respectively, related to the vesting of RSUs. For the three and six months ended June 30, 2015, we recognized stock-based compensation expense of $6.3 million and $11.0 million, respectively, related to the service period of RSUs.
As of June 30, 2016, we had $58.0 million of unrecognized stock-based compensation relating to unvested RSUs that will be amortized over a weighted average period of approximately two years.

(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 (Pension and Other Post Retirement Plans) in our 2015 Annual Report on Form 10-K.
The net periodic benefit cost recognized for both the three months ended June 30, 2016 and 2015 was $0.4 million. The net periodic benefit cost recognized for the six months ended June 30, 2016 and 2015 was $0.7 million and $0.9 million, respectively.

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 June 30, 2016 and 2015 was $2.9 million and $2.7 million, respectively. Contribution expense for the six months ended June 30, 2016 and 2015 was $5.8 million and $5.8 million, respectively.

(15) Income Taxes

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The effective income tax rates for the three and six months ended June 30, 2016 were 27.5% and 21.2%, respectively, and 39.0% and 40.4% for the three and six months ended June 30, 2015, respectively, and were determined using an estimated annual effective tax rate after considering any discrete items for such periods. The reduction in income tax rate for the three and six months ended June 30, 2016 when compared to the three and six months ended June 30, 2015 is primarily attributable to the impact of negative evidence related to the realizability of the deferred tax assets expected to be created by 2016 U.S. taxable losses.
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 June 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.
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 six months ended June 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 $9.0 million and $16.4 million for all of our legal matters that were contingencies as of June 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 $13.2 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 $30.8 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) Supplemental Disclosure of Cash Flow Information

Additional cash flow information is presented as follows:

	Six Months Ended June 30,	
	2016	2015
Interest paid	$313.6	$294.6
Income taxes paid (received)	$6.6	$(4.1)

Six months ended June 30, 2016

During the six months ended June 30, 2016, we recorded approximately $86.9 million of non-cash additions to intangible assets and corresponding current and long-term liabilities related to license agreements with minimum guaranteed obligations entered into during the period.

Six months ended June 30, 2015

During the six months ended June 30, 2015, we recorded approximately $12.5 million of non-cash other assets and related long-term liabilities related to license agreements with minimum guaranteed obligations entered into during the period.

There were no other significant non-cash investing or financing activities for the six months ended June 30, 2016 and 2015.

(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 June 30, 2016, SGI's obligations under our credit agreement, the 2020 Notes, the 2021 Notes, the Secured Notes and the Unsecured Notes were fully and unconditionally and jointly and severally guaranteed by Scientific Games Corporation (the "Parent Company") and substantially all of our 100%-owned U.S. subsidiaries other than SGI (the "Guarantor Subsidiaries"). As of June 30, 2016, our 2018 Notes, which were issued by the Parent Company, were fully and unconditionally and jointly and severally guaranteed by substantially all of our 100%-owned U.S. subsidiaries, including SGI. 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 the Parent Company and SGI (or, in the case of the 2018 Notes, the release of the guarantor from any guarantees of indebtedness of the Parent Company); 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.

Presented below is condensed consolidating financial information for (1) the Parent Company, (2) SGI, (3) the Guarantor Subsidiaries and (4) our U.S. subsidiaries that are not Guarantor Subsidiaries and our foreign subsidiaries (collectively, the "Non-Guarantor Subsidiaries") as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 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 the Parent Company, 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 the Parent Company 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 June 30, 2016

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$32.4	$0.5	$ —	$ 68.5	$—	$ 101.4
Restricted cash	—	—	24.4	0.1	—	24.5
Accounts receivable, net	—	98.0	226.5	176.8	—	501.3
Notes receivable, net	—	—	91.2	48.8	—	140.0
Inventories	—	35.8	89.4	136.2	(12.4)	249.0
Prepaid expenses, deposits and other current assets	31.6	14.1	35.1	40.1	—	120.9
Property and equipment, net	11.9	101.4	430.4	166.3	(14.5)	695.5
Investment in subsidiaries	3,202.2	851.8	796.8	—	(4,850.8)	—
Goodwill	—	188.3	1,988.2	816.0	—	2,992.5
Intangible assets, net	207.1	38.7	1,423.6	222.5	—	1,891.9
Intercompany balances	—	6,531.8	—	—	(6,531.8)	—
Software, net	52.4	25.4	316.3	49.1	—	443.2
Other assets	291.0	119.3	44.7	214.6	(364.7)	304.9
Total assets	$3,828.6	$8,005.1	$ 5,466.6	$ 1,939.0	$(11,774.2)	$ 7,465.1
Liabilities and stockholders' (deficit) equity						
Current portion of long-term debt	$—	$43.0	$ —	$ 6.7	$—	$ 49.7
Other current liabilities	74.3	153.2	208.4	159.8	—	595.7
Long-term debt, excluding current portion	248.4	7,806.2	—	13.0	—	8,067.6
Other long-term liabilities	179.2	14.2	498.8	91.5	(364.7)	419.0
Intercompany balances	4,993.6	—	1,503.7	34.5	(6,531.8)	—
Stockholders' (deficit) equity	(1,666.9)	(11.5)	3,255.7	1,633.5	(4,877.7)	(1,666.9)
Total liabilities and stockholders' (deficit) equity	$3,828.6	$8,005.1	$ 5,466.6	$ 1,939.0	$(11,774.2)	$ 7,465.1

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

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$43.2	$—	$ 4.7	$ 80.8	$—	$ 128.7
Restricted cash	—	—	20.0	0.2	—	20.2
Accounts receivable, net	—	94.6	233.6	158.9	—	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	52.1	37.4	—	123.3
Property and equipment, net	8.2	106.4	502.2	188.7	(11.5)	794.0
Investment in subsidiaries	3,280.9	838.1	648.3	—	(4,767.3)	—
Goodwill	—	186.0	1,990.5	837.2	—	3,013.7
Intangible assets, net	138.3	39.8	1,505.8	236.1	—	1,920.0
Intercompany balances	—	6,511.1	—	—	(6,511.1)	—
Software, net	35.6	32.7	359.8	57.8	—	485.9
Other assets	232.5	123.4	51.7	241.7	(306.2)	343.1
Total assets	$3,765.5	$7,976.0	$ 5,587.1	$ 2,011.9	$(11,608.3)	$ 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	245.4	144.0	—	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	4,830.2	—	1,558.2	122.6	(6,511.0)	—
Stockholders' (deficit) equity	(1,495.5)	(122.3)	3,281.4	1,631.9	(4,791.0)	(1,495.5)
Total liabilities and stockholders' (deficit) equity	$3,765.5	$7,976.0	$ 5,587.1	$ 2,011.9	$(11,608.3)	$ 7,732.2

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

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$ —	$ 126.4	$ 408.6	$ 265.5	$ (71.3)	$ 729.2
Cost of services, cost of product sales and cost of instant games [(1)]	—	86.1	108.8	152.6	(71.3)	276.2
Selling, general and administrative	36.9	11.7	51.7	44.6	—	144.9
Research and development	1.9	2.3	39.1	8.4	—	51.7
Employee termination and restructuring	0.1	(0.1)	3.3	0.9	—	4.2
Depreciation and amortization	13.0	10.3	141.1	28.7	—	193.1
Operating (loss) income	(51.9)	16.1	64.6	30.3	—	59.1
Interest expense	—	(35.1)	(130.1)	(0.1)	—	(165.3)
Gain on early extinguishment of debt	—	25.2	—	—	—	25.2
Other (expense) income, net	(24.7)	52.5	(24.2)	6.1	—	9.7
Net (loss) income before equity in (loss) income of subsidiaries and income taxes	(76.6)	58.7	(89.7)	36.3	—	(71.3)
Equity in (loss) income of subsidiaries	—	11.3	9.3	—	(20.6)	—
Income tax benefit (expense)	24.9	—	—	(5.3)	—	19.6
Net (loss) income	$ (51.7)	$ 70.0	$ (80.4)	$ 31.0	$ (20.6)	$ (51.7)
Other comprehensive (loss) income	(30.2)	3.2	(8.1)	(33.4)	38.3	(30.2)
Comprehensive (loss) income	$ (81.9)	$ 73.2	$ (88.5)	$ (2.4)	$ 17.7	$ (81.9)

(1) Exclusive of D&A.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
Three Months Ended June 30, 2015

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$106.4	$430.6	$261.5	$(107.0)	$691.5
Cost of services, cost of product sales and cost of instant games (1)	—	79.0	139.5	163.8	(107.0)	275.3
Selling, general and administrative	16.7	18.4	70.8	35.0	—	140.9
Research and development	—	1.4	39.3	7.3	—	48.0
Employee termination and restructuring	1.4	0.7	2.4	0.7	—	5.2
Depreciation and amortization	8.1	9.8	170.8	33.5	—	222.2
Operating (loss) income	(26.2)	(2.9)	7.8	21.2	—	(0.1)
Interest expense	(5.3)	(83.1)	(77.9)	(0.1)	—	(166.4)
Other (expense) income, net	6.2	18.3	(29.0)	3.5	—	(1.0)
Net (loss) income before equity in (loss) income of subsidiaries and income taxes	(25.3)	(67.7)	(99.1)	24.6	—	(167.5)
Equity in (loss) income of subsidiaries	(143.0)	22.7	9.5	—	110.8	—
Income tax benefit (expense)	66.1	(0.1)	2.9	(3.6)	—	65.3
Net (loss) income	$(102.2)	$(45.1)	$(86.7)	$21.0	$110.8	$(102.2)
Other comprehensive income (loss)	23.1	3.3	(25.4)	42.4	(20.3)	23.1
Comprehensive (loss) income	$(79.1)	$(41.8)	$(112.1)	$63.4	$90.5	$(79.1)

(1) Exclusive of D&A.

