SCIENTIFIC GAMES CORP
Form DEF 14A
April 30, 2015

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

SCHEDULE 14A

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

Filed by the Registrant ý

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

SCIENTIFIC GAMES CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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April 30, 2015

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Scientific Games Corporation to be held at 10:00 a.m. (local time) on Wednesday, June 10, 2015, at Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York.

At the meeting, we will be electing 11 members of our Board of Directors. We will also be considering an amendment and restatement of, and re-approval of certain material provisions of, our 2003 Incentive Compensation Plan and ratification of the appointment of Deloitte & Touche LLP as our independent auditor. These matters are described in detail in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement.

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

We look forward to seeing you at the annual meeting.

Sincerely,

M. Gavin Isaacs
President and Chief Executive Officer

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SCIENTIFIC GAMES CORPORATION
6650 S. El Camino Road
Las Vegas, NV 89118

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the annual meeting of stockholders of Scientific Games Corporation (the "Company") will be held at 10:00 a.m. (local time) on Wednesday, June 10, 2015, at Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York, for the following purposes:

1. To elect 11 members of the Board of Directors to serve for the ensuing year and until their respective successors are duly elected and qualified.

2. To approve an Amended and Restated 2003 Incentive Compensation Plan and to re-approve certain material provisions of such plan.

3. To ratify the appointment of Deloitte & Touche LLP as independent auditor for the fiscal year ending December 31, 2015.

4. To consider and act upon any other matter that may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on April 15, 2015 are entitled to receive notice of and to vote at the meeting and any adjournment thereof. A list of the holders will be open to the examination of stockholders for ten days prior to the date of the meeting, between the hours of 9:00 a.m. and 5:00 p.m., at the office of the Corporate Secretary of the Company at 6650 S. El Camino Road, Las Vegas, NV 89118 and will be available for inspection at the meeting itself.

To obtain directions to attend the meeting and vote in person, please telephone the Company at (702) 897-7150.

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

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 10, 2015:

The Proxy Statement and 2014 Annual Report will be available on or about April 30, 2015 through the Investors link on our website at *www.scientificgames.com* or through *www.proxyvote.com.*

By Order of the Board of Directors

Scott Schweinfurth
Executive Vice President, Chief Financial Officer

and Corporate Secretary

Dated: April 30, 2015

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SCIENTIFIC GAMES CORPORATION
6650 S. El Camino Road
Las Vegas, NV 89118

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of Scientific Games Corporation ("Scientific Games," the "Company," "we" or "us") of proxies to be voted at the annual meeting of stockholders to be held at 10:00 a.m. (local time) on Wednesday, June 10, 2015, at Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York, and any adjournment or postponement of the meeting, for the purposes set forth in the Notice of Annual Meeting of Stockholders.

Notice and Access to Proxy Materials

We expect our proxy materials, including this Proxy Statement and our 2014 Annual Report, to be made available to stockholders on or about April 30, 2015 through the Investors link on our website at *www.scientificgames.com* or through *www.proxyvote.com.* In accordance with the rules of the Securities and Exchange Commission ("SEC"), most stockholders will not receive printed copies of these proxy materials unless they request them. Instead, most stockholders will receive by mail a "Notice of Internet Availability of Proxy Materials" that contains instructions as to how they can view our materials online, how they can request copies be sent to them by mail or electronically by email and how they can vote online (the "Notice").

Stockholders Entitled to Vote

All stockholders of record at the close of business on April 15, 2015 are entitled to vote at the meeting. At the close of business on April 15, 2015, 85,818,900 shares of common stock were outstanding. Each share is entitled to one vote on all matters that properly come before the meeting.

Voting Procedures

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

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

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Voting Matters

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

Proposal	**Board's Recommendation**
Proposal 1: Election of Directors (page 4) The Board and the Nominating and Corporate Governance Committee believe that the eleven (11) director nominees possess a combination of qualifications, experience and judgment necessary for a well-functioning Board and the effective oversight of the Company.	FOR each Nominee
Proposal 2: Approval of amendment and restatement of, and re-approval of certain material provisions of, the Amended and Restated 2003 Incentive Compensation Plan (page 59) The Compensation Committee and the Board have adopted a proposal, subject to stockholder approval, to consolidate the share pools under the Company's Amended and Restated 2003 Incentive Compensation Plan (the "2003 Plan") and amend the Company's 2003 Incentive Compensation Plan to eliminate legacy provisions related to the legacy Bally Technologies, Inc. ("Bally") equity plan. In connection with the Company's acquisition of Bally, certain shares from the Bally equity plan were converted to Company shares under the Company's equity plan, with such converted shares subject to legacy Bally terms and conditions. The consolidation of the share pools and application of uniform plan terms and conditions for legacy Bally and legacy Scientific Games participants under the proposed amendment would, among other things, facilitate the administration of consistent equity compensation programs across the combined company. Re-approval of certain material provisions of the 2003 Plan would permit the Company to continue to have the ability to grant awards to the Company's named executive officers that will be tax deductible. The proposed amendment and restatement and re-approval would not increase the aggregate number of shares available for issuance under the 2003 Plan.	FOR
Proposal 3: Ratification of the Appointment of Deloitte & Touche LLP ("Deloitte") as Independent Auditor (page 74) The Audit Committee has appointed Deloitte to serve as our independent auditor for the fiscal year ending December 31, 2015. As a matter of good corporate governance, stockholders are being asked to ratify the Audit Committee's appointment of Deloitte.	FOR

All valid proxies received prior to the meeting will be voted in accordance with the instructions specified by the stockholder. If a proxy card is returned without instructions, the persons named as proxy holders on your proxy card will vote in accordance with the above recommendations of the Board.

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

Changing Your Vote

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

Quorum

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

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Vote Required

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

The proposals to approve the amendment and restatement of, and re-approval of certain material terms of, the 2003 Plan (Proposal 2) and to ratify the appointment of our independent auditor (Proposal 3) require the affirmative vote of a majority of the shares entitled to vote represented at the meeting.

Effect of Withheld Votes or Abstentions

If you vote "WITHHOLD" in the election of directors or vote "ABSTAIN" (rather than vote "FOR" or "AGAINST") with respect to any other proposal, your shares will count as present for purposes of determining whether a quorum is present. A "WITHHOLD" vote will have no effect on the outcome of the election of directors (Proposal 1) and an "ABSTAIN" vote will have the effect of a negative vote on the other proposals (Proposals 2 through 3).

Effect of Broker Non-Votes

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

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PROPOSAL 1

ELECTION OF DIRECTORS

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

Nominees for Election

The Board has nominated for election to the Board the eleven (11) persons named below to serve for a one-year term and until their successors have been duly elected and qualified or until their earlier death, resignation or removal. Each of the director nominees is presently serving as a director and each of the nominees was previously elected to the Board by our stockholders, other than Mr. Isaacs who joined the Board in June 2014, and Judge McDonald and Mr. Haddrill, who joined the Board in October 2014 and December 2014, respectively. Three of the nominees (Messrs. Perelman and Schwartz and Ms. Townsend) were designated for election to the Board by MacAndrews & Forbes Incorporated, our largest stockholder, pursuant to its rights under a stockholders' agreement with us (discussed more fully below). Pursuant to its rights under a stockholders' agreement, MacAndrews & Forbes Incorporated has the right to designate four nominees for election to the Board.

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

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

Name	Age	Position with the Company	Director Since
Ronald O. Perelman	72	Director (Chairman)	2003
M. Gavin Isaacs	50	Director (President and Chief Executive Officer)	2014
Richard Haddrill	61	Director (Executive Vice Chairman)	2014
Peter A. Cohen	68	Director (Vice Chairman)	2000
David L. Kennedy	68	Director (Vice Chairman)	2009
Gerald J. Ford	70	Director	2005
Judge Gabrielle K. McDonald	73	Director	2014
Paul M. Meister	62	Director	2012
Michael J. Regan	73	Director	2006
Barry F. Schwartz	66	Director	2003
Frances F. Townsend	53	Director	2010

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

M. Gavin Isaacs was appointed to the position of President and Chief Executive Officer of the Company in June 2014. Mr. Isaacs is an accomplished gaming industry executive with more than 15 years

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of leadership experience. Most recently, he served as Chief Executive Officer of SHFL entertainment, Inc. from April 2011 through November 2013 when the company was acquired by Bally Technologies, Inc. Prior to joining SHFL entertainment, Inc., Mr. Isaacs served as Executive Vice President and Chief Operating Officer of Bally Technologies, Inc. from 2006 through 2011. Prior to joining Bally Technologies, Inc., he held senior roles at Aristocrat Leisure Limited, including Head of Global Marketing and Business Development, Managing Director of Aristocrat's London-based European subsidiary and President of Aristocrat Technologies, Inc., Aristocrat's Las Vegas-based subsidiary. Mr. Isaacs previously served as a Trustee and the President of the International Association of Gaming Advisors, and currently is a member of the Board of Directors of the American Gaming Association.

Richard Haddrill was appointed Executive Vice Chairman of the Board and as a member of the Board's Executive and Finance Committee in December 2014. Prior to joining the Board, Mr. Haddrill served as Bally Technologies, Inc.'s Chief Executive Officer from 2004 to 2012 and from May 2014 until the Company's acquisition of Bally in November 2014. He served on Bally's Board of Directors from 2003 until the acquisition, including serving as Chairman of the Board from 2012 to 2014. Prior to becoming Bally's Chief Executive Officer, Mr. Haddrill served as Chief Executive Officer and as a member of the Board of Directors of Manhattan Associates, Inc., a global leader in software solutions to the supply-chain industry. Prior to that, he served as President and Chief Executive Officer of Powerhouse Technologies, Inc., a technology and gaming company involved in the video lottery industry and online lottery and pari-mutuel wagering systems. Mr. Haddrill is Chairman of the Board of Directors of Corrective Education Company, a company involved in providing training and education alternatives to judicial prosecution. In addition, he is a member of the Board of Directors of The Smith Center for the Performing Arts in Las Vegas.

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

David L. Kennedy was the President and Chief Executive Officer of the Company from November 2013 to June 2014 and served as Executive Vice Chairman from June 2014 to August 2014 after which time he was no longer an employee of the Company but continued to serve on the Board as Vice Chairman, in a non-executive capacity. Mr. D. Kennedy serves as a Vice Chairman of the Board, a position he has held since October 2009. Mr. D. Kennedy served as an executive of the Company from November 2010 until March 2012, including as Chief Administrative Officer from April 2011 until March 2012. Mr. D. Kennedy also serves as Vice Chairman of the Board of Revlon, Inc. and is a director of Revlon Consumer Products Corporation. Mr. D. Kennedy is Senior Executive Vice President of MacAndrews & Forbes Incorporated and has held senior executive positions with Revlon, Inc. and The Coca-Cola Company and affiliates during his 40-year business career.

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

Judge Gabrielle K. McDonald, a former U.S. District Court judge, has been the Special Counsel on Human Rights to Freeport-McMoRan Inc., a leading international natural resources company, since 1999.

From 2001 until 2013, Judge McDonald served as a judge on the Iran-United States Claims Tribunal, The Hague, The Netherlands. Judge McDonald served as a judge on the International Criminal Tribunal for the former Yugoslavia in The Hague for six years, and was President of the Tribunal from 1997 until 1999. Judge McDonald is a member of the Board of Directors of the American Arbitration Association. During the past five years, Judge McDonald has also served as a director of Freeport-McMoRan Inc.

Paul M. Meister is President of MacAndrews & Forbes Incorporated. He is also Co-Founder of Liberty Lane Partners, a private investment company with investments in healthcare, technology, and distribution-related industries, and Perspecta Trust, a trust company that provides trust and investment services. Mr. Meister previously served as Chairman and Chief Executive Officer of inVentiv Health, a leading provider of commercial, consulting and clinical research services to the pharmaceutical and biotech industries. He formerly was Chairman of the Board of Thermo Fisher Scientific Inc., a provider of products and services to businesses and institutions in the field of science, which was formed by the merger of Fisher Scientific International Inc. and Thermo Electron Corporation in November 2006. Mr. Meister was Vice Chairman of Fisher Scientific International, Inc. from 2001 to 2006, and served as its Chief Financial Officer from 1991 to 2001. Fisher Scientific International Inc. provided products and services to research, healthcare, industrial, educational and government markets. Mr. Meister is a member of the Board of Director of Quanterix Corporation, a developer of ground-breaking tools in high definition diagnostics, and inVentiv Health. Mr. Meister is Co-Chair of the University of Michigan's Life Sciences Institute External Advisory Board and serves on the Executive Advisory Board of the Chemistry of Life Processes Institute at Northwestern University. Mr. Meister is a member of the Board of Directors of LKQ Corporation, Inc. During the past five years, Mr. Meister has also served as a member of the Board of Directors of M & F Worldwide Corp.

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

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

Frances F. Townsend is Executive Vice President of Worldwide Government, Legal and Business Affairs of MacAndrews & Forbes Incorporated. She has been with MacAndrews & Forbes Incorporated since October 2010. Ms. Townsend was a corporate partner at the law firm of Baker Botts LLP from April 2009 to October 2010. Prior to that, she was Assistant to President George W. Bush for Homeland Security and Counterterrorism and chaired the Homeland Security Council from May 2004 until January 2008. Prior to serving the President, Ms. Townsend was the first Assistant Commandant for Intelligence for the U.S. Coast Guard and spent 13 years at the U.S. Department of Justice in various senior positions. She also serves on numerous governmental advisory and nonprofit boards. Ms. Townsend is a trustee on the board of the New York City Police Foundation and the Intrepid Sea, Air & Space Museum. She is also a member of the Council on Foreign Relations and the Trilateral Commission. Ms. Townsend is a director of The Western Union Company and Freeport-McMoRan Inc.

Designees of MacAndrews & Forbes Incorporated

Messrs. Perelman and Schwartz and Ms. Townsend were designated for election to the Board by MacAndrews & Forbes Incorporated pursuant to its rights under a stockholders' agreement with us dated

September 6, 2000, as supplemented by agreements dated June 26, 2002, October 10, 2003 and February 15, 2007. The stockholders' agreement was originally entered into with holders of our Series A Convertible Preferred Stock in connection with the initial issuance of such preferred stock and provides for, among other things, the right of the holders to designate up to four members of our Board based on their ownership of preferred stock or the common stock issued upon conversion thereof. All of the preferred stock was converted into common stock in August 2004. MacAndrews & Forbes Incorporated, which owned approximately 92% of the preferred stock prior to conversion and currently owns approximately 39.92% of our outstanding common stock, currently has the right to designate up to four directors based on its level of share ownership. The percentages that must be maintained in order to designate directors are as follows: (a) 20% to designate four directors; (b) 16% to designate three directors; (c) 9% to designate two directors; and (d) 4.6% to designate one director. Such percentages, in each case, are to be determined based on our fully diluted common stock subject to certain exclusions of common stock or other securities that may be issued in the future.

Qualifications of Directors

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

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

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

The Nominating and Corporate Governance Committee and the Board believe that each nominee has valuable individual skills and experiences that, taken together, provide the variety and depth of knowledge, judgment and vision necessary for the effective oversight of the Company. As indicated in the foregoing biographies, the nominees have extensive experience in a variety of fields, including gaming, lottery and interactive (Messrs. Isaacs, Haddrill and a number of our other long-serving directors), global operations (all directors), technology (Messrs. Isaacs, Haddrill, D. Kennedy and Meister), consumer products and marketing (Messrs. Isaacs, Haddrill, D. Kennedy, Perelman and Schwartz), legal and regulatory (Messrs. Isaacs and Schwartz and Madams Townsend and McDonald), investment and financial services (Messrs. Cohen, Ford, D. Kennedy, Meister, Perelman and Schwartz) and public accounting (Mr. Regan),

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each of which the Board believes provides valuable knowledge about important elements of our business. Most of our nominees have leadership experience at major companies or organizations that operate inside and outside the United States and/or experience on other companies' boards, which provides an understanding of ways other companies address various business matters, strategies, corporate governance and other issues. As indicated in the foregoing biographies, the nominees have each demonstrated significant leadership skills, including as a chief executive officer (Messrs. Isaacs, Haddrill, D. Kennedy, Cohen, Ford, Meister, Perelman and Schwartz), as a chief administrative officer of a major accounting firm (Mr. Regan), as chair of the Homeland Security Council and an officer in the U.S. Coast Guard (Ms. Townsend) and as a judge on an international criminal tribunal (Ms. McDonald). Ms. Townsend has extensive public policy, government or regulatory experience, which can provide valuable insight into issues faced by companies in regulated industries such as that of the Company. Mr. Isaacs has served as a senior executive and director of other gaming companies, which service has given him a deep knowledge of the Company and its businesses and directly relevant management experience. The Nominating and Corporate Governance Committee and the Board believe that these skills and experiences, together with their other qualities, qualify each nominee to serve as a director of the Company.

THE BOARD RECOMMENDS A VOTE "FOR" EACH OF THE ELEVEN (11) NOMINEES

Corporate Governance

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

Corporate Governance Highlights

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

Director Independence. The Board has adopted Director Independence Guidelines as a basis for determining that individual directors are independent under the standards of the NASDAQ Stock Market. This determination, which is made annually, helps assure the quality of the Board's oversight of management and reduces the possibility of damaging conflicts of interest. Under these standards, a director will not qualify as independent if:

(1) the director has been employed by the Company (or any subsidiary) at any time within the past three years, other than service as an interim executive officer for a period of less than one year;

(2)

the director has an immediate family member who has been employed as an executive officer of the Company (or any subsidiary) at any time within the past three years;

(3)

the director or an immediate family member of the director has accepted any compensation (including any political contribution to a director or family member) from the Company (or any subsidiary) in excess of $120,000 during any period of 12 consecutive months within the past three years other than (a) for Board or Board committee service, (b) in the case of the family member, as compensation for employment other than as an executive officer, (c) benefits under a tax-qualified retirement plan or non-discretionary compensation, or (d) compensation for service as an interim executive officer for a period of less than one year;

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(4) the director or an immediate family member of the director is a partner, controlling shareholder or executive officer of an organization (including a charitable organization) that made payments to, or received payments from, the Company for property or services in the current year or in any of the past three years that exceed the greater of 5% of the recipient's consolidated gross revenues or $200,000, other than (a) payments arising solely from investments in the Company's securities or (b) payments under non-discretionary charitable contribution matching programs;

(5) the director or an immediate family member of the director is employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company served on the compensation committee of such other entity; or

(6) the director or an immediate family member of the director is a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

In applying these standards, the Board determined that each of Messrs. Cohen, Ford, Meister, Perelman, Regan and Schwartz, and Madams Townsend and McDonald, qualify as independent directors and none has a business or other relationship that would interfere with the director's exercise of independent judgment. Messrs. Isaacs, Haddrill and D. Kennedy do not qualify as independent directors.

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

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

Board Leadership Structure. As described above, the Board is comprised entirely of independent directors, other than Mr. Isaacs, our President and Chief Executive Officer, Mr. D. Kennedy, our former President and Chief Executive Officer during 2014, and Mr. Haddrill, our Executive Vice Chairman. The Audit, Compensation, and Nominating and Corporate Governance Committees are comprised entirely of independent directors. The Executive and Finance Committee is comprised of independent directors and non-independent directors and the Compliance Committee is comprised of independent directors and an industry consultant. The Board has the flexibility to select the leadership structure that is most appropriate for the Company and its stockholders and has determined that the Company and its stockholders are best served by not having a formal policy regarding whether the same individual should serve as both Chairman of the Board and Chief Executive Officer. This approach allows the Board to elect the most qualified director as Chairman of the Board, while maintaining the ability to separate the Chairman of the Board and Chief Executive Officer roles when deemed appropriate. The Chairman of the Board and Chief Executive Officer roles are currently held by two different individuals.

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

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

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

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

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

The Board committees, which meet regularly and report to the full Board, play significant roles in carrying out the Board's risk oversight function. In particular, the Audit Committee oversees risks related to the Company's financial statements, the financial reporting process, accounting and certain legal matters. The Audit Committee also oversees the internal audit function and regularly meets in private with both the Vice President of Internal Audit (who reports functionally to the Chief Financial Officer and has a direct reporting line to the Audit Committee) and representatives of the Company's independent auditing firm. The Compensation Committee evaluates risks associated with the Company's compensation programs and discusses with management procedures to identify and mitigate such risks. See "Executive Compensation Compensation Discussion and Analysis Compensation Program as it Relates to Risk" below. The Compliance Committee is active in overseeing the Company's program with respect to compliance with the laws applicable to the Company's business, including gaming laws, as well as compliance with our Code of Business Conduct and related policies by employees, officers, directors and other representatives of the Company. In addition, the Compliance Committee oversees a compliance review process, which is designed to ensure that the vendors, consultants, customers and business partners of the Company are "suitable" or "qualified" as those terms are used by applicable gaming and lottery authorities, and regularly meets separately with the Senior Vice President, Chief Compliance Officer and Corporate Director of Security (who reports functionally to the Chief Executive Officer and has a direct reporting line to the Compliance Committee).

Board Meetings. The Board held a total of 14 meetings during 2014, including 4 at which executive sessions were held with no members of management present. During 2014, all incumbent directors

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attended at least 75% of the total number of meetings of the Board and committees of the Board on which they served.

Board Committees. The Board has five committees: the Audit Committee; the Compensation Committee; the Compliance Committee; the Executive and Finance Committee; and the Nominating and Corporate Governance Committee. All committees are comprised solely of independent directors with the exception of the Executive and Finance Committee, which is comprised of two independent directors as well as Messrs. Isaacs, Haddrill and D. Kennedy, and the Compliance Committee, which is comprised of four independent directors as well as Patricia Becker, a gaming industry consultant. Debra G. Perelman, who is a member of the Board and Compliance Committee, has decided to not stand for reelection. Ms. Perelman's directorship will expire on June 10, 2015, at which time she will no longer be a member of the Board or the Compliance Committee. Ms. Perelman's decision is not in connection with any disagreement with the Company on any matter relating to operations, policies or practices. The Board has approved charters for each Board committee, which can be accessed through the Investors Corporate Governance link on our website at *www.scientificgames.com*. The current membership of each committee is as follows:

Audit Committee	Compensation Committee	Compliance Committee	Executive and Finance Committee	Nominating and Corporate Governance Committee
Michael J. Regan (Chair)	Peter A. Cohen (Chair)	Barry F. Schwartz (Chair)	Peter A. Cohen (Chair)	Gerald J. Ford (Chair)
Peter A. Cohen	Paul M. Meister	Gabrielle K. McDonald	Ronald O. Perelman	Michael J. Regan
Gerald J. Ford	Barry F. Schwartz	Debra G. Perelman	M. Gavin Isaacs	Frances F. Townsend
		Frances F. Townsend	Richard Haddrill	
		Patricia Becker	David L. Kennedy	

Audit Committee. The Audit Committee is responsible for hiring the Company's independent auditor and for overseeing the accounting, auditing and financial reporting processes of the Company. In the course of performing its functions, the Audit Committee reviews, with management and the independent auditor, the Company's internal accounting controls, the financial statements, the report and recommendations of the independent auditor, the scope of the audit, and the qualifications and independence of the auditor. The Audit Committee also oversees the Company's internal audit function. The Board has determined that each member of the Audit Committee is independent under the listing standards of the NASDAQ Stock Market and that Mr. Regan qualifies as an "audit committee financial expert" under the rules of the SEC. The Audit Committee held 6 meetings during 2014.

Compensation Committee. The Compensation Committee sets the compensation of the Chief Executive Officer and other senior executives of the Company, administers the equity incentive plans and executive compensation programs of the Company, determines eligibility for, and awards under, such plans and programs, and makes recommendations to the Board with regard to the adoption of new employee benefit plans and equity incentive plans and with respect to the compensation program for non-employee directors. The Board has determined that each member of the Compensation Committee is independent under the listing standards of the NASDAQ Stock Market. The Compensation Committee held 8 meetings during 2014.

Compliance Committee. The Compliance Committee is responsible for providing oversight of the Company's program with respect to compliance with laws and regulations applicable to the business of the Company, including gaming and anticorruption laws, and with respect to compliance with the Code of Business Conduct by employees, officers, directors and other representatives of the Company. The Board has determined that each director member of the Compliance Committee is independent under the listing standards of the NASDAQ Stock Market. The Compliance Committee held 5 meetings during 2014.

Executive and Finance Committee. The Executive and Finance Committee has broad authority to act on behalf of the Board in the oversight of the business and affairs of the Company between regular

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meetings of the Board and assists the Board in implementing Board policy decisions. The Executive and Finance Committee held 8 meetings during 2014.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for identifying individuals who are qualified to become directors, recommending nominees for membership on the Board and on committees of the Board, reviewing and recommending corporate governance principles, procedures and practices and overseeing the annual self-assessment of the Board and its committees. The Board has determined that each member of the Nominating and Corporate Governance Committee is independent under the listing standards of the NASDAQ Stock Market. The Nominating and Corporate Governance Committee held 7 meetings during 2014.

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

Stockholder Communications with Directors. Stockholders may communicate with the Board or an individual director by sending a letter to the Board or to a director's attention care of the Corporate Secretary of the Company at Scientific Games Corporation, 6650 S. El Camino Road, Las Vegas, NV 89118. The Corporate Secretary will open, log and deliver all such correspondence (other than advertisements, solicitations or communications that contain offensive or abusive content) to directors on a periodic basis, generally in advance of each Board meeting.

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

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

Director Compensation

Non-Employee Director Compensation. The compensation program for non-employee directors consists of annual retainers and equity awards. Under the director compensation program currently in effect non-employee directors are eligible to receive:

(1) an annual retainer for service by non-employee directors on the Board of $75,000;

(2) an annual committee retainer (in lieu of fees per committee meeting) of $10,000 (or $15,000, in the case of the Audit Committee) per committee;

(3) annual retainers for committee chairs of $20,000 (or, in case of the chair of the Audit Committee, $35,000); and

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(4) annual grants of restricted stock units ("RSUs") to eligible non-employee directors with a grant date value of $160,000 and a four-year vesting schedule.

Mr. Cohen will continue to receive $250,000 for his service as a Vice Chairman of the Board without any additional retainers for his service as Chairman of the Executive and Finance Committee or Chairman of the Compensation Committee. New non-employee directors will continue to receive stock options for 10,000 shares (with a four-year vesting schedule) upon joining the Board. Directors who are employed by the Company do not receive any additional compensation in connection with their services as directors.

The Compensation Committee established the director compensation program described above for 2014 following a review in 2013 of competitive director compensation data provided by Compensation Advisory Partners, LLC ("CAP") for companies in a peer group of comparably sized companies in related industries as well as a general industry group of comparably sized companies. The Compensation Committee used the comparative data provided by CAP as a general indicator of relevant market conditions, but did not set specific benchmark targets for total director compensation or for individual elements of the director compensation program.

Awards of stock options and RSUs are subject to forfeiture if a director leaves the Board prior to the scheduled vesting date for any reason, except that the vesting of such awards would accelerate in full upon a director ceasing to serve on the Board due to death or disability.

For 2014, each non-employee director was eligible to receive an annual award of RSUs having a grant date value of $160,000 and a four-year vesting schedule, provided such director satisfied the Board's attendance requirements for the prior calendar year, as discussed below. In light of the trading price of the Company's stock and the limited availability of shares under the Company's equity incentive plans, for the fourth consecutive year, the grant date value of the annual award of RSUs to non-employee directors was discounted by approximately 10% relative to the "target" grant date value. Accordingly, the number of RSUs awarded in 2014 was determined by discounting the "target" grant date value of $160,000 by 10% (i.e., $144,000) and dividing such value by the average of the high and low sales price of our common stock on the trading day immediately prior to the grant date ($10.30) and rounding down to the nearest whole number. As a result, 13,980 RSUs were awarded to each non-employee director for 2014, provided the non-employee director satisfied the Board's attendance requirement for 2013.

Only non-employee directors who have attended at least 75% of the total number of meetings held by the Board and committees on which they served in the prior year are eligible to receive an annual award of RSUs, except that a new director with less than six months of service in the prior year is not subject to such threshold with respect to the first grant made after becoming a director. All non-employee directors serving at the time of grant (June 2014) satisfied the attendance requirements applicable for the 2014 awards.

Haddrill Employment Agreement. On December 8, 2014, the Company entered into an employment agreement with Mr. Haddrill in connection with his appointment as Executive Vice Chairman of the Board. The term of Mr. Haddrill's employment agreement is scheduled to expire on December 31, 2017, subject to automatic one-year extensions at the end of the term and each succeeding annual anniversary thereafter unless timely notice of non-renewal is given.

Under the agreement, Mr. Haddrill receives an annual base salary of $1,500,000 and on December 8, 2014, received a sign-on equity award of 30,384 RSUs, which are scheduled to vest over four years. In addition, on January 1, 2015, Mr. Haddrill received an award of performance-conditioned RSUs with a grant date value of $4,500,000 at "target" opportunity, with 50% of such RSUs subject to vesting after three years if certain financial criteria are met and 50% of such RSUs subject to annual vesting if certain strategic and business goals are met and if Mr. Haddrill continues in the employment of the Company during the applicable period.

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If Mr. Haddrill's employment is terminated by the Company without "cause" or by Mr. Haddrill for "good reason" (as such terms are defined in his employment agreement), he would then be entitled to receive: (1) an amount equal to his base salary payable in accordance with the Company's normal payroll practices over a period of twelve (12) months; (2) continued vesting of his sign-on RSUs in accordance with their original vesting schedule for a period of 12 months following termination; and (3) payment of COBRA premiums for 12 months if Mr. Haddrill elects to continue medical coverage under the Company's group health plan in accordance with COBRA. Mr. Haddrill would also be eligible for a pro rata payout with respect to his performance-conditioned RSUs if his employment is terminated without cause during the relevant performance period.

In the event of Mr. Haddrill's death, his beneficiary or estate would be entitled to receive any benefits that may be payable under any life insurance benefit of Mr. Haddrill for which the Company pays premiums and full vesting of the sign-on RSUs. In the event Mr. Haddrill is terminated due to his "total disability" (as such term is defined in the agreement), he would be eligible to receive disability payments under the Company's disability plans and full vesting of the sign-on RSUs. Mr. Haddrill's agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company during his employment and for a period of 12 months after termination of his employment for any reason.

The table below shows the compensation earned by our directors for 2014; provided that, the compensation for Mr. Isaacs and the compensation for Mr. D. Kennedy for the period relating to his employment with the Company in 2014 are reflected in the Summary Compensation Table below.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)(3)	All Other Compensation ($)(4)	Total ($)
Peter A. Cohen	325,000	143,994			468,994
Gerald J. Ford	105,833	143,994			249,827
Richard Haddrill(5)	134,615	449,987		3,612	588,214
David L. Kennedy(6)	31,250				31,250
Gabrielle K. McDonald(7)	14,167		51,058		65,225
Paul M. Meister	97,500	143,994			241,494
Debra G. Perelman(8)	55,833	143,994	67,916		267,743
Ronald O. Perelman	75,000	143,994			218,994
Michael J. Regan	120,000	143,994			263,994
Barry F. Schwartz	105,000	143,994			248,994
Frances F. Townsend	107,500	143,994			251,494

(1) Reflects annual retainers earned by directors for 2014, other than in the case of Mr. Haddrill. For Mr. Haddrill, reflects his base salary earned in 2014 under his employment agreement described above.