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

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$241.7	$ 816.5	$ 483.4	$ (130.4)	$ 1,411.2
Cost of instant games, cost of services and cost of product sales [1]	—	169.0	219.8	274.1	(130.4)	532.5
Selling, general and administrative	61.0	22.9	119.4	83.9	—	287.2
Research and development	2.8	4.6	78.4	15.7	—	101.5
Employee termination and restructuring	0.1	—	4.1	2.7	—	6.9
Depreciation and amortization	25.8	21.1	267.9	58.9	—	373.7
Operating (loss) income	(89.7)	24.1	126.9	48.1	—	109.4
Interest expense	(0.1)	(69.9)	(260.9)	(0.1)	—	(331.0)
Gain on early extinguishment of debt	—	25.2	—	—	—	25.2
Other (expense) income, net	(50.3)	102.8	(47.3)	8.4	—	13.6
Net (loss) income before equity in (loss) income of subsidiaries and income taxes	(140.1)	82.2	(181.3)	56.4	—	(182.8)
Equity in (loss) income of subsidiaries	(51.0)	30.2	16.2	—	4.6	—
Income tax benefit (expense)	47.1	—	—	(8.3)	—	38.8
Net (loss) income	$(144.0)	$112.4	$ (165.1)	$ 48.1	$ 4.6	$ (144.0)
Other comprehensive income (loss)	(32.6)	3.0	(6.2)	(30.7)	33.9	(32.6)
Comprehensive (loss) income	$(176.6)	$115.4	$ (171.3)	$ 17.4	$ 38.5	$ (176.6)

(1) Exclusive of D&A.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF
OPERATIONS AND COMPREHENSIVE LOSS
Six Months Ended June 30, 2015

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Revenue	$—	$217.6	$ 862.9	$ 470.3	$ (200.6)	$ 1,350.2
Cost of instant games, cost of services and cost of product sales [(1)]	—	160.3	284.8	286.2	(200.6)	530.7
Selling, general and administrative	31.6	34.6	145.1	75.5	—	286.8
Research and development	—	2.8	77.1	15.0	—	94.9
Employee termination and restructuring	3.2	0.9	6.9	2.4	—	13.4
Depreciation and amortization	16.0	19.6	299.6	71.2	—	406.4
Operating (loss) income	(50.8)	(0.6)	49.4	20.0	—	18.0
Interest expense	(3.9)	(119.3)	(207.3)	(0.2)	—	(330.7)
Other (expense) income, net	18.0	35.9	(68.8)	11.4	—	(3.5)
Net (loss) income before equity in (loss) income of subsidiaries and income taxes	(36.7)	(84.0)	(226.7)	31.2	—	(316.2)
Equity in (loss) income of subsidiaries	(281.3)	29.3	3.3	—	248.7	—
Income tax benefit (expense)	129.4	(0.1)	2.9	(4.6)	—	127.6
Net (loss) income	$(188.6)	$(54.8)	$ (220.5)	$ 26.6	$ 248.7	$ (188.6)
Other comprehensive loss	(87.1)	(9.8)	(8.5)	(77.2)	95.5	(87.1)
Comprehensive loss	$(275.7)	$(64.6)	$ (229.0)	$ (50.6)	$ 344.2	$ (275.7)

(1) Exclusive of D&A.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2016

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net cash (used in) provided by operating activities	$(109.5)	$122.1	$104.8	$74.5	$—	$191.9
Cash flows from investing activities:						
Capital expenditures	(26.7)	(5.2)	(77.3)	(23.4)	—	(132.6)
Distributions of capital on equity investments	—	—	—	22.5	—	22.5
Restricted Cash	—	—	(3.8)	—	—	(3.8)
Changes in other assets and liabilities and other	0.3	—	8.0	(2.2)	—	6.1
Other, principally change in intercompany investing activities	—	(39.9)	—	—	39.9	—
Net cash used in investing activities	(26.4)	(45.1)	(73.1)	(3.1)	39.9	(107.8)
Cash flows from financing activities:						
Net payments of long-term debt including repurchases of notes	—	(76.5)	—	(3.6)	—	(80.1)
Payments on license obligations	(15.1)	—	(9.9)	—	—	(25.0)
Redemptions of common stock under stock-based compensation plans	(4.4)	—	—	—	—	(4.4)
Other, principally change in intercompany financing activities	144.6	—	(25.9)	(78.8)	(39.9)	—
Net cash provided by (used in) financing activities	125.1	(76.5)	(35.8)	(82.4)	(39.9)	(109.5)
Effect of exchange rate changes on cash and cash equivalents	—	—	(0.6)	(1.3)	—	(1.9)
Increase (decrease) in cash and cash equivalents	(10.8)	0.5	(4.7)	(12.3)	—	(27.3)
Cash and cash equivalents, beginning of period	43.2	—	4.7	80.8	—	128.7
Cash and cash equivalents, end of period	$32.4	$0.5	$—	$68.5	$—	$101.4

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2015

	Parent Company	SGI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net cash (used in) provided by operating activities	$ (33.1)	$ (69.4)	$ 127.7	$ 89.2	$ —	$ 114.4
Cash flows from investing activities:						
Capital expenditures	(8.6)	(12.4)	(95.6)	(26.2)	—	(142.8)
Distributions of capital on equity investments	—	0.8	—	34.4	—	35.2
Changes in other assets and liabilities and other	—	—	4.0	5.5	—	9.5
Other, principally change in intercompany investing activities	—	114.2	—	—	(114.2)	—
Net cash (used in) provided by investing activities	(8.6)	102.6	(91.6)	13.7	(114.2)	(98.1)
Cash flows from financing activities:						
Net payments on long-term debt	—	(31.5)	—	(4.7)	—	(36.2)
Payments on license obligations	(13.5)	—	(5.2)	—	—	(18.7)
Contingent earnout payments	—	—	(0.5)	—	—	(0.5)
Issuance (redemptions) of common stock under stock-based compensation plans	0.9	—	(29.6)	(116.0)	145.6	0.9
Other, principally change in intercompany financing activities	58.2	—	(12.0)	(14.8)	(31.4)	—
Net cash provided by (used in) financing activities	45.6	(31.5)	(47.3)	(135.5)	114.2	(54.5)
Effect of exchange rate changes on cash and cash equivalents	0.1	(0.4)	(1.8)	(2.4)	—	(4.5)
Increase (decrease) in cash and cash equivalents	4.0	1.3	(13.0)	(35.0)	—	(42.7)
Cash and cash equivalents, beginning of period	37.9	0.1	28.8	105.0	—	171.8
Cash and cash equivalents, end of period	$ 41.9	$ 1.4	$ 15.8	$ 70.0	$ —	$ 129.1

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to enhance the reader's understanding of our operations and current business environment and should be read in conjunction with the description of our business included under "Item 1. Financial Statements" and Item 1. "Risk Factors" in this Quarterly Report on Form 10-Q and our "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Risk Factors" sections included in our 2015 Annual Report on Form 10-K.

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and should be read in conjunction with the disclosures and information contained and referenced under "Forward-Looking Statements" and "Risk Factors" included in this Quarterly Report on Form 10-Q and "Risk Factors" included in our 2015 Annual Report on Form 10-K. As used in this MD&A, the terms "we," "us," "our" and the "Company" mean Scientific Games Corporation together with its consolidated subsidiaries.

BUSINESS OVERVIEW

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.

Segments

We report our operations in three business segments — Gaming, Lottery and Interactive — representing our different products and services. See "— Business Segments Results" below and Note 2 (Business Segments) for additional business segment information.

Foreign Exchange

Our results are impacted by changes in foreign currency exchange rates used in the translation of foreign functional currencies into USD and the re-measurement of foreign currency transactions or balances. The impact of foreign currency exchange rate fluctuations represents the difference between current rates and prior-period rates applied to current activity. We have exposure to foreign currency volatility, particularly the British Pound Sterling, the Euro and the Australian Dollar, which represented $61.1 million, or 8.4%, $31.2 million, or 4.3%, and $34.5 million, or 4.7%, respectively, of our revenue for the three months ended June 30, 2016 and $116.2 million, or 8.2%, $57.7 million, or 4.1%, and $52.0 million, or 3.7%, respectively, of our revenue for the six months ended June 30, 2016. During 2015, we had exposure to foreign currency volatility, particularly the British Pound Sterling, the Euro, and the Australian Dollar, which represented $58.9 million, or 8.5%, $21.2 million, or 3.1%, and $37.8 million, or 5.5%, respectively, of our revenue for the three months ended June 30, 2015 and $116.9 million, or 8.7%, $39.7 million, or 2.9%, and $57.1 million or 4.2%, respectively, of our revenue for the six months ended June 30, 2015.

We also have foreign currency exposure related to certain of our equity investments. See further information regarding our foreign exchange exposure in "Quantitative and Qualitative Disclosures About Market Risk" under Item 7A of our 2015 Annual Report on Form 10-K and "Risk Factors" under Item 1A in this Quarterly Report on Form 10-Q.

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

CONSOLIDATED RESULTS

(in millions)	Three Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$363.5	$337.9	$25.6	7.6 %
Product sales	214.8	218.1	(3.3)	(1.5)%
Instant games	150.9	135.5	15.4	11.4 %
Total revenue	729.2	691.5	37.7	5.5 %
Operating expenses:				
Cost of services [(1)]	101.4	98.6	2.8	2.8 %
Cost of product sales [(1)]	100.7	107.9	(7.2)	(6.7)%
Cost of instant games [(1)]	74.1	68.8	5.3	7.7 %
Selling, general and administrative	144.9	140.9	4.0	2.8 %
Research and development	51.7	48.0	3.7	7.7 %
Employee termination and restructuring	4.2	5.2	(1.0)	(19.2)%
Depreciation and amortization	193.1	222.2	(29.1)	(13.1)%
Operating income (loss)	59.1	(0.1)	59.2	n/m
Other (expense) income:				
Interest expense	(165.3)	(166.4)	1.1	(0.7)%
Earnings from equity investments	8.0	3.3	4.7	142.4 %
Gain on early extinguishment of debt	25.2	—	25.2	n/m
Other income (expense), net	1.7	(4.3)	6.0	139.5 %
Net loss before income taxes	(71.3)	(167.5)	96.2	(57.4)%
Income tax benefit	19.6	65.3	(45.7)	(70.0)%
Net loss	$(51.7)	$(102.2)	$50.5	(49.4)%

(1) Exclusive of D&A.

n/m = not meaningful

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Revenue

Consolidated revenue increased by $37.7 million in 2016, despite the impact from $5.3 million of unfavorable currency translation and $6.6 million due to the January 2016 expiration of the CSL validation contract. During the period, Lottery and Interactive revenues increased by $13.7 million and $31.8 million, respectively, and Gaming revenues decreased by $7.8 million.

Services revenue increased by $25.6 million in 2016 due primarily to a $31.8 million increase in Interactive revenue driven by growth in our social gaming business and the success of our recently launched social gaming apps including Quick Hit® Slots and Hot Shot® Social Casino. This increase was partially offset by decreases of $4.4 million and $1.8 million in Gaming and Lottery services revenue, respectively.

Product sales revenue decreased by $3.3 million in 2016 due primarily to a $3.4 million decrease in Gaming revenue due to lower systems hardware and software and table products sales, which was partially offset by an increase in machine sales primarily due to a 863 unit increase in global shipments.

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Instant games revenue increased by $15.4 million in 2016 due primarily to increases in U.S. instant game sales, which included strong growth from lottery customers with Participation contracts.

Cost of Revenue

Consolidated cost of revenue increased by $0.9 million in 2016. During the period, Interactive and Lottery cost of revenue increased by $12.2 million and $4.9 million, respectively, which was partially offset by a decrease in Gaming cost of revenue of $16.2 million.

Cost of services revenue increased by $2.8 million in 2016 due primarily to a $12.2 million, or 67.8%, increase in Interactive cost of services attributable to an increase in variable costs associated with the $31.8 million, or 61.6%, increase in Interactive revenue during the same period. The increase in Interactive cost of services was partially offset by a decrease in Gaming and Lottery cost of services of $8.7 million and $0.7 million, respectively, during the same period. Cost of product sales revenue decreased by $7.2 million in 2016, due primarily to decreases in variable costs associated with the reduction in Gaming revenue attributable to lower hardware and software and table products sales during the same period offset by an increased cost as a result of higher unit sales. Cost of instant games revenue increased by $5.3 million, or 7.7%, due primarily to increases in variable costs associated with higher instant games revenue which increased by $15.4 million during the current period.

SG&A

SG&A increased by $4.0 million in 2016 due primarily to increases in variable costs associated with higher consolidated revenue of $37.7 million during the current period, which were partially offset by benefits from cost synergies resulting from integration activities and $7.5 million of insurance proceeds in connection with the settlement of a legal matter.

R&D

R&D increased by $3.7 million in 2016 due primarily to our continued company-wide focus on innovation, primarily in game development.

Employee Termination and Restructuring

Employee termination and restructuring costs decreased by $1.0 million in 2016 to $4.2 million, due primarily to a reduction in employee termination costs, costs relating to the exiting of facilities and costs relating to existing contracts following the Bally acquisition and the WMS acquisition. For additional information regarding these charges, see Note 3 (Restructuring Plans).

D&A

D&A decreased by $29.1 million in 2016 due primarily to the non-recurrence of a $25.0 million impairment charge for certain trade name assets within our Gaming segment in the comparable prior year period.

Other Income and Expense

Interest expense decreased by $1.1 million in 2016 due primarily to a reduction in the principal amount outstanding during the period. For additional information regarding our indebtedness, see Note 11 (Long-Term and Other Debt) and Note 12 (Fair Value Measurements).

Earnings from equity investments increased by $4.7 million in 2016 due primarily to an increase in joint venture income of $3.1 million from LNS and $0.4 million from CSG. For additional information regarding our equity investments, see Note 10 (Equity Investments).

During the second quarter of 2016, we repurchased and cancelled an aggregate principal amount of $65.9 million of our 2020 Notes and 2021 Notes for $39.9 million in cash, which resulted in a $25.2 million gain on early extinguishment of debt inclusive of a $0.8 million charge related to the write-off of unamortized debt discount and deferred financing costs associated with the extinguished debt. We did not repurchase any of our notes during 2015.

Other income (expense), net increased by $6.0 million in 2016, due primarily to a $7.3 million reduction in losses on foreign currency translation in 2016 when compared to the same period last year.

Income Tax Benefit

We recorded an income tax benefit of $19.6 million for the three months ended June 30, 2016, compared to an income tax benefit of $65.3 million for the three months ended June 30, 2015. The effective income tax rates for the three months ended June 30, 2016 and 2015 were 27.5% and 39.0%, respectively. The reduction in the income tax rate for the three months ended June 30, 2016, when compared to the prior year period, is primarily attributable to the impact of negative evidence related to the realizability of the deferred tax assets expected to be created by 2016 U.S. taxable losses.

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 June 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.

Our income tax benefit may change from period to period based on, among other factors, the mix of earnings between U.S. and foreign jurisdictions and among foreign jurisdictions, the effect of any valuation allowance related to any of our deferred tax assets (or the release thereof), state and local taxes, specific events such as the settlement of income tax audits and changes in tax law and the effects of our global income tax strategies. See Note 21 (Income Taxes) in our 2015 Annual Report on Form 10-K for additional information regarding our foreign and domestic pre-tax income (loss), our foreign and domestic income tax benefit (expense), deferred tax assets and liabilities and the effect foreign taxes have on our overall effective tax rate.

Other Comprehensive Loss

The changes in other comprehensive loss were primarily related to foreign currency translation. The increase in unrealized foreign currency losses of $52.9 million during the three months ended June 30, 2016 was primarily attributable to volatility in the British Pound Sterling due to the Brexit vote, which is more fully described under Item 1. "Risk Factors" in this Quarterly Report on Form 10-Q.

See "—Business Segments Results" below for a more detailed explanation of the significant changes in our components of revenue within the individual segment results of operations.

BUSINESS SEGMENTS RESULTS

GAMING

Our Gaming business segment designs, develops, manufactures, markets and distributes a comprehensive portfolio of gaming products and services. We provide our Gaming portfolio of products and services to commercial casinos, Native American casinos, wide-area gaming operators such as LBOs, arcade and bingo operators in the U.K. and continental Europe, and government agencies and their affiliated operators. Our equity investments in RCN and ITL are part of our Gaming business segment.

We generate Gaming revenue from services and product sales. Our services revenue includes lease revenue earned from WAP, premium and daily-fee Participation gaming machines, other leased gaming machines (including VLTs and electronic table games), leased table products and services (including Shufflers), casino management technology solutions and systems, proprietary table game licensing and other services revenues. Our product sales revenue includes the sale of new and used gaming machines, electronic table games and VLTs, casino-management technology solutions and systems, table products, conversion kits (including game, hardware or operating system conversions) and spare parts.

Current Year Update

Our Gaming revenue decreased $7.8 million during the three months ended June 30, 2016 compared to the prior-year period, which included decreases in services and product sales revenue of $4.4 million and $3.4 million, respectively.