(2) Reflects the grant date fair value of RSUs awarded during 2014, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation ("FASB ASC Topic 718"). The grant date fair value of the RSUs was determined by multiplying the number of shares subject to the award by the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date. For a discussion of valuation assumptions, see Note 18 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014. As discussed above, for directors who received a grant of RSUs in June 2014 as part of the compensation program for non-employee directors, this grant date fair value reflects a 10% discount relative to the "target" value of $160,000. Judge McDonald did not receive any RSUs in 2014, because she did not become a director until October 30, 2014. Mr. D. Kennedy did not receive any RSUs in 2014 related to his service as a director, because he was still an employee of the Company at the time grants were made.

(3) Reflects the grant date fair value of stock options awarded to Judge McDonald and Ms. Perelman in connection with their appointment to the Board during 2014, computed in accordance with Financial Accounting Standards Board Accounting

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Standards Codification Topic 718, Compensation Stock Compensation ("FASB ASC Topic 718"). The fair value of the stock options is estimated on the date of grant using the Black-Scholes option pricing model. For a discussion of valuation assumptions, see Note 18 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014.

(4)
Reflects the tax gross-up for imputed income associated with Mr. Haddrill's attendance of the Company's Sales Club meeting.

(5)
Mr. Haddrill was elected Executive Vice Chairman of the Board on December 8, 2014.

(6)
Reflects compensation earned by Mr. D. Kennedy in his capacity as a non-employee director in 2014 (which was pro-rated from the date he ceased serving as Executive Vice Chairman of the Board in August 2014). Mr. D. Kennedy's compensation related to his service as an executive is reflected in the Summary Compensation Table below.

(7)
Judge McDonald joined the Board on October 30, 2014.

(8)
Ms. Perelman joined the Board on April 23, 2014.

The table below shows the number of stock options and unvested RSUs held by each of our directors, other than Mr. Isaacs, as of December 31, 2014.

Name	Stock Options (in shares)(1)	5-Year Vesting RSUs(2)(3)	4-Year Vesting RSUs(2)(4)	Total RSUs
Peter A. Cohen		747	26,247	26,994
Gerald J. Ford		747	26,247	26,994
Richard Haddrill			30,384	30,384
David L. Kennedy	113,470	747	129,783	130,530
Gabrielle K. McDonald	10,000			
Paul M. Meister	10,000		23,896	23,896
Debra G. Perelman	10,000		13,980	13,980
Ronald O. Perelman		747	26,247	26,994
Michael J. Regan		747	26,247	26,994
Barry F. Schwartz		747	26,247	26,994
Frances F. Townsend			26,247	26,247

(1)
Reflects stock options granted to Judge McDonald, Mr. Meister and Ms. Perelman on October 30, 2014, March 20, 2012, and April 23, 2014, respectively, upon the applicable directors' joining the Board, each with a four-year vesting schedule and an exercise price of $9.65, $11.10 and $12.38, respectively. The first three installments of Mr. Meister's stock options vested and became exercisable on the first, second and third anniversaries of the date of grant and the balance of which is scheduled to vest and become exercisable in one installment on the fourth anniversary of the date of grant.

(2)
In April 2013, Messrs. Cohen, Ford, D. Kennedy, Perelman, Regan and Schwartz entered into amendments to RSU awards granted prior to June 7, 2011, with such amendments pertaining to the treatment of such RSUs in the event of a change in control. On May 13, 2014, a qualifying change in control was triggered when the Company's largest shareholder, MacAndrews & Forbes Incorporated, acquired shares of Class A common stock resulting in ownership exceeding 40% of such outstanding shares. Pursuant to these amendments, outstanding RSUs granted prior to June 7, 2011 were treated as follows: (a) one-half vested and were distributed immediately upon the change in control, and (b) one-half were subject to a transfer restriction, lapsing upon the earlier of the original vesting date or the director's termination as a result of death or disability and forfeited if the director terminated for any reason other than death or disability prior to the original vesting date.

(3)
Reflects, for non-employee directors who were serving as such on the applicable grant date, one-tenth of an award of RSUs granted on January 4, 2010 (747 RSUs, which were subject to transfer restrictions until January 4, 2015 per footnote (2), and are shown as unvested in the table above, which provides information as of December 31, 2014).

(4)
Reflects, for non-employee directors who were serving as such on the applicable grant date, as applicable, (a) one-fourth of an award of RSUs granted on September 7, 2011 (2,351 RSUs, which vested on January 3, 2015 but are shown as unvested in the table above, which provides information as of December 31, 2014), (b) one-half of an award of RSUs granted on June 5, 2012 (4,748 RSUs, which are scheduled to vest in two equal annual installments on each of June 5, 2015 and 2016), (c) three-fourths of an award of RSUs granted on June 4, 2013 (5,175 RSUs, which are scheduled to

vest in three equal installments on each of June 4, 2015, 2016 and 2017), and (d) 13,980 RSUs granted on June 11, 2014 (which are scheduled to vest in four equal annual installments beginning on June 11, 2015). For Mr. Haddrill, reflects his sign-on RSUs granted on December 8, 2014 (which are scheduled to vest in four equal annual installments beginning on December 8, 2015). For Mr. D. Kennedy, includes one-eighth of an award of RSUs granted on March 22, 2011 (7,367 RSUs, which were subject to transfer restrictions until March 22, 2015

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per footnote (2), and are shown as unvested in the table above, which provides information as of December 31, 2014) and three-fourths of an award of RSUs granted on December 8, 2013 (112,500 RSUs, which are scheduled to vest in three equal annual installments on each of November 18, 2015, 2016 and 2017).

Director Stock Ownership Guidelines

The stock ownership guidelines are intended to align the financial interests of our non-employee directors with the interests of our stockholders. Under the guidelines, non-employee directors are required to own shares of our common stock with a market value equal to the lesser of five times the director's annual retainer for Board service and 15,000 shares. Shares of our common stock held directly or indirectly, including shares acquired upon the exercise of stock options, shares held within retirement and deferred compensation plans, time-vesting RSUs and shares owned by immediate family members will count for purposes of the policy, whereas outstanding (vested or unvested) stock options and performance-conditioned RSUs will not count. Each director has five years to comply from the later of the effective date of the policy and the date the director became subject to the policy. At present, all of our non-employee directors have the requisite level of stock ownership except for Judge McDonald, who became a director in October 2014.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our officers and directors, and persons who beneficially own more than ten percent of our common stock, to file initial reports of ownership and reports of changes in their ownership with the SEC. Based on a review of the copies of the reports that our directors, officers and ten percent holders filed with the SEC and on the representations made by such persons, we believe all applicable filing requirements were met during 2014, except for the filing of one Statement of Change in Beneficial Ownership of Securities on Form 4 for Mr. Regan (which reported one transaction), the filing of which was inadvertently delayed due to an issue with Edgar filing codes.

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SECURITY OWNERSHIP

The following table sets forth certain information as to the security ownership of each person known to us to be the beneficial owner of more than five percent of the outstanding shares of our common stock, each of our directors, each of our named executive officers, and all of our directors and executive officers as a group. The number of shares and the percentages of beneficial ownership set forth below are calculated as of April 15, 2015 based on outstanding shares of 85,818,900. Except as otherwise indicated, the stockholders listed in the table below have sole voting and investment power with respect to the shares indicated.

	Shares of Common Stock	
	Number[1]	**Percent[1]**
MacAndrews & Forbes Incorporated 35 East 62nd Street New York, New York 10065	34,255,737[2]	39.92%
Fine Capital Partners, L.P. 590 Madison Avenue, 5th Floor New York, New York 10022	8,208,137[3]	9.56%
Park West Asset Management LLC 900 Larkspur Landing Circle, Suite 165 Larkspur, California 94939	5,670,000[4]	6.61%
Baker Street Capital, L.P. 12400 Wilshire Blvd., Suite 940 Los Angeles, California 90025	5,000,000[5]	5.83%
Plymouth Lane Capital Management, LLC 717 Fifth Avenue, 11th Floor New York, New York 10022	4,627,962[6]	5.39%
BlackRock, Inc. 55 East 52nd Street New York, New York 10022	4,349,860[7]	5.07%
Ronald O. Perelman	34,309,781[8]	39.98%
M. Gavin Isaacs	61,778	*
Richard Haddrill	0	*
Peter A. Cohen	287,334[9]	*
David L. Kennedy	305,709	*
Gerald J. Ford	349,298	*
Judge Gabrielle K. McDonald[10]	0	*
Paul M. Meister	15,090	*
Debra G. Perelman[11]	5,995	*
Michael J. Regan	48,516	*
Barry F. Schwartz	84,044	*
Frances F. Townsend	27,162	*
Steven W. Beason	127,792	*
William J. Huntley[12]	291,103	*
James C. Kennedy	141,954	*

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	Shares of Common Stock	
	Number[1]	Percent[1]
Jeffrey S. Lipkin[13]	92,328	*
Larry A. Potts	144,744	*
Scott D. Schweinfurth	41,204	*
Andrew E. Tomback[14]	0	*
All current directors and executive officers as a group (consisting of 19 persons)[15]	36,333,832	42.34%

* Represents less than 1% of the outstanding shares of common stock.

(1) In accordance with SEC rules, this column includes shares that a person has a right to acquire within 60 days of April 15, 2015 through the exercise or conversion of stock options, RSUs or other securities. Such securities are deemed to be outstanding for the purpose of calculating the percentage of outstanding securities owned by such person but are not deemed to be outstanding for the purpose of calculating the percentage owned by any other person. The securities reported for the directors and named executive officers listed in the table above include shares subject to the following awards as to which the equivalent number of underlying shares may be acquired through exercise or conversion within 60 days of April 15, 2015:

Mr. Perelman, 7,590 RSUs; Mr. Cohen 7,590 RSUs; Mr. Ford 7,590 RSUs; Mr. Meister 7,590 RSUs; Ms. Perelman, 3,495 RSUs and 2,500 stock options; Mr. Regan 7,590 RSUs; Mr. Schwartz 7,590 RSUs; Ms. Townsend 7,590 RSUs; Mr. Isaacs 21,483 RSUs and 40,295 stock options; and Mr. D. Kennedy 4,095 RSUs.

(2) Based on an amendment to Schedule 13D filed with the SEC on April 1, 2015 by MacAndrews & Forbes Incorporated, SGMS Acquisition Corporation, RLX Holdings Two LLC and SGMS Acquisition Two Corporation. SGMS Acquisition Corporation, RLX Holdings Two LLC and SGMS Acquisition Two Corporation are holding companies owned by MacAndrews & Forbes Incorporated, whose Chairman, Chief Executive Officer and sole stockholder is Mr. Perelman. The Schedule 13D states that (a) MacAndrews & Forbes Incorporated has sole voting and dispositive power with respect to 34,255,737 shares, (b) SGMS Acquisition Corporation has sole voting and dispositive power with respect to 26,385,737 shares, (c) RLX Holdings Two LLC has sole voting and dispositive power with respect to 3,125,000 shares and (d) SGMS Acquisition Two Corporation has sole voting and dispositive power with respect to 4,745,000 shares. The shares so owned are, or may from time to time be, pledged to secure obligations of MacAndrews & Forbes Incorporated or its affiliates.

(3) Based on an amendment to Schedule 13G filed with the SEC on February 17, 2015 jointly by Fine Capital Partners, L.P., Fine Capital Advisors, LLC and Ms. Debra Fine, reporting beneficial ownership as of December 31, 2014. The amendment to Schedule 13G states that each such person has shared voting power and shared investment power with respect to 8,208,137 shares.

(4) Based on a Schedule 13G filed with the SEC on March 27, 2015 jointly by Peter S. Park and Park West Investors Master Fund, Limited, reporting beneficial ownership as of March 23, 2015. The Schedule 13G states that each such person has sole voting power and sole investment power with respect to 5,670,000 shares.

(5) Based on a Schedule 13G filed with the SEC on March 17, 2015 jointly by Baker Street Capital, L.P., Baker Street Capital Management, LLC, Baker Street Capital GP, LLC and Vadim Perelman, reporting beneficial ownership as of December 31, 2014. The Schedule 13G states that each such person has sole voting power and sole investment power with respect to 5,000,000 shares.

(6) Based on a Schedule 13G filed with the SEC on March 17, 2015 jointly by Plymouth Lane Capital Management, LLC, Plymouth Lane General Partner, LLC, Plymouth Lane Partners (Master), LP and Jonathan Salinas, reporting beneficial ownership as of March 9, 2015. The Schedule 13G states that each such person has shared voting power and shared investment power with respect to 4,627,962 shares.

(7) Based on an amendment to Schedule 13G filed with the SEC on January 12, 2015 jointly by BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, and BlackRock Investment Management, LLC, reporting beneficial ownership as of December 31, 2014. The amendment to Schedule 13G states that each such person has sole voting power with respect to 4,237,101 shares and shared investment power with respect to 4,349,860 shares.

(8) Includes the 34,255,737 shares reported in footnote 2 above, which may be deemed to be beneficially owned by Mr. Perelman, the Chairman, Chief Executive Officer and sole stockholder of MacAndrews & Forbes Incorporated. Mr. Perelman's address is 35 East 62nd Street, New York, New York 10065.

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(9) Includes 5,900 shares held by members of Mr. Cohen's immediate family and 25,500 shares held by third party accounts managed by Ramius Advisors, LLC. Mr. Cohen is one of four managing members of C4S & Co., LLC, which is the managing member of RCG Holdings LLC. RCG Holdings LLC is a significant shareholder of Cowen Group, Inc., which is the sole member of Ramius LLC ("Ramius"). Ramius is the sole managing member of Ramius Advisors, LLC. Mr. Cohen disclaims beneficial ownership of the securities held in the third party accounts except to the extent of his pecuniary interest therein.

(10) Judge McDonald joined the Board in October 2014.

(11) Ms. Perelman joined the Board in April 2014.

(12) Mr. Huntley was a "named executive officer" for 2014 but terminated employment with the Company effective December 31, 2014. Beneficial ownership is based solely upon the information known to the Company as of the effective date of Mr. Huntley's termination and includes 229,991 stock options that were currently exercisable or exercisable within 60 days and 20,078 RSUs that were scheduled to vest within 60 days.

(13) Mr. Lipkin was a "named executive officer" for 2014 but ceased serving as an executive officer of the Company effective April 1, 2014 and terminated employment with the Company effective May 31, 2014. Beneficial ownership is based solely upon the information known to the Company as of the date upon which Mr. Lipkin ceased to serve as an executive officer of the Company.

(14) Mr. Tomback was a "named executive officer" for 2014 but terminated employment with the Company effective September 30, 2014. Beneficial ownership is based solely upon the information known to the Company as of the effective date of Mr. Tomback's termination.

(15) Includes 504,607 shares issuable upon exercise of stock options and 102,281 shares issuable upon vesting of RSUs.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis provides a detailed description of our executive compensation philosophy and programs, the compensation decisions made by the Compensation Committee and the matters considered in making such decisions. The Company's executive compensation program is administered by the Compensation Committee of the Board, referred to in this section as the "Committee." The Committee is responsible for determining the compensation of the Company's Chief Executive Officer and other executive officers of the Company and for overseeing the Company's executive compensation and benefits programs.

Our executive compensation program is designed to attract, reward and retain our executive officers. This Compensation Discussion and Analysis focuses on the compensation of our "named executive officers" for the fiscal year ended December 31, 2014, who were:

Executive	Position
M. Gavin Isaacs[(1)]	President and Chief Executive Officer
David L. Kennedy	Former President and Chief Executive Officer
Scott D. Schweinfurth[(2)]	Executive Vice President, Chief Financial Officer and Corporate Secretary
Jeffrey S. Lipkin[(3)]	Former Senior Vice President and Chief Financial Officer
James C. Kennedy	Executive Vice President and Group Chief Executive of Lottery
Steven W. Beason	Enterprise Chief Technology Officer
Larry A. Potts	Senior Vice President, Chief Compliance Officer and Corporate Director of Security
William J. Huntley[(4)]	Former Executive Vice President and Group Chief Executive of Gaming
Andrew E. Tomback[(5)]	Former Senior Vice President and General Counsel

(1) In June 2014, Mr. Isaacs succeeded Mr. D. Kennedy as Chief Executive Officer.

(2) In April 2014, Mr. Schweinfurth succeeded Mr. Lipkin as Chief Financial Officer. In March 2015, Mr. Schweinfurth was elected Corporate Secretary.

(3) In April 2014, Mr. Lipkin ceased being an executive officer of the Company effective April 1, 2014 and terminated employment on May 31, 2014.

(4) In November 2014, Mr. Huntley ceased being an executive officer of the Company and terminated employment on December 31, 2014.

(5) In September 2014, Mr. Tomback terminated employment with the Company.

As used in the Compensation Discussion and Analysis, (1) "MICP" refers to our management incentive compensation program, (2) "target compensation" refers to salary and annual cash and equity incentive compensation opportunities under the MICP and (3) "special performance-conditioned RSUs" refers to the special performance-conditioned RSUs granted to certain of our named executive officers in 2012.

Executive Summary

2014 was a transformational year for the Company, highlighted by our $5.1 billion acquisition of Bally in November 2014, following the WMS acquisition in October 2013. These acquisitions have transformed the Company into one of the largest suppliers of player-appealing content and world-class systems for gaming, lottery and interactive operators worldwide. We believe that these acquisitions (1) significantly expand our gaming business, (2) diversify our mix of products, customers and geographies in which we do

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business, (3) allow the combined company to leverage its unique core competencies and executive talent to generate growing free cash flow and (4) quickly implement our integration plans to realize targeted cost savings and additional cash flow improvements. Already our integration teams are making meaningful progress toward the goals of improving the overall structure and enhancing our ability to support our customers.

While management of our recent acquisitions and the related integration efforts have been very positive, operating performance of our legacy businesses failed to meet expectations in 2014. Our lottery business' performance was mixed, with shortfalls in revenue and attributable EBITDA but full achievement of the cash flow objective. Our gaming business failed to meet its financial goals. On the positive side, our interactive business outperformed expectations. Given the results of our three businesses, corporate performance was far below the goals we set. Because we have a strong pay-for-performance compensation program, annual cash bonus payments were far below target levels for most participants and certain equity awards were forfeited.

Compensation Program Highlights for 2014

The following is a summary of the highlights of the Company's executive compensation program:

At-risk pay. Executive pay is substantially at risk because it largely consists of one or more types of performance-based compensation that vary in value based on our stock price, or that can only be earned upon achievement of pre-approved financial targets. The amount of target at-risk pay as a percentage of target compensation of the named executive officers is shown below:

Executive	Target At-Risk Pay (as a % of Target Compensation)
Mr. Isaacs[(1)]	75%
Mr. D. Kennedy[(1)]	75%
Other Named Executive Officers	62% to 67%

(1) The percentages shown for Messrs. Isaacs and D. Kennedy are based on their target cash bonus and equity grant date fair value compensation.

Compensation for Mr. Isaacs, our newly hired CEO, is governed by an employment agreement with competitive terms consisting of: (i) $1.5 million base salary; (ii) 100% annual cash bonus target under the MICP; (iii) sign-on equity grant of stock options and RSUs with an approximate grant date fair value of $1.5 million, subject to four-year installment vesting; and (iv) ongoing participation in annual equity grants at the discretion of the Committee.

2014 MICP cash bonuses to our named executive officers with Company-wide responsibilities paid out at only 12% of target because goals for revenue, attributable EBITDA and AEBITDA less CapEx (as defined below) were not met.

Annual MICP cash bonuses for our named executive officers with Company-wide responsibilities have varied with the Company's financial performance over the past five years as follows:

Actual MICP Bonus as a % of Target Bonus Opportunity				
2010	2011	2012	2013	2014
42%	101%	84%	58%	12%

Four named executive officers (Messrs. Isaacs, Schweinfurth, Beason and Potts) contributed substantially to the Bally acquisition and were awarded separate discretionary cash bonus payments for 2014 in recognition of their contributions.

In light of the Company's stock price performance and to manage potential dilution and share usage under the 2003 Plan, the Committee determined to reduce the value of the 2014 annual equity awards by 10% relative to the executives' equity award opportunity, following approximately 50% and 30% reductions in 2012 and 2013, respectively.

2014 annual equity awards were composed of performance-conditioned RSUs (75% weighting) and stock options (25% weighting).

In March 2015, the Committee determined that the financial targets established for performance-conditioned RSUs granted in 2014 were not met, resulting in the forfeiture of such performance-conditioned RSUs.

Special performance-conditioned equity awards with challenging EBITDA targets granted in 2012 did not vest as the EBITDA targets for those awards have not yet been achieved; these awards may still potentially vest if goals are met in 2015.

Commitment to Good Governance and Best Practices

As part of its on-going review of our executive compensation program, the Committee considers the results of our last "say on pay" proposal (approved by more than 69% of the votes cast at the 2014 annual meeting) and we have responded to questions or concerns regarding our executive compensation program that are raised from time to time by our stockholders. In response to questions and concerns raised by certain stockholders or proxy advisory firms in recent years, the Committee has taken a number of actions that it believes should be viewed favorably by our stockholders. Those actions include the following:

No guaranteed salary increases. Our named executive officers are not entitled to contractual inflation-based salary increases.

Management of potential dilution and share usage under equity plans.

In light of the Company's stock price performance and to reduce potential dilution and share usage under the 2003 Plan, the Committee determined to reduce the value of the 2014 annual equity awards by 10% relative to the executives' equity award opportunity, following approximately 50% and 30% reductions in 2012 and 2013, respectively.

In connection with the Bally acquisition, we assumed shares from the legacy Bally equity plan. We were entitled under applicable NASDAQ rules to assume approximately 16 million shares for future awards to Bally employees. However, in order to reduce potential dilution, the Committee and the Board only assumed approximately 4.8 million of such available shares (1.4 million shares of which related to outstanding awards under the Bally plan and 3.4 million shares of which related to the issuance of future equity awards).

See " Objectives and Components of Compensation Program Long-Term Incentive Compensation" below for additional information.

Stock ownership guidelines. The Company's stock ownership guidelines apply to the Chief Executive Officer, his direct reports and non-employee directors. The guidelines encourage a long-term perspective in managing the Company and further align the interests of senior executives and non-employee directors with the interests of stockholders. See " Certain Corporate Governance Policies Stock Ownership Guidelines" below for additional information.

Clawback policy. The Company's "clawback" policy subjects cash and equity incentive compensation paid to senior executives (including the named executive officers) to recovery in the event that the Company's financial statements are restated due to fraud or gross misconduct by the applicable executives. See " Certain Corporate Governance Policies Clawback Policy" below for additional information.

No-hedging policy. The Company prohibits employees and directors from engaging in hedging transactions. See " Certain Corporate Governance Policies No Hedging Policy" below for additional information.

Independent compensation consulting firm. The Committee benefits from its utilization of an independent compensation consulting firm, CAP, which provides no other services to the Company.

Periodic risk assessment. The Committee has concluded that our executive compensation programs do not encourage behaviors that would create risks reasonably likely to have a material adverse effect on the Company.

Perquisites. The Committee has eliminated most perquisites.

No excise tax gross-ups. We do not agree to pay excise tax gross-ups.

No above-market returns. We do not offer preferential or above-market returns on compensation deferred by our executive officers.

No loans to executive officers. We do not make personal loans to our executive officers.

CEO Succession

The Company entered into an employment agreement with Mr. Isaacs in connection with his appointment as President and Chief Executive Officer in June 2014. Under the agreement, Mr. Isaacs will receive an annual base salary of $1.5 million (pro-rated for any partial year). The term of Mr. Isaacs' employment agreement is scheduled to expire on June 9, 2017, subject to automatic renewals for one additional year at the end of the term and each anniversary thereof unless timely notice of non-renewal is given. Beginning in 2014, Mr. Isaacs will have the opportunity to earn up to 100% of his base salary (pro-rated for 2014) as incentive compensation upon achievement of target level financial performance goals for a given year and the opportunity to earn up to 200% of his base salary upon achievement of maximum financial performance goals for a given year. In addition, Mr. Isaacs is eligible to receive annual equity awards in the discretion of the Committee in accordance with the Company's plans and programs for senior executives of the Company. Mr. Isaacs received a sign-on equity award of 85,935 RSUs and 161,181 stock options, each subject to a four-year vesting schedule. In light of his sign-on equity award, the Committee did not grant Mr. Isaacs an annual equity award for 2014. For additional information regarding Mr. Isaacs' employment agreement, see "Employment Agreements; Severance and Change in Control Arrangements" below.

The terms of Mr. Isaacs' employment agreement were the result of arm's length negotiations and were approved by the Committee and the Board. In connection with its approval of the terms of Mr. Isaacs' employment agreement, CAP provided the Committee with information comparing various elements of his compensation package with that of chief executive officers of companies in the Company's peer group and chief executive officers of comparably sized companies included in two sets of general industry survey data. See "Peer Group" below for additional information regarding the peer group. The Committee also compared Mr. Isaacs' compensation package with that of the prior Chief Executive Officer. Including the sign-on equity award but excluding his annual equity award opportunity, Mr. Isaacs' total direct compensation opportunity was slightly below the 75th percentile of the total direct compensation opportunity represented by the comparator group (based on a single reference point determined by a weighted average of the data sources). The Committee reviewed the comparative market information in connection with its decision to approve the terms of Mr. Isaacs' compensation, but did not use this information to set specific benchmark targets for individual components of his compensation or his total compensation.

In connection with his departure as an employee of the Company in August 2014, the Company and Mr. D. Kennedy entered into a separation agreement under which Mr. D. Kennedy is entitled only to

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certain separation benefits contemplated by his employment agreement, as discussed in "Employment Agreements; Severance and Change in Control Arrangements Separation Agreement with Mr. D. Kennedy" below.

Objectives and Components of Compensation Program

The objectives of our executive compensation program are to attract and retain executive talent, to encourage and reward excellent performance by executives whose contributions drive the success of the Company and create value for our stockholders. The program is structured to provide compensation packages that are competitive with the marketplace and to reward executives based on both Company and, in certain circumstances, individual performance, to encourage long-term service and to align the interests of management and stockholders through incentives that encourage annual and long-term results.

The principal components of the Company's compensation program consist of base salaries, annual performance-based incentive compensation and long-term incentive compensation. The Company also maintains employment agreements that include severance and change of control arrangements. The following is a description of the Company's compensation elements and the objectives they are designed to support:

Element of Compensation	Rationale	Linkage to Compensation Objective
Base Salary	Provides fixed level of compensation	Attract and retain executive talent
Annual Incentive Compensation (cash bonuses)	Target level of annual incentive compensation provides an attractive total cash opportunity that incentivizes achievement of the Company's financial goals by tying payouts to Company financial performance, with actual annual incentive compensation payout depending upon Company and, in certain circumstances, individual performance	Foster excellent business performance Align executive and stockholder interests by linking all or a portion of compensation to the annual performance of the Company Attract and retain executive talent
Long-Term Incentive Compensation (stock options and RSUs)	Target level of long-term incentive compensation provides a market-competitive equity opportunity Conditioning certain equity awards upon achievement of financial performance targets aligns executive pay with stockholder interests	Align executive and stockholder interests by linking a portion of compensation to long-term Company performance Foster excellent business performance that creates value for stockholders Attract and retain executive talent Encourage long-term service

Employment Agreements with Severance Provisions and Employment Agreements and Equity Incentive Plans with Change in Control Provisions	Severance provisions under employment agreements provide benefits to ease an employee's transition in the event of an unexpected employment termination by the Company due to changes in the Company's employment needs Change in control provisions under employment agreements and equity incentive plans encourage employees to remain focused on the best interests of the Company in the event of rumored or actual fundamental corporate changes	Attract and retain executive talent Encourage long-term service

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Base Salary

The base salaries of the Company's executive officers are reviewed on an annual basis in light of the competitive marketplace, the executive officer's responsibilities, experience and contributions and internal equity considerations. Internal equity in this context means ensuring that executives in comparable positions are rewarded comparably.

Certain of the named executive officers received salary increases for 2014, as shown below:

Executive	Salary Increase	Effective Date	New Salary Rate
Mr. Schweinfurth	$ 76,497	04/01/14	$ 675,000
Mr. Huntley	$ 50,000	01/01/14	$ 700,000
Mr. J. Kennedy	$ 115,000	01/01/14	$ 675,000
Mr. Lipkin	$ 75,000	01/01/14	$ 625,000
Mr. Beason	$ 25,000	09/10/14	$ 510,000
Mr. Potts	$ 30,500	01/01/14	$ 500,000

Mr. Schweinfurth's salary increase related to his promotion to Executive Vice President and Chief Financial Officer, and a three-year extension of the term of his employment agreement to March 31, 2017. Mr. Huntley's salary increase related to his promotion to Executive Vice President and Group Chief Executive of Gaming, and a two year extension of the term of his employment agreement to December 31, 2016. Mr. J. Kennedy's salary increase related to his promotion to Executive Vice President and Group Chief Executive of Lottery. Mr. Lipkin's salary increase related to his assumption of increased responsibilities as Chief Financial Officer following the acquisition of WMS. The increase for Mr. Beason was approved in connection with a new two-year employment agreement through August 31, 2016. The increase for Mr. Potts related to a two-year extension of the term of his employment agreement to December 31, 2015. In connection with his transition to Executive Vice Chairman of the Board, Mr. D. Kennedy's base salary was reduced in June 2014 from $1.5 million to $1.2 million.

Annual Incentive Compensation

Annual cash bonuses under the MICP are based upon (1) the Company's performance relative to the achievement of financial targets (2) each business unit's performance relative to the achievement of financial targets for executives directly involved with the operation of those units, as well as (3) for certain executives, an assessment of the executive's performance and contribution, including factors not quantitatively measurable by financial results. If the applicable financial performance targets are met or exceeded, then participants are eligible to receive MICP cash bonuses based on a pre-established target percentage of their base salaries, which target percentage for the named executive officers, ranged from 66.7% to 100% of base salary for 2014.

The Company's annual incentive compensation program is designed to align the executives' bonus opportunities with the Company's growth objectives. Cash bonuses were earned under the MICP based on the Company's (1) revenue, (2) attributable EBITDA and (3) attributable EBITDA less total capital expenditures (which include wagering systems expenditures and other intangible asset and software expenditures) ("AEBITDA less CapEx"), in each case, relative to pre-approved performance targets. "Attributable EBITDA," which is substantially based on (but not identical to) the definition of "attributable EBITDA" that we report in our earnings releases, is defined as our consolidated EBITDA plus (without duplication) our pro rata share of the EBITDA of our joint ventures and minority equity investments, subject to substantially the same adjustments contemplated by the EBITDA metric in our credit agreement and the EBITDA metric reported in our earnings releases, as well as certain additional adjustments in the discretion of the Committee (*e.g.*, to take into account changes in applicable accounting rules during the year). The Committee has determined to use attributable EBITDA to promote

consistency with the EBITDA-based metric that we publicly report and the EBITDA-based metric that determines our compliance with the financial covenants contained in our credit agreement.

The Committee reviews the bonus program design each year with a view to realizing desired corporate objectives and in light of the recommendations of the Chief Executive Officer as to financial targets and payout structure (other than with respect to his own bonus). In recent years, this review has focused on structuring a bonus payout scale that the Committee deems appropriate in light of our growth objectives and our interest in managing incentive compensation costs. For 2014, the Committee approved a bonus payout structure under which achievement of budgeted financial performance would result in the payout of 70% of a named executive officer's target bonus opportunity (rather than a payout of 85% of a named executive officer's target bonus opportunity for budgeted financial performance, as in 2013). The revised payout structure was approved based on the recommendation of the former Chief Executive Officer and in light of the Committee's objectives to incentivize above-budget results and manage incentive compensation costs. In order for the eligible named executive officers with Company-wide responsibilities during 2014 (each named executive officer other than Messrs. Huntley and J. Kennedy) to earn 100% of their target bonus opportunities for 2014, we needed to achieve 104% of budgeted revenue, attributable EBITDA and AEBITDA less CapEx, representing meaningful year-over-year growth on a pro forma basis (11% increase in revenue, 11% increase in attributable EBITDA and 33% increase in AEBITDA less CapEx) relative to 2013 MICP results.

No portion of the 2014 MICP cash bonus attributable to a particular financial metric was payable unless at least 88% of the budgeted amount was achieved, and the payout percentage at this minimum threshold level was 35% of an executive's target bonus opportunity. Bonuses in excess of an executive's target bonus opportunity were payable only if the financial results exceeded 104% of the budgeted amount for the applicable financial metric. Had the Company achieved 109% or 119% of budgeted amount for each of the financial metrics, the calculated bonus for each of the named executive officers with Company-wide responsibilities would have been multiplied by 130% and 200%, respectively. The multiplier would have been applied ratably for achievement between performance levels.

The revenue, attributable EBITDA and AEBITDA less CapEx targets set at the beginning of 2014 for consolidated financial performance are shown below. For purposes of the MICP, 2014 targets and results excluded the financial impact of the acquisition of Bally, which was completed in late November 2014.

		% of Target Bonus Opportunity				
		35%	**70%**	**100%**	**130%**	**200%**
Revenue	Target ($)	$ 1,621	$ 1,841	$ 1,907	$ 2,002	$ 2,193
	% of Budget	88%	100%	104%	109%	119%
Attributable EBITDA	Target ($)	$ 553	$ 627	$ 650	$ 683	$ 748
	% of Budget	88%	100%	104%	109%	119%
AEBITDA Less CapEx	Target ($)	$ 283	$ 321	$ 333	$ 350	$ 383
	% of Budget	88%	100%	104%	109%	119%

The 2014 bonus amounts for the eligible named executive officers with Company-wide responsibilities (each named executive officer other than Messrs. Huntley and J. Kennedy) were determined based on attainment of the consolidated financial performance targets for the three metrics (each metric weighted equally). The bonus amounts for the named executive officers directly managing the operation of a business unit (Messrs. Huntley and J. Kennedy) were determined based on attainment of a combination of 20% consolidated financial performance and 80% business unit financial performance.

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Based on the 2014 MICP payout structure, eligible named executive officers had the following bonus opportunities:

Executive	Threshold Bonus Opportunity (as a % of Base Salary)	Target Bonus Opportunity (as a % of Base Salary)	Maximum Bonus Opportunity (as a % of Base Salary)
Mr. Isaacs[(1)]	35.0%	100.0%	200.0%
Mr. D. Kennedy	35.0%	100.0%	200.0%
Mr. Schweinfurth	26.3%	75.0%	150.0%
Mr. Lipkin	26.3%	75.0%	150.0%
Mr. J. Kennedy	26.3%	75.0%	150.0%
Mr. Beason	23.3%	66.7%	133.0%
Mr. Potts	23.3%	66.7%	133.0%
Mr. Huntley	26.3%	75.0%	150.0%
Mr. Tomback	23.3%	66.7%	133.0%

(1) Based on Mr. Isaacs' hire date with the Company of June 9, 2014, his bonus was pro-rated based on the proportion of 2014 for which he was employed by the Company.

As shown below, our budgeted results for 2014 revenue, attributable EBITDA, and AEBITDA less CapEx for MICP purposes increased significantly relative to 2013 actual results for MICP purposes due to the addition of WMS results in the Company's budgeted goals for the MICP for 2014. The actual results generated for MICP purposes for 2014 represented achievement of 88.8%, 84.3% and 83.5%, respectively, of our budgeted 2014 financial goals. Since no payout was earned if results for a given performance metric fell below 88% of budget, a payout was only earned based on performance achievement for revenues. Therefore, the overall 2014 annual bonuses paid to our eligible named executive officers with Company-wide responsibilities represented only 12.4% of their target annual bonus opportunities.

	2013	2014					
	MICP Results	Reported Results[(1)]	88% Budget Achievement (35% payout)	100% Budget Achievement (70% payout)	MICP Results[(1)]	2014 MICP Results (as a % of 100% Budget Achievement)	Actual Payout (as a % of Target Bonus Opportunity)
Revenue	$ 947.3	$ 1,786.4(2)	$ 1,621.0	$ 1,841.0	$ 1,634.2(2)	88.8%	37.1%
Attributable EBITDA	$ 350.8	$ 556.4(3)	$ 553.0	$ 627.0	$ 528.7(3)	84.3%	0.0%
AEBITDA Less CapEx	$ 210.7	$ 318.1(4)	$ 283.0	$ 321.0	$ 268.0(4)	83.5%	0.0%
Total:							12.4%

(1) The 2014 revenue, attributable EBITDA and AEBITDA less CapEx amounts for MICP purposes were less than the revenue, attributable EBITDA and AEBITDA less CapEx amounts reported in our earnings release dated March 11, 2015, primarily due to the exclusion of Bally results post acquisition in calculating MICP results. Attributable EBITDA is a non-GAAP financial measure and is reconciled to the GAAP measure of net loss in the supplemental tables provided in the Company's earnings release filed in the 8-K on March 11, 2015.

(2) 2014 revenue for MICP purposes excluded approximately $151.5 million of revenue from Bally (representing the 40 days during 2014 following the acquisition).

(3) 2014 attributable EBITDA for MICP purposes (a) excluded approximately $62.7 million of attributable EBITDA from Bally (representing the 40 days during 2014 following the acquisition), (b) included approximately $35.0 million of addbacks allowed ($32.0 million of which was pursuant to the Company's credit agreements and the balance approved by the Committee) for MICP which were not reflected in our reported results.

(4) AEBITDA less CapEx for MICP purposes excluded approximately $14.4 million of capital expenditures by Bally.

For Mr. Huntley's 2014 bonus opportunity, 20% was based on consolidated revenue, attributable EBITDA and AEBITDA less CapEx and 80% was based on revenue, attributable EBITDA and AEBITDA less CapEx of a business unit comprised of our global gaming business. As shown below, the 2014 results of this business unit fell below 88% of budget for each performance measure and therefore no

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payout was earned for the 80% of his bonus opportunity that was determined by business unit results. Since this business unit did not earn a minimum payout on any performance measure, the Committee determined that no bonus payout would be earned for the component of the bonus opportunity based on consolidated financial results. This determination applied to all MICP participants in the business unit who had a component of their bonus opportunity based on consolidated financial results. Mr. Huntley therefore received no bonus payout in 2014 under the MICP.

	2014				2014	
	Reported Results[1]	**88% Budget Achievement (35% payout)**	**100% Budget Achievement (70% payout)[5]**	**MICP Results[1]**	**MICP Results (as a % of 100% Budget Achievement)**	**Actual Payout (as a % of Target Bonus Opportunity)**
Revenue	$ 806.4[2]	$ 749.0	$ 850.0	$ 657.0[2]	77.3%	0.0%
Attributable EBITDA	$ 291.7[3]	$ 311.0	$ 353.0	$ 252.1[3]	71.4%	0.0%
AEBITDA Less CapEx	N/R[4]	$ 145.0	$ 164.0	$ 74.0[4]	45.1%	0.0%
Total:						0.0%

(1) The 2014 revenue, attributable EBITDA and AEBITDA less CapEx amounts for MICP purposes were less than the revenue, attributable EBITDA and AEBITDA less CapEx amounts reported in our earnings release dated March 11, 2015, primarily due to the exclusion of Bally results post acquisition in calculating MICP results. Attributable EBITDA is a non-GAAP financial measure and is reconciled to the GAAP measure of net loss in the supplemental tables provided in the Company's earnings release filed in the 8-K on March 11, 2015.

(2) 2014 revenue for MICP purposes excluded approximately $148.6 million of revenue from Bally (representing the 40 days during 2014 following the acquisition).

(3) 2014 attributable EBITDA for MICP purposes (a) excluded approximately $63.2 million of attributable EBITDA from Bally (representing the 40 days during 2014 following the acquisition), (b) included approximately $16.1 million of addbacks allowed (either pursuant to the Company's credit agreements or otherwise approved by the Committee) for MICP which were not reflected in our reported results.

(4) Capital expenditures are not reported at the business unit level. For MICP purposes, AEBITDA less CapEx excluded approximately $14.0 million of capital expenditures by Bally.

(5) Based on performance of the global gaming business unit over the first six months of 2014, there was little likelihood of earning any bonus payout against full-year budgeted goals. Consequently, in July 2014, the Committee approved revised revenue, attributable EBITDA and AEBITDA less CapEx MICP target numbers for this business unit for the second half of 2014. The revised MICP target numbers were intended to continue to motivate bonus plan participants by providing them the opportunity to earn half of their bonus opportunity based on performance goals for the last six months of the year. No bonus payouts were earned under these revised MICP numbers, and performance achievement in the table represents original full-year budgeted goals approved by the Committee.

For Mr. J. Kennedy's 2014 bonus opportunity, 20% was based on consolidated revenue, attributable EBITDA and AEBITDA less CapEx and 80% was based on revenue, attributable EBITDA and AEBITDA less CapEx of a business unit comprised of our global lottery business. As shown below, this business unit achieved 98.4%, 97.5% and 104.3% of budgeted goals for revenue, attributable EBITDA and AEBITDA less CapEx, respectively, and earned an actual overall payout of 77.0% of target bonus opportunity for the component of Mr. J. Kennedy's bonus based on business unit performance

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achievement. When combined with the 20% of his bonus opportunity determined by consolidated financial results, the 2014 total payout to Mr. J. Kennedy was 64% of his target bonus opportunity.

	2014 Reported Results[1]	88% Budget Achievement (35% payout)	100% Budget Achievement (70% payout)[5]	MICP Results[1]	2014 MICP Results (as a % of 100% Budget Achievement)	Actual Payout (as a % of Target Bonus Opportunity)
Revenue	$ 835.5	$ 748.0	$ 849.0	$ 835.5	98.4%	65.3%
Attributable EBITDA	$ 332.9(2)	$ 318.0	$ 360.0	$ 351.6(2)	97.7%	62.7%
AEBITDA Less CapEx	N/R(3)	$ 254.0	$ 288.0	$ 300.4(3)	104.3%	102.9%
Total:						77.0%

(1) The attributable EBITDA amount for MICP purposes was less than the attributable EBITDA amount reported in our earnings release dated March 11, 2015, primarily due to the exclusion of Bally results post-acquisition in calculating MICP results. Attributable EBITDA is a non-GAAP financial measure and is reconciled to the GAAP measure of net loss in the supplemental tables provided in the Company's earnings release filed in the 8-K on March 11, 2015.

(2) 2014 attributable EBITDA for MICP purposes included approximately $18.5 million of addbacks allowed (either pursuant the Company's credit agreements or otherwise approved by the Committee) for MICP which were not reflected in our reported results.

(3) Capital expenditures are not reported at the business unit level.

Based on the consolidated and relevant business unit financial performance described above, the Committee approved MICP cash bonuses for 2014 for the eligible named executive officers as shown below:

Executive	Bonus Award	Award as a % of Target Bonus	Award as a % of Salary
Mr. Isaacs[1]	$ 108,512	12.4%	7.2%
Mr. D. Kennedy[1]	$ 0	0%	0%
Mr. Schweinfurth	$ 61,003	12.4%	9.0%
Mr. Lipkin[1]	$ 24,046	12.4%	4.4%
Mr. J. Kennedy	$ 327,343	64.0%	48.5%
Mr. Beason	$ 40,807	12.4%	8.0%
Mr. Potts	$ 41,359	12.4%	8.3%
Mr. Huntley[2]	$ 0	0%	0%
Mr. Tomback[3]	$ 0	0%	0%

(1) The amount for Messrs. Isaacs and Lipkin represented a pro rata portion of the 2014 bonus based on a partial year of service. Although Mr. D. Kennedy was eligible for a pro rata portion of his 2014 bonus pursuant to the terms of his separation agreement, Mr. D. Kennedy waived his right to receive a 2014 cash bonus.

(2) Based on financial results of the Gaming group (excluding Bally), threshold performance was not achieved and thus no MICP cash bonuses were paid to employees of the Gaming group (excluding Bally), including Mr. Huntley.

(3) Mr. Tomback was not entitled to a pro rata 2014 bonus following his termination of employment with the Company in September 2014.

Bally Acquisition Bonuses

Four named executive officers (Messrs. Isaacs, Schweinfurth, Beason and Potts) contributed substantially to the Bally acquisition and were awarded separate discretionary cash bonus payments for

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2014 approved by the Committee, in recognition of their contributions. The Bally acquisition bonuses paid to the named executive officers are reflected in the table below:

Executive	Bonus Award	Award as a % of Salary
Mr. Isaacs	$ 641,488	43%
Mr. Schweinfurth	$ 363,997	54%
Mr. Beason	$ 134,193	26%
Mr. Potts	$ 183,641	37%

Annual Equity Awards

The Company's executive officers receive long-term incentive compensation awards, such as stock options and RSUs, which link their compensation with the long-term performance of the Company, align their interests with stockholders and encourage long-term service. Under the current equity award opportunity guidelines, eligible executives have a target annual equity award opportunity equal to a designated percentage of their base salary (with the actual award determined on or prior to the grant date, in the discretion of the Committee). As in prior years, the target equity award opportunity for 2014 was based on the participant's annual bonus opportunity, as shown below for the named executive officers eligible for a 2014 award:

Executive	Target Annual Bonus Opportunity for 2014 (Value as a % of Salary)	Target Equity Award Opportunity for 2014 (Value as a % of Salary)
Mr. Isaacs	100%	(1)
Mr. D. Kennedy	100%	(1)
Mr. Schweinfurth	75.0%	(1)
Mr. Lipkin	75.0%	125%
Mr. J. Kennedy	75.0%	125%
Mr. Beason	66.7%	95%
Mr. Potts	66.7%	95%
Mr. Huntley	75.0%	125%
Mr. Tomback	66.7%	95%

(1) Messrs. Isaacs, Schweinfurth and D. Kennedy received sign-on equity grants in June 2014, April 2014 and December 2013, respectively, in lieu of annual grants for 2014, each scheduled to vest over a period of four years from their respective grant date.

In 2014, the Committee awarded 25% of the value of the annual equity award for the above named executive officers in the form of stock options and 75% of the value in the form of RSUs. The mix of equity vehicles, which is weighted more heavily towards RSUs than stock options, reflects the Committee's objective to preserve shares available under the 2003 Plan. The stock options and RSUs are scheduled to vest over a period of four years, with the RSUs subject to the satisfaction of financial performance criteria for 2014.

In the interest of preserving available shares under the 2003 Plan, the Committee has in recent years employed a practice under which annual equity awards have been reduced below an executive's target equity award opportunity. Award values were reduced by 10% in 2014, following reductions of 50% and 30%, respectively, in 2012 and 2013. The assumption of shares into the 2003 Plan as a result of the WMS and Bally acquisitions has alleviated share availability concerns.

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In 2014, the named executive officers listed below received an annual equity award consisting of stock options and RSUs based on their equity award opportunity and the discretionary reduction described above. Information regarding these equity awards is set forth below:

Executive	Date of Grants	Stock Options	Exercise Price	Time Vested RSUs	Performance Conditioned RSUs	Vesting Schedule of Awards
Mr. Schweinfurth	03/20/2014	10,679	$ 16.03	17,641		4 years
Mr. Lipkin	03/20/2014	19,914	$ 16.03		32,897	4 years
Mr. J. Kennedy	03/20/2014	21,506	$ 16.03		35,529	4 years
Mr. Beason	03/20/2014	11,745	$ 16.03		19,401	4 years
Mr. Potts	03/20/2014	12,108	$ 16.03		20,001	4 years
Mr. Huntley	03/20/2014	22,305	$ 16.03		36,844	4 years
Mr. Tomback	03/20/2014	15,739	$ 16.03		26,002	4 years

The performance-conditioned RSUs awarded to the eligible named executive officers in 2014 were subject to achievement of at least 90% of the budgeted 2014 financial performance criteria (i.e., revenue of at least $1,657 million, attributable EBITDA of at least $564 million or AEBITDA less CapEx of at least $289 million). In March 2015, the Committee determined that the performance condition had not been met, resulting in the forfeiture of 100% of the performance-conditioned RSUs granted on March 20, 2014, except for the RSUs granted to Mr. Tomback, which were previously forfeited in connection with his termination of employment. At the time of grant, Mr. Schweinfurth was not an executive officer of the Company, and therefore, his awards were not made subject to the achievement of performance criteria. One-fourth of Mr. Schweinfurth's RSUs vested on March 20, 2015, and the remaining RSUs will vest in equal installment on March 20, 2016, 2017 and 2018, provided Mr. Schweinfurth remains in continuous employment with the Company through the applicable vesting dates.

Sign-On and Special Equity Awards Granted in 2014

As discussed above under "CEO Succession," Mr. Isaacs received a sign-on equity award of 161,181 stock options and 85,935 RSUs, each subject to a four-year vesting schedule, in connection with his appointment as President and Chief Executive Officer in June 2014. The award has an approximate grant date fair value of $1.5 million. The sign-on stock options have an exercise price of $8.73 per share, representing the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date.

In January 2014, Mr. Beason received 7,000 RSUs with a four-year vesting schedule in connection with his assumption of additional duties for, and an expanded role with, the Company as Enterprise Chief Technology Officer. Mr. Schweinfurth received 33,650 RSUs with a four-year vesting schedule in connection with his appointment as Executive Vice President and Chief Financial Officer in April 2014.

Special Performance-Conditioned Equity Awards

In February 2012, the Company granted approximately 494,000 RSUs to certain senior executives (including 65,000 RSUs to Mr. J. Kennedy, 55,000 RSUs to Mr. Beason and 78,597 to Mr. Lipkin), which awards are scheduled to vest at the rate of 25% per year, but only if the Company's "adjusted EBITDA"

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for a particular year equals or exceeds the adjusted EBITDA targets shown below, with the actual vesting date to be March 15 of the following year, assuming the target is met:

Year	Adjusted EBITDA Target
2012	$ 354 million
2013	$ 399 million
2014	$ 448 million
2015	$ 504 million

The targets reflect an annual growth rate of approximately 12.5% over the four-year performance period. The portion of the performance-conditioned equity awards linked to 2012, 2013 and 2014 performance did not vest, as the Company's adjusted EBITDA during such years was less than the applicable targets. "Adjusted EBITDA" for purposes of the special performance-conditioned RSUs is not the same as the attributable EBITDA metric for purposes of the Company's credit agreement or the MICP, or the attributable EBITDA metric reported in the Company's earnings releases. The Adjusted EBITDA targets are neither a projection made by the Company nor indicative of the Company's future financial performance.

Vesting of the special performance-conditioned RSUs is also subject to certain "carryover" vesting provisions intended to provide the senior executives with continued incentives if these challenging performance targets are achieved in later years than those specified above. If an Adjusted EBITDA target for a particular year is achieved in a later year, then the carryover RSUs with respect to such Adjusted EBITDA target will vest; provided that, if the Adjusted EBITDA target for that year is not achieved, then only one-half of the carryover RSUs will vest, with the remainder vesting, if at all, in the first year in which the Adjusted EBITDA target for that year is achieved.

In the event the aggregate consideration paid by the Company in connection with acquisitions in any year exceeds $75 million (as such threshold may be increased to the extent that acquisitions in prior years did not exceed such annual threshold), the incremental EBITDA resulting from each such acquisition will be included in adjusted EBITDA subject to reduction during each applicable year by: (1) the annual interest cost for such year on the proceeds of any debt used to finance any such acquisition; provided that, in any year subsequent to the year of such acquisition, such debt shall be deemed to be repaid (and, accordingly, such interest cost will be appropriately reduced) in an amount equal to the free cash flow generated by the Company in the immediately preceding year that is attributable to such acquisition; (2) a "deemed" annual interest cost on any equity used as consideration to make such acquisition; and (3) an amount equal to the capital expenditures of the relevant business during the four quarters prior to the acquisition.

Assumption of Legacy Bally Shares

In connection with the Bally acquisition, we assumed certain shares under the 2003 Plan from the legacy Bally equity plan. We were entitled under applicable NASDAQ rules to assume approximately 16 million shares for future awards to Bally employees. However, in order to reduce potential dilution, the Committee and the Board assumed only 4.8 million shares (1.4 million shares of which related to outstanding awards under the Bally plan and 3.4 million shares of which related to the issuance of future equity awards).

At the annual meeting, we are seeking stockholder approval of an amendment and restatement of, and re-approval of certain material terms of, the 2003 Plan in order to, respectively, (1) simplify administration of our equity compensation programs by consolidating shares assumed under the legacy Bally equity compensation plan with the pre-existing shares under the 2003 Plan and subjecting them to the same terms, (2) make the legacy Bally shares available for employees across the combined company (and not just Bally employees) and (3) permit the Company to continue to have the ability to grant awards to

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the Company's named executive officers that will be tax deductible. The proposed amendment and restatement of, and re-approval of certain material terms of, the 2003 Plan would not increase the aggregate number of shares available for awards under the 2003 Plan. See "Proposal 2: Approval of Amended and Restated 2003 Incentive Compensation Plan."

Retirement Plans

Executive officers are eligible to participate in our 401(k) retirement plan under the same rules that apply to other employees. Under the plan, eligible employees of the Company and our U.S. subsidiaries may elect to defer a percentage of their compensation each year subject to plan limits and caps imposed by the Internal Revenue Service ("IRS") (maximum contributions of $17,500 for 2014 (up to $23,000 if over age 50)). The Company made a matching contribution of 37.5% on the first 6% of participant contributions (for a match of up to 2.25% of eligible compensation). For Mr. Schweinfurth, who was covered under the WMS benefit programs for 2014, the Company made a matching contribution of 100% on the first 3% of his contributions and 50% of the next 3% of his contributions (for a match of up to 4.5% of eligible compensation).

We also have a non-qualified deferred compensation plan that enables executive officers and other eligible employees to defer receipt of up to 50% of their base salary and up to 100% of their annual bonus under the MICP during their employment or for certain specified minimum deferral periods. The Company does not make any matching or profit sharing contributions under this plan. Accounts are maintained for participants, who elect to have their deferrals mirror the performance of investment options that we may offer from time to time. Although we have established a rabbi trust to assist us in meeting our obligations under the plan, account balances under the plan are unsecured under the rules of the IRS and remain part of the Company's general assets until distributed to the participants. The value of a participant's account balance is based solely on the participant's deferrals and the investment return on such deferrals given the performance of the investment options that they select. We do not guarantee any minimum return on those investments.

Certain Corporate Governance Policies

Stock Ownership Guidelines

The Committee approved stock ownership guidelines requiring our senior executives (including the named executive officers) and non-employee directors to acquire and maintain a meaningful ownership interest in the Company. These guidelines are intended to encourage a long-term perspective in managing the Company and to further align the interests of our senior executives with the interests of our stockholders. Covered individuals are required to own shares of our common stock with a market value equal to the lesser of a specified multiple of annual salary (or in the case of non-employee directors, annual retainer for Board service) and a minimum number of shares. The required stock ownership interest varies based on position, as shown in the table below. Shares of our common stock held directly or indirectly, including shares acquired upon the exercise of stock options, shares held within retirement and deferred compensation plans, time-vesting RSUs and shares owned by immediate family members will count for purposes of the policy, whereas outstanding (vested or unvested) stock options and performance-conditioned RSUs will not count. Covered individuals will have five years to comply from the later of the effective date of the policy and the date the individual became subject to the policy or to an increased level under the policy. We expect covered individuals who do not meet the ownership requirements to retain at least 50% of the shares of our common stock that vest or are acquired upon exercise of stock options until the ownership requirements are met.

Job Level	Minimum Required Ownership Interest
Chief Executive Officer	Lesser of five times annual salary or 475,000 shares
Group Chief Executives and Chief Financial Officer	Lesser of two times annual salary or 70,000 shares
Other Direct Reports to Chief Executive Officer	Lesser of annual salary or 25,000 shares

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The following table summarizes the ownership of our named executive officers against these guidelines as of December 31, 2014 (excluding named executive officers who are former employees of the Company and no longer subject to such guidelines).

Name	Ownership Requirement (Multiple of Annual Salary)	Ownership Requirement (# of Shares/ Units)	Current Ownership (Multiple of Annual Salary)	Current Ownership (# of Shares/ Units)
Mr. Isaacs	5.0x	475,000	0.73x	85,935
Mr. Schweinfurth	2.0x	70,000	2.22x	117,485
Mr. J. Kennedy	2.0x	70,000	3.10x	164,578
Mr. Beason	1.0x	25,000	3.20x	128,272
Mr. Potts	1.0x	25,000	3.67x	144,259

Clawback Policy

The Committee and the Board approved a cash and equity compensation "clawback" policy. Under the policy, the Committee may, in its discretion, take any one or more of the following actions in the event of a restatement of our financial statements that the Committee determines was due to an executive's fraud or gross misconduct:

- cancel the executive's outstanding incentive compensation awards (defined as annual cash bonus and equity compensation, whether or not vested);
- disqualify the executive from receiving future incentive compensation awards;
- recoup incentive compensation paid or awarded to the executive from and after the date that is one year before the events giving rise to the restatement were discovered; and/or
- recoup the executive's gains from the sale of shares awarded as incentive compensation or the exercise of stock options from and after the date that is one year before the events giving rise to the restatement were discovered.

No Hedging Policy

The Committee also approved a policy prohibiting employees and non-employee directors from hedging or engaging in similar transactions designed to protect against declines in the market price of our common stock. In particular, employees and directors may not:

- purchase or sell options (*e.g.*, puts, calls and collars) relating to our securities;
- purchase or sell other derivative securities designed to hedge or offset any decrease in the market value of our securities; or
- engage in short sales of Company stock.

Peer Group

During 2013, in light of the expected significant impact of the WMS acquisition on the scope of our operations and on our revenue and attributable EBITDA, the Committee asked CAP to conduct a review of the companies comprising the Company's peer group for purposes of comparing executive and non-employee director compensation. Prior to this review, the Company's peer group included Bally Technologies, Inc., Boyd Gaming Corporation, International Game Technology, Penn National Gaming, Inc., Pinnacle Entertainment, Inc., WMS, Affiliated Computer Services, Inc., Fiserv, Inc., Mentor Graphics Corporation, Quest Software, Inc. and Verisign, Inc.

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In connection with its review of potential peer group companies, CAP considered revenue, market capitalization, industry and business. CAP also considered the peer groups used by certain proxy advisory services and the peer group previously used by WMS. Based on this review, CAP recommended, and the Committee approved, a peer group comprised of Bally Technologies, Inc., Boyd Gaming Corporation, International Game Technology, Penn National Gaming, Inc. and Pinnacle Entertainment, Inc., all of which were in the prior peer group, as well as Isle of Capri Casinos Inc., Electronic Arts Inc., Zynga Inc., Geo Group Inc., Cardtronics Inc., MICROS Systems Inc., Alliance Data Systems Corp. and Global Payments Inc. The Company's projected revenue for 2014 (giving effect to the WMS acquisition) was slightly above the 50th percentile of the revised peer group. As a result of the Company's acquisition of Bally in late 2014, the Committee again asked CAP to revise its peer group to give effect to that transaction, but a revised peer group to be used for 2015 and beyond has not yet been approved by the Committee.

As a general matter, the Committee uses peer group compensation data as a general indicator of relevant market conditions, but does not set specific benchmark targets for total executive compensation or for individual elements of executive compensation.

Role of Management

The Committee works directly with our Chief Human Resources Officer on our executive compensation program and receives recommendations from the Chief Executive Officer and other senior management regarding the compensation of executive officers, other than with respect to the applicable executive's own compensation. The Committee has the authority to follow these recommendations or make different determinations in its sole discretion.

Role of Compensation Consultant

The Committee has the sole authority to select and retain outside compensation consultants or any other consultants, legal counsel or other experts to provide independent advice and assistance in connection with the execution of its responsibilities. The Committee has engaged CAP to provide such independent advice.

At the Committee's request, CAP assisted the Committee during 2014 by:

- attending scheduled meetings of the Committee and providing advice and context on matters discussed in the meetings;
- as discussed above, reviewing and recommending updates to our compensation peer group in light of the impact of the Bally acquisition on the size and scope of our operations;
- conducting a competitive compensation review with respect to senior executives and non-employee directors, including in connection with our Chief Executive Officer succession;
- advising on long-term incentive programs generally, as well as on alternatives to historical equity grant practices in light of the limited availability of shares under our equity incentive plans;
- advising the Committee on legal and regulatory developments regarding compensation committee independence and compensation committee consultant independence;
- advising on certain policies, including policies relating to stock ownership guidelines, compensation clawback and hedging prohibitions;
- advising on the design of annual incentives under the MICP; and

assisting in the review of the Company's compensation policies and practices, with a focus on incentive programs, from a risk management perspective.

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CAP generally attends meetings of the Committee, is available to participate in executive sessions and communicates directly with the Committee's chairman or its other members outside of meetings. CAP was retained by and reports directly to the Committee, which determines the scope of requested services and approves fee arrangements for its work, and does not provide any other services to, or receive any other fees from, the Company.

In July 2014, the Committee reviewed the independence of CAP in light of the criteria set forth in the final rules relating to compensation consultant independence that were issued by the SEC in June 2012. Based on this review, the Committee determined that no conflicts of interest exist that interfere with the independence of CAP and is satisfied that CAP is fully able to provide to the Committee independent advice regarding executive and director compensation.