We believe that challenging market conditions impacted our Gaming results during the first half of 2016 and could continue to negatively impact our results of operations. These challenges included: (1) restrained investment in new gaming machines by our existing customers; (2) increased competition for new gaming machines, table products, gaming operations

and systems businesses; (3) political and economic conditions in Greece, resulting in a delay in the deployment of our VLTs; and (4) other economic and regulatory pressures that affect our business operations globally.

For the remainder of 2016, we expect to continue to face pricing pressure in our Gaming segment. We anticipate that replacement demand for gaming machines and constraints on capital spending by gaming operators will continue at current levels and that gaming machine demand will continue to be negatively impacted by the continued consolidation of casino and other gaming operators. We anticipate that demand for our gaming systems products and services will continue at current levels due to fewer large, multi-site installation opportunities, system replacements and new casino openings throughout 2016 and we have no multi-site installations scheduled for the remainder of 2016. We anticipate that our installed base of WAP, premium and daily-fee Participation gaming machines will begin to stabilize, benefiting from the expected release of a number of new games, including the scheduled launch of our new GameScape™ cabinet in the third quarter of 2016. The GameScape cabinet, a dedicated Participation platform, will feature a player-favorite branded WILLY WONKA'S WORLD OF WONKA™ game.

Results of Operations and Key Performance Indicators for Gaming

(in millions)	Three Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$236.0	$240.4	$(4.4)	(1.8)%
Product sales	205.9	209.3	(3.4)	(1.6)%
Total revenue	441.9	449.7	(7.8)	(1.7)%
Operating expenses:				
Cost of services (1)	44.4	53.1	(8.7)	(16.4)%
Cost of product sales (1)	93.4	100.9	(7.5)	(7.4)%
Selling, general and administrative	61.2	71.2	(10.0)	(14.0)%
Research and development	38.5	41.1	(2.6)	(6.3)%
Employee termination and restructuring	3.4	2.7	0.7	25.9 %
Depreciation and amortization	154.3	181.5	(27.2)	(15.0)%
Operating income	$46.7	$(0.8)	$47.5	n/m
Earnings from equity investments	$1.4	$1.8	$(0.4)	(22.2)%

(1) Exclusive of D&A.
nm = not meaningful

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	Three Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Key Performance Indicators:				
WAP, premium and daily-fee Participation units:				
Installed base at period end	21,909	22,856	(947)	(4.1)%
Average daily revenue per unit	$52.85	$56.77	$(3.92)	(6.9)%
Other Participation and leased units:				
Installed base at period end	47,857	45,232	2,625	5.8 %
Average daily revenue per unit	$15.95	$15.46	$0.49	3.2 %
Gaming machine sales:				
U.S. and Canadian new unit shipments	4,678	4,001	677	16.9 %
International new unit shipments	2,990	2,804	186	6.6 %
Total new unit shipments	7,668	6,805	863	12.7 %
Average sales price per new unit	$16,859	$16,458	$401	2.4 %

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Revenue

Total revenue decreased by $7.8 million in 2016 due to a decrease in services revenue of $4.4 million and a decrease in product sales revenue of $3.4 million during the same period. This change in revenue includes an unfavorable foreign currency translation impact of $3.7 million.

Gaming operations revenue decreased by $3.8 million in 2016 primarily due to a 947 unit reduction in the installed base of WAP, premium and daily-fee Participation gaming machines. The average daily revenue per WAP, premium and daily-fee Participation units decreased by $3.92 per unit, or 6.9%, primarily reflecting a lower mix of higher-yielding WAP games. The ending installed base for other Participation and leased units as of June 30, 2016 increased by 2,625 units from June 30, 2015, reflecting higher placements of electronic table games and an increase in the number of leased units in the Caribbean and other international markets during the last three quarters. Average daily revenue for our other leased and Participation units increased 3.2% compared to the prior-year period. Several new premium licensed games were launched during the second quarter, including CHEERS™, CIRQUE DU SOLEIL KOOZA™, FRIENDS™ I'll Be There For You, MARGARITAVILLE™, MONOPOLY™ Money and TITANIC™ Heart of tl Ocean.

Gaming machine sales increased by $15.7 million primarily due to a 863-unit increase in global shipments. During the three months ended June 30, 2016, total shipments of 7,668 new gaming machines included 4,678 units to U.S. and Canadian customers and 2,990 units to international customers. Contributing to the increase in shipments were increased sales of the Pro Series WAVE, TwinStar™ and Dualos cabinets. U.S. and Canadian shipments of 4,678 units encompassed 3,468 replacement units, inclusive of 431 Oregon VLT units (which completed the contract), and 1,210 units for new casino openings and expansions, including 740 Illinois VGT units. International shipments of 2,990 units included 125 units for new casino openings and expansions. The average sales price was $16,859 per unit, reflecting a greater mix of high-performing premium gaming machines, which offset lower-priced VLT and VGT units.

Gaming systems sales decreased by $18.1 million primarily due to fewer large, multi-site opportunities, system replacements and new casino openings in 2016. The decrease was partially offset by a 5% increase in systems maintenance revenue during the same period.

Table products revenue decreased by $1.6 million reflecting a slight decrease in sales of Shufflers and other utility products partially offset by ongoing growth in revenue from leased Shufflers, PTG and progressives. The installed base of Shufflers increased 6% and included the successful launch of the new blackjack Blazing 7s® Progressive.
Operating Income

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Operating income of $46.7 million increased by $47.5 million in 2016, which was primarily due to realized integration cost synergies largely implemented in prior periods coupled with a decline in integration costs and charges, including lower impairment charges, as well as lower SG&A expense, which benefitted from $7.5 million of insurance proceeds in connection with the settlement of a legal matter. These improvements were partially offset by a less profitable revenue mix, which was due to an increase in lower-margin gaming machine sales revenue and offset by a decline in higher-margin gaming systems revenue.

LOTTERY

The Lottery segment is primarily comprised of our systems-based services and product sales business and our instant games business. Our systems-based services and product sales business provides customized computer software, software support, equipment and data communication services, sports wagering systems and keno to lotteries. In the U.S., we typically provide the necessary point-of-sale terminals and equipment, software and maintenance services on a Participation basis under long-term contracts that typically have an initial term of at least five years. Internationally, we typically sell point-of-sale terminals and/or computer software to lottery authorities and may provide ongoing fee-based systems maintenance and software support services.

Our instant games business generates revenue from the manufacture and sale of instant games, as well as the provision of value-added services such as game design, sales and marketing support, specialty games and promotions, inventory management, warehousing, fulfillment services, as well as full instant game category management. In addition, we provide licensed games, promotional entertainment and internet-based marketing services to the lottery industry. These revenues are presented as instant games revenue in our Consolidated Statements of Operations and Comprehensive Loss.

Our equity investments in LNS, Northstar Illinois, Northstar New Jersey, CSG, Hellenic Lotteries and GLB are included in the Lottery segment.

Current Year Update

We were the exclusive instant game validation network provider to the CSL under an agreement that expired in January 2016 and was subsequently not renewed or extended. We have also seen a decline in the instant game printing revenue of CSG, our printing joint venture in China, which continues to service the CSL. We believe a decrease in retail sales is due in part to competition from other wagering products. We are actively seeking multiple opportunities to continue to provide value-added services to the CSL, as well as developing additional business initiatives to replace our revenue and profits previously generated by the CSL validation agreement. Until we are able to achieve these other opportunities and initiatives, or to the extent we are not able to do so, our operating results relating to our China lottery business will continue to be adversely affected.

In April, we signed a lottery instant games CSP agreement with the North Carolina lottery, which is anticipated to begin in March 2017 and has a term of eight years. The contract may be extended by the lottery for up to two additional years.

During the first quarter of 2016, we also launched innovative, multi-channel cross-over games, such as our Jackpot Party® instant game, for several customers. These new launches capitalize on our extensive proprietary games library and our expertise in mobile applications and second-chance promotional games and activities.

During the second quarter of 2016, we signed a new instant games agreement with the Belgium national lottery anticipated to begin in the second half of 2016. The one-year contract has extension options held by the customer for up to three additional years.

During the second quarter of 2016, we were awarded a new agreement by the Georgia Lottery that provided for a seven-year extension of the current instant games contract.

For our Lottery services revenue, we believe that our U.S. lottery customers' retail sales is a key performance indicator. However, there may not always be a direct correlation between retail sales and our services revenue due to the terms of our contracts, the impact of changes in our customer contracts or other factors. Additionally, we believe the level of jackpots of the POWERBALL® and MEGA MILLIONS® multi-state draw games, and the number of

drawings conducted before a jackpot is won, may have an impact on U.S. retail sales and, therefore, on our Lottery services revenue. Our Lottery services revenue can also be impacted by the retail sales of instant games where we provide instant game validation services, either on a standalone basis or as part of a lottery systems contract. Our Lottery product sales revenue primarily relates to sales of equipment to international customers that are not subject to long-term contracts and demand can be volatile between quarters.

We believe we will continue to face intense price-based competition in our Lottery business for the remainder of

2016. In the near term, we also expect to see an increase in the number of jurisdictions that seek to privatize or outsource lottery operations and to face strong competition from both traditional and new competitors with respect to these opportunities. In addition, we anticipate that lottery RFPs, specifically those for our PMA arrangements and certain of our international customers, could increasingly include terms that expose us to increased risk, such as requiring the guarantee of specific income thresholds or significant upfront payments.