Compensation Program as it Relates to Risk

The Company's management and the Committee, with the assistance of CAP, periodically review the Company's compensation policies and practices, focusing particular attention on incentive programs, so as to ensure that they do not encourage excessive risk taking by the Company's employees. Specifically, this review includes the cash and equity components of the MICP (in which executives generally participate) and the Company's business unit bonus and commission plans (in which other employees participate). As discussed below, the cash bonus programs are generally designed to reward achievement of annual results when measured against performance metrics, whereas the equity incentive program is designed to link a portion of compensation to long-term Company performance. Management and the Committee do not believe that the Company's compensation programs create risks that are reasonably likely to have a material adverse impact on the Company for the following reasons:

- our incentive programs appropriately balance short- and long-term incentives, with a significant percentage of total compensation for the senior executive team provided in the form of incentive compensation focused on the Company's long-term performance;

- the MICP and many of our business unit plans (which often "mirror" the MICP) use multiple financial performance metrics that encourage executives and other employees to focus on the overall health of the business rather than on a single financial measure;

- a qualitative assessment of individual performance is generally a component of individual compensation payments;

- cash bonuses under the MICP and business unit plans are generally capped;

- as discussed above, the Committee approved stock ownership guidelines applicable to senior executives and non-employee directors, a clawback policy with respect to cash and equity incentive compensation, and a prohibition on hedging our stock;

- executive officers and certain other key employees with access to material nonpublic information must obtain permission from the Company's General Counsel to trade in shares of our common stock, even during an open trading period;

- Board and management processes are in place to oversee risk associated with the MICP and business unit plans, including periodic business performance reviews by management and regular bonus accrual updates to the Committee; and

- the Company's risk management processes including the Company's enterprise risk management program, Code of Business Conduct (and related training), strong ethics and compliance function that includes suitability reviews of customers and other persons and entities with which the Company does business, internal approval processes and legal department review of contracts mitigate the potential for undue risk-taking.

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Employment Agreements; Severance and Change in Control Arrangements

We have entered into employment agreements with our executive officers. The agreements specify duties and minimum compensation commitments. The agreements also provide for severance benefits in certain circumstances and impose restrictive covenants that relate to, among other things, confidentiality and competition. The Committee believes that employment agreements with our executive officers are desirable as a means to attract executive talent, to encourage long-term service, to obtain a measure of assurance as to the executive's continued employment in light of prevailing market competition, to impose the restrictive covenants described above and, where practicable, to provide comparable severance and other terms and conditions to similarly situated executives.

The severance protection provided under employment agreements assists the Company in attracting and retaining executives and is designed to ease an executive's transition in the event of an unexpected termination by the Company due to changes in the Company's employment needs. Severance provisions that are included in the agreements do not generally enhance an employee's current income, and therefore are generally independent of the direct compensation decisions made by the Committee from year to year.

The employment agreements with our named executive officers provide for enhanced severance payments if the named executive officer's employment is terminated in connection with a change in control (as defined in the employment agreements). The Committee views these enhanced severance provisions as appropriate because they encourage executives to remain focused on the Company's business in the event of rumored or actual fundamental corporate changes, allow executives to assess potential change in control transactions objectively without regard to the potential impact on their own job security and are not triggered in connection with a change in control unless an executive's employment is terminated without "cause" or the executive terminates for "good reason" within certain timeframes.

The Company has change in control provisions in its equity incentive plans such that unvested stock options, RSUs and other equity awards would generally accelerate upon a change in control (as defined in the plans). These provisions apply to all plan participants. The Committee believes that these provisions are appropriate given that an employee's position could be adversely affected by a change in control even if he or she is not terminated.

We entered into new employment agreements in 2014 with Messrs. Isaacs and Schweinfurth in connection with the assumption of their new roles as Chief Executive Officer and Chief Financial Officer, respectively. As result of Mr. Beason's expanded role with the Company in 2014 as Enterprise Chief Technology Officer, the Company entered into a new employment agreement with him. In addition, the Company also extended the employment agreement with Mr. Potts through 2015 pursuant to a letter agreement. The Company also entered into separation agreements with four departing named executive officers (Messrs. D. Kennedy, Lipkin, Huntley and Tomback). For additional information regarding these employment and severance agreements, see "Potential Payments Upon Termination or Change in Control" below.

Tax Deductibility of Executive Compensation

In implementing the Company's compensation programs, the Committee's general policy is to consider any significant effects of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), which limits a public company's tax deduction for certain compensation in excess of $1.0 million paid to the chief executive officer and certain of the other highest paid executive officers. The Committee has taken steps so that annual bonuses under the MICP as well as stock options and RSUs granted to senior executive officers may be eligible to qualify as "performance-based" compensation, which is excluded from the $1.0 million deductibility cap imposed under Section 162(m). Some forms of compensation, however, such as salary, guaranteed minimum bonuses and RSUs awarded without performance-based vesting conditions do not qualify for tax deductibility in aggregate amounts in excess of $1.0 million per year. While the Committee generally seeks to take advantage of favorable tax treatment in implementing the Company's executive compensation programs, the Committee has authorized and may in the future authorize compensation that does not qualify for tax deductibility in circumstances in which the Committee believes it is necessary or appropriate to give priority to other objectives of the Company.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with the Company's management. Based on that review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K.

Compensation Committee

Peter A. Cohen, Chairman
Paul M. Meister
Barry F. Schwartz

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Summary Compensation Table

The table below shows the compensation of our President and Chief Executive Officer, our former President and Chief Executive Officer, our Chief Financial Officer, our former Chief Financial Officer, the other three most highly compensated executive officers who were serving as executive officers on December 31, 2014, and two former executive officers who would have been among our three most highly compensated executive officers but were no longer serving as executive officers as of December 31, 2014. These nine individuals are the named executive officers for 2014.

Name and Principal Position	Year	Salary ($)	Bonus ($)[1]	Stock Awards ($)[2]	Option Awards ($)[3]	Non-Equity Incentive Plan Compensation ($)[4]	All Other Compensation ($)[5]	Total ($)
M. Gavin Isaacs President and Chief Executive Officer	2014	853,846	641,488	750,213	755,020	108,512	5,192	3,114,271
David L. Kennedy[6] Former President and Chief	2014	831,923						831,923
Executive	2013	183,908		2,656,500				2,840,408
Officer	2012	168,582						168,582
Scott D. Schweinfurth Executive Vice President and Chief Financial Officer and Corporate Secretary	2014	658,766	363,997	749,511	94,626	61,003	11,700	1,939,603
Jeffrey S. Lipkin[7]	2014	259,615		527,339	176,457	24,046	604,729	1,592,186
Former Senior Vice President and	2013	550,000		737,192		213,886	5,738	1,506,816
Chief Financial Officer	2012	541,365		1,357,786		304,258	5,625	2,209,034
James C. Kennedy Executive Vice President, Group	2014	675,000		569,530	190,564	327,343	5,850	1,768,286
Chief	2013	560,000		760,842		290,611	5,738	1,617,191
Executive of Lottery	2012	485,000		1,142,956		272,466	5,625	1,906,047
Steven W. Beason[8] Enterprise Chief Technology	2014	495,327	134,193	421,108	104,072	40,807	5,850	1,201,357
Officer	2013	485,000	11,404	541,496		197,152	5,738	1,240,790
	2012	485,000		1,016,756		272,466	5,625	1,779,847
Larry A. Potts[9] Sr. Vice President, Chief Compliance Officer and Corporate Director of Security	2014	500,000	183,641	320,616	107,288	41,359	5,639	1,158,543
William J. Huntley[10]	2014	700,000		590,609	197,643		5,850	1,494,103
Former Executive Vice President,	2013	650,000		1,212,717		314,968	5,738	2,183,423
Group Chief Executive Gaming	2012	575,000		382,525		342,603	5,625	1,305,753
Andrew E. Tomback[11]	2014	487,500		416,812	139,462		775,000	1,818,775
Former Senior Vice President and General Counsel	2013	54,789		1,771,000	2,018,450			3,844,239

(1) The amounts in the "bonus" column for 2014 reflect discretionary cash bonus payments made to reward the applicable named executive officers for their contributions to close the Bally acquisition. See the "Bally Acquisition Bonuses" section of the CD&A for additional information.

(2) The amounts in the "stock awards" column reflect the aggregate grant date fair value of RSUs awarded during the applicable year to the named executive officers, computed in accordance with FASB ASC Topic 718. The fair value of the RSUs was determined by multiplying the number of shares subject to the award by the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date. For a discussion of valuation assumptions, see Note 18 to our consolidated financial statements included in our annual report on Form 10-K for the year

ended December 31, 2014. Where applicable, the value of performance-conditioned RSUs has been calculated assuming target level performance, which provides for the maximum payout possible with respect to such RSUs.

(3)

The amounts in the "option awards" column reflect the aggregate grant date fair value of the stock options awarded during the applicable year to the named executive officers, computed in accordance with FASB ASC Topic 718. The fair value of the stock options is estimated on the date of grant using the Black-Scholes option pricing model. For a discussion of valuation assumptions, see Note 18 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014.

(4)

The amounts in the "non-equity incentive plan compensation" column reflect the annual performance bonuses awarded under the MICP. For 2013, 50% of the bonus amounts reflected in the table above for Messrs. Lipkin, J. Kennedy, Beason and Huntley were awarded in the form of RSUs (in lieu of cash), such RSUs are scheduled to vest over two years at the rate of 25% every six months. The amounts shown in the table for 2013 constitute 100% of the value of the 2013 bonuses. The number of

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RSUs awarded in respect of 50% of the 2013 bonuses for Messrs. Lipkin, J. Kennedy, Beason and Huntley was determined by dividing 50% of the total bonus amount by the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date of March 14, 2014, rounded down to the nearest whole share, which resulted in a grant of 6,577 RSUs to Mr. Lipkin, 8,936 RSUs to Mr. J. Kennedy, 6,062 RSUs to Mr. Beason and 9,685 RSUs to Mr. Huntley.

(5) The amounts indicated in the "all other compensation" column for 2014 include the following:

(a) Company contributions to a 401(k) plan for Messrs. Isaacs ($5,192), Schweinfurth ($11,700), Lipkin ($5,638), J. Kennedy ($5,850), Beason ($5,850) and Potts ($5,639).

(b) Severance amounts paid in 2014 to Messrs. Lipkin ($536,110) and Tomback ($775,000), in accordance with the terms of their separation agreements.

(c) For Mr. Lipkin, a transition bonus of $12,500 and a payout of $50,481 for accrued but unused vacation, in accordance with the terms of his separation agreement.

(6) Mr. D. Kennedy served as Chief Executive Officer until June 2014 and as Executive Vice Chairman of the Board until August 2014. Effective August 1, 2014, Mr. D. Kennedy is no longer an executive officer of the Company and continues to serve as Vice Chairman of the Board in a non-employee capacity.

(7) Mr. Lipkin ceased serving as Senior Vice President and Chief Financial Officer in April 2014 and as an employee in May 2014.

(8) Mr. Beason was not a named executive officer for 2013, but was a named executive officer for 2012. As such, information for all three years is disclosed in accordance with SEC rules.

(9) Mr. Potts was not a named executive officer in 2012 and 2013. Mr. Potts' current position is Senior Vice President, Chief Compliance Officer and Corporate Director of Security.

(10) Mr. Huntley ceased serving as an executive officer of the Company in November 2014 and as an employee in December 2014.

(11) Mr. Tomback ceased serving as Senior Vice President and General Counsel in September 2014.

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Grants of Plan-Based Awards for Fiscal Year 2014

The table below provides information regarding the performance bonuses, stock options and RSUs granted to the named executive officers during 2014.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards ($)[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Target (#)	(#)[3]	(#)[4]	($/Sh)[5]	($)[6]
M. Gavin Isaacs		306,250	875,000	1,750,000					
	06/09/2014					85,935			750,213
	06/09/2014						161,181	8.73	755,020
David L. Kennedy		465,740	1,330,685	2,661,370					
Scott D. Schweinfurth		172,167	491,907	983,814					
	03/20/2014					17,641			282,785
	03/20/2014						10,679	16.03	94,626
	04/01/2014					33,650			466,726
Jeffrey S. Lipkin		164,063	468,750	937,500					
	03/20/2014				32,897				527,339
	03/20/2014						19,914	16.03	176,457
James C. Kennedy		177,188	506,250	1,012,500					
	03/20/2014				35,529				569,530
	03/20/2014						21,506	16.03	190,564
Steven W. Beason		115,169	329,053	658,107					
	01/14/2014					7,000			110,110
	03/20/2014				19,401				310,998
	03/20/2014						11,745	16.03	104,072
Larry A. Potts		116,725	333,500	667,000					
	03/20/2014				20,001				320,616
	03/20/2014						12,108	16.03	107,288
William J. Huntley		183,750	525,000	1,050,000					
	03/20/2014				36,844				590,609
	03/20/2014						22,305	16.03	197,643
Andrew E. Tomback		151,743	433,550	867,100					
	03/20/2014				26,002				416,812
	03/20/2014						15,739	16.03	139,462

(1) The amounts shown under the "estimated future payouts under non-equity incentive plan awards" column represent the performance cash bonus opportunity approved for 2014 for each of the named executive officers under the MICP. The actual amounts awarded under the program for 2014 are shown in the Summary Compensation Table above under the "non-equity incentive plan compensation" column. As discussed above, based on Mr. Isaacs' hire date with the Company of June 9, 2014, his bonus target was pro-rated at 58.3% for 2014.

(2) The amounts shown under the "estimated future payouts under equity incentive plan awards" column include the annual award of performance-conditioned RSUs granted under the MICP based upon each named executive officer's equity award opportunity for 2014 subject to a 10% discretionary reduction approved by the Committee. These awards vest over a period of four years subject to the satisfaction of minimum performance criteria for 2014 and are subject to accelerated vesting in certain circumstances under the applicable executive officer's employment agreement. In the event of performance below 90% of target, none of the RSUs will vest, and the awards do not provide an opportunity to earn

additional shares in the event of performance above 90% of target. The performance-conditioned RSUs granted to Mr. Tomback were forfeited in connection with his termination of employment, and the remaining performance-conditioned RSUs granted to the named executive officers were forfeited in early 2015 when the Compensation Committee determined that the performance criteria had not been met.

(3) The amounts shown under the "all other stock awards" column reflect sign-on RSU awards for Mr. Isaacs and special RSU awards to Messrs. Schweinfurth and Beason and Mr. Schweinfurth's annual RSU grant, which was not subject to performance conditions because Mr. Schweinfurth was not an executive officer of the Company at the time of the grant. For additional information regarding these awards, see "Compensation Discussion and Analysis Objectives and Components of Compensation Program Long-Term Incentive Compensation Sign-On and Special Equity Awards Granted in 2014."

(4) The amount shown under the "all other option awards" column for Mr. Isaacs reflects sign-on stock options that were granted to him upon his joining the Company.

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(5) The exercise price shown under the "exercise or base price of option awards" column represents the market value of our common stock on the grant date (which was calculated based on the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date).

(6) The amounts indicated as the "grant date fair value" of the awards were computed in accordance with FASB ASC Topic 718. In the case of RSUs, the fair value was determined by multiplying the number of shares subject to the award by the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date. In the case of stock options, the fair value of the stock options is estimated on the grant date using the Black-Scholes option pricing model. For a discussion of valuation assumptions, see Note 18 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014.

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Outstanding Equity Awards at Fiscal Year-End

The table below provides information with respect to the stock options and RSUs held by the named executive officers as of December 31, 2014.

		Option Awards					Stock Awards			
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)(1)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1)**
M. Gavin Isaacs	06/09/2014		161,181(2)		8.73	06/08/2024				
	06/09/2014						85,935(3)	1,093,953		
David L. Kennedy	01/04/2010						747(4)	9,509		
	03/22/2011	85,102(5)	28,368(5)		8.90	03/21/2021				
	03/22/2011						7,367(6)	93,782		
	06/05/2012						4,741(7)	60,353		
	06/04/2013						5,175(8)	65,878		
	12/05/2013						112,500(9)	1,432,125		
Scott D. Schweinfurth	09/25/2013						17,742(10)	225,856		
	11/25/2013						18,750(11)	238,688		
	03/20/2014		10,679(11)		16.03	03/20/2021				
	03/20/2014						17,641(13)	224,570		
	04/01/2014						33,650(14)	428,365		
Jeffrey S. Lipkin	03/20/2014								32,897(15)	418,779
James C. Kennedy	03/22/2011	25,297(5)	8,433(5)		8.90	03/21/2021				
	03/22/2011						4,380(6)	55,757		
	02/22/2012								65,000(16)	827,450
	02/22/2012						12,784(17)	162,740		
	01/01/2013						22,500(18)	286,425		
	03/25/2013						22,479(19)	286,158		
	12/20/2013						11,250(20)	143,213		
	03/14/2014						6,702(21)	85,316		
	03/20/2014		21,506(12)		16.03	03/20/2024				
	03/20/2014								35,529(15)	452,284
Steven W. Beason	03/22/2011	22,845(5)	7,616(5)		8.90	03/21/2021				
	03/22/2011						3,956(6)	50,360		
	02/22/2012								55,000(16)	700,150
	02/22/2012						12,784(17)	162,740		
	03/25/2013						19,468(19)	247,828		
	01/14/2014						7,000(22)	89,110		
	03/14/2014						4,547(21)	57,883		
	03/20/2014		11,745(12)		16.03	03/20/2024				
	03/20/2014								19,401(15)	246,975
Larry A. Potts	03/22/2011	24,489(5)	8,163(5)		8.90	03/21/2021				
	03/22/2011						4,240(6)	53,975		

	02/22/2012					12,375(17)	157,534		
	03/25/2013					18,846(19)	239,910		
	12/20/2013					7,500(20)	95,475		
	03/14/2014					4,192(21)	53,364		
	03/20/2014		12,108(12)	16.03	03/20/2024				
	03/20/2014							20,001(15)	254,613
William J. Huntley	03/22/2011	29,991(5)	9,998(5)	8.90	03/31/2016				
	03/22/2011					5,193(6)	66,107		
	08/16/2011	200,000(23)		9.98	03/31/2016				
	02/22/2012					15,156(17)	192,936		
	01/01/2013					37,500(18)	477,375		
	03/25/2013					26,091(19)	332,138		
	12/20/2013					22,500(20)	286,425		
	03/14/2014					7,264(21)	92,471		
	03/20/2014		22,305(12)	16.03	03/20/2024				
	03/20/2014							36,844(15)	469,024

(1) The value shown was calculated by multiplying the number of RSUs by the closing price of our common stock on December 31, 2014 ($12.73).

(2) These stock options are scheduled to vest and become exercisable in equal installments on each of the first four anniversaries of the date of grant.

(3) These RSUs are scheduled to vest in equal installments on each of the first four anniversaries of the date of grant.

(4) These RSUs were awarded with a five-year vesting schedule. The first, second, third and fourth installments vested on the first, second, third and fourth anniversaries of the date of grant. These RSUs were awarded to Mr. D. Kennedy in connection with his service as a non-employee director. On May 13, 2014, the balance of these RSUs vested upon a qualifying change in control, triggered when the Company's largest shareholder, MacAndrews & Forbes Incorporated, acquired shares of Class A common stock resulting in ownership exceeding 40% of such outstanding shares. Pursuant to an amendment to equity agreements that was entered into by Mr. D. Kennedy, shares that vested upon such a change in control were treated as follows: (a) one-half vested and were distributed immediately upon the change in control, and (b) one-half were subject to a transfer restriction, lapsing upon the earlier of the original vesting date or the director's termination as a result of death or disability and forfeited if the director terminated for any reason other than death or disability prior to the original vesting date. Therefore, while these shares were distributed on January 4, 2015, they are shown as unvested in the table above, which provides information as of December 31, 2014, due to the transfer restrictions and potential forfeiture of such awards.

(5) These stock options were awarded with a four-year vesting schedule. The first, second and third installments vested and became exercisable on the first three anniversaries of the date of grant, and the fourth installment vested and became exercisable on the fourth anniversary of the date of the grant (but is shown as unexercisable in the table above, which provides information as of December 31, 2014). In the case of Mr. D. Kennedy, pursuant to his agreement with the Company when he resigned as Chief Administrative Officer in March 2012, his unvested options at the time continued to vest per this vesting schedule. In the case of Mr. Huntley, the unvested options continued to vest per this vesting schedule and all vested options remain exercisable through the first 90 days of 2016 in accordance with the terms of his separation agreement.

(6) These RSUs were awarded with a four-year vesting schedule, subject to the satisfaction of minimum performance criteria for 2011. The first installment vested in March 2012 based on attainment of the 2011 performance goal, the second and third installments vested on the second and third anniversaries of the date of grant. On May 13, 2014, the balance of these RSUs vested upon the qualifying change in control as described in footnote (4). Pursuant to amendments to equity agreements that were entered into by Messrs. D. Kennedy, J. Kennedy, Beason, and Potts in April 2013, shares that vested upon such a change in control were subject to transfer restrictions and were not distributed until the earlier of: (a) the original vesting date, or (b) the date employment is terminated by the Company without cause or by the employee for good reason (in the case of Mr. D. Kennedy, one-half of such shares were distributed immediately and the remaining half were subject to the aforementioned transfer restrictions). In addition, if employment was terminated by the Company for cause or by the employee without good reason prior to the applicable delivery date, such undelivered shares would be forfeited. Therefore, while these shares were distributed on March 22, 2015, they are shown as unvested in the table above due to the transfer restrictions and potential forfeiture of such awards, which provides information as of December 31, 2014).

(7) These RSUs were awarded with a four-year vesting schedule. The first and second installments vested on the first two anniversaries of the date of grant, and the balance is scheduled to vest in equal installments on the third and fourth anniversaries of the date of grant. These RSUs were awarded to Mr. D. Kennedy in connection with his service as a non-employee director.

(8) These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant. These RSUs were awarded to Mr. D. Kennedy in connection with his service as a non-employee director.

(9) These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant. Although Mr. D. Kennedy is no longer an employee of the Company, it was determined that in recognition of the services he continues to provide the Company as a non-employee director, these RSUs would continue to vest in accordance with their terms during the period of Mr. D. Kennedy's service on the Board.

(10) These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant.

(11) These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant.

(12) These stock options were awarded with a four-year vesting schedule. The first installment became exercisable on the first anniversary of the date of grant (but is shown as unexercisable in the table above, which provides information as of December 31, 2014) and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant. In the case of Mr. Huntley, the unvested options continue to vest per this vesting schedule in accordance with the terms of his separation agreement.

(13)

These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014), and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant.

(14)

These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014), and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant.

(15)

These RSUs were scheduled to vest in equal installments on each of the first four anniversaries of the date of grant, subject to the satisfaction of minimum performance criteria for 2014. All four installments were forfeited in March 2015 as the 2014 performance goal criteria were not met (but are shown as unvested in the table above, which provides information as of December 31, 2014). Pursuant to the terms of Mr. Lipkin's separation agreement, these unvested RSUs would have fully vested upon determination that the performance criteria had been met. In the case of Mr. Huntley, these unvested RSU amounts would have continued to vest per this vesting schedule, had the minimum performance criteria been met, pursuant to the terms of his separation agreement.

(16)

These special performance-conditioned RSUs were awarded with a four-year vesting schedule, with one-fourth scheduled to vest in four equal annual installments beginning on March 15, 2013 subject to the satisfaction of multi-year performance criteria and certain "carryover" vesting provisions. No RSUs have vested as the performance targets for 2012, 2013 and 2014 were not achieved. See "Compensation Discussion and Analysis Objectives and Components of Compensation Program Long-Term Incentive Compensation Special Performance-Conditioned Equity Awards" for additional information.

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(17)
These RSUs were awarded with a four-year vesting schedule, subject to the satisfaction of minimum performance criteria for 2012. The first installment vested in March 2013 based on attainment of the 2012 performance goal, the second installment vested on the second anniversary of the date of grant, the third installment vested on the third anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014) and the balance is scheduled to vest on the fourth anniversary of the date of grant. In the case of Mr. Huntley, the third installment vested per this vesting schedule and 50% of the fourth installment will vest on December 31, 2015 in accordance with the terms of his separation agreement.

(18)
These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant, the second installment vested on the second anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014), and the balance is scheduled to vest in two equal installments on the third and fourth anniversaries of the date of grant. In the case of Mr. Huntley, the unvested RSUs continue to vest per this vesting schedule in accordance with the terms of his separation agreement.

(19)
These RSUs were awarded with a four-year vesting schedule, subject to the satisfaction of minimum performance criteria for 2013. The first installment vested in March 2014 based on attainment of the 2013 performance goal, the second installment vested on the second anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014) and the balance is scheduled to vest in two equal installments on the third and fourth anniversaries of the date of grant. In the case of Mr. Huntley, the unvested RSUs continue to vest per this vesting schedule in accordance with the terms of his separation agreement.

(20)
These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant. In the case of Mr. Huntley, the unvested RSUs continue to vest per this vesting schedule in accordance with the terms of his separation agreement.

(21)
These RSUs were awarded with a two-year vesting schedule. The first installment vested six months after the grant of grant, the second installment vested on the first anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014), and the balance is scheduled to vest in two equal installments eighteen months after the date of grant and on the second anniversary of the date of grant. In the case of Mr. Huntley, the unvested RSUs continue to vest per this vesting schedule in accordance with the terms of his separation agreement.

(22)
These RSUs were awarded with a four-year vesting schedule. The first installment vested on the first anniversary of the date of grant (but is shown as unvested in the table above, which provides information as of December 31, 2014), and the balance is scheduled to vest in three equal installments on the second, third and fourth anniversaries of the date of grant.

(23)
These stock options were awarded with a four-year vesting schedule. The first, second and third installments vested and became exercisable on the first three anniversaries of the date of grant. Pursuant to Mr. Huntley's separation agreement the fourth installment immediately vested, with a vesting date of December 31, 2014. In accordance with Mr. Huntley's separation agreement, all vested options remain exercisable through the first 90 days of 2016.

Option Exercises and Stock Vested for Fiscal Year 2014

The table below provides information for the named executive officers with respect to stock options that were exercised and RSUs that vested during 2014.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
David L. Kennedy			74,363	900,239
Scott D. Schweinfurth			12,164	156,905
Jeffrey S. Lipkin[1]	33,730	39,992	117,966	1,257,233
James C. Kennedy			42,888	608,375
Steven W. Beason			29,288	404,612
Larry A. Potts			32,331	444,441
William J. Huntley			43,888	648,067

(1)

Includes the vesting of 77,531 RSUs in accordance with the terms of Mr. Lipkin's separation agreement (valued at $696,228 based on the average of the high and low sales prices of our common stock on the trading day immediately prior to the effective date of the separation agreement). See "Employment Agreements; Severance and Change in Control Arrangements Separation Agreement with Mr. Lipkin" above for additional information.

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2014 Nonqualified Deferred Compensation

The following table sets forth detail about activity for the named executive officers in our nonqualified deferred compensation plan. All named executive officers are eligible to participate in the plan, which is designed to allow highly compensated and management employees to make contributions in excess of certain limits imposed by the Internal Revenue Code that apply to our tax-qualified 401(k) plan. The plan only allows employee contributions and the Company does not provide matching contributions under the plan (although the employee contributions are eligible for earnings on the deferred amounts).

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
M. Gavin Isaacs					
David L. Kennedy					
Scott D. Schweinfurth[(1)]	34,173		(10,202)	936,216	55,492
Jeffrey S. Lipkin					
James C. Kennedy					
Steven W. Beason					
Larry A. Potts					
William J. Huntley					
Andrew E. Tomback	237,500		2,955	240,455	

(1) Mr. Schweinfurth received a distribution from the WMS Industries Inc. Nonqualified Deferred Compensation Plan in connection with a change in control that was triggered by the Company's acquisition of WMS Industries, Inc. in 2014.

Potential Payments Upon Termination or Change in Control

Employment Agreements and Equity Award Agreements

We have employment agreements with our named executive officers. The information below describes and quantifies certain compensation that would become payable under these agreements if the named executive officer's employment had terminated on December 31, 2014 under the various termination events contemplated in the agreements. Under the terms of our standard equity award agreement, unvested stock options and RSUs held by an employee (including a named executive officer) would generally vest upon the termination of such employee's employment by reason of death or "disability" (as such term is defined in the applicable agreement). The amounts described below are estimates and the actual amounts to be paid can only be determined at the time of the executive's separation. The amounts described below would be in addition to amounts the individual would receive under accrued plans, such as the non-qualified deferred compensation plan, the 401(k) plan, and previously vested equity or bonus awards, as to which neither the named executive officer's employment agreement nor the plans provide for enhanced benefits or payments upon termination. The value shown below for equity awards that would have accelerated had the specified termination event occurred on the last business day of the year was calculated by multiplying the number of shares subject to the acceleration by the closing price of our common stock on that day, which was $12.73 (and, in the case of stock options, subtracting the exercise price for the shares from that value).

Employment Agreement with Mr. Isaacs

In June 2014, we entered into an employment agreement with Mr. Isaacs in connection with his appointment as President and Chief Executive Officer. The term of Mr. Isaacs' employment agreement is scheduled to expire in June 2017, subject to automatic renewals for one additional year at the end of the term and each anniversary thereof unless timely notice of non-renewal is given. In the event Mr. Isaacs'

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employment is terminated as a result of the expiration of the term without any renewal, the final tranche of his sign-on equity award shall immediately and fully vest as of the expiration date.

If Mr. Isaacs' employment is terminated by the Company without "cause" or by Mr. Isaacs for "good reason" (as such terms are defined in the agreement), then he would be entitled to receive: (i) a pro rata bonus (if any) for the year of termination; (ii) an amount equal to one (1) times the sum of his base salary and "severance bonus amount" (i.e., an amount equal to the highest annual incentive compensation paid to Mr. Isaacs in respect of the two most recent fiscal years but not more than his target bonus for the then-current fiscal year, but which will be equal to Mr. Isaacs' target bonus in the case of a termination in 2014 or 2015), payable over a period of twelve (12) months; (iii) full vesting of his equity awards; provided, however, that any performance-conditioned awards would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable targets had been achieved; and (iv) payment of COBRA premiums for twelve (12) months if Mr. Isaacs elects to continue medical coverage under the Company's group health plan in accordance with COBRA. If Mr. Isaacs' employment is terminated by the Company without "cause" or by Mr. Isaacs for "good reason" upon, or within one (1) year after, a "change in control" (as such term is defined in the agreement), then he would be entitled to receive the payments and benefits described in the preceding sentence, except that he would receive two (2) times the sum of his base salary and "severance bonus amount," payable over a period of twenty-four (24) months and his equity awards, including performance-conditioned awards, would vest immediately and in full upon the change in control.

In the event of Mr. Isaacs' death, his beneficiary or estate would be entitled to receive any benefits that may be payable under any life insurance benefit of Mr. Isaacs for which the Company pays premiums and full vesting of his equity awards. In the event Mr. Isaacs is terminated due to his "total disability" (as such term is defined in the agreement), he would be entitled to receive an amount equal to his base salary (less any disability payments provided to him under the Company's disability plans) and full vesting of his equity awards.