We believe retail sales of instant games is a key performance indicator of our instant games revenue. However, there may not always be a direct correlation between retail sales and our instant games revenue due to various factors. These factors include, but are not limited to, the type of contract (e.g., Participation contracts versus price-per-unit contracts), the impact of changes to individual customer contracts, the performance of our licensed games and player loyalty business and foreign exchange volatility.

Based on third-party data, retail sales of our U.S. lottery customers' draw games increased 7.2% for the three months ended June 30, 2016 compared to the prior-year period. Retail sales of instant games in Italy decreased 0.8% for the three months ended June 30, 2016 compared to the prior-year period. Our U.S. customers' total instant games retail sales increased 4.1% for the three months ended June 30, 2016 compared to the prior-year period, driven by strong performance in those states where we provide instant game product management services.

Results of Operations and Key Performance Indicators for Lottery

(in millions)	Three Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$44.1	$45.9	$(1.8)	(3.9)%
Product sales	8.9	8.8	0.1	1.1 %
Instant games	150.9	135.5	15.4	11.4 %
Total revenue	203.9	190.2	13.7	7.2 %
Operating expenses:				
Cost of services [1]	26.8	27.5	(0.7)	(2.5)%
Cost of product sales [1]	7.3	7.0	0.3	4.3 %
Cost of instant games [1]	74.1	68.8	5.3	7.7 %
Selling, general and administrative	17.8	16.4	1.4	8.5 %
Research and development	2.6	1.5	1.1	73.3 %
Employee termination and restructuring	0.2	—	0.2	n/m
Depreciation and amortization	17.2	20.0	(2.8)	(14.0)%
Operating income	$57.9	$49.0	$8.9	18.2 %
Earnings from equity investments	$6.6	$1.5	$5.1	340.0 %
Key Performance Indicators:				
Retail sales of instant games of U.S. instant game customers [2][3]	$11,064	$10,625	$439	4.1 %
Retail sales of U.S. lottery system customers [2][4]	$2,190	$2,042	$148	7.2 %
Italy retail sales of instant games (in Euros) [2]	€2,200	€2,217	€(17)	(0.8)%

(1) Exclusive of D&A.
(2) Information provided by third-party lottery operators.
(3) U.S. instant games customers' retail sales include only sales of instant games.
(4) U.S. lottery systems customers' retail sales primarily include sales of draw games, keno and instant games validated by the relevant system.

nm = not meaningful

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Revenue
Total revenue increased by $13.7 million in 2016, despite a $6.6 million unfavorable impact due to the expiration of the CSL validation contract and a $1.2 million unfavorable foreign currency impact.
Services revenue decreased by $1.8 million in 2016, reflecting lower international service revenue due to the cessation of the CSL validation contract in January 2016, partially offset by higher U.S. revenue, including increased retail sales of multi-state games. Product sales revenue was essentially flat compared to the prior year period. The $15.4 million increase in instant games revenue was primarily due to a 17.0% increase in U.S. instant game sales revenue with particular strength reflected in the growth of retail sales from customers with Participation contracts.
Operating Income
Operating income increased by $8.9 million in 2016, primarily reflecting the increased revenue, a more profitable revenue mix and lower D&A, partially offset by the expiration of the high-margin CSL validation contract and higher SG&A and R&D expense.

Earnings from equity investments
Earnings from equity investments increased $5.1 million in 2016 due primarily to increases in joint venture income of $3.1 million from LNS and $0.4 million from CSG during the period.

INTERACTIVE

Within our Interactive segment, we generate revenue from the provision of Interactive gaming services available via desktop and mobile devices for social gaming, RMG and SG Universe™, the Company's interactive product suite for land-based casinos. This revenue is included in services revenue in our Consolidated Statements of Operations and Comprehensive Loss.

In our social gaming business, we generate revenue from the sale of virtual coins or chips, which players can use to play (i.e., spin in the case of slot games, bet in the case of poker) our WMS, Bally, Barcrest™ and SHFL® branded slot games, Dragonplay® branded slot and poker games or third-party branded slot games. In our RMG business, we provide game content to real-money online casino operators, primarily in Europe. We host the play of our game content on our centrally-located servers (often referred to as remote game servers) that are integrated with the online casino operators' websites. We typically earn a percentage of the operator's net gaming revenue generated by the games we host.

Our SG Universe service features multiple platforms, including Mobile Concierge, Play4Fun™ and VenueBet which empower land-based casinos to increase engagement with their players at home, on-the-go, and during each visit to the casino floor. The Mobile Concierge platform provides casinos with the ability to customize marketing to players while giving players access to their loyalty reward credits and the ability to make on-property reservations. The Play4Fun network allows land-based casinos to provide their players with the ability to play free versions of web-based and mobile slot and table games. The VenueBet platform allows players to play their favorite casino games for real money on their mobile devices while anywhere on the casino property. Although we have limited installations at this time, we expect to increase placements as regulators amend their regulations to permit such wagering.

Current Year Update

In early 2016, our Hot Shot Social Casino became one of the top 30 grossing apps on Facebook. We also expanded our RMG business with the launch of RMG products at fifteen additional online casino operators.

We believe that our Interactive platform business will continue to provide growth opportunities throughout the remainder of 2016. In addition, we anticipate that the percentage of Interactive revenue from mobile gaming will continue to grow.

Results of Operations and Key Performance Indicators for Interactive

(in millions)	Three Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$83.4	$51.6	$31.8	61.6 %
Total revenue	83.4	51.6	31.8	61.6 %
Operating expenses:				
Cost of services [1]	30.2	18.0	12.2	67.8 %
Selling, general and administrative	26.8	15.2	11.6	76.3 %
Research and development	8.4	5.4	3.0	55.6 %
Employee termination and restructuring	0.5	0.3	0.2	66.7 %
Depreciation and amortization	3.8	5.4	(1.6)	(29.6)%
Operating income	$13.7	$7.3	$6.4	87.7 %
Key Performance Indicators:				
Social gaming:				
Average MAU [2]	8.0	7.3	0.7	9.6 %
Average DAU [3]	2.4	2.2	0.2	9.1 %
ARPDAU [4]	$0.31	$0.21	$0.10	47.6 %

(1) Exclusive of D&A.
(2) MAU = Monthly Active Users, a count of unique visitors to our sites during a month.
(3) DAU = Daily Active Users, a count of unique visitors to our sites during a day.
(4) ARPDAU =Average daily revenue per DAU is calculated by dividing revenue for a period by the DAU for the period by the number of days for the period.

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Revenue

The $31.8 million increase in services revenue was primarily due to an increase in social gaming revenue, reflecting the ongoing popularity of Jackpot Party® Social Casino and the success of the recently launched Quick Hit® Slots and Hot Shot® Social Casino social gaming apps. The Company also launched Blazing 7s® Hot Shot® Slots near the end of the first quarter of 2016, featuring simulated mechanical reel slot machines. Average DAU in the social gaming business grew by 9.1%. Interactive revenue growth also reflects $1.4 million growth in RMG revenue.

Operating Income

The $6.4 million increase in operating income reflects greater profitability as a result of revenue growth. SG&A expense and R&D expense increased as a result of higher marketing and player acquisition costs, coupled with new product development costs for which revenue has not yet been recognized.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015
CONSOLIDATED RESULTS

(in millions)	Six Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$713.8	$668.3	$45.5	6.8 %
Product sales	412.4	417.5	(5.1)	(1.2)%
Instant games	285.0	264.4	20.6	7.8 %
Total revenue	1,411.2	1,350.2	61.0	4.5 %
Operating expenses:				
Cost of services [(1)]	196.3	189.1	7.2	3.8 %
Cost of product sales [(1)]	195.1	205.8	(10.7)	(5.2)%
Cost of instant games [(1)]	141.1	135.8	5.3	3.9 %
Selling, general and administrative	287.2	286.8	0.4	0.1 %
Research and development	101.5	94.9	6.6	7.0 %
Employee termination and restructuring	6.9	13.4	(6.5)	(48.5)%
Depreciation and amortization	373.7	406.4	(32.7)	(8.0)%
Operating income	109.4	18.0	91.4	507.8 %
Other (expense) income:				
Interest expense	(331.0)	(330.7)	(0.3)	0.1 %
Earnings from equity investments	11.2	6.4	4.8	75.0 %
Gain on early extinguishment of debt	25.2	—	25.2	n/m
Other (expense) income, net	2.4	(9.9)	12.3	(124.2)%
Net loss before income taxes	(182.8)	(316.2)	133.4	(42.2)%
Income tax benefit	38.8	127.6	(88.8)	(69.6)%
Net loss	$(144.0)	$(188.6)	$44.6	(23.6)%

(1) Exclusive of D&A.

nm = not meaningful

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015
Revenue
Consolidated revenue increased by $61.0 million in 2016, despite the impact from $12.6 million of unfavorable currency translation. During the period, Lottery and Interactive revenues increased by $15.4 million and $57.5 million, respectively, and Gaming revenues decreased by $11.9 million.
Services revenue increased by $45.5 million in 2016 due primarily to a $57.5 million increase in Interactive revenue driven by growth in our social gaming business, the success of recently launched social gaming apps, and new customer agreements for our SG Universe and RMG products. This increase was partially offset by decreases of $9.7 million and $2.3 million in Gaming and Lottery services revenue, respectively.
Product sales revenue decreased by $5.1 million in 2016 due primarily to a $2.9 million decrease in Lottery revenue due to lower hardware sales to international customers, reflecting lower international lottery bid activity, and a decrease in Gaming revenue of $2.2 million due primarily to lower systems hardware and software sales, which was partially offset by an increase in machine sales primarily due to an 879 unit increase in global shipments.
Instant games revenue increased by $20.6 million in 2016 due primarily to increases in U.S. instant game sales, which included strong growth from lottery customers with Participation contracts and from lottery customers where we provide our CSP of strategic integrated services from game design through analytics and execution of support initiatives at retail.