Mr. Isaacs' employment agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company during his employment and for a period of twelve (12) months after termination. Incentive-based compensation and benefits provided under the agreement will be subject to recovery under the Company's "clawback" policy, described above. The terms of Mr. Isaacs' employment agreement were the result of arm's length negotiations and were approved by the Compensation Committee.

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The following describes the estimated amounts Mr. Isaacs would have received if the termination event specified occurred at December 31, 2014:

	Voluntary Resignation	Termination for Cause	Termination Without Cause or for Good Reason	Termination Without Cause or for Good Reason (w/ Change in Control)(a)	Termination Due to Death	Termination Due to Disability
Cash Payments						
Base Salary	$ 0	$ 0	$ 1,500,000(b)	$ 3,000,000(g)(h)	$ 0	$ 1,500,000(j)
Severance Bonus Amount	$ 0	$ 0	$ 875,000(c)	$ 1,750,000(h)(i)	$ 0	$ 0
Pro Rata Bonus for Year of Termination	$ 0	$ 0	$ 108,512(d)	$ 108,512(d)	$ 0	$ 0
Total Cash Payments	$ 0	$ 0	$ 2,483,512	$ 4,858,512	$ 0	$ 1,500,000
Benefits & Perquisites						
Health and Welfare Benefits	$ 0	$ 0	$ 17,866(e)	$ 17,866(e)	$ 1,000,000(e)	$ 0
Total Benefits & Perquisites	$ 0	$ 0	$ 17,866	$ 17,866	$ 1,000,000	$ 0
Long-Term Incentive Compensation						
"Spread" Value of Accelerated Options	$ 0	$ 0	$ 644,724(f)	$ 644,724(f)	$ 644,724(f)	$ 644,724(f)
Value of Accelerated RSUs	$ 0	$ 0	$ 1,093,953(f)	$ 1,093,953(f)	$ 1,093,953(f)	$ 1,093,953(f)
Total Value of Accelerated Equity Awards	$ 0	$ 0	$ 1,738,677	$ 1,738,677	$ 1,738,677	$ 1,738,677
Total Value of Payments and Benefits	$ 0	$ 0	$ 4,240,055	$ 6,615,055	$ 2,738,677	$ 3,238,677

(a) Termination without "cause" or for "good reason" upon or within one year immediately following a "change in control" (as such terms are defined in the agreement).

(b) Amount reflects one times base salary. Paid over 12 months.

(c) Amount reflects one times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination and, for 2014 and 2015, the target bonus for the then current fiscal year). Amount shown is one times target 2014 bonus. Paid over 12 months.

(d) Amount reflects pro rata amount of bonus that would have been received for year of termination (amount shown is actual 2014 bonus). Paid in lump sum.

(e) Upon termination other than due to death, amount reflects payment of COBRA premiums for 12 months. Upon termination due to death, amount reflects Company-provided life insurance benefits available to all benefit-eligible employees (equal to 1.5 times base salary up to $1,000,000).

(f) Reflects full vesting of options and RSUs.

(g) Amount reflects two times base salary.

(h) Paid over 24 months (or in a lump sum if such "change in control" constitutes a "change in control" under Section 409A of the Internal Revenue Code).

(i)

Amount reflects two times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination). Amount shown is two times target 2014 bonus.

(j)

Paid over 12 months. Amounts to be reduced by any disability payments to executive under any Company disability plan.

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Employment Agreement with Mr. Schweinfurth

In April 2014, we entered into an employment agreement with Mr. Schweinfurth in connection with his appointment as Executive Vice President and Chief Financial Officer. The term of Mr. Schweinfurth's employment agreement is scheduled to expire in March 2017, subject to automatic renewals for one additional year at the end of the term and each anniversary thereof unless timely notice of non-renewal is given. If Mr. Schweinfurth's employment is terminated as a result of non-renewal by the Company or by Mr. Schweinfurth, then he would be entitled to full vesting of all equity awards granted to him prior to January 1, 2014 and continued vesting of all other equity awards granted to him in accordance with the original vesting schedule applicable to such equity awards; provided, however, that any performance-conditioned awards would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved.

If Mr. Schweinfurth's employment is terminated by the Company without "cause" or by Mr. Schweinfurth for "good reason" (as such terms are defined in the agreement), then he would be entitled to receive: (i) a pro rata bonus (if any) for the year of termination; (ii) an amount equal to one (1) times the sum of his base salary and "severance bonus amount" (*i.e.*, an amount equal to the highest annual incentive compensation paid to Mr. Schweinfurth in respect of the two most recent fiscal years but not more than his target bonus for the then-current fiscal year, but which will be equal to Mr. Schweinfurth's target bonus in the case of a termination in 2014); (iii) full vesting of his equity awards; provided, however, that any performance-conditioned awards would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved; and (iv) payment of COBRA premiums for twelve (12) months if Mr. Schweinfurth elects to continue medical coverage under the Company's group health plan in accordance with COBRA. If Mr. Schweinfurth's employment is terminated by the Company without "cause" or by Mr. Schweinfurth for "good reason" upon, or within one (1) year after, a "change in control" (as such term is defined in the agreement), then he would be entitled to receive the payments and benefits described in the preceding sentence, except that he would receive two (2) times the sum of his base salary and "severance bonus amount", payable over a period of twenty-four (24) months and his equity awards, including performance-conditioned awards, would vest immediately and in full upon the change in control.

In the event of Mr. Schweinfurth's death, his beneficiary or estate would be entitled to receive a death benefit of $1.0 million, through any benefits that may be payable under any life insurance benefit of Mr. Schweinfurth for which the Company pays premiums with any remainder funded by the Company, and full vesting of his equity awards. In the event Mr. Schweinfurth is terminated due to his "total disability" (as such term is defined in the agreement), he would be entitled to receive an amount equal to his base salary (less any disability payments provided to him under the Company's disability plans), payable over a period of twelve (12) months, and full vesting of his equity awards.

Mr. Schweinfurth's employment agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company during his employment and for a period of twelve (12) months after termination. Incentive-based compensation and benefits provided under the agreement will be subject to recovery under the Company's "clawback" policy. The terms of Mr. Schweinfurth's employment agreement were the result of arm's length negotiations and were approved by the Compensation Committee.

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The following describes the estimated amounts Mr. Schweinfurth would have received if the termination event specified occurred at December 31, 2014:

	Voluntary Resignation	Termination for Cause	Termination Without Cause or for Good Reason	Termination Without Cause or for Good Reason (w/ Change in Control)[(a)]	Termination Due to Death	Termination Due to Disability
Cash Payments						
Base Salary	$ 0	$ 0	$ 675,000(b)	$ 1,350,000(g)(h)	$ 0	$ 675,000(j)
Severance Bonus Amount	$ 0	$ 0	$ 491,907(c)	$ 983,814(h)(i)	$ 0	$ 0
Pro Rata Bonus for Year of Termination	$ 0	$ 0	$ 61,003(d)	$ 61,003(d)	$ 0	$ 0
Total Cash Payments	$ 0	$ 0	$ 1,227,910	$ 2,394,817	$ 0	$ 675,000
Benefits & Perquisites						
Health and Welfare Benefits	$ 0	$ 0	$ 20,671(e)	$ 20,671(e)	$ 1,000,000(e)	$ 0
Total Benefits & Perquisites	$ 0	$ 0	$ 20,671	$ 20,671	$ 1,000,000	$ 0
Long-Term Incentive Compensation						
"Spread" Value of Accelerated Options	$ 0	$ 0	$ 0(f)	$ 0(f)	$ 0(f)	$ 0(f)
Value of Accelerated RSUs	$ 0	$ 0	$ 1,117,478(f)	$ 1,117,478(f)	$ 1,117,478(f)	$ 1,117,478(f)
Total Value of Accelerated Equity Awards	$ 0	$ 0	$ 1,117,478	$ 1,117,478	$ 1,117,478	$ 1,117,478
Total Value of Payments and Benefits	$ 0	$ 0	$ 2,366,058	$ 3,532,966	$ 2,117,478	$ 1,792,478

(a) Termination without "cause" or for "good reason" upon or within one year immediately following a "change in control" (as such terms are defined in the agreement).

(b) Amount reflects one times base salary. Paid over 12 months.

(c) Amount reflects one times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination and, if not employed by the Company during the prior fiscal year, the target bonus for the then current fiscal year). Amount shown is one times target 2014 bonus. Paid over 12 months.

(d) Amount reflects pro rata amount of bonus that would have been received for year of termination (amount shown is actual 2014 bonus). Paid in lump sum.

(e) Upon termination other than due to death, amount reflects payment of COBRA premiums for 12 months. Upon termination due to death, amount reflects a lump sum cash payment equal to 1.5 times base salary up to $1,000,000.

(f) Reflects full vesting of options and RSUs.

(g) Amount reflects two times base salary.

(h)

Paid over 24 months (or in a lump sum if such "change in control" constitutes a "change in control" under Section 409A of the Code).

(i)

Amount reflects two times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination and, if not employed by the Company during the prior fiscal year, the target bonus for the then current fiscal year). Amount shown is two times target 2014 bonus.

(j)

Paid over 12 months. Amounts to be reduced by any disability payments to executive under any Company disability plan.

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Employment Agreement with Mr. J. Kennedy

In December 2012, the Company entered into an employment agreement with Mr. J. Kennedy. The term of Mr. J. Kennedy's employment agreement is scheduled to expire in December 31, 2015, subject to automatic renewals for one additional year at the end of the term and each anniversary thereof unless timely notice of non-renewal is given. In the event the employment agreement expires at the end of its term, Mr. J. Kennedy would receive accelerated vesting of 50% of his unvested equity awards granted prior to January 1, 2013 and continued vesting of his unvested equity awards granted on or after January 1, 2013 in accordance with the original vesting schedule of such awards without regard to his termination of employment; provided, however, that any performance-conditioned awards would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved.

If Mr. J. Kennedy's employment is terminated by the Company "without cause" or by Mr. J. Kennedy for "good reason" (as such terms are defined in the agreement), Mr. J. Kennedy would be entitled to receive (i) a pro rata bonus for the year of termination, (ii) an amount equal to the sum of his base salary and "severance bonus amount" (*i.e.*, an amount equal to the highest annual incentive compensation paid to Mr. J. Kennedy in respect of the two most recent fiscal years but not more than his target bonus for the then-current fiscal year), payable over a period of twelve (12) months, (iii) full vesting of his equity awards; provided, however, that his performance-conditioned awards would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved; and (iv) payment of COBRA premiums for twelve (12) months if Mr. J. Kennedy elects to continue medical coverage under the Company's group health plan in accordance with COBRA. If Mr. J. Kennedy's employment is terminated by the Company "without cause" or by him for "good reason" upon, or within one (1) year after, a "change in control" (as such term is defined in the agreement), then he would be entitled to receive the benefits described in the preceding sentence, except that he would receive two times the sum of his base salary and "severance bonus amount", payable over a period of twenty-four (24) months and any equity awards, including performance-conditioned awards, would vest immediately and in full upon the change in control.

In the event of Mr. J. Kennedy's death, his beneficiary or estate would be entitled to receive any benefits that may be payable under any life insurance benefit of Mr. J. Kennedy for which the Company pays premiums and full vesting of his equity awards; provided, however, that his special performance-conditioned RSUs would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved. In the event Mr. J. Kennedy is terminated due to his "total disability" (as such term is defined in the agreement), he would be entitled to receive an amount equal to his base salary (less any disability payments provided under the Company's disability plans) and full vesting of his equity; provided, however, that his special performance-conditioned RSUs would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved.

Mr. J. Kennedy's employment agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information and restricting his ability to engage in certain activities in competition with the Company during the term of his employment and for a period of eighteen (18) months after termination. Incentive-based compensation and benefits provided under the agreement will be subject to recovery under the Company's "clawback" policy. The revised terms of Mr. J. Kennedy's employment agreement, including the higher salary, were the result of arm's length negotiations and were approved by the Compensation Committee.

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The following describes the estimated amounts Mr. J. Kennedy would have received if the termination event specified occurred at December 31, 2014:

	Voluntary Resignation	Termination for Cause	Termination Without Cause or for Good Reason	Termination Without Cause or for Good Reason (w/ Change in Control)(a)	Termination Due to Death	Termination Due to Disability
Cash Payments						
Base Salary	$ 0	$ 0	$ 675,000(b)	$ 1,350,000(g)(h)	$ 0	$ 675,000(k)
Severance Bonus Amount	$ 0	$ 0	$ 290,611(c)	$ 581,222(h)(i)	$ 0	$ 0
Pro Rata Bonus for Year of Termination	$ 0	$ 0	$ 327,343(d)	$ 327,343(d)	$ 0	$ 0
Total Cash Payments	$ 0	$ 0	$ 1,292,954	$ 2,258,565	$ 0	$ 675,000
Benefits & Perquisites						
Health and Welfare Benefits	$ 0	$ 0	$ 17,866(e)	$ 17,866(e)	$ 1,000,000(e)	$ 0
Total Benefits & Perquisites	$ 0	$ 0	$ 17,866	$ 17,866	1,000,000	$ 0
Long-Term Incentive Compensation						
"Spread" Value of Accelerated Options	$ 0	$ 0	$ 32,298(f)	$ 32,298(f)	$ 32,298(f)	$ 32,298(f)
Value of Accelerated RSUs	$ 0	$ 0	$ 1,019,609(f)	$ 1,019,609(f)	$ 1,471,894(j)	$ 1,471,894(j)
Total Value of Accelerated Equity Awards	$ 0	$ 0	$ 1,051,908	$ 1,051,908	$ 1,504,192	$ 1,504,192
Total Value of Payments and Benefits	$ 0	$ 0	$ 2,362,728	$ 3,328,339	$ 2,504,192	$ 2,179,192

(a) Termination without "cause" or for "good reason" upon or within one year immediately following a "change in control" (as such terms are defined in the agreement).

(b) Paid over 12 months.

(c) Amount reflects "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination). Amount shown is actual 2013 bonus. Paid over 12 months.

(d) Amount reflects pro rata amount of bonus that would have been received for year of termination (amount shown is actual 2014 bonus). Paid in lump sum.

(e) Upon termination other than due to death, amount reflects payment of COBRA premiums for 12 months. Upon termination due to death, amount reflects Company-provided life insurance benefits available to all benefit-eligible employees (equal to 1.5 times base salary up to $1,000,000).

(f) Reflects full vesting of options and RSUs other than special performance-conditioned RSUs.

(g) Amount reflects two times base salary.

(h) Paid over 24 months (or in a lump sum if such "change in control" constitutes a "change in control" under Section 409A of the Internal Revenue Code).

(i)

Amount reflects two times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination). Amount shown is two times actual 2013 bonus.

(j) Reflects full vesting of RSUs other than special performance-conditioned RSUs granted on February 22, 2012.

(k) Paid over 12 months. Amount to be reduced by any disability payments to executive under any Company disability plan.

Employment Agreement with Mr. Beason

In August 2014, we entered into an employment agreement with Mr. Beason in connection with his expanded role for the combined Company as Enterprise Chief Technology Officer. The term of

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Mr. Beason's employment agreement is scheduled to expire on August 31, 2016, subject to automatic renewals for one additional year at the end of the term and each anniversary thereof unless timely notice of non-renewal is given. In the event the employment agreement expires at the end of its term, Mr. Beason would receive accelerated vesting of his unvested equity awards granted prior to September 1, 2014 and continued vesting of his unvested equity awards granted on or after September 1, 2014 in accordance with the original vesting schedule of such awards without regard to his termination of employment; provided, however, that any performance-conditioned awards would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved.

If Mr. Beason's employment is terminated by the Company without "cause" or by Mr. Beason for "good reason" (as such terms are defined in the agreement), then he would be entitled to receive: (i) a pro rata bonus (if any) for the year of termination; (ii) an amount equal to one (1) times the sum of his base salary and "severance bonus amount" (*i.e.*, an amount equal to the highest annual incentive compensation paid to Mr. Beason in respect of the two most recent fiscal years but not more than his target bonus for the then-current fiscal year), payable over a period of twelve (12) months;; and (iii) payment of COBRA premiums for twelve (12) months if Mr. Beason elects to continue medical coverage under the Company's group health plan in accordance with COBRA. If Mr. Beason's employment is terminated by the Company without "cause" or by Mr. Beason for "good reason" upon, or within one (1) year after, a "change in control" (as such term is defined in the agreement), then he would be entitled to receive the payments and benefits described in the preceding sentence, except that he would receive two (2) times the sum of his base salary and "severance bonus amount", payable over a period of twenty-four (24) months and any equity awards, including performance-conditioned awards, would vest immediately and in full upon the change in control.

In the event of Mr. Beason's death, his beneficiary or estate would be entitled to receive any benefits that may be payable under any life insurance benefit of Mr. Beason for which the Company pays premiums and full vesting of his equity awards; provided however, that his special performance-conditioned RSUs would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved. In the event Mr. Beason is terminated due to his "total disability" (as such term is defined in the agreement), he would be entitled to receive an amount equal to his base salary (less any disability payments provided to him under the Company's disability plans) and full vesting of his equity awards; provided however, that his special performance-conditioned RSUs would only vest at the time, and only to the extent, that the Compensation Committee determined that the applicable target had been achieved.

Mr. Beason's employment agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company during his employment and for a period of twelve (12) months after termination. Incentive-based compensation and benefits provided under the agreement will be subject to recovery under the Company's "clawback" policy.

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The following describes the estimated amounts Mr. Beason would have received if the termination event specified occurred at December 31, 2014:

	Voluntary Resignation	Termination for Cause	Termination Without Cause or for Good Reason	Termination Without Cause or for Good Reason (w/ Change in Control)[(a)]	Termination Due to Death	Termination Due to Disability
Cash Payments						
Base Salary	$ 0	$ 0	$ 510,000(b)	$ 1,020,000(g)(h)	$ 0	$ 510,000(k)
Severance Bonus Amount	$ 0	$ 0	$ 272,466(c)	$ 544,932(h)(i)	$ 0	$ 0
Pro Rata Bonus for Year of Termination	$ 0	$ 0	$ 40,807(d)	$ 40,807(d)	$ 0	$ 0
Total Cash Payments	$ 0	$ 0	$ 823,273	$ 1,605,739	$ 0	$ 510,000
Benefits & Perquisites						
Health and Welfare Benefits	$ 0	$ 0	$ 17,866(e)	$ 17,866(e)	$ 765,000(e)	$ 0
Total Benefits & Perquisites	$ 0	$ 0	$ 17,866	$ 17,866	$ 765,000	$ 0
Long-Term Incentive Compensation						
"Spread" Value of Accelerated Options	$ 0	$ 0	$ 0	$ 29,169(f)	$ 29,169(f)	$ 29,169(f)
Value of Accelerated RSUs	$ 0	$ 0	$ 0	$ 1,555,046(f)	$ 854,896(j)	$ 854,896(j)
Total Value of Accelerated Equity Awards	$ 0	$ 0	$ 0	$ 1,584,215	$ 884,065	$ 884,065
Total Value of Payments and Benefits	$ 0	$ 0	$ 841,139	$ 3,207,820	$ 1,649,065	$ 1,394,065

(a) Termination without "cause" or for "good reason" upon or within one year immediately following a "change in control" (as such terms are defined in the agreement).

(b) Amount reflects one times base salary. Paid over 12 months.

(c) Amount reflects one times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination and, for 2014 and 2015, the target bonus for the then current fiscal year). Amount shown is one times actual 2012 bonus. Paid over 12 months.

(d) Amount reflects pro rata amount of bonus that would have been received for year of termination (amount shown is actual 2014 bonus). Paid in lump sum.

(e) Upon termination other than due to death, amount reflects payment of COBRA premiums for 12 months. Upon termination due to death, amount reflects Company-provided life insurance benefits available to all benefit-eligible employees (equal to 1.5 times base salary up to $1,000,000).

(f) Reflects full vesting of options and RSUs.

(g) Amount reflects two times base salary.

(h) Paid over 24 months (or in a lump sum if such "change in control" constitutes a "change in control" under Section 409A of the Internal Revenue Code).

(i)

Amount reflects two times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination). Amount shown is two times actual 2012 bonus.

(j) Reflects full vesting of RSUs other than special performance-conditioned RSUs granted on February 22, 2012.

(k) Paid over 12 months. Amounts to be reduced by any disability payments to executive under any Company disability plan.

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Employment Agreement with Mr. Potts

In April 2014, we entered into an extension of the existing employment agreement with Mr. Potts in connection with his current role as Senior Vice President, Chief Compliance Officer and Director of Corporate Security. The term of Mr. Potts's employment agreement is scheduled to expire on December 31, 2015, subject to automatic renewals for one additional year at the end of the term and each anniversary thereof unless timely notice of non-renewal is given.

If Mr. Potts' employment is terminated by the Company without "cause" or by Mr. Potts for "good reason" (as such terms are defined in the agreement), then he would be entitled to receive: (i) a pro rata bonus "severance bonus amount" (*i.e.*, an amount equal to the highest annual incentive compensation paid to Mr. Potts in respect of the two most recent fiscal years but not more than his target bonus for the then-current fiscal year); (ii) an amount equal to one (1) times the sum of his base salary and "severance bonus amount", payable over a twelve (12) month period; (iii) full vesting of his equity awards; and (iv) payment of COBRA premiums for eighteen (18) months if Mr. Potts elects to continue medical coverage under the Company's group health plan in accordance with COBRA. If Mr. Potts's employment is terminated by the Company without "cause" or by Mr. Potts for "good reason" upon, or within one (1) year after, a "change in control" (as such term is defined in the agreement), then he would be entitled to receive the payments and benefits described in the preceding sentence, except that he would receive two (2) times the sum of his base salary and "severance bonus amount" and any equity awards would vest immediately and in full upon the change in control. In addition, upon non-renewal of the term by the Company, Mr. Potts will receive full vesting of his equity awards; provided, however, that the Compensation Committee determined that the applicable target had been achieved.

In the event of Mr. Potts' death, his beneficiary or estate would be entitled to receive any benefits that may be payable under any life insurance benefit of Mr. Potts for which the Company pays premiums and full vesting of his equity awards. In the event Mr. Potts is terminated due to his "total disability" (as such term is defined in the agreement), he would be entitled to receive the same payments described above as if he had terminated without "cause."

Mr. Potts' employment agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company during his employment and for a period of eighteen (18) months after termination. Incentive-based compensation and benefits provided under the agreement will be subject to recovery under the Company's "clawback" policy.

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The following describes the estimated amounts Mr. Potts would have received if the termination event specified occurred at December 31, 2014:

	Voluntary Resignation	Termination for Cause	Termination Without Cause or for Good Reason	Termination Without Cause or for Good Reason (w/ Change in Control)[(a)]	Termination Due to Death	Termination Due to Disability
Cash Payments						
Base Salary	$ 0	$ 0	$ 500,000(b)	$ 1,000,000(g)(h)	$ 500,000	$ 500,000(j)
Severance Bonus Amount	$ 0	$ 0	$ 263,758(c)	$ 527,516(h)(i)	$ 0	$ 263,758(c)
Pro Rata Bonus for Year of Termination	$ 0	$ 0	$ 263,758(d)	$ 263,758(d)	$ 0	$ 263,758(d)
Total Cash Payments	$ 0	$ 0	$ 1,027,516	$ 1,791,274	$ 500,000	$ 1,027,516
Benefits & Perquisites						
Health and Welfare Benefits	$ 0	$ 0	$ 0(e)	$ 0(e)	$ 0	$ 0(e)
Total Benefits & Perquisites	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Long-Term Incentive Compensation						
"Spread" Value of Accelerated Options	$ 0	$ 0	$ 31,264(f)	$ 31,264(f)	$ 31,264(f)	$ 31,264(f)
Value of Accelerated RSUs	$ 0	$ 0	$ 854,870(f)	$ 854,870(f)	$ 854,870(f)	$ 854,870(f)
Total Value of Accelerated Equity Awards	$ 0	$ 0	$ 886,134	$ 886,134	$ 886,134	$ 886,134
Total Value of Payments and Benefits	$ 0	$ 0	$ 1,913,650	$ 2,677,408	$ 1,386,134	$ 1,913,650

(a) Termination without "cause" or for "good reason" upon or within one year immediately following a "change in control" (as such terms are defined in the agreement).

(b) Amount reflects one times base salary. Paid over 12 months.

(c) Amount reflects one times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination and, for 2014 and 2015, the target bonus for the then current fiscal year). Amount shown is one times actual 2012 bonus. Paid over 12 months.

(d) Amount reflects pro rata severance bonus amount, paid in lieu of any bonus for the year in which termination occurs. Amount shown is the full severance bonus amount based on an assumed termination date of December 31, 2014.

(e) Upon termination other than due to death, amount reflects payment of COBRA premiums for 18 months. Mr. Potts does not currently receive health coverage through the Company's program.

(f) Reflects full vesting of options and RSUs.

(g) Amount reflects two times base salary.

(h) Paid over 24 months (or in a lump sum if such "change in control" constitutes a "change in control" under Section 409A of the Internal Revenue Code).

(i)

Amount reflects two times "severance bonus amount" (*i.e.*, higher of last two bonuses but not higher than target bonus for year of termination). Amount shown is two times actual 2012 bonus.

(j)
Paid over 12 months. Amounts to be reduced by any disability payments to executive under any Company disability plan.

Separation Agreement with Mr. D. Kennedy

On July 31, 2014, Mr. D. Kennedy resigned as an executive of the Company effective August 1, 2014. Mr. Kennedy continues to serve on the Board as Vice Chairman, in a non-executive capacity. Pursuant to his separation agreement, Mr. Kennedy's sign-on restricted stock units granted to him in December 2013 will continue to vest in accordance with their terms during the period of his service on the Board.

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Separation Agreement with Mr. Lipkin

On May 8, 2014, we entered into a separation agreement with Mr. Lipkin, pursuant to which, he received $929,258 in severance payments (representing his base salary plus a "severance bonus amount," as contemplated by his employment agreement). Pursuant to the separation agreement, Mr. Lipkin also received a pro rata bonus for 2014 ($24,046 as described above), a transition bonus of $12,500 and full vesting of his outstanding equity awards (except, with respect to awards subject to performance conditions, only following certification by the Committee that such conditions were met). In addition, Mr. Lipkin will receive payment of COBRA premiums for twelve (12) months following his separation date if Mr. Lipkin elects to continue medical coverage under the Company's group health plan in accordance with COBRA. Mr. Lipkin's separation agreement also contains covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company for a period of twelve (12) months after his separation date.

Separation Agreement with Mr. Tomback

On September 30, 2014, Mr. Tomback resigned from the Company to pursue other professional opportunities. In connection with Mr. Tomback's resignation, the Company and Mr. Tomback entered into an agreement and general release dated September 30, 2014 that provides for, among other things, a lump sum payment to Mr. Tomback in an amount equal to $775,000 and forfeiture of all unvested stock options and restricted stock units held by Mr. Tomback. Mr. Tomback continues to be bound by certain covenants imposing on him obligations with respect to confidentiality and proprietary information.

Separation Agreement with Mr. Huntley

On January 6, 2015, we entered into a separation agreement with Mr. Huntley, pursuant to which, following his separation date of December 31, 2014, Mr. Huntley will receive $1,014,968 in severance payments (representing his base salary plus a "severance bonus amount," as contemplated by his employment agreement). The separation agreement also provides that (i) 50,000 unvested sign-on stock options granted to Mr. Huntley in January 2011 will be accelerated and become exercisable on his separation date and all vested sign-on stock options will remain exercisable until March 31, 2016, (ii) any unvested stock options or RSUs granted to Mr. Huntley between January 1, 2011 and December 31, 2012 will continue to vest until December 31, 2015 at which time the vesting of fifty percent (50%) of any such remaining unvested stock options or RSUs will be accelerated and all such vested stock options will remain exercisable until March 31, 2016, and (iii) any unvested stock options or RSUs granted to Mr. Huntley on or after January 1, 2013 will continue to vest in accordance with their original vesting schedules, including any applicable performance criteria, and any such stock options may be exercised until the scheduled expiration date of such stock options. In addition, Mr. Huntley will receive payment of COBRA premiums for twelve (12) months following his separation date if Mr. Huntley elects to continue medical coverage under the Company's group health plan in accordance with COBRA. Mr. Huntley's separation agreement also contains covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company for a period of eighteen (18) months after his separation date.

Change in Control

As discussed above, the employment agreements that we have with the named executive officers provide for enhanced severance payments if employment is terminated by the Company "without cause" or by the executive for "good reason" in connection with a change in control. In general, under such agreements, a change in control would be deemed to occur if: (i) a person (excluding the Company, a subsidiary or affiliate or any current holder of 20% or more of our common stock) becomes the beneficial owner of 40% or more of the Company's voting securities; (ii) the stockholders of the Company approve a merger, consolidation, recapitalization or reorganization, or the consummation of such transaction if

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stockholder approval is not obtained, other than any such transaction which would result in at least 60% of the voting securities outstanding immediately after the transaction being owned by persons who owned at least 80% of the voting power of the securities of the Company outstanding immediately before such transaction; (iii) the stockholders of the Company approve a plan of liquidation or sale of all or substantially all of the Company's assets or the Company sells all or substantially all the stock of the Company to a person other than an affiliate; or (iv) during any period of two consecutive years, the individuals who constitute the Board, together with any new director whose election was approved by at least two-thirds of the directors in office who were directors at the beginning of the period, cease to constitute at least a majority of the Board.

In addition, pursuant to the terms of the 2003 Plan and predecessor plans, unvested stock options and other equity awards held by the participants in such plans would generally accelerate upon the occurrence of a "change in control" in which a person becomes the beneficial owner of 40% of more of the Company's voting securities or the consummation of a transaction requiring stockholder approval for the acquisition of the Company by merger or otherwise or for the purchase of substantially all of the Company's assets (provided that a "change in control" under the 2003 Plan will not occur as to equity awards granted under such plan after June 7, 2011 in the event that MacAndrews & Forbes Incorporated (or certain related persons) becomes the beneficial owner of 40% or more of the Company's voting securities). If a "change in control" (not triggered by MacAndrews & Forbes Incorporated (or certain related persons) becoming the beneficial owner of 40% or more of the Company's voting securities) had occurred on the last business day of the year, the named executive officers would have received an acceleration of unvested awards held under such plans in the following aggregate amounts:

Executive	Stock Options	RSUs
Mr. Isaacs	$ 644,724	$ 1,093,953
Mr. D. Kennedy	$ 108,649	$ 1,661,647
Mr. Schweinfurth	$ 0	$ 1,117,478
Mr. Lipkin	$ 0	$ 0
Mr. J. Kennedy	$ 32,298	$ 1,019,609
Mr. Beason	$ 29,169	$ 1,555,046
Mr. Potts	$ 31,264	$ 854,870
Mr. Huntley	$ 38,292	$ 1,916,476

The amounts are calculated based on the closing price of our common stock on the last trading day of 2014, which was $12.73.

In addition, if a "change in control" were to occur, participants in the Company's non-qualified deferred compensation plan would receive their account balances as soon as practicable following such event.

Certain Relationships and Related Person Transactions

The Company has written policies and procedures relating to related party transactions. The Audit Committee, with assistance from the General Counsel, is responsible for reviewing and approving related person transactions that are subject to SEC disclosure requirements, including transactions in which the Company is a participant, the amount exceeds $120,000 and a related person has a direct or indirect material interest. A related person includes a director, executive officer, nominee for election as a director, person holding more than 5% of our stock and any immediate family member of any of the foregoing persons, or any entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest. The Company's policy is not to enter into a related party transaction unless both the Audit Committee and the Board approve the transaction as specified in the Audit Committee's charter. Transactions with related persons at lower thresholds as well as certain material changes in previously approved relationships also require the Audit Committee's approval.

PROPOSAL 2
TO AMEND AND RE-APPROVE THE AMENDED AND RESTATED 2003 INCENTIVE COMPENSATION PLAN

Introduction

At the annual meeting, we will ask stockholders to (1) approve an amendment and restatement of the Company's 2003 Incentive Compensation Plan, as Amended and Restated November 21, 2014 (the "2003 Plan"), which will consolidate the shares originally reserved and available for issuance under the Bally Technologies, Inc. 2010 Long-Term Incentive Plan (such plan, the "Legacy Bally Plan", and such shares, the "Legacy Bally Shares"), a sub-plan of the 2003 Plan, with the shares originally reserved and available for issuance under the 2003 Plan and approved by stockholders and remove the terms of the Legacy Bally Plan from the 2003 Plan, and (2) re-approve certain material terms of performance-based awards under the 2003 Plan, which is intended to preserve the opportunity to grant awards that could qualify for the performance exception from the limits on our tax deductions for certain compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

When we acquired Bally in November 2014, we assumed the Legacy Bally Plan, consolidating it with and into the 2003 Plan, at which time the Legacy Bally Plan became a sub-plan of the 2003 Plan. The Legacy Bally Plan was an omnibus plan providing for discretionary grants of a wide range of equity awards and cash incentive awards, similar to the 2003 Plan in its scope and terms. Bally stockholders had approved the Legacy Bally Plan and the number of shares reserved for issuance thereunder. As contemplated by our merger agreement with Bally, most Bally equity awards outstanding at the time of our acquisition were settled by payment of cash in November 2014, but certain of the more recently granted equity awards were assumed and adjusted to become awards relating to Company common stock. Such adjustments were effected in a manner intended to preserve (without enlarging) the economic value of the award to the holder of the award.

Under the NASDAQ Stock Market rules, we currently are permitted to grant new equity and incentive awards under the 2003 Plan with respect to the Legacy Bally Shares to persons who, at the time of the acquisition, were employed by or providing services to Bally, but persons working for Scientific Games before the acquisition and persons hired since the acquisition are not eligible for equity and incentive awards with respect to the Legacy Bally Shares.

Based on the shares available under the Legacy Bally Plan at the time of our acquisition of Bally, but giving effect to the acquisition (and applying a customary exchange ratio based on the stock prices of Bally and the Company at the time of the acquisition), we were entitled under applicable NASDAQ Stock Market rules to assume approximately 16 million shares for future awards to Bally employees. However, in order to manage potential dilution in connection with future equity awards, the Compensation Committee and the Board determined to assume only approximately 4.8 million of such available shares, a substantial reduction from the number of shares that could have been assumed.

The Compensation Committee has concluded that the administration of our equity and cash incentive programs would be simpler if it were not necessary to maintain two separate share pools, one of which can only be used to grant awards to a certain group of employees. Moreover, if the share pools are consolidated, uniform processes will make for easier and less costly administration of the equity and cash incentive programs. ***In consolidating the two share pools, we are not asking for approval of any increase in the overall number of shares reserved and available for equity awards currently under the 2003 Plan.***

The Legacy Bally Plan contains a share counting rule that counts each actual share delivered in settlement of a "full-value" award that is, an award other than an option or stock appreciation right with respect to Legacy Bally Shares as 1.75 shares against the remaining Legacy Bally Shares reserved under the 2003 Plan. In order to account for this rule, only 57.14% of the Legacy Bally Shares that are currently available for future grants under the 2003 Plan will be retained under the 2003 Plan following the

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consolidation of the share pools, since, for share counting purposes, the 2003 Plan treats shares other than Legacy Bally Shares underlying full-value awards the same as shares underlying options or stock appreciation rights. Accordingly, only 2,081,505 of the 3,642,816 Legacy Bally Shares available as of March 31, 2015 for future grants under the 2003 Plan will be retained following the consolidation of the share pools under the 2003 Plan. Following consolidation, all shares under the 2003 Plan will be recaptured from outstanding awards, to the extent the shares are not delivered to participants, in accordance with the share counting rules in the 2003 Plan, which are less restrictive than those in the Legacy Bally Plan, which remain applicable to Legacy Bally Shares.

The consolidation of the share pools under the 2003 Plan will not change the terms of any outstanding awards under the 2003 Plan, including awards with respect to Legacy Bally Shares, although these awards will become subject to the general share counting provisions under the 2003 Plan instead of the Legacy Bally Plan.

The Compensation Committee and the Board approved the amendment and restatement of the 2003 Plan consolidating the share pools under the 2003 Plan and removing the provisions of the Legacy Bally Plan on April 23, 2015 and April 24, 2015, respectively. The Board and Compensation Committee believe that the amended 2003 Plan will continue to help us:

- attract, retain, motivate and reward executives, employees, directors and other persons who provide services to Scientific Games and its subsidiaries;
- provide for equitable and competitive compensation opportunities to participants;
- encourage long-term service by participants;
- recognize individual contributions and reward achievement of our goals; and
- promote the creation of long-term value for stockholders by closely aligning the interests of participants with those of our stockholders.

The Board and the Compensation Committee believe that awards linked to common stock and awards with terms tied to our performance provide incentives for the achievement of important business objectives and promote the long-term success of the Company. In this regard, the 2003 Plan has been, and will continue to be, a key element of our overall compensation program.

Shares Reserved and Available under Our Equity Compensation Plans

Information on the total number of shares available under our existing equity compensation plans (including our 2002 Employee Stock Purchase Plan, as amended November 3, 2005 (the "ESPP")) and unissued shares deliverable under outstanding options and RSUs as of the end of the last fiscal year is presented below under the caption "Equity Compensation Plan Information." The following table reflects the aggregate number of shares subject to outstanding equity awards (excluding the shares available under the ESPP), and the shares that would be available for future awards if stockholders approve this proposal referred to as "overhang" as of March 31, 2015. Because the aggregate number of shares will not be increased under the proposed amendment and restatement of the 2003 Plan, the level of overhang reflected in the table would be the same (based on awards and shares outstanding as of March 31, 2015) even if stockholders did not approve the amendment and restatement of the 2003 Plan:

Shares subject to outstanding awards[(1)]	5,678,940
Shares available/to be available for future equity awards[(2)]	7,466,305
Total shares	13,145,245
Percentage of outstanding shares (diluted)[(3)]	13.3%

(1) Includes 1,406,009 outstanding stock options with a weighted average exercise price of $11.92 and a weighted average remaining term of 7.4 years and 4,272,931 outstanding RSUs with a weighted average remaining term of 1.7 years.

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(2) This number represents shares available for delivery in connection with full-value awards under the 2003 Plan at March 31, 2015, of which 2,081,505 represent Legacy Bally Shares. Under the share counting provisions of the Legacy Bally Plan, if future awards were entirely in the form of stock options or stock appreciation rights rather than full-value awards, the number of shares available for future grants under the 2003 Plan would be 3,642,816 shares. Assuming stockholder approval of the proposed amendment and restatement of the 2003 Plan consolidating the share pools under the 2003 Plan, the number of shares available at March 31, 2015 would be 7,446,305 (which includes only 57.14% of the Legacy Bally Shares in order to take into account the share counting rule discussed above), with all such shares available for all types of awards and with no provision for granting a greater number of stock options.

(3) Outstanding shares (the denominator in this calculation) include all common stock outstanding at March 31, 2015 and include potential dilution from issuance of unissued shares reserved for outstanding awards or future full-value awards under the 2003 Plan.

For additional information concerning our historical granting practices and outstanding equity-based compensation awards, see Note 18 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014 and other information in this Proxy Statement.

2012 - 2014 "Burn Rate"

The following table presents information on our "burn rate," showing the rate at which equity awards have been newly granted or earned during the past three years. For this purpose, equity award usage in a given year includes (1) the number of new equity awards granted solely with service-based vesting terms plus (2) the number of performance-based equity awards as to which, in the given year, the performance conditions were satisfied. The burn rate excludes equity awards granted in connection with our 2014 acquisition of Bally to directly replace equity awards previously granted by Bally.

	2012		2013		2014	
	Options	**RSUs**	**Options**	**RSUs**	**Options**	**RSUs**
Aggregate number of equity awards reported as granted[1]	30,000	1,697,631	235,287	2,723,175	623,654	3,158,099
Additions:						
Performance-based awards earned in year	100,000	100,000				
Eliminations:						
Awards granted in option exchange program						
Performance-based awards not earned in grant year		(493,597)				
Awards replacing assumed awards in acquisition			(35,287)	(454,266)		(1,414,656)
Total equity awards for burn rate calculation	130,000	1,304,034	200,000	2,268,909	623,654	1,743,443
Weighted average common shares outstanding	90,011,259		84,992,309		84,572,989	
Burn rate, annual	1.59%		2.90%		2.80%	

(1) As reported in the notes to our financial statements filed with our annual reports on Form 10-K (see note 18 for 2014 and 2013 and note 16 for 2012). The aggregate number of equity awards granted included (1) performance-based awards at grant (rather than upon satisfaction of performance conditions) and (2) equity awards replacing prior Bally equity awards in 2014.

Based on the burn rates shown in the table above, the average burn rate for the period 2012-2014 was 2.43%. An alternative burn rate methodology, used by a proxy voting advisory firm, counts each RSU as using two shares rather than one, to account for the higher grant date fair value of RSUs as compared to stock options. Using that methodology and based on the equity grants shown in the table above, the average annual burn rate for the period 2012-2014 was 4.49%.

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Grants for 2014 under Current Plans

The selection of the individuals who will receive grants under the proposed amended 2003 Plan, and the number of shares to be granted to such individuals, are determined by the Compensation Committee in its discretion. Therefore, it is not possible to predict the amounts that will actually be received by or allocated to particular individuals or groups of individuals under the 2003 Plan as proposed to be amended. The following table sets forth information with respect to options and other awards granted under the 2003 Plan during 2014:

Name	Number of Options Granted (#)	Number of Restricted Shares and Restricted Stock Units Granted (#)
Named Executive Officers:		
M. Gavin Isaacs		
David L. Kennedy		
Scott D. Schweinfurth	10,679	51,291
Jeffrey S. Lipkin	19,914	39,474
James C. Kennedy[(2)]	21,506	44,465
Steven W. Beason[(2)]	11,745	32,465
Larry A. Potts[(2)]	12,108	25,590
William J. Huntley[(2)]	22,305	46,529
Andrew E. Tomback	15,739	26,002
All current executive officers as a group (9 persons)	113,996	265,814
All current directors as a group (12 persons)[(1)]	20,000	111,840
All employees, excluding current executive officers and other named executive officers	328,477	1,279,854

(1) This total does not include awards granted under the 2003 Plan to Mr. Isaacs or Mr. D. Kennedy during the period in which he was an employee of the Company, both of which are reflected above in the applicable individual's total.

(2) The amounts in the "Number of Restricted Shares and Restricted Stock Units Granted" column include RSUs that were granted on March 14, 2014 in lieu of cash for 50% of 2013 annual performance bonuses awarded under the MICP. The number of RSUs granted was as follows for each executive: 6,577 RSUs to Mr. Lipkin, 8,936 RSUs to Mr. J. Kennedy, 6,062 RSUs to Mr. Beason, 5,589 RSUs to Mr. Potts and 9,685 RSUs to Mr. Huntley.

Reasons for Stockholder Approval

We seek approval of the proposed amendment and restatement of, and re-approval of certain material terms relating to performance-based awards under, the 2003 Plan by our stockholders in order to, respectively, meet requirements of the NASDAQ Stock Market and to preserve the opportunity to grant awards that could qualify for the performance exception from the limits on our tax deduction for certain compensation under Section 162(m) of the Code as stockholder re-approval of certain material terms, including the general business criteria upon which performance objectives for awards are based and eligibility and annual per-person limits, of a plan must be generally obtained at least every five years in order for awards to qualify as performance-based compensation.

Section 162(m) of the Code limits the deductions a publicly held company can claim for compensation in excess of $1 million in a given year paid to the chief executive officer and the three other most highly compensated executive officers serving on the last day of the fiscal year, excluding the chief financial officer. "Performance-based" compensation that meets certain requirements is not counted against the $1 million deductibility cap, and therefore remains fully deductible.

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As discussed above, we believe that the proposed amendment and restatement of, and re-approval of certain material terms of performance-based awards under, the 2003 Plan will facilitate the administration of the Company's equity compensation program. ***The proposed amendment and restatement of, and re-approval of certain material terms relating to performance-based awards under, the 2003 Plan will not increase the overall number of shares reserved and available for equity awards currently under the 2003 Plan.***

Description of the 2003 Plan

The principal terms of the 2003 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2003 Plan. You may obtain a copy of the 2003 Plan free of charge by writing to the Corporate Secretary, Scientific Games Corporation, 6650 South El Camino Road, Las Vegas, Nevada 89118. If stockholders decline to approve the proposed amendment and restatement of the 2003 Plan, the 2003 Plan, as previously approved by stockholders, and including the Legacy Bally Plan as a sub-plan, would remain in effect.

Overview of 2003 Plan Awards. The 2003 Plan authorizes a broad range of awards, including:

- stock options;
- stock appreciation rights ("SARs");
- restricted stock, or a grant of actual shares subject to a risk of forfeiture and restrictions on transfer;
- deferred stock, or a contractual commitment to deliver shares at a future date, which may or may not be subject to a risk of forfeiture (shares of forfeitable deferred stock are sometimes called "restricted stock units" or RSUs);
- performance shares or other stock-based performance awards (these include deferred stock or restricted stock awards that may be earned by achieving specific performance objectives);
- other awards based on common stock;
- dividend equivalents;
- cash-based performance awards tied to achievement of specific performance objectives; and
- shares issuable in lieu of rights to cash compensation.

Restriction on Repricing. The 2003 Plan includes a restriction providing that, without stockholder approval, the Company will not amend or replace options or SARs previously granted under the 2003 Plan or other equity plans in a transaction that constitutes a "repricing." For this purpose, a "repricing" means amending the terms of an option or SAR after it is granted to lower its exercise price, any other action that is treated as a repricing under generally accepted accounting principles, or repurchasing for cash or canceling an option or SAR at a time when its exercise or base price is equal to or greater than the fair market value of the underlying stock, in exchange for another option (including on a delayed basis), restricted stock or other equity, unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction. Adjustments to the exercise price or number of shares subject to an option to reflect the effects of a stock split or other extraordinary corporate transaction will not constitute a "repricing."

Shares Available under the 2003 Plan. If this proposal is approved, and the share pools under the 2003 Plan are consolidated as described above, the number of shares subject to outstanding awards at March 31, 2015 and remaining available for future awards at that date under the 2003 Plan is 12,828,972 shares.

Shares that are subject to awards under the 2003 Plan that expire, terminate or are cancelled or forfeited or settled in cash, and shares that are tendered by a participant or withheld by the Company as full or partial payment of the exercise price relating to an option or shares subject to a SAR in excess of the

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number delivered upon exercise of the SAR, and shares withheld in satisfaction of tax obligations relating to any award, will not be deemed to be deliverable or delivered and therefore will be available for other awards under the 2003 Plan. This share counting rule could result in the recapture of a greater number of shares after the consolidation of the share pools under the 2003 Plan than would be the case prior to such consolidation, since until such time, recapture of any Legacy Bally Shares will be in accordance with the share counting rule in the Legacy Bally Plan. Under the 2003 Plan, shares repurchased in the open market with the proceeds from the exercise of an option do not become available for awards. Awards may be outstanding relating to a greater number of shares than the aggregate remaining available under the 2003 Plan so long as the Committee ensures that awards will not result in delivery and vesting of shares in excess of the number then available under the 2003 Plan. Shares delivered under the 2003 Plan may be either newly issued or treasury shares.

On March 31, 2015, the last reported sale price of the Company's common stock on the NASDAQ Stock Market was $10.47 per share.

Per-Person Award Limitations. The 2003 Plan includes limitations on the amount of awards that may be granted to a participant in a given year in order to qualify awards as "performance-based" compensation not subject to the limitation on deductibility under Section 162(m) of the Code. Under this annual per-person limitation, a participant may in any year be granted share-based awards of each type authorized under the 2003 Plan options, SARs, restricted stock, deferred stock, bonus stock or stock in lieu of other compensation obligations, dividend equivalents and other stock-based awards relating to no more than his or her "Annual Limit." The Annual Limit equals 1,500,000 shares plus the amount of the participant's unused Annual Limit relating to that type of share-based awards as of the close of the previous year, subject to adjustment for splits and other extraordinary corporate events. With respect to incentive awards not valued by reference to common stock at the date of grant (*i.e.*, cash-based awards), the 2003 Plan limits such performance awards that may be earned by a participant to the participant's defined Annual Limit, which for this purpose equals $3,000,000 plus the amount of the participant's unused cash Annual Limit as of the close of the previous year. The per-person limits for each type of stock-based award are independent of one another and independent of the limit on cash-denominated performance awards. These limits apply only to awards under the 2003 Plan, and do not limit the Company's ability to enter into compensation arrangements outside of the 2003 Plan.

Adjustments to Shares Reserved, Awards and Award Limits. Adjustments to the number and kind of shares subject to the share limitations and specified in the share-based Annual Limit are authorized in the event of a large and non-recurring dividend or distribution, recapitalization, stock split, stock dividend, reorganization, business combination, other similar corporate transaction, equity restructuring, as defined under applicable accounting rules, or other similar event affecting our common stock. We are also obligated to adjust outstanding awards (and share-related performance terms, such as share-price targets) upon the occurrence of events (such as these) that constitute an "equity restructuring" under accounting rules to preserve (without enlarging) the rights of 2003 Plan participants with respect to their awards. The Compensation Committee may adjust performance conditions and other terms of awards in response to these kinds of events or to changes in applicable laws, regulations, or accounting principles, except that adjustments to awards intended to qualify as "performance-based" generally must conform to requirements imposed by Section 162(m) of the Code.

Eligibility. Executive officers and other officers and full-time employees of the Company and its subsidiaries (including directors), non-employee directors of the Company, and other persons who provide substantial services are eligible to be granted awards under the 2003 Plan. A prospective employee may be granted an award, but no value may be realized under it if such person does not become an employee. As discussed above, the effect of this proposal would be to make the Legacy Bally Shares, for which eligibility is more restricted, available to the wider eligible group under the 2003 Plan. As of April 1, 2015, we had approximately 8,700 full-time employees (including 8 executive officers) and 11 directors (excluding

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Mr. Isaacs) who are potentially eligible for awards under the 2003 Plan. The number of non-employee service providers currently eligible for grants cannot be readily determined. Approximately 670 individuals held outstanding awards under the 2003 Plan, including awards in respect of Legacy Bally Shares, as of April 1, 2015.

Administration. The 2003 Plan is administered by the Compensation Committee, except that the Board may itself act in place of the Compensation Committee to administer the 2003 Plan, and determinations with respect to grants to non-employee directors must be made by the Board. The 2003 Plan provides that the composition and governance of the Compensation Committee will be established in the Compensation Committee's charter adopted by the Board. Subject to the terms and conditions of the 2003 Plan, the Compensation Committee is authorized to select participants, determine the type and number of awards to be granted and the number of shares to which awards will relate or the amount of an annual or long-term incentive award, specify times at which awards will be exercisable or settled, including performance conditions that may be required as a condition thereof, set other terms and conditions of such awards, prescribe forms of award agreements, interpret and specify rules and regulations relating to the 2003 Plan and make all other determinations which may be necessary or advisable for the administration of the 2003 Plan. Nothing in the 2003 Plan precludes the Compensation Committee from authorizing payment of compensation outside of the 2003 Plan, including bonuses based upon performance, to executive officers and other employees. The Compensation Committee is permitted to delegate authority to executive officers for the granting of awards, but action pursuant to delegated authority generally will be limited to grants to employees who are below the executive officer level. The 2003 Plan provides that Compensation Committee members will not be personally liable, and will be fully indemnified, in connection with any action, determination or interpretation taken or made in good faith under the 2003 Plan.

Stock Options and SARs. The Compensation Committee is authorized to grant stock options, including both incentive stock options ("ISOs"), which can result in potentially favorable tax treatment to the participant, and non-qualified stock options. SARs may also be granted, entitling the participant to receive the excess of the fair market value of a share on the date of exercise over the SAR's designated "base price." The exercise price of an option and the base price of a SAR are determined by the Compensation Committee, but may not be less than the fair market value of the shares on the date of grant (except as described below under "Other Terms of Awards"). The maximum term of each option or SAR will be ten years. Subject to this limit, the times at which each option or SAR will be exercisable and provisions requiring forfeiture of unexercised options (and in some cases gains realized upon an earlier exercise) at or following termination of employment or upon the occurrence of other events generally are fixed by the Compensation Committee. Options may be exercised by payment of the exercise price in cash, shares having a fair market value equal to the exercise price or surrender of outstanding awards or other property having a fair market value equal to the exercise price, as the Compensation Committee may determine. This may include withholding of option shares to pay the exercise price if that would not result in additional accounting expense. The Compensation Committee also is permitted to establish procedures for broker-assisted cashless exercises. Methods of exercise and settlement and other terms of SARs will be determined by the Compensation Committee. SARs may be exercisable for shares or for cash, as determined by the Compensation Committee. The Compensation Committee can require that outstanding options be surrendered in exchange for a grant of SARs with economically matching terms.

Restricted and Deferred Stock/Restricted Stock Units. The Compensation Committee is authorized to grant restricted stock and deferred stock. Prior to the end of the restricted period, shares granted as restricted stock may not be sold, and will be forfeited in the event of termination of employment in specified circumstances. The Compensation Committee will establish the length of the restricted period for awards of restricted stock. Aside from the risk of forfeiture and non-transferability, an award of restricted stock entitles the participant to the rights of a stockholder of the Company, including the right to vote the

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shares and to receive dividends (which may be forfeitable or non-forfeitable), unless otherwise determined by the Compensation Committee.

Deferred stock gives a participant the right to receive shares at the end of a specified deferral period. Deferred stock subject to forfeiture conditions may be denominated as an award of RSUs. The Compensation Committee will establish any vesting requirements for deferred stock/RSUs granted for continuing services. One advantage of RSUs, as compared to restricted stock, is that the period during which the award is deferred as to settlement can be extended past the date the award becomes non-forfeitable, so the Compensation Committee can require or permit a participant to continue to hold an interest tied to common stock on a tax-deferred basis. Prior to settlement, deferred stock awards, including RSUs, carry no voting or dividend rights or other rights associated with stock ownership, but dividend equivalents (which may be forfeitable or non-forfeitable) will be paid or accrue if authorized by the Compensation Committee.

Other Stock-Based Awards, Stock Bonus Awards and Awards in Lieu of Other Obligations. The 2003 Plan authorizes the Compensation Committee to grant awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to common stock. The Compensation Committee will determine the terms and conditions of such awards, including the consideration to be paid to exercise awards in the nature of purchase rights, the periods during which awards will be outstanding, and any forfeiture conditions and restrictions on awards. In addition, the Compensation Committee is authorized to grant shares as a bonus free of restrictions, or to grant shares or other awards in lieu of obligations under other plans or compensatory arrangements, subject to such terms as the Compensation Committee may specify.

Performance-Based Awards. The Compensation Committee may grant performance awards, which may be cash-denominated awards or share-based awards (for example, performance shares). Generally, performance awards require satisfaction of pre-established performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria as a condition of awards being granted or becoming exercisable or settleable, or as a condition to accelerating the timing of such events. Performance may be measured over a period of any length specified by the Compensation Committee. If so determined by the Compensation Committee, in order to avoid the limitations on tax deductibility under Section 162(m) of the Code, the business criteria used by the Compensation Committee in establishing performance goals applicable to performance awards to the named executive officers will be selected from among the following:

- earnings per share (basic or fully diluted);
- revenues;
- earnings, before or after taxes, from operations (generally or specified operations), before or after interest expense, depreciation, amortization, incentives, capital expenses, extraordinary or special items or other adjustments, including without limitation strategic equity investments, or adjustments to earnings contemplated by any credit agreement;
- cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital;
- return on net assets, return on assets, return on investment, return on capital or return on equity;
- economic value created;
- operating margin or operating expense;
- net income;
- stock price or total stockholder return; and

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strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, new products, ventures or facilities, cost targets, internal controls, compliance, customer satisfaction and service, human resources management, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates, joint ventures or facilities.

The Compensation Committee retains discretion to set the level of performance for a given business criteria that will result in the earning of a specified amount under a performance award. These goals may be set with fixed, quantitative targets, targets relative to past Company performance, targets compared to the performance of other companies, such as a published or special index or a group of companies selected by the Compensation Committee for comparison, or in such other form as the Compensation Committee may determine. Performance goals may be specified for the Company on a consolidated basis, or for specified subsidiaries or affiliates, or other business units, lines of business or specific products, and may be based on audited or unaudited results. The Compensation Committee may specify that these performance measures will be determined before payment of bonuses, capital charges, non-recurring or extraordinary income or expense or other financial and general and administrative expenses for the performance period.

Annual Incentive Awards. One type of performance award that may be granted under the 2003 Plan is annual incentive awards, settleable in cash or in shares upon achievement of pre-established performance objectives achieved during a specified period of up to one year. The Compensation Committee generally must establish the terms of annual incentive awards, including the applicable performance goals and the corresponding amounts payable (subject to per-person limits), and other terms of settlement, and all other terms of these awards, not later than 90 days after the beginning of the fiscal year. As stated above, annual incentive awards granted to named executive officers generally are intended to constitute "performance-based compensation" not subject to the limitation on deductibility under Section 162(m) of the Code. In order for such an annual incentive award to be earned, one or more of the performance objectives described in the preceding paragraph will have to be achieved. The Compensation Committee may specify additional requirements for the earning of such awards.

Other Terms of Awards. Awards may be settled in cash, shares, other awards or other property, in the discretion of the Compensation Committee. The Compensation Committee may require or permit participants to defer the settlement of all or part of an award, in accordance with such terms and conditions as the Compensation Committee may establish, including payment or crediting of interest or dividend equivalents on any deferred amounts. Vested but electively deferred awards may be paid out to the participant in the event of an unforeseeable emergency. The Compensation Committee is authorized to place cash, shares or other property in trusts or make other arrangements to provide for payment of the Company's obligations under the 2003 Plan. The Compensation Committee may condition awards on the payment of taxes, and may provide for mandatory or elective withholding of a portion of the shares or other property to be distributed in order to satisfy tax obligations. Awards granted under the 2003 Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Compensation Committee may permit transfers of awards other than ISOs on a case-by-case basis for estate planning purposes.

The Compensation Committee is authorized to impose non-competition, non-solicitation, confidentiality, non-disparagement and other requirements as a condition on the participant's right to retain an award or gains realized by exercise or settlement of an award. Awards under the 2003 Plan may be granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. The Compensation Committee may, however, grant awards in substitution for, exchange for or as a buyout of other awards under the 2003 Plan, awards under other Company plans or other rights to payment from the Company, and may exchange or buy out outstanding awards for cash or other property; provided, however, that any such substitution or exchange may only occur in a manner that would not be considered a repricing under

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the 2003 Plan. The Compensation Committee also may grant awards in addition to and in tandem with other awards or rights.

Dividend Equivalents. The Compensation Committee may grant dividend equivalents. These are rights to receive payments equal in value to the amount of dividends paid on a specified number of shares of common stock while an award is outstanding. These amounts may be in the form of cash or rights to receive additional awards or additional shares of common stock having a value equal to the cash amount. The awards may be granted on a stand-alone basis or in conjunction with another award, and the Compensation Committee may specify whether the dividend equivalents will be forfeitable or non-forfeitable. Typically, rights to dividend equivalents are granted in connection with RSUs or deferred stock, so that the participant can earn amounts equal to dividends paid on the number of shares covered by the award while the award is outstanding. Dividend equivalents credited on performance-based equity awards must be forfeitable based on performance to at least the same extent as the underlying award, and no dividend equivalents may be credited on unexercised options and SARs.

Vesting, Forfeitures, and Related Award Terms. The Compensation Committee may in its discretion determine the vesting schedule of options and other awards, the circumstances that will result in forfeiture of the awards, the post-termination exercise periods of options and similar awards, and the events that will result in acceleration of the ability to exercise and the lapse of restrictions, or the expiration of any deferral period, on any award.

The 2003 Plan provides that, upon a change in control (as defined in the 2003 Plan), unless the Compensation Committee has limited these rights in the grant agreement, awards will become vested and exercisable and restrictions thereon will lapse. In addition, any option that was not vested and exercisable throughout the 60-day period prior to the change in control may be surrendered for a cash payment equal to the spread at the date of the surrender. The definition of "change in control" provides that our current largest stockholder, MacAndrews & Forbes Incorporated, and certain related persons, are permitted to acquire more than 40% of the outstanding voting power without triggering a change in control. The Committee may also specify in any award agreement that performance conditions will be deemed met upon a change in control.

Amendment and Termination of the 2003 Plan. The Board may amend, suspend, discontinue or terminate the 2003 Plan or the Compensation Committee's authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under the NASDAQ Stock Market rules. NASDAQ Stock Market rules require stockholder approval of material modifications to plans such as the 2003 Plan. Under these rules, however, stockholder approval will not necessarily be required for amendments which might increase the cost of the 2003 Plan or broaden eligibility.

Unless earlier terminated, the 2003 Plan will terminate at such time that no shares reserved under the 2003 Plan remain available and the Company has no further obligation with respect to any outstanding award.

Federal Income Tax Implications of the 2003 Plan

We believe that under current law the following U.S. federal income tax consequences generally would arise with respect to awards under the 2003 Plan.

The grant of an option or a SAR will create no U.S. federal income tax consequences for the participant or the Company. A participant will not have taxable income upon exercising an option that is an ISO, except that the alternative minimum tax may apply. Upon exercising an option that is not an ISO, the participant generally must recognize ordinary income equal to the difference between the exercise price and the fair market value of the freely transferable or non-forfeitable shares acquired on the date of exercise. Upon exercising a SAR, the participant must generally recognize ordinary income equal to the cash or the fair market value of the shares received.