Cost of Revenue

Consolidated cost of revenue increased by $1.8 million in 2016. During the current period, Interactive and Lottery cost of revenue increased by $21.2 million and $1.1 million, respectively, which was partially offset by a decrease in Gaming cost of revenue of $20.5 million.

Cost of services revenue increased by $7.2 million in 2016 due primarily to a $21.2 million, or 61.3%, increase in Interactive cost of services attributable to an increase in variable costs associated with the $57.5 million, or 58.4%, increase in Interactive revenue during the same period. The increase in Interactive cost of services was partially offset by a decrease in Gaming and Lottery cost of services of $13.0 million and $1.0 million, respectively. Cost of product sales revenue decreased by $10.7 million in 2016, due primarily to decreases in variable costs of $7.5 million associated with the reduction in Gaming revenue attributable to lower hardware and software and table products sales and $3.2 million associated with the reduction in Lottery revenue attributable to lower hardware sales to international customers during the current period. Cost of instant games revenue increased $5.3 million, or 3.9%, due primarily to increases in variable costs associated with higher instant games revenue which increased by $20.6 million during the current period.

SG&A

SG&A increased by $0.4 million in 2016 due primarily to increases in variable costs associated with higher consolidated revenue of $61.0 million during the period, which were partially offset by benefits from cost synergies resulting from integration activities and $7.5 million of insurance proceeds in connection with the settlement of a legal matter.

R&D

R&D increased by $6.6 million in 2016 due primarily to our continued company-wide focus on innovation primarily in game development.

Employee Termination and Restructuring

Employee termination and restructuring costs decreased by $6.5 million in 2016 to $6.9 million, due primarily to a reduction in employee termination costs, costs relating to the exiting of facilities and costs relating to existing contracts following the Bally acquisition and the WMS acquisition. For additional information regarding these charges, see Note 3 (Restructuring Plans).

D&A

D&A decreased by $32.7 million in 2016 due primarily to the non-recurrence of a $25.0 million impairment charge for certain trade name assets within our Gaming segment in the comparable prior year period.

Other Income and Expense

Interest expense remained flat in 2016 when compared to the prior year period. For additional information regarding our indebtedness, see Note 11 (Long-Term and Other Debt) and Note 12 (Fair Value Measurements).

Earnings from equity investments increased by $4.8 million in 2016 due primarily to an increase in joint venture income of $3.1 million from LNS and $0.8 million from CSG. For additional information regarding our equity investments, see Note 10 (Equity Investments).

During the second quarter of 2016, we repurchased and cancelled an aggregate principal amount of $65.9 million of our 2020 Notes and 2021 Notes for $39.9 million in cash. The transaction resulted in a $25.2 million gain on early extinguishment of debt which was inclusive of a $0.8 million charge related to the write-off of unamortized debt discount and deferred financing costs associated with the extinguished debt. We did not repurchase any of our notes during 2015.

Other income (expense), net increased by $12.3 million in 2016, due primarily to a $14.4 million reduction in losses on foreign currency translation in 2016 when compared to the same period last year.

Income Tax Benefit

We recorded an income tax benefit of $38.8 million for the six months ended June 30, 2016, compared to an income tax benefit of $127.6 million for the six months ended June 30, 2015. The effective income tax rates for the six months ended June 30, 2016 and 2015 were 21.2% and 40.4%, respectively. The reduction in income tax rate for the six months ended June

30, 2016, when compared to the same period last year, is primarily attributable to the impact of negative evidence related to the realizability of the deferred tax assets expected to be created by 2016 U.S. taxable losses.

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 June 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.

Our income tax benefit may change from period to period based on, among other factors, the mix of earnings between U.S. and foreign jurisdictions and among foreign jurisdictions, the effect of any valuation allowance related to any of our deferred tax assets (or the release thereof), state and local taxes, specific events such as the settlement of income tax audits and changes in tax law and the effects of our global income tax strategies. See Note 21 (Income Taxes) in our 2015 Annual Report on Form 10-K for additional information regarding our foreign and domestic pre-tax income (loss), our foreign and domestic income tax benefit (expense), deferred tax assets and liabilities and the effect foreign taxes have on our overall effective tax rate.

Other Comprehensive Loss

The changes in other comprehensive loss were primarily related to foreign currency translation. The decrease in unrealized foreign currency losses of $51.7 million during the six months ended June 30, 2016 is primarily attributable to the strengthening of the Euro against the USD partially offset by volatility in the British Pound Sterling due to the Brexit vote, which is more fully described under "Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q.

See "—Business Segments Results" below for a more detailed explanation of the significant changes in our components of revenue within the individual segment results of operations.

GAMING

Results of Operations and Key Performance Indicators for Gaming

(in millions)	Six Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$468.6	$478.3	$(9.7)	(2.0)%
Product sales	395.0	397.2	(2.2)	(0.6)%
Total revenue	863.6	875.5	(11.9)	(1.4)%
Operating expenses:				
Cost of services [1]	85.6	98.6	(13.0)	(13.2)%
Cost of product sales [1]	181.2	188.7	(7.5)	(4.0)%
Selling, general and administrative	129.1	145.4	(16.3)	(11.2)%
Research and development	76.7	80.9	(4.2)	(5.2)%
Employee termination and restructuring	5.0	6.9	(1.9)	(27.5)%
Depreciation and amortization	295.9	324.8	(28.9)	(8.9)%
Operating income	$90.1	$30.2	$59.9	198.3 %
Earnings from equity investments	$1.4	$1.7	$(0.3)	(17.6)%

(1) Exclusive of D&A.

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	Six Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Key Performance Indicators:				
WAP, premium and daily-fee Participation units:				
Installed base at period end	21,909	22,856	(947)	(4.1)%
Average daily revenue per unit	$52.90	$55.99	$(3.09)	(5.5)%
Other Participation and leased units:				
Installed base at period end	47,857	45,232	2,625	5.8 %
Average daily revenue per unit	$15.66	$15.88	$(0.22)	(1.4)%
Gaming machine sales:				
U.S. and Canadian new unit shipments	9,043	8,381	662	7.9 %
International new unit shipments	5,373	5,156	217	4.2 %
Total new unit shipments	14,416	13,537	879	6.5 %
Average sales price per new unit	$16,719	$16,226	$493	3.0 %

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Revenue

Total revenue decreased by $11.9 million in 2016 primarily due to a decrease in services revenue of $9.7 million and a decrease in product sales revenue of $2.2 million. This change in revenue includes an unfavorable foreign currency translation impact of $7.7 million.

Gaming Operations revenue decreased by $12.8 million in 2016 due primarily to a 947 unit reduction in the installed base of WAP, premium and daily-fee Participation gaming machines. The average daily revenue per WAP, premium and daily-fee Participation units decreased $3.09 per unit, or 5.5%, primarily reflecting a lower mix of higher-yielding WAP games. The ending installed base for other Participation and leased units as of June 30, 2016 increased by 2,625 units from June 30, 2015, reflecting higher placements of electronic table games and an increase in the number of leased units in the Caribbean and other international markets during the last three quarters. Average daily revenue for our other leased and Participation units decreased 1.4% compared to the prior-year period.

Gaming machine sales increased by $22.9 million in 2016 due primarily to an 879 unit increase in global shipments. During the six months ended June 30, 2016, total shipments included 14,416 new units combined with a 3.0% increase in the average sales price per new unit to $16,719, reflecting a mix of high-performing premium gaming machines sold during the period.

Gaming systems revenue decreased $25.4 million in 2016 primarily due to fewer large, multi-site opportunities, system replacements and new casino openings compared to the prior year period.

Table products revenue increased by $3.4 million reflecting a small increase in sales of Shufflers and other utility products and by ongoing growth in revenue from leased Shufflers, PTG and progressives. The installed base of Shufflers increased 6% and included the successful launch of the new blackjack Blazing 7s Progressive.