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Upon a disposition of shares acquired upon exercise of an ISO before the end of the applicable ISO holding periods, the participant must generally recognize ordinary income equal to the lesser of (1) the fair market value of the ISO shares at the date of exercise minus the exercise price and (2) the amount realized upon the disposition of the ISO shares minus the exercise price. For all options, a participant's sale of shares acquired by exercise of the option generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax "basis" in such shares. The tax "basis" normally is the exercise price plus any amount he or she recognized as ordinary income in connection with the option's exercise (or upon sale of the option shares in the case of an ISO). A participant's sale of shares acquired by exercise of a SAR generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax "basis" in the shares, which normally is the amount he or she recognized as ordinary income in connection with the SAR's exercise.

We normally can claim a tax deduction equal to the amount recognized as ordinary income by a participant in connection with the exercise of an option or SAR, but no tax deduction relating to a participant's capital gains. Accordingly, we will not be entitled to any tax deduction with respect to an ISO if the participant holds the shares for the applicable ISO holding periods prior to selling the shares.

Awards other than options and SARs that result in a transfer to the participant of cash or shares or other property generally will have terms intended to meet applicable requirements under Section 409A of the Code, which regulates deferred compensation. If no restriction on transferability or substantial risk of forfeiture applies to amounts distributed to a participant, the participant generally must recognize ordinary income equal to the cash or the fair market value of shares actually received. Thus, for example, if we grant an award of RSUs that has vested or requires or permits deferral of receipt of cash or shares under a vested award, the participant should not become subject to income tax until the time at which shares or cash are actually distributed, and we would become entitled to claim a tax deduction at that time.

On the other hand, if a restriction on transferability and substantial risk of forfeiture applies to shares or other property actually distributed to a participant under an award (such as, for example, a grant of restricted stock), the participant generally must recognize ordinary income equal to the fair market value of the transferred amounts at the earliest time either the transferability restriction or risk of forfeiture lapses. In all cases, we can claim a tax deduction in an amount equal to the ordinary income recognized by the participant, except as discussed below. A participant may elect to be taxed at the time of grant of restricted stock or other property rather than upon lapse of restrictions on transferability or the risk of forfeiture, but if the participant subsequently forfeits such shares or property he or she would not be entitled to any tax deduction, including as a capital loss, for the value of the shares or property on which he or she previously paid tax.

Any award that is deemed to be a deferral arrangement (that is, not excluded or exempted under the tax regulations) will be subject to Section 409A of the Code. Participant elections to defer compensation under such awards and as to the timing of distributions relating to such awards must meet requirements under Section 409A of the Code in order for income taxation to be deferred upon vesting of the award and tax penalties to be avoided by the participant.

Some options and SARs may be subject to Section 409A of the Code, which regulates deferral arrangements. In such case, the distribution to the participant of shares or cash relating to the award would have to be restricted in order for the participant not to be subject to tax and a tax penalty at the time of vesting. In particular, the participant's discretionary exercise of the option or SAR could not be permitted over a period extending more than a year in most cases. If the distribution and other award terms meet Section 409A of the Code's requirements, the participant would realize ordinary income at the time of distribution of shares or cash rather than exercise, with the amount of ordinary income equal to the distribution date value of the shares or cash less any exercise price actually paid. We would not be entitled

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to a tax deduction at the time of exercise, but would become entitled to a tax deduction at the time shares are delivered at the end of the deferral period.

As discussed above, compensation that qualifies as "performance-based" compensation is excluded from the $1 million deductibility cap under Section 162(m) of the Code, and therefore remains fully deductible by the company that pays it. A number of requirements must be met in order for particular compensation to so qualify, however, so there can be no assurance that such compensation under the 2003 Plan will be fully deductible under all circumstances. In addition, certain awards under the 2003 Plan generally will not qualify as "performance-based" compensation under Section 162(m) of the Code. Compensation to certain employees resulting from vesting of awards in connection with a change in control or termination following a change in control also may be non-deductible under Sections 4999 and 280G of the Code.

The foregoing provides only a general description of the application of U.S. federal income tax laws to certain awards under the 2003 Plan. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to participants in the 2003 Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement. Different tax rules may apply, including in the case of variations in transactions that are permitted under the 2003 Plan (such as payment of the exercise price of an option by surrender of previously acquired shares). The summary does not address in any detail the effects of other federal taxes (including possible "golden parachute" excise taxes) or taxes imposed under state, local or foreign tax laws.

New Plan Benefits Under the 2003 Plan

Because future awards under the 2003 Plan will be granted in the discretion of the Compensation Committee, the type, number, recipients and other terms of such awards cannot be determined at this time, except as described below. Information regarding the Company's recent practices with respect to annual incentive awards and stock-based compensation under the 2003 Plan is presented in the "Summary Compensation Table" and "Grants of Plan-Based Awards for Fiscal Year 2014" elsewhere in this Proxy Statement and in the financial statements in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2014.

No awards have been granted at this time subject to the approval of the proposed amendment and restatement of, and re-approval of certain material terms relating to performance-based awards under, the 2003 Plan. If stockholders do not approve the proposed amendment and restatement of, or re-approve such terms under, the 2003 Plan, the 2003 Plan will remain in effect in accordance with its current terms.

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Equity Compensation Plan Information

The following table provides information about the shares of our common stock that may be issued upon the exercise of stock options, warrants and other stock rights under all of our equity compensation plans as of December 31, 2014.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights[3] (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
	(in thousands, except for per share amounts)		
Equity compensation plans approved by security holders[1]	6,286,386	$ 11.87	8,843,146
Equity compensation plans not approved by security holders[2]	247,116	$ 8.73	69,157
Total	6,533,502	$ 11.56	8,912,303

(1) The "Equity compensation plans approved by security holders" consist of the 1997 Incentive Compensation Plan, the 2002 Employee Stock Purchase Plan and the 2003 Plan (prior to the amendment and restatement thereof contemplated by Proposal 2 in this Proxy Statement, and which currently includes 3,516,830 Legacy Bally Shares approved by the Bally stockholders). Under the 2003 Plan, as of December 31, 2014 8,714,986 of the shares remaining available for future awards could be used for options or SARs, but if instead those shares are used for RSUs or other "full-value" awards (*i.e.*, awards other than options and SARs), the number available would be 7,207,773 shares.

(2) The "Equity compensation plans not approved by security holders" consist of employment inducement equity awards comprised of 161,181 options and 85,935 RSUs granted during 2014 and our 1995 Equity Incentive Plan (discussed below).

(3) The weighted average exercise price of outstanding awards does not take into account the shares issuable upon vesting of RSUs which have no exercise price. At December 31, 2014, there was a total of 4,836,687 shares subject to RSUs which were outstanding under the 2003 Plan, including 118,696 vested RSUs that are subject to deferral. Had those RSUs been included in calculating the weighted average exercise price (treating them in effect as options with an exercise price of $0), the weighted average exercise price for awards under security holder-approved plans would have been $2.74, the weighted average exercise price for awards under non-security holder-approved plans would have been $5.69, and the weighted average exercise price for all outstanding awards would have been $2.85.

Inducement Stock Options. At December 31, 2014, 85,935 options and 161,181 RSUs granted during 2014 under an employment inducement award agreement to newly hired employees remained outstanding. The options were granted at an exercise price of $8.73 per share and have a ten-year term. The options become exercisable and the RSUs vest in four equal annual installments on the first four anniversaries of the date of grant.

1995 Equity Incentive Plan. The 1995 Equity Incentive Plan (the "1995 Plan"), which was originally adopted by our Board in May 1995, authorizes grants of non-qualified options, deferred stock and other stock-related awards to employees who are not executive officers or directors. As of December 31, 2014, no shares were subject to outstanding awards under the 1995 Plan and 69,157 shares remained available for grant under the 1995 Plan. The 1995 Plan is administered by the Compensation Committee, which is authorized to select the participants, determine the type of awards to be granted and the number of shares of common stock to which awards will relate, specify times at which awards will be exercisable, set other terms and conditions of such awards, interpret and specify rules and regulations relating to the 1995 Plan and make all other determinations that may be necessary or advisable for the administration of the 1995 Plan. The Board may amend, suspend, discontinue or terminate the 1995 Plan or the Compensation Committee's authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under the NASDAQ Stock Market rules which would require stockholder approval for material modifications of the 1995 Plan. Unless earlier terminated, the 1995 Plan will terminate at such

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time that no shares reserved under the 1995 Plan remain available and we have no further obligation with respect to any outstanding award.

THE BOARD RECOMMENDS A VOTE "FOR" THIS PROPOSAL TO APPROVE AN AMENDMENT AND RESTATEMENT, AND RE-APPROVAL, OF THE 2003 INCENTIVE COMPENSATION PLAN, AS AMENDED AND RESTATED

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee operates under a written charter adopted by the Board that is available on the Company's website at *www.scientificgames.com*.

The Audit Committee oversees the accounting, auditing and financial reporting processes of the Company. As part of its oversight responsibilities, the Audit Committee reviewed and discussed the Company's financial statements for the year ended December 31, 2014 with management and Deloitte & Touche LLP, the independent auditor for the Company. The Committee also discussed and reviewed with Deloitte & Touche LLP all communications required under generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (the "PCAOB"), including the matters required to be discussed by Deloitte & Touche LLP with the Committee under PCAOB standard AU 380, *Communication With Audit Committee,* and SEC Rule 2-07 of Regulation S-X.

In addition, Deloitte & Touche LLP provided to the Committee a formal written statement describing all relationships between Deloitte & Touche LLP and the Company that might bear on Deloitte & Touche LLP's independence as required by PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence.* The Committee reviewed and discussed with Deloitte & Touche LLP any matters that could have impacted Deloitte & Touche LLP's objectivity and independence from the Company and management, including the provision of non-audit services to the Company. Nothing came to the Committee's attention as a result of its review of Deloitte & Touche LLP's statement or its discussions with Deloitte & Touche LLP that would indicate that Deloitte & Touche LLP lacked such objectivity or independence. Based on these reviews and discussions and in reliance thereon, the Audit Committee recommended to the Board that the audited financial statements for the Company be included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2014 for filing with the SEC.

Audit Committee
Michael J. Regan, Chairman
Peter A. Cohen
Gerald J. Ford

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PROPOSAL 3
RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee has appointed Deloitte & Touche LLP as independent auditor for the fiscal year ending December 31, 2015 and stockholders are being asked to ratify such appointment at the annual meeting.

Representatives of Deloitte & Touche LLP are expected to be present at the meeting, will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from stockholders.

Approval of the proposal to ratify the appointment of the independent auditor requires the affirmative vote of a majority of the shares entitled to vote represented at the meeting. If the appointment is not ratified by stockholders, the Audit Committee will reconsider such appointment.

Fees Paid to Independent Auditor

Aggregate fees billed to us for the fiscal years ended December 31, 2013 and 2014 by our independent auditors, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates were approximately:

	2013 Fees	2014 Fees
Audit Fees:	$ 2,711,715	$ 4,123,311
Audit-Related Fees:	$ 479,984	$ 794,701
Tax Fees:	$ 142,111	$ 659,352
All Other Fees:	$ 1,271,483	$ 716,900

The Audit Fees listed above were billed in connection with the audit of our annual consolidated financial statements, the reviews of our interim consolidated financial statements included in our quarterly reports on Form 10-Q, Sarbanes-Oxley Section 404 attestation and statutory audits of foreign subsidiary financial statements. The Audit-Related Fees listed above were billed in connection with the professional services performed in 2014 in connection with an SEC comment letter response, a Form S-8, debt issuances in May and November and a Form 8-K/A required due to our acquisition of Bally. The Tax Fees listed above were billed for tax compliance, planning and advice. All Other Fees listed above were billed for services provided in connection with agreed-upon procedures and related reports for lottery games. All of the fees set forth in the table above were pre-approved by the Audit Committee in accordance with the procedures described below.

Pre-Approval Policy for Services Performed by Independent Auditor

The Audit Committee has responsibility for the appointment, compensation and oversight of the work of the independent auditor. As part of this responsibility, the Audit Committee must pre-approve all permissible services to be performed by the independent auditor.

The Audit Committee has adopted an auditor pre-approval policy that sets forth the procedures and conditions pursuant to which pre-approval may be given for services performed by the independent auditor. Under the policy, the Audit Committee must give prior approval for any amount or type of service within four categories audit, audit-related, tax services or, to the extent permitted by law, other services that the independent auditor provides. Prior to the annual engagement, the Audit Committee may grant general pre-approval for independent auditor services within these four categories at maximum pre-approved fee levels. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval and, in those instances, such service will require separate pre-approval by the Audit Committee if it is to be provided by the independent auditor. For any pre-approval, the Audit Committee will consider whether such services

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are consistent with the SEC's rules on auditor independence, whether the auditor is best-positioned to provide the most cost-effective and efficient service and whether the service might enhance the Company's ability to manage or control risk or improve audit quality. The Audit Committee may delegate to one or more of its members authority to approve a request for pre-approval, provided the member reports any approval so given to the Audit Committee at its next scheduled meeting.

THE BOARD RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITOR FOR THE FISCAL YEAR ENDING DECEMBER 31, 2015

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OTHER MATTERS

We are not aware of any matter other than those described in this Proxy Statement that will be acted upon at the annual meeting. In the event that any other matter properly comes before the meeting for a vote of stockholders, the persons named as proxies in the enclosed form of proxy will vote in accordance with their best judgment on such other matter.

We will pay the costs of proxy solicitation. Proxies are being solicited primarily by mail, but, in addition, our officers and employees may solicit proxies in person, by telephone or electronically.

STOCKHOLDER PROPOSALS FOR THE NEXT ANNUAL MEETING

Pursuant to Rule 14a-8 under the Exchange Act, if a stockholder wants to submit a proposal for inclusion in our proxy materials for the next annual meeting of stockholders, it must be received at our principal executive offices, 6650 S. El Camino Road, Las Vegas, Nevada 89118, Attention: Corporate Secretary, not later than December 31, 2015. In order to avoid controversy, stockholders should submit proposals by means, including electronic means, which permit them to prove the date of delivery.

If a stockholder intends to present a proposal for consideration at the next annual meeting outside of the processes of Rule 14a-8 under the Exchange Act, we must receive notice of such proposal at the address given above by March 16, 2016, or such notice will be considered untimely under Rule 14a-4(c)(1) under the Exchange Act, and our proxies will have discretionary voting authority with respect to such proposal, if presented at the annual meeting, without including information regarding such proposal in our proxy materials.

The deadlines described above are calculated by reference to the mailing date of the proxy materials for this year's annual meeting. If the Board changes the date of next year's annual meeting by more than 30 days, the Board will, in a timely manner, inform stockholders of such change and the effect of such change on the deadlines given above by including a notice in our annual report on Form 10-K, our quarterly reports on Form 10-Q, or a current report on Form 8-K or by any other means reasonably calculated to inform the stockholders.

Your cooperation in giving this matter your immediate attention and in returning your proxy promptly will be appreciated.

By Order of the Board of Directors

Maintenance Support and Training	57,902	55,996	171,133	169,123
Installation and Deployment	27,397	31,245	84,011	92,317
Consulting and Network Design	8,822	10,848	28,969	32,866
Total Global Services	94,121	98,089	284,113	294,306
Consolidated revenue	$ 728,719	$670,550	$2,057,238	$1,884,382

Segment Profit (Loss)

Segment profit (loss) is determined based on internal performance measures used by the chief executive officer to assess the performance of each operating segment in a given period. In connection with that assessment, the chief executive officer excludes the following items: selling and marketing costs; general and administrative costs; amortization of intangible assets; acquisition and integration costs; restructuring costs; interest and other income (loss), net; interest expense; and provisions for income taxes.

The table below (in thousands) sets forth Ciena's segment profit (loss) and the reconciliation to consolidated net income during the respective periods indicated:

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2017	2016	2017	2016
Segment profit (loss):				
Networking Platforms	$159,649	$150,521	$423,859	$390,109
Software and Software-Related Services	11,133	2,412	23,384	(970)
Global Services	39,565	38,855	116,637	114,543
Total segment profit	210,347	191,788	563,880	503,682
Less: Non-performance operating expenses				
Selling and marketing	86,739	83,732	260,292	252,878
General and administrative	35,569	34,336	106,423	100,681
Amortization of intangible assets	3,837	14,529	29,368	46,957
Acquisition and integration costs	—	1,029	—	4,613
Restructuring costs	2,203	1,138	8,874	2,057
Add: Other non-performance financial items				
Interest expense and other income (loss), net	(14,263)	(19,614)	(45,322)	(52,741)
Less: Provision for income taxes	7,726	3,864	11,704	7,758
Consolidated net income	$60,010	$33,546	$101,897	$35,997

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Entity Wide Reporting

Ciena's operating segments each engage in business across four geographic regions: North America; Europe, Middle East and Africa (“EMEA”); Asia Pacific (“APAC”); and Caribbean and Latin America (“CALA”). North America includes only activities in the United States and Canada. The following table reflects Ciena’s geographic distribution of revenue principally based on the relevant location for Ciena's delivery of products and performance of services. For the periods below, Ciena’s geographic distribution of revenue was as follows (in thousands):

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2017	2016	2017	2016
North America	$465,238	$438,013	$1,295,539	$1,226,222
EMEA	96,068	104,266	293,387	281,163
CALA	51,709	46,606	120,826	148,312
APAC	115,704	81,665	347,486	228,685
Total	$728,719	$670,550	$2,057,238	$1,884,382

North America includes $438.1 million and $410.0 million of United States revenue for fiscal quarters ended July 31, 2017 and 2016, respectively. For the nine months ended July 31, 2017 and 2016, United States revenue was $1.2 billion and $1.1 billion, respectively. No other country accounted for 10% or more of total revenue for the periods presented above.

The following table reflects Ciena's geographic distribution of equipment, building, furniture and fixtures, net, with any country accounting for at least 10% of total equipment, building, furniture and fixtures, net, specifically identified. Equipment, building, furniture and fixtures, net, attributable to geographic regions outside of the United States and Canada are reflected as “Other International.” For the periods below, Ciena's geographic distribution of equipment, building, furniture and fixtures was as follows (in thousands):

	July 31, 2017	October 31, 2016
Canada	$208,422	$ 173,885
United States	94,790	103,018
Other International	11,638	11,503
Total	$314,850	$ 288,406

For the periods below, customers accounting for at least 10% of Ciena’s revenue, were as follows (in thousands):

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2017	2016	2017	2016
AT&T	$120,931	$105,418	$324,900	$348,032
Verizon	82,918	n/a	206,272	n/a
Total	$203,849	$105,418	$531,172	$348,032

n/a Denotes revenue representing less than 10% of total revenue for the period

The customers identified above purchased products and services from each of Ciena's operating segments.

(21) COMMITMENTS AND CONTINGENCIES

Foreign Tax Contingencies

Ciena is subject to various tax liabilities arising in the ordinary course of business. Ciena does not expect that the ultimate settlement of these liabilities will have a material effect on its results of operations, financial position or cash

flows.

Litigation

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From May 15 through June 3, 2015, five separate putative class action lawsuits in connection with Ciena's then-pending acquisition of Cyan, Inc. ("Cyan") were filed in the Court of Chancery of the State of Delaware. On June 23, 2015, each of these lawsuits was consolidated into a single case captioned In Re Cyan, Inc. Shareholder Litigation, Consol. C.A. No. 11027-CB. On July 15, 2016, the plaintiffs filed a third amended complaint against the members of Cyan's board of directors, which generally alleged that they breached their fiduciary duties by engaging in a conflicted and unfair sales process, failing to maximize stockholder value in the acquisition, taking steps to preclude competitive bidding, and failing to disclose material information necessary for stockholders to make an informed decision regarding the acquisition. On August 5, 2016, the defendants filed a motion to dismiss the third amended complaint. On May 11, 2017, the Court of Chancery granted the defendants' motion to dismiss the third amended complaint with prejudice.

As a result of the acquisition of Cyan in August 2015, Ciena became a defendant in a securities class action lawsuit. On April 1, 2014, a purported stockholder class action lawsuit was filed in the Superior Court of California, County of San Francisco, against Cyan, the members of Cyan's board of directors, Cyan's former Chief Financial Officer, and the underwriters of Cyan's initial public offering. On April 30, 2014, a substantially similar lawsuit was filed in the same court against the same defendants. The two cases have been consolidated as Beaver County Employees Retirement Fund, et al. v. Cyan, Inc. et al., Case No. CGC-14-538355. The consolidated complaint alleges violations of federal securities laws on behalf of a purported class consisting of purchasers of Cyan's common stock pursuant or traceable to the registration statement and prospectus for Cyan's initial public offering in April 2013, and seeks unspecified compensatory damages and other relief. On May 19, 2015, the proposed class was certified. On August 25, 2015, the defendants filed a motion for judgment on the pleadings based on an alleged lack of subject matter jurisdiction over the case, which motion was denied on October 23, 2015. On May 24, 2016, the defendants filed a petition for a writ of certiorari on the jurisdiction issue with the United States Supreme Court, which petition was granted on June 27, 2017. The matter is expected to be heard during the Supreme Court's October 2017 Term. On November 18, 2016, the Superior Court stayed the case pending the outcome of the Supreme Court's decision. Ciena believes that the consolidated lawsuit is without merit and intends to defend it vigorously.

On May 29, 2008, Graywire, LLC filed a complaint in the United States District Court for the Northern District of Georgia against Ciena and four other defendants, alleging, among other things, that certain of the parties' products infringe U.S. Patent 6,542,673 (the "'673 Patent"), relating to an identifier system and components for optical assemblies. The complaint seeks injunctive relief and damages. In July 2009, upon request of Ciena and certain other defendants, the U.S. Patent and Trademark Office ("PTO") granted the defendants' inter partes application for reexamination with respect to certain claims of the '673 Patent, and the district court granted the defendants' motion to stay the case pending reexamination of all of the patents-in-suit. In December 2010, the PTO confirmed the validity of some claims and rejected the validity of other claims of the '673 Patent, to which Ciena and other defendants filed an appeal. On March 16, 2012, the PTO on appeal rejected multiple claims of the '673 Patent, including the two claims on which Ciena is alleged to infringe. Thereafter, on May 28, 2013, the plaintiff filed an amendment with the PTO in which it canceled the claims of the '673 Patent on which Ciena is alleged to infringe. The case currently remains stayed, and there can be no assurance as to whether or when the stay will be lifted.

In addition to the matters described above, Ciena is subject to various legal proceedings and claims arising in the ordinary course of business, including claims against third parties that may involve contractual indemnification obligations on the part of Ciena. Ciena does not expect that the ultimate costs to resolve these matters will have a material effect on its results of operations, financial position or cash flows.

(22) SUBSEQUENT EVENT

On August 2, 2017, Ciena completed its offer to exchange its outstanding 3.75% Convertible Senior Notes due 2018 (the “Original Notes”) for a new series of 3.75% Convertible Senior Notes due 2018 (the “New Notes”) and an exchange fee of $2.50 per $1,000 original principal amount. The New Notes give Ciena the option, at its election, to settle conversions of such notes for cash, shares of its common stock, or a combination of cash and shares. Through these cash settlement options, Ciena believes that it will gain additional flexibility to better manage its long-term capital structure and reduce the dilutive impact of its convertible notes upon stockholders. It is Ciena’s current intent that upon any conversion of the New Notes, Ciena will settle the principal amount thereof in cash. Accordingly, beginning in the fourth quarter of fiscal 2017, Ciena intends to use the treasury stock method for the New Notes in its diluted earnings per share calculation. Following settlement of the exchange, $61.3 million in aggregate principal amount at maturity of Original Notes and $288.7 million in aggregate principal amount at maturity of the New Notes were outstanding.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report contains statements that discuss future events or expectations, projections of results of operations or financial condition, changes in the markets for our products and services, trends in our business, business prospects and strategies and other “forward-looking” information. In some cases, you can identify “forward-looking statements” by words like “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential, "targets," or “continue” or the negative of those words and other comparable words. These statements may relate to, among other things, adoption of next-generation network technology and software programmability and control of networks; our competitive landscape; market conditions and growth opportunities; factors impacting our industry; factors impacting the businesses of network operators and their network architectures; our corporate strategy, including our research and development, supply chain and go-to-market initiatives; efforts to increase application of our solutions in customer networks and to increase the reach of our business into new or growing customer and geographic markets; our backlog and seasonality in our business; expectations for our financial results, revenue, gross margin, operating expense and key operating measures in future periods; the adequacy of our sources of liquidity to satisfy our working capital needs, capital expenditures, and other liquidity requirements; business initiatives including real estate and IT transitions or initiatives; and market risks associated with financial instruments and foreign currency exchange rates. These statements are subject to known and unknown risks, uncertainties and other factors, and actual events or results may differ materially due to factors such as:

- our ability to execute our business and growth strategies;
- fluctuations in our revenue and operating results and our financial results generally;
- the loss of any of our large customers, a significant reduction in their spending, or a material change in their networking or procurement strategies;
- the competitive environment in which we operate;
- market acceptance of products and services currently under development and delays in product or software development;
- lengthy sales cycles and onerous contract terms with communications service providers, Web-scale providers and other large customers;
- product performance problems and undetected errors;
- our ability to diversify our customer base beyond our traditional customers and broaden the application for our solutions in communications networks;
- the level of growth in network traffic and bandwidth consumption and the corresponding level of investment in network infrastructures by network operators;
- the international scale of our operations and fluctuations in currency exchange rates;
- our ability to forecast accurately demand for our products for purposes of inventory purchase practices;
- the impact of pricing pressure and price erosion that we regularly encounter in our markets;

- our ability to enforce our intellectual property rights, and costs we may incur in response to intellectual property right infringement claims made against us;
- the continued availability on commercially reasonable terms of software and other technology under third party licenses;
- the potential failure to maintain the security of confidential, proprietary or otherwise sensitive business information or systems or to protect against cyber security attacks;
- the performance of our third party contract manufacturers;
- changes or disruption in components or supplies provided by third parties, including sole and limited source suppliers;
- our ability to manage effectively our relationships with third party service partners and distributors;

- unanticipated risks and additional obligations in connection with our resale of complementary products or technology of other companies;
- our new distribution relationships under which we will make available certain technology as a component;
- our exposure to the credit risks of our customers and our ability to collect receivables;
- modification or disruption of our internal business processes and information systems;
- the effect of our outstanding indebtedness on our liquidity and business;
- fluctuations in our stock price and our ability to access the capital markets to raise capital;
- unanticipated expenses or disruptions to our operations caused by facilities transitions or restructuring activities;
- inability to attract and retain experienced and qualified personnel;
- disruptions to our operations caused by strategic acquisitions and investments or the inability to achieve the expected benefits and synergies of newly-acquired businesses;
- our ability to grow our software business and address networking strategies including software-defined networking and network function virtualization;
- changes in, and the impact of, government regulations, including with respect to: the communications industry generally; the business of our customers; the use, import or export of products; and the environment, potential climate change and other social initiatives;
- future legislation or executive action in the U.S. relating to tax policy or trade regulation;
- impairment charges caused by the write-down of goodwill or long-lived assets;
- our ability to maintain effective internal controls over financial reporting and liabilities that result from the inability to comply with corporate governance requirements; and
- adverse results in litigation matters.

These are only some of the factors that may affect the forward-looking statements contained in this quarterly report. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” in this quarterly report. You should review these risk factors for a more complete understanding of the risks associated with an investment in our securities. For a more complete understanding of the risks associated with an investment in Ciena’s securities, you should review these risk factors and the rest of this quarterly report in combination with the more detailed description of our business and management’s discussion and analysis of financial condition and risk factors described in our annual report on Form 10-K, which we filed with the Securities and Exchange Commission (the "SEC") on December 21, 2016. However, we operate in a very competitive and rapidly changing environment and new risks and uncertainties emerge, are identified or become apparent from time to time. We cannot predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this quarterly report. You should be aware that the forward-looking statements contained in this quarterly report are based on our current views and assumptions. We undertake no obligation to revise or update any forward-looking statements made in this quarterly report to reflect events or circumstances after the date hereof or to reflect new information or the occurrence of unanticipated events, except as required by law. The forward-looking statements in this quarterly report are intended to be subject to protection afforded by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Overview

We are a network strategy and technology company, providing solutions that enable a wide range of network operators to adopt next-generation communication architectures and to deliver a broad array of services relied upon by enterprise and consumer end users. We provide equipment, software and services that support the transport, switching, aggregation, service delivery and management of voice, video and data traffic on communications networks. Our high-capacity hardware and network management and control software solutions enable open, multi-vendor, programmable networks that improve automation, reduce network complexity and flexibly support changing service

requirements. Our solutions yield business and operational value for our customers by enabling them to support new applications, introduce new revenue-generating services and reduce network complexity and expense.

Our Converged Packet Optical, Packet Networking and Optical Transport products are used by a diverse set of customers and market segments, including communications service providers, cable and multiservice operators, Web-scale providers, submarine network operators, governments, enterprises, research and education (R&E) institutions, and other emerging network operators. These products, which provide functionality from the network core to network access points, allow network operators to scale capacity, increase transmission speeds, allocate traffic and adapt dynamically to changing end-user service demands. In addition to our portfolio of high-capacity hardware platforms, we offer network management and control software platforms designed to simplify the creation, automation and delivery of services across multi-vendor and multi-domain network environments. Our software solutions are oriented around our modular Blue Planet software platform for multi-domain service

orchestration, network function virtualization, and network management and control. To complement our hardware and software solutions, we offer a broad range of transformation and automation services that help our customers design, optimize, integrate, deploy, manage and maintain their networks.

Our quarterly reports on Form 10-Q, annual reports on Form 10-K, and current reports on Form 8-K filed with the SEC are available through the SEC's website at www.sec.gov or free of charge on our website as soon as reasonably practicable after we file these documents. We routinely post the reports above, recent news and announcements, financial results and other information about Ciena that is important to investors in the "Investors" section of our website at www.ciena.com. Investors are encouraged to review the “Investors” section of our website because, as with the other disclosure channels that we use, from time to time we may post material information on that site that is not otherwise disseminated by us.

Market Opportunity

The markets in which we sell our communications networking solutions have seen significant changes in recent years, including rapid growth in network traffic, evolving cloud-based service offerings, changes in the type of customers building communications networks, and heightened end-user service demands. These conditions have placed significant demands on networks, challenged the business models of network operators, and altered the overall competitive landscape of network operators. Existing and emerging network operators are competing to distinguish their service offerings and rapidly introduce differentiated, revenue-generating services, while managing the costs of their networks and seeking to ensure a profitable business model. These dynamics are driving convergence of network features, functions and layers, virtualization of certain network functions, and solutions that leverage increased software-based network control and programmability. We believe that these dynamics, and the need to adapt to rapidly changing business and network demands, will cause network operators to adopt or evolve their networks to be more open, programmable and automated.