Operating Income

Operating income of $90.1 million increased by $59.9 million in 2016, which was primarily due to realized integration cost synergies largely implemented in prior periods coupled with a decline in integration costs and charges, $7.5 million of insurance proceeds in connection with the settlement of a legal matter, lower SG&A expense and lower D&A when compared to the prior year period. These improvements were partially offset by a less profitable revenue mix due to an increase in lower-margin gaming machine sales revenue and a decline in higher-margin gaming systems revenue.

LOTTERY

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Results of Operations and Key Performance Indicators for Lottery

(in millions)	Six Months Ended June 30, 2016	2015	Variance 2016 vs. 2015	
Revenue:				
Services	$89.2	$91.5	$(2.3)	(2.5)%
Product sales	17.4	20.3	(2.9)	(14.3)%
Instant games	285.0	264.4	20.6	7.8 %
Total revenue	391.6	376.2	15.4	4.1 %
Operating expenses:				
Cost of services [1]	54.9	55.9	(1.0)	(1.8)%
Cost of product sales [1]	13.9	17.1	(3.2)	(18.7)%
Cost of instant games [1]	141.1	135.8	5.3	3.9 %
Selling, general and administrative	34.3	33.5	0.8	2.4 %
Research and development	5.2	3.1	2.1	67.7 %
Employee termination and restructuring	1.3	0.2	1.1	550.0 %
Depreciation and amortization	35.0	41.3	(6.3)	(15.3)%
Operating income	$105.9	$89.3	$16.6	18.6 %
Earnings from equity investments	$9.8	$4.7	$5.1	108.5 %
Key Performance Indicators:				
Retail sales of instant games of U.S. instant game customers [2][3]	$22,395	$21,098	$1,297	6.1 %
Retail sales of U.S. lottery system customers [2][4]	$4,484	$4,115	$369	9.0 %
Italy retail sales of instant games (in Euros) [2]	€4,555	€4,519	€36	0.8 %

(1) Exclusive of D&A.
(2) Information provided by third-party lottery operators.
(3) U.S. instant games customers' retail sales include only sales of instant games.
(4) U.S. lottery systems customers' retail sales primarily include sales of draw games, keno and instant games validated by the relevant system.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Revenue
Total revenue increased by $15.4 million in 2016, despite a $11.7 million unfavorable impact due to the expiration of the CSL validation contract and a $4.2 million unfavorable foreign currency impact.
Services revenue decreased by $2.3 million in 2016, reflecting lower international service revenue due to the cessation of the CSL validation contract in January 2016, partially offset by higher U.S. revenue, including increased retail sales of multi-state games, including sales leading up to the record $1.6 billion POWERBALL jackpot in January 2016. The $2.9 million decrease in product sales revenue was primarily due to lower international hardware sales, reflecting lower bid activity compared to the prior year. The $20.6 million increase in instant games revenue was primarily due to an increase in U.S. instant game sales revenue with particular strength at customers with Participation contracts and from customers where we provided our CSP for strategic integrated services from game design through analytics and execution of support initiatives at retail.
Operating Income
Operating income increased by $16.6 million in 2016, reflecting a more profitable revenue mix and lower D&A, partially offset by the expiration of the high-margin CSL validation contract and higher R&D expense.

Earnings from equity investments

Earnings from equity investments increased $5.1 million in 2016 due primarily to increases in joint venture income of $3.1 million from LNS and $0.8 million from CSG for the period.

INTERACTIVE

Results of Operations and Key Performance Indicators for Interactive

(in millions)	Six Months Ended June 30,		Variance	
	2016	2015	2016 vs. 2015	
Revenue:				
Services	$156.0	$98.5	$57.5	58.4 %
Total revenue	156.0	98.5	57.5	58.4 %
Operating expenses:				
Cost of services (1)	55.8	34.6	21.2	61.3 %
Selling, general and administrative	51.3	30.3	21.0	69.3 %
Research and development	15.7	10.9	4.8	44.0 %
Employee termination and restructuring	0.5	1.0	(0.5)	(50.0)%
Depreciation and amortization	7.5	10.5	(3.0)	(28.6)%
Operating income	$25.2	$11.2	$14.0	125.0 %
Key Performance Indicators:				
Social gaming:				
Average MAU [(2)]	9.1	7.5	1.6	21.3 %
Average DAU [(3)]	2.5	2.2	0.3	13.6 %
ARPDAU [(4)]	$0.29	$0.20	$0.09	45.0 %

(1) Exclusive of D&A.
(2) MAU = Monthly Active Users, a count of unique visitors to our sites during a month.
(3) DAU = Daily Active Users, a count of unique visitors to our sites during a day.
(4) ARPDAU =Average daily revenue per DAU is calculated by dividing revenue for a period by the DAU for the period by the number of days for the period.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Revenue

The $57.5 million increase in services revenue was primarily due to an increase in social gaming revenue, reflecting the ongoing popularity of Jackpot Party® Social Casino and the success of the recently launched Quick Hit® Slots and Hot Shot® Social Casino social gaming apps. The Company also launched Blazing 7s® Hot Shot® Slots near the end of the first quarter of 2016, which features simulated mechanical reel slot machines. Average DAU in the social gaming business grew by 13.6%. Interactive revenue growth also reflects $3.2 million growth in RMG revenue.

Operating Income

The $14.0 million increase in operating income reflects greater profitability as a result of revenue growth. SG&A expense and R&D expense increased as a result of higher marketing and player acquisition costs, coupled with new product development costs for which revenue has not yet been recognized.

RECENTLY ISSUED ACCOUNTING GUIDANCE

For a description of recently issued accounting pronouncements, see Note 1 (Description of the Business and Summary of Significant Accounting Policies).

CRITICAL ACCOUNTING ESTIMATES

For a description of our policies regarding our critical accounting estimates, see "Critical Accounting Estimates" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2015 Annual Report on Form 10-K.

There have been no significant changes in our critical accounting estimate policies or the application of those policies to our consolidated financial statements from those presented in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2015 Annual Report on Form 10-K.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

Sources of Liquidity

As of June 30, 2016, our principal sources of liquidity, other than cash flows provided by operating activities, were cash and cash equivalents and amounts available under our revolving credit facility discussed below under "Credit Agreement and Other Debt."

As of June 30, 2016, our available cash and cash equivalents and borrowing capacity totaled $558.8 million, including cash and cash equivalents of $101.4 million and availability of $457.4 million under our revolving credit facility, compared to $583.0 million as of December 31, 2015, which included cash and cash equivalents of $128.7 million and availability of $454.3 million under our revolving credit facility. We had $80.0 million in borrowings outstanding and $55.2 million of letters of credit outstanding under our revolving credit facility as of June 30, 2016, which reduces our capacity to borrow under our revolving credit facility. The amount of our available cash and cash equivalents fluctuates principally based on borrowings or repayments under our credit facilities, investments, acquisitions and changes in our working capital position. The borrowing capacity under our revolving credit facility will depend on the amount of outstanding borrowings and letters of credit issued and on us remaining in compliance with the covenants under our credit agreement, including a maintenance covenant based on consolidated net first lien leverage. We were in compliance with the covenants under our credit agreement as of June 30, 2016.

We believe that our cash flow from operations, available cash and cash equivalents and available borrowing capacity under our existing or anticipated financing arrangements will be sufficient to meet our liquidity needs for the foreseeable future; however, there can be no assurance that this will be the case. For example, our Lottery contracts are periodically subject to renewal or re-bid and there can be no assurance that we will be successful in sustaining our cash flow from operations if our contracts are not renewed or replaced or are renewed on less favorable terms, or if we are unable to enter into new contracts. We believe that substantially all cash held outside the U.S. is free from legal encumbrances or similar restrictions that would prevent it from being available to meet our global liquidity needs. Total cash held by our foreign subsidiaries was $68.5 million as of June 30, 2016. To the extent that a portion of our foreign cash was required to meet liquidity needs in the U.S. (which we do not currently anticipate), we might incur a tax liability to repatriate it, the timing and amount of which would depend on a variety of factors. A significant amount of the cash held by our foreign subsidiaries as of June 30, 2016 could be transferred to the U.S. as intercompany loan repayments or tax-free basis reductions.

Our gaming Participation and lottery systems businesses generally require significant upfront capital expenditures. In connection with a renewal or bid of a gaming machine or lottery systems contract, a customer may seek to obtain new equipment or impose new service requirements, which may require additional capital expenditures in order to retain or win the contract. Our ability to generate revenue and to continue to procure new contracts will depend on, among other things, our then present liquidity levels or our ability to obtain additional financing on commercially reasonable terms. If we do not have adequate liquidity or are unable to obtain financing for these upfront cash payments on favorable terms or at all, we may not be able to bid on certain contracts, which could restrict our ability to grow and have a material adverse effect on our results of operations, cash flows and financial condition. Our ability to make payments on and to refinance our indebtedness and other obligations depends on our ability to generate cash in the future. We may also, from time to time, repurchase, or otherwise retire or refinance our debt, through our subsidiaries or otherwise. Such activities, if any, will depend on prevailing market conditions, contractual restrictions and other factors, and the amounts involved may or may not be material. If we need to refinance all or part of our indebtedness at or before maturity, there can be no assurance that we will be able to obtain new financing or to refinance any of our indebtedness on commercially reasonable terms or at all. During the second quarter of 2016, we repurchased and cancelled an aggregate principal amount of $65.9 million of our 2020 Notes and 2021 Notes for $39.9 million in cash, which resulted in a $25.2 million gain on early extinguishment of debt inclusive of a $0.8 million charge related to the write-off of unamortized debt discount and deferred financing costs associated with the extinguished debt. We did not repurchase any of our notes during 2015. In the event we pursue significant acquisitions or other expansion opportunities, conduct significant repurchases of our outstanding securities, or refinance or repay existing debt, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional borrowings under our existing financing arrangements, which sources of funds may not necessarily be available on terms acceptable to us, if at all.

In addition, lottery customers in the U.S. generally require service providers to provide performance bonds in connection with the relevant contract. As of June 30, 2016, our outstanding performance bonds totaled $196.3 million. Our ability to obtain performance bonds on commercially reasonable terms is subject to our financial condition and to prevailing market conditions, which may be impacted by economic and political events. Although we have not experienced difficulty in

obtaining such bonds to date, there can be no assurance that we will continue to be able to obtain performance bonds on commercially reasonable terms, or at all.

Cash Flow Summary

	Six Months Ended June 30,		Variance
	2016	2015	2016 vs. 2015
Net cash provided by operating activities	$191.9	$114.4	$ 77.5
Net cash used in investing activities	(107.8)	(98.1)	(9.7)
Net cash used in financing activities	(109.5)	(54.5)	(55.0)
Effect of exchange rates on cash and cash equivalents	(1.9)	(4.5)	2.6
Decrease in cash and cash equivalents	$(27.3)	$(42.7)	$ 15.4

Cash flows from operating activities

Net cash provided by operating activities for the six months ended June 30, 2016 increased $77.5 million over the prior year period. The increase in net cash provided by operating activities was primarily due to the increase in incremental net earnings after adjusting for non-cash items of $77.0 million and a $0.5 million increase in working capital and other items.

Cash flows from investing activities

The increase in net cash used in investing activities of $9.7 million for the six months ended June 30, 2016 was primarily due to a decrease of $12.7 million in distributions of capital on equity investments which was partially offset by $3.1 million in proceeds from asset sales. In addition, during the six months ended June 30, 2016, we decreased our capital expenditures by $10.2 million which was offset by a decrease in restricted cash of $4.8 million and a decrease in changes in other assets and liabilities and other of $5.5 million, when compared to the same period last year.

Cash flows from financing activities

The increase in net cash used in financing activities of $55.0 million for the six months ended June 30, 2016 was primarily due to a net increase in payments on debt of $43.9 million. The increase was primarily due to the repurchase of $65.9 million in aggregate principal face value of our 2020 Notes and 2021 Notes for $39.9 million, resulting in a $25.2 million gain on early extinguishment of debt. In addition, during the six months ended June 30, 2016, we increased our payments on license obligations by $6.3 million and made $5.0 million more in net payments on our revolving credit facility, when compared to the same period last year.

Credit Agreement and Other Debt

As of June 30, 2016, the aggregate principal amount of our outstanding debt of $8,296.3 million was comprised of our revolving credit facility of $80.0 million, our term B-1 loans in the amount of $2,242.5 million and our term B-2 loans in the amount of $1,970.0 million outstanding under our credit agreement, $250.0 million in aggregate principal amount of our 2018 Notes, $243.5 million in aggregate principal amount of our 2020 Notes, $340.6 million in aggregate principal amount of our 2021 Notes, $950.0 million in aggregate principal amount of our 2022 Secured Notes, $2,200.0 million in aggregate principal amount of our 2022 Unsecured Notes and $19.7 million in capital leases related to our U.K. gaming operations. We use interest rate swap derivatives to diversify our debt portfolio between fixed and variable rate instruments. For additional information regarding our interest rate risk and interest rate hedging instruments, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of our 2015 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any significant off-balance sheet arrangements.

Contractual Obligations

Other than the amendment and extension of terms of one of our existing license agreements, which is more fully described in Note 8 (Intangible Assets, net and Goodwill) and the repurchase and cancellation of $56.5 million and $9.4 million of principal amount of our 2020 Notes and 2021 Notes, respectively, which is more fully described in Note 11 (Long-Term and Other Debt), there have been no material changes to our contractual obligations disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity, Capital

Resources and Working Capital — Contractual Obligations" included in our 2015 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
There have been no material changes to the disclosure under "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" included in our 2015 Annual Report on Form 10-K.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. The evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer.
Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to the material weakness in our internal control over financial reporting ("ICFR") previously disclosed in our 2015 Annual Report on Form 10-K as filed on February 29, 2016 (the "2015 Form 10-K"), our disclosure controls and procedures were not effective as of June 30, 2016. Although we have completed our remediation measures designed to correct the material weakness as of June 30, 2016, we are unable to conclude that the remediation was successful until further testing can be performed, as described below. The material weakness, which is described more fully in Item 9A of our 2015 Form 10-K, is as follows: the Company's review control did not operate at a sufficient level of precision to identify the improper inclusion of deferred taxes in the fair value modeling used in our step two goodwill impairment test for our SG gaming reporting unit. Notwithstanding the material weakness identified by our management, our Chief Executive Officer and our Chief Financial Officer have concluded, based on their knowledge, that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present in all material respects the Company's financial condition, results of operations and cash flows as of and for the periods presented in this report, in conformity with accounting principles generally accepted in the United States.
Changes in Internal Control over Financial Reporting
As previously disclosed, we identified a material weakness in our ICFR, pertaining to the step two goodwill impairment testing for our SG gaming reporting unit that we performed in accordance with ASC 350, Intangibles-Goodwill and Other. As of June 30, 2016 we have completed remediation measures designed to correct this material weakness as follows:
Reviewed the processes and controls related to the fair value modeling in the step two goodwill impairment assessment.

Designed and documented a new review control with enhanced precision related to the review of the fair value modeling of the step two goodwill impairment assessment.

Conducted a training program for relevant personnel and developed specific review procedures for the step two goodwill impairment assessment.

We believe these actions have meaningfully strengthened our ICFR, but we will not be able to conclude whether the material weakness has been remediated until sufficient time has elapsed to provide evidence that the enhanced controls are operating effectively in connection with our routine annual goodwill impairment testing to be performed in accordance with ASC 350, or if events occur or circumstances change with respect to one or more of our goodwill reporting units that necessitate an interim impairment test prior to the performance of our next annual test. We will not perform our next routine annual goodwill impairment testing until October 2016.
Other than the completion of the remediation steps described above, there were no changes in our ICFR during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our ICFR.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

For a description of our legal proceedings, see Note 16 (Litigation).

Item 1A. Risk Factors
Except for the risk factor set forth below, there have been no material changes in our risk factors from those disclosed under "Item 1A. Risk Factors" included in our 2015 Annual Report on Form 10-K.
The affirmative vote in the U.K. to withdraw from the EU may adversely affect our business.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the EU, commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s future relationship with the EU. The Brexit vote may result in regulatory uncertainty throughout the region and could adversely affect business activity, restrict the movement of capital and the mobility of personnel, and otherwise impair political stability and economic conditions in the U.K., the EU and elsewhere. Any of these developments could have a material adverse effect on business activity in the U.K. or the EU. Given that we conduct a substantial portion of our business in continental Europe and the U.K. any of these developments could have
a material adverse effect on our business prospects, results of operations, cash flows and financial condition.

The uncertainty concerning the timing and terms of the Brexit could have a negative impact on the growth of the U.K. and EU economies and cause greater volatility in the British Pound Sterling, the Euro and other currencies. Changes in currency exchange rates may reduce the reported value of our revenues outside the U.S. The announcement
of Brexit has caused significant volatility in global stock markets and currency exchange rate fluctuations, including the strengthening of the U.S. dollar against foreign currencies.

Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. Additionally, Brexit could allow the U.K. to significantly alter its regulations affecting our industry, which may result in significant costs and potentially lost opportunities for us. It may
also be time-consuming and expensive for us to alter our internal operations in order to comply with new regulations. Changes to U.K. border and immigration policy could likewise occur as a result of Brexit, affecting our ability to recruit and retain employees from outside the U.K.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
There was no stock repurchase activity during the three months ended June 30, 2016, other than 170,452 shares acquired from employees to satisfy the withholding taxes associated with the vesting of RSUs during this period at an average price paid per share of $10.29.
Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
None.

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (†)
31.2	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (†)
32.1	Certification of the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (†)
32.2	Certification of the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (†)
99.1	Terms and Conditions of Equity Awards to Key Employees under the Scientific Games Corporation 2003 Incentive Compensation Plan.*(†)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Label Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

(†) Filed herewith.
*Management contracts and compensation plans and arrangements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCIENTIFIC GAMES CORPORATION
(Registrant)

By: /s/ Michael A. Quartieri
Name: Michael A. Quartieri
Title: Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary

By: /s/ Jeffrey B. Johnson
Name: Jeffrey B. Johnson
Title: Vice President, Finance, and Chief Accounting Officer

Dated: August 4, 2016

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