Competitive Landscape

The markets in which we compete are characterized by rapidly advancing technologies, frequent introduction of new networking solutions and aggressive selling and pricing efforts to gain or retain market share. The markets for our solutions are both highly competitive and fragmented, as we regularly compete with number of large, multi-national vendors with greater financial, operational and marketing resources, and significantly broader product offerings. Our sales of Converged Packet Optical solutions face an intense competitive environment as we and our competitors introduce new, higher-capacity, higher-speed network solutions with improved reach, spectral efficiency, automation, power consumption and cost per bit. We expect the competitive landscape in which we operate to continue to broaden and to remain challenging and dynamic. As we have expanded our solutions offerings to include our 8700 Packetwave Platform and Waveserver DCI platform, our solutions have become increasingly competitive with IP router vendors, data center switch providers, and other IT suppliers or integrators. In software, as we seek increased customer adoption of our Blue Planet software platform, we expect to compete more directly with additional software vendors and information technology vendors or integrators of these solutions.

In addition to the above dynamics, many network operators are continuing to consider a variety of “consumption models”, or approaches to the design and procurement of their network infrastructure. While broader adoption of those consumption models emphasizing disaggregation in the procurement of hardware and software remains uncertain, we expect that the potential for different models will require us and other system vendors to assess and possibly broaden our existing commercial models over time. We may also face competition from component vendors, including those in our supply chain, that develop networking products based on off-the-shelf or commoditized hardware technology, referred to as “white box” hardware. Further, some of our competitors are not vertically integrated in their packet optical supply chain and therefore sell a set of networking solutions that rely upon coherent modem technology developed by

and procured from third party “merchant” providers. In connection with consumption models involving greater disaggregation, the continued use of such third party modem technology by these competitors and/or the availability of such technology in the market may increase overall pricing pressure in this space and may negatively impact our ability to derive higher gross margins for Converged Packet Optical solutions.

Given this dynamic competitive landscape and the market-based price erosion for our products that we regularly encounter, we expect that, in order to achieve sustained revenue growth, we will be required to continue to increase our volume of product shipments, continue to diversify our business and customer base, introduce new solutions that address evolving service and network demands, and accommodate multiple consumption models. In addition, in order to maintain incumbency with key customers and to secure new opportunities, we are often required to agree to aggressive pricing, incur significant costs early in network deployment, or make significant commercial concessions. These terms have adversely affected our results of operations in the past, have contributed to fluctuations in our financial results, and may do so again in the future.

Strategy

Our corporate strategy to capitalize on the evolving market dynamics described above to drive the profitable growth of our business includes the following initiatives:

Promote Choice and Openness through our OP^n Philosophy. We previously introduced our OP^n Architecture as a focused approach to next-generation networks through scalability, programmability and network level applications. Today, OP^n has evolved and expanded from an architecture into our governing philosophy and broader belief system, which is rooted in enabling choice in the market through openness. Choice is an increasingly important element of our customers' efforts to keep pace with bandwidth demands and emerging service offerings, the shift to more automated and programmable networks, and the need to manage network costs. We believe that the best way to enable choice for our customers is by developing and providing network technologies and strategies that facilitate openness through innovation, virtualization, automation and collaboration. We also believe that we are well-positioned in this regard to offer an expansive range of choice to the market. Our OP^n belief system shapes the operation of our business in a number of ways. It guides our research and development strategy and solutions offerings, including our focus on coherent modem leadership, packet-optical convergence, and on multi-vendor network orchestration, management and control through our Blue Planet software platform. By embracing design principles that leverage open application programming interfaces (APIs), including those found in our Waveserver platform, we believe we facilitate openness and choice. By offering collaborative tools and environments, including our Emulation Cloud and DevOps Toolkit, we enable the development, testing and customization of services and applications. Our OP^n belief system also influences our go-to-market approach, as we expect to partner increasingly with an ecosystem of solutions vendors and virtual network function providers, and to integrate services and applications across multi-vendor and multi-domain networks. We intend to offer solutions and pursue opportunities across a range of customer consumption models in order to drive the evolution of next-generation network infrastructures and accelerate the realization of our OP^n philosophy.

Extend Technology Leadership and Expand Application of our Solutions. Our product development strategy is focused on maintaining our leading technology offerings and expanding our role and the application of our solutions in customer networks. Our research and development efforts seek to advance and extend our coherent modem technology leadership, including our WaveLogic coherent optical processor and high-speed indium phosphide and silicon photonics technologies (HSPC) acquired from TeraXion during fiscal 2016. We are also focused on introducing terabit per second and greater transmission speeds, and expanding the high-capacity and operationally-efficient service delivery capabilities in our Packet Networking and Converged Packet Optical products for access and metro networks, data center interconnect, submarine networks, and other WAN applications. In addition, we are seeking to increase software programmability of networks and to enable network operators to automate and accelerate the creation and delivery of new, cloud-based services. These efforts include investments in our Blue Planet software platform — which is designed to automate, orchestrate, and manage physical network resources and virtualized services across data centers and the WAN — and its integration across our portfolio and with additional third party network resources.

As part of our strategy to expand the application of our solutions and capitalize on the evolving market dynamics and different consumption models described above, on March 20, 2017, we announced global distribution relationships with leading component vendors Lumentum, NeoPhotonics and Oclaro. Through this new distribution channel, we intend to supply our WaveLogic Ai coherent optical technology for use as a component of a Ciena-designed optical module to be manufactured, marketed and sold by the component vendors. Once these modules are available, Lumentum, NeoPhotonics and Oclaro will each have the ability to sell such modules to customers on a non-exclusive basis. We believe that potential customers for optical modules through this distribution channel may include a variety of market participants, including certain of our customers, other system vendors, and network operators or vendors that plan to build or use "white box" hardware. In addition, we intend to work together with these component vendors to

contribute to the establishment of specifications, both independently and within relevant industry forums, for 400G pluggable technology solutions focused on data center interconnect requirements for greater scale and power efficiency and lower cost. We believe that this distribution channel will further our efforts to continue to diversify our business and expand our addressable market to include new geographies and market segments, while enabling greater choice for network operators in offering an alternative to “merchant” modems. No revenue was generated through this distribution channel during the first nine months of fiscal 2017. We expect the results of operations related to this distribution channel to be reflected within our Networking Platforms segment.

Increase Diversification of our Business. The continued diversification of our business is a key element of our strategy. We believe this diversification positions us to continue to grow our business and to better withstand potential slowdowns adversely affecting particular geographies, markets, customer segments and applications. We intend to pursue initiatives that broaden sales to existing customers across our solutions portfolio and also to secure additional relationships with a diverse set of network operators in high-growth customer segments and geographies.

Our sales and marketing efforts seek to promote increased sales to existing customers, particularly through opportunities that expand our role or the application of our solutions within their network and business. We are pursuing opportunities to increase adoption of our packet access and aggregation solutions, and to secure market share of our Blue Planet software platform, including within our existing customer base. We are also focused on opportunities to support metro aggregation, data center interconnect, managed services offerings, cloud-based services, submarine networks, business Ethernet services and mobile backhaul. We intend to leverage our existing customer relationships to increase sales and promote the adoption of our solutions as our customers scale and evolve their networks.

We also intend to target important growth markets, including key customer market segments and geographies. Our go-to-market strategy is focused on further diversifying our customer base by penetrating additional internet content providers, data center operators and other emerging network operators that form the “Web-scale” marketplace. We are also focused on securing additional customers within our traditional base of communications service providers, particularly in higher growth markets, including our Asia-Pacific region and India. We intend to use our direct and indirect sales channels to target, and to expand our sales with, several other market verticals, including cable and multiservice operators, submarine network operators, enterprise customers and in the government and R&E markets. For example, we intend to gain greater reach providing network solutions to submarine network operators, particularly in the new cable build market, in part through our recently announced supply partnership with TE SubCom. To leverage the geographic reach of our direct sales resources and expand sales into key geographies, we have pursued channel and distribution opportunities, including our strategic relationship with Ericsson, that enable sales through third parties, including service providers, systems integrators and value-added resellers.

Optimize Business to Yield Operating Leverage. We regularly pursue initiatives to improve our operating margin, constrain operating expense and promote efficiency of our business processes and systems. These initiatives include portfolio optimization and engineering efforts to drive improved efficiencies in the design and development of our solutions and supply chain initiatives to ensure that our product cost model remains ahead of the price erosion that we regularly encounter in our markets. We are also focused on ensuring an efficient supply chain, including efforts to vertically integrate where prudent, reduce our material and overhead costs and improve inventory management and logistics. Our initiatives also include the recent upgrade of our company-wide enterprise resource planning platform, as well as contemporaneous efforts to improve automation of key business processes and systems. We seek to leverage these initiatives to promote the profitable growth of our business and to drive additional operating leverage.

Maturity of 0.875% Convertible Senior Notes due June 15, 2017

We repaid in cash the $185.3 million in aggregate principal amount outstanding of our 0.875% convertible senior notes at maturity on June 15, 2017.

Exchange Offer for 2018 Convertible Notes to Add Cash Settlement Conversion Options

On August 2, 2017, we completed our offer to exchange our currently outstanding 3.75% Convertible Senior Notes due 2018 (the “Original Notes”) for a new series of 3.75% Convertible Senior Notes due 2018 (the “New Notes”) and an exchange fee of $2.50 per $1,000 original principal amount. The New Notes give us the option, at our election, to settle conversions of the New Notes for cash, shares of our common stock, or a combination of cash and shares. Through these cash settlement options, we believe that we will gain additional flexibility to better manage our long-term capital structure and reduce the dilutive impact of our convertible notes upon stockholders. It is our current intent that upon any conversion of the New Notes we will settle the principal amount thereof in cash. Accordingly, we intend to use the treasury stock method for the New Notes in our diluted earnings per share calculation starting in the fourth quarter of fiscal 2017. Following settlement of the exchange offer, approximately $61.3 million in aggregate principal amount at maturity of Original Notes and $288.7 million in aggregate principal amount at maturity of the

New Notes were outstanding.

Financial Results for Third Quarter of Fiscal 2017 and Sequential Comparison

Revenue for the third quarter of fiscal 2017 was $728.7 million, representing a sequential increase of 3.1% from $707.0 million in the second quarter of fiscal 2017. Revenue-related details reflecting sequential changes from the second quarter of fiscal 2017 include:

- Product revenue for the third quarter of fiscal 2017 increased by $26.1 million, primarily reflecting revenue increases in Packet Networking and Converged Packet Optical within our Networking Platforms segment and software platforms within our Software and Software-Related Services segment.
- Service revenue for the third quarter of fiscal 2017 decreased by $4.4 million.

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- North America revenue for the third quarter of fiscal 2017 was $465.2 million, an increase from $424.4 million in the second quarter of fiscal 2017. This primarily reflects revenue increases of $37.9 million within our Networking Platforms segment and $5.5 million within our Software and Software-Related Services segment. These increases were partially offset by a revenue decrease of $2.5 million within our Global Services segment.
- Europe, Middle East and Africa ("EMEA") revenue for the third quarter of fiscal 2017 was $96.1 million, a decrease from $105.8 million in the second quarter of fiscal 2017. This primarily reflects a revenue decrease of $12.1 million within our Networking Platforms segment, partially offset by a revenue increase of $2.6 million within our Global Services segment.
- Caribbean and Latin America ("CALA") revenue for the third quarter of fiscal 2017 was $51.7 million, an increase from $33.9 million in the second quarter of fiscal 2017. This primarily reflects a revenue increase of $18.5 million within our Networking Platforms segment, partially offset by a revenue decrease of $1.2 million within our Global Services segment.
- Asia Pacific ("APAC") revenue for the third quarter of fiscal 2017 was $115.7 million, a decrease from $142.9 million in the second quarter of fiscal 2017. This primarily reflects revenue decreases of $23.5 million within our Networking Platforms segment, $2.5 million within our Global Services segment and $1.2 million within our Software and Software-Related Services segment.
- For the third quarter of fiscal 2017, two customers accounted for greater than 10% of total revenue. AT&T accounted for 16.6% of total revenue and Verizon accounted for 11.4%. AT&T accounted for 15.2% of total revenue in the second quarter of fiscal 2017.

Gross margin for both the third quarter and the second quarter of fiscal 2017 was 45.0%.

Operating expense was $246.1 million for the third quarter of fiscal 2017, a decrease from $260.4 million in the second quarter of fiscal 2017. Third quarter fiscal 2017 operating expense primarily reflects decreases of $7.1 million in amortization of intangibles expense, $3.9 million in research and development expense, $2.1 million in restructuring costs and $1.8 million in sales and marketing expense.

Income from operations for the third quarter of fiscal 2017 was $82.0 million, compared to income from operations of $57.8 million during the second quarter of fiscal 2017. Our net income for the third quarter of fiscal 2017 was $60.0 million, or $0.39 per diluted common share, compared to a net income of $38.0 million, or $0.25 per diluted common share, for the second quarter of fiscal 2017.

We generated cash from operations of $50.6 million during the third quarter of fiscal 2017, compared to $72.0 million of cash generated from operations during the second quarter of fiscal 2017. As of July 31, 2017, we had $559.5 million in cash and cash equivalents, $234.8 million of short-term investments in U.S. treasury securities and commercial paper and $59.9 million of long-term investments in U.S. treasury securities. This compares to $628.6 million in cash and cash equivalents, $274.8 million of short-term investments in U.S. treasury securities and commercial paper and $89.9 million of long-term investments in U.S. treasury securities at April 30, 2017.
As of July 31, 2017, we had 5,780 employees, which reflects an increase from 5,555 at October 31, 2016 and an increase from 5,559 at July 31, 2016.

Consolidated Results of Operations

Operating Segments

Ciena has the following operating segments for reporting purposes: (i) Networking Platforms, (ii) Software and Software-Related Services, and (iii) Global Services. See Note 20 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.
Quarter ended July 31, 2017 compared to the quarter ended July 31, 2016

Revenue
During the third quarter of fiscal 2017, approximately 17.0% of our revenue was non-U.S. Dollar denominated, including sales in Euros, Canadian Dollars, Brazilian Reais, Argentina Pesos, and British Pounds. During the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, the U.S. Dollar fluctuated against these currencies. Consequently, our revenue reported in U.S. Dollars on a constant currency basis was slightly reduced by approximately $2.0 million, or 0.3%, as compared to the third quarter of fiscal 2016. The table below (in thousands, except percentage data) sets forth the changes in our operating segment revenue for the periods indicated:

	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Revenue:						
Networking Platforms						
Converged Packet Optical	$506,532	69.5	$467,615	69.7	$38,917	8.3
Packet Networking	82,121	11.3	63,658	9.5	18,463	29.0
Optical Transport	3,694	0.5	9,619	1.4	(5,925)	(61.6)
Total Networking Platforms	592,347	81.3	540,892	80.6	51,455	9.5
Software and Software-Related Services						
Software Platforms	18,395	2.5	12,558	1.9	5,837	46.5
Software-Related Services	23,856	3.3	19,011	2.8	4,845	25.5
Total Software and Software-Related Services	42,251	5.8	31,569	4.7	10,682	33.8
Global Services						
Maintenance Support and Training	57,902	7.9	55,996	8.4	1,906	3.4
Installation and Deployment	27,397	3.8	31,245	4.7	(3,848)	(12.3)
Consulting and Network Design	8,822	1.2	10,848	1.6	(2,026)	(18.7)
Total Global Services	94,121	12.9	98,089	14.7	(3,968)	(4.0)
Consolidated revenue	$728,719	100.0	$670,550	100.0	$58,169	8.7

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

- Networking Platforms segment revenue increased, primarily reflecting product line sales increases of $38.9 million of our Converged Packet Optical products and $18.5 million in sales of our Packet Networking products partially offset by a product line sales decrease of $5.9 million in sales of our Optical Transport products.
Converged Packet Optical sales primarily reflect sales increases of $38.1 million of our Waveserver stackable interconnect system and $15.3 million of our 6500 Packet-Optical Platform. These increases were partially offset by sales decreases of $13.2 million of our Z-Series Packet-Optical Platform and $1.6 million of our OTN configuration for the 5410 Reconfigurable Switching System.

Packet Networking sales primarily reflect sales increases of $13.2 million of our 3000 and 5000 families of service delivery and aggregation switches and $5.3 million of our 8700 Packetwave Platform.
Optical Transport sales have continued to experience significant declines, as expected. Our Optical Transport products have either been previously discontinued, or are expected to be discontinued, reflecting network operators' transition toward next-generation converged network architectures addressed by solutions within our Converged Packet Optical product line.

- Software and Software-Related Services segment revenue increased, primarily reflecting sales increases of $4.9 million in software-related services and $5.8 million of our software platforms. The increase in software-related services is primarily due to sales increases of $3.4 million of software subscription services and $1.0 million of services supporting our Blue Planet software platform and advance software applications. The increase in software platform sales primarily reflects increases of $4.6 million in sales of our OneControl Unified Management System and $1.0 million in sales of our Blue Planet software platform.
- Global Services segment revenue decreased, primarily reflecting sales decreases of $3.9 million of our installation and deployment services and $2.0 million of our network transformation services, partially offset by a sales increase of $1.9 million of our maintenance support and training services.

Our operating segments each engage in business and operations across four geographic regions: North America; EMEA; CALA; and APAC. Results for North America include only activities in the United States and Canada. Part of our business and growth strategy is to continue to diversify our customer base and secure additional communications service provider customers outside of North America, including in high-growth geographies such as India. We believe that this is an important part of our strategy, and that it is required for continued revenue growth. The following table reflects our geographic distribution of revenue principally based on the relevant location for our delivery of products and performance of services. Our revenue, particularly when considered by geographic distribution, can fluctuate significantly and the timing of revenue recognition for large network projects, particularly outside of North America, can result in large variations in geographic revenue results in any particular quarter. The table below (in thousands, except percentage data) sets forth the changes in geographic distribution of revenue for the periods indicated:

	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
North America	$465,238	63.8	$438,013	65.3	$27,225	6.2
EMEA	96,068	13.2	104,266	15.5	(8,198)	(7.9)
CALA	51,709	7.1	46,606	7.0	5,103	10.9
APAC	115,704	15.9	81,665	12.2	34,039	41.7
Total	$728,719	100.0	$670,550	100.0	$58,169	8.7

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

- North America revenue primarily reflects increases of $20.5 million within our Networking Platforms segment and $8.2 million within our Software and Software-Related Services segment, partially offset by a revenue decrease of $1.5 million within our Global Services segment. The revenue increase within our Networking Platforms segment primarily reflects product line increases of $11.5 million of Converged Packet Optical sales and $9.9 million of Packet Networking sales. The revenue increase within Converged Packet Optical primarily reflects an increase of $35.1 million in sales of our Waveserver stackable interconnect system, partially offset by decreases of $13.4 million in sales of our Z-Series Packet-Optical Platform, $6.4 million in sales of our 5430 Reconfigurable Switching System and $2.3 million in sales of our 6500 Packet-Optical Platform. The revenue increase for our Waveserver stackable interconnect system primarily reflects increased sales to Web-scale providers. The revenue increase within Packet Networking primarily reflects increases of $7.3 million in sales of our 3000 and 5000 families of service delivery and aggregation switches and $3.1 million in sales of our 8700 Packetwave Platform. The revenue increase for our 3000 and 5000 families of service delivery and aggregation switches primarily reflects increased sales to AT&T and other

service providers. The revenue increase within our Software and Software-Related Services segment primarily reflects sales increases of $3.6 million in sales of our OneControl Unified Management System and $2.8 million of our software subscription services.

- EMEA revenue primarily reflects a decrease of $12.2 million within our Networking Platforms segment, partially offset by revenue increases of $2.9 million within our Global Services segment and $1.1 million within our Software and Software-Related Services segment. Our Networking Platforms segment revenue primarily reflects a product line decrease of $7.5 million in Converged Packet Optical sales, primarily due to a decrease of $12.0 million in sales for our 6500 Packet-Optical Platform partially offset by increases of $2.6 million in sales of our 5430 Reconfigurable Switching System and $2.0 million in sales of our Waveserver stackable interconnect system.
- CALA revenue primarily reflects an increase of $12.2 million within our Networking Platforms segment partially offset by a revenue decrease of $7.2 million within our Global Services segment. The revenue increase within our Networking Platforms segment primarily reflects a product line increase of $11.0 million of Converged Packet Optical sales primarily due to increased sales of our 6500 Packet-Optical Platform to cable and multiservice operators and certain communication service providers.
- APAC revenue primarily reflects increases of $31.0 million within our Networking Platforms segment, $1.8 million within our Global Services segment and $1.2 million within our Software and Software-Related Services segment. The revenue increase within our Networking Platforms segment primarily reflects product line increases of $23.8 million of Converged Packet Optical sales and $8.2 million of Packet Networking sales. The revenue increase within Converged Packet Optical primarily reflects a revenue increase of $18.2 million in sales of our 6500 Packet-Optical Platform, primarily related to sales through our strategic relationship with Ericsson in Australia. The revenue increase within Packet Networking primarily reflects increased sales of $4.5 million of our 3000 and 5000 families of service delivery and aggregation switches and $2.8 million of our 8700 Packetwave Platform to a certain communication service provider in India. APAC revenue has increased meaningfully in recent periods reflecting in part significant revenue growth in India, where we have benefited from service provider customer initiatives to gain subscribers and unprecedented subscriber growth and related network projects. Changes in spending and the timing of revenue recognition for large network projects in this region can result in significant variations in revenue results in any particular quarter.

Cost of Goods Sold and Gross Profit

Product cost of goods sold consists primarily of amounts paid to third party contract manufacturers, component costs, employee-related costs and overhead, shipping and logistics costs associated with manufacturing-related operations, warranty and other contractual obligations, royalties, license fees, amortization of intangible assets, cost of excess and obsolete inventory and, when applicable, estimated losses on committed customer contracts.

Services cost of goods sold consists primarily of direct and third party costs associated with our provision of services including installation, deployment, maintenance support, consulting and training activities and, when applicable, estimated losses on committed customer contracts. The majority of these costs relate to personnel, including employee and third party contractor-related costs.

Our gross profit as a percentage of revenue, or “gross margin,” has improved in recent fiscal years, from 41.4% in fiscal 2014 to 44.7% in fiscal 2016. However, gross margin, particularly when viewed on a quarterly basis, can fluctuate due to a number of factors. Our gross margin remains highly dependent upon on our continued ability to drive product cost reductions relative to the price erosion that we regularly encounter in our markets. Moreover, to retain or secure key customers, we may agree to pricing or other unfavorable commercial terms that adversely affect our gross margin. Our success in taking share and winning new business can result in additional costs associated with the early stages of network deployments, including an increased concentration of lower margin “common” equipment sales and installation services, as compared to higher margin products including channel cards, software services and maintenance services. Gross margin can also be impacted by changes in expense for excess and obsolete inventory and warranty obligations and our revenue concentration within a particular segment, product line, geography, or customer.

Service gross margin can be affected by the mix of customers and services, particularly the mix between deployment and maintenance services, geographic mix and the timing and extent of any investments in internal resources to support this business.

The tables below (in thousands, except percentage data) set forth the changes in revenue, cost of goods sold and gross profit for the periods indicated:

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	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Total revenue	$728,719	100.0	$670,550	100.0	$ 58,169	8.7
Total cost of goods sold	400,643	55.0	362,065	54.0	38,578	10.7
Gross profit	$328,076	45.0	$308,485	46.0	$ 19,591	6.4

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Product revenue	$610,742	100.0	$553,450	100.0	$ 57,292	10.4
Product cost of goods sold	341,197	55.9	299,381	54.1	41,816	14.0
Product gross profit	$269,545	44.1	$254,069	45.9	$ 15,476	6.1

* Denotes % of product revenue
** Denotes % change from 2016 to 2017

	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Service revenue	$117,977	100.0	$117,100	100.0	$ 877	0.7
Service cost of goods sold	59,446	50.4	62,684	53.5	(3,238)	(5.2)
Service gross profit	$58,531	49.6	$54,416	46.5	$ 4,115	7.6

* Denotes % of services revenue
** Denotes % change from 2016 to 2017

- Gross profit as a percentage of revenue reflects reduced product gross profit partially offset by improved services gross profit.
- Gross profit on products as a percentage of product revenue decreased primarily as a result of market-based price erosion partially offset by product cost reductions and increased software platform sales.
- Gross profit on services as a percentage of services revenue increased primarily due to sales of higher margin software subscription services and maintenance support services.

Operating Expense

We expect operating expense to increase in fiscal 2017 from the level reported for fiscal 2016 in order to fund our research and development initiatives, to provide for investments in the re-engineering of company-wide enterprise resource planning platforms, and to fund the transition of key facilities. In particular, the development of our new facilities and the transition of our operations in Ottawa, Canada and Gurgaon, India will require significant effort, time and cost.

Operating expense consists of the component elements described below.

Research and development expense primarily consists of salaries and related employee expense (including share-based compensation expense), prototype costs relating to design, development, testing of our products, depreciation expense and third-party consulting costs.

Selling and marketing expense primarily consists of salaries, commissions and related employee expense (including share-based compensation expense), and sales and marketing support expense, including travel, demonstration units, trade show expense and third-party consulting costs.

General and administrative expense primarily consists of salaries and related employee expense (including share-based compensation expense), and costs for third-party consulting and other services.

Amortization of intangible assets primarily reflects the amortization of purchased technology and customer relationships from our acquisitions.

Acquisition and integration costs consist of expenses for financial, legal and accounting advisors and severance and other employee-related costs, associated with our acquisition of Cyan on August 3, 2015 and our acquisition of the HSPC assets of TeraXion and its wholly-owned subsidiary on February 1, 2016.

Restructuring costs primarily reflect actions Ciena has taken to better align our workforce, facilities and operating costs with perceived market opportunities, business strategies and changes in market and business conditions.

During the third quarter of fiscal 2017, approximately 53% of our operating expense was non-U.S. Dollar denominated, including expenses in Canadian Dollars, Euros, British Pounds, Indian Rupees, and Brazilian Reais. During the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, the U.S. Dollar fluctuated against these currencies. Consequently, our operating expense reported in U.S. Dollars on a constant currency basis was slightly reduced by approximately $1.7 million, or 1.0%, as compared to the third quarter of fiscal 2016. The table below (in thousands, except percentage data) sets forth the changes in operating expense for the periods indicated:

	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Research and development	$117,729	16.2	$116,697	17.4	$1,032	0.9
Selling and marketing	86,739	11.9	83,732	12.5	3,007	3.6
General and administrative	35,569	4.9	34,336	5.1	1,233	3.6
Amortization of intangible assets	3,837	0.5	14,529	2.2	(10,692)	(73.6)
Acquisition and integration costs	—	—	1,029	0.2	(1,029)	(100.0)
Restructuring costs	2,203	0.3	1,138	0.2	1,065	93.6
Total operating expenses	$246,077	33.8	$251,461	37.6	$(5,384)	(2.1)

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

- Research and development expense benefited by $1.8 million as a result of foreign exchange rates, net of hedging, primarily due to a stronger U.S. Dollar in relation to the Canadian Dollar. Including the effect of foreign exchange rates, research and development expenses increased by $1.0 million. This change primarily reflects increased employee and compensation costs.
- Selling and marketing expense increased by $3.0 million, primarily reflecting increased employee and compensation costs.
- General and administrative expense increased by $1.2 million, primarily reflecting increased employee and compensation costs.
- Amortization of intangible assets decreased due to certain intangible assets having reached the end of their economic lives.
- Acquisition and integration costs incurred during fiscal 2016 reflects expense for financial, legal and accounting advisors and severance and other employee compensation costs, related to our acquisition of Cyan on August 3, 2015 and our acquisition of certain HSPC assets of TeraXion and its wholly-owned subsidiary on February 1, 2016.
- Restructuring costs increased primarily reflecting unfavorable lease commitments and relocation costs incurred in connection with the facility transition from our existing research and development center located at Lab 10 on the former Nortel Carling Campus to a new campus facility in Ottawa, Canada.

Other items

The table below (in thousands, except percentage data) sets forth the changes in other items for the periods indicated:

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	Quarter Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Interest and other income (loss), net	$(848)	(0.1)	$(3,647)	(0.5)	$2,799	76.7
Interest expense	$13,415	1.8	$15,967	2.4	$(2,552)	(16.0)
Provision for income taxes	$7,726	1.1	$3,864	0.6	$3,862	99.9

* Denotes % of total revenue

** Denotes % change from 2016 to 2017

- Interest and other income (loss), net primarily reflects a $3.5 million gain in foreign exchange rates on assets and liabilities denominated in a currency other than the relevant functional currency, net of hedging activity.
- Interest expense decreased primarily due to a reduction in our aggregate outstanding debt due to the refinancing of our term loans during the second quarter of fiscal 2017 and the maturity of our outstanding 0.875% Convertible Senior Notes on June 15, 2017. For additional information about our term loans and convertible notes, see Note 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.
- Provision for income taxes increased primarily due to foreign and state tax expense.

Nine months ended July 31, 2017 compared to the nine months ended July 31, 2016

Revenue

During the first nine months of fiscal 2017, approximately 18.0% of our revenue was non-U.S. Dollar denominated, including sales in Euros, Canadian Dollars, Brazilian Reais, British Pounds, Argentina Pesos and Japanese Yen. During the first nine months of fiscal 2017, as compared to the first nine months of fiscal 2016, the U.S. Dollar fluctuated against these currencies. Consequently, our revenue reported in U.S. Dollars on a constant currency basis was slightly reduced by approximately $6.7 million or 0.3%. The table below (in thousands, except percentage data) sets forth the changes in our operating segment revenue for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Revenue:						
Networking Platforms						
Converged Packet Optical	$1,421,315	69.1	$1,291,956	68.6	$129,359	10.0
Packet Networking	220,641	10.7	180,437	9.6	40,204	22.3
Optical Transport	11,822	0.6	30,215	1.6	(18,393)	(60.9)
Total Networking Platforms	1,653,778	80.4	1,502,608	79.8	151,170	10.1
Software and Software-Related Services						
Software Platforms	48,587	2.4	32,409	1.7	16,178	49.9
Software-Related Services	70,760	3.4	55,059	2.9	15,701	28.5
Total Software and Software-Related Services	119,347	5.8	87,468	4.6	31,879	36.4
Global Services						
Maintenance Support and Training	171,133	8.3	169,123	9.0	2,010	1.2
Installation and Deployment	84,011	4.1	92,317	4.9	(8,306)	(9.0)
Consulting and Network Design	28,969	1.4	32,866	1.7	(3,897)	(11.9)
Total Global Services	284,113	13.8	294,306	15.6	(10,193)	(3.5)
Consolidated revenue	$2,057,238	100.0	$1,884,382	100.0	$172,856	9.2

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* Denotes % of total revenue
** Denotes % change from 2016 to 2017

- Networking Platforms segment revenue increased, primarily reflecting product line sales increases of $129.4 million of our Converged Packet Optical products and $40.2 million of our Packet Networking products, partially offset by a product line sales decrease of $18.4 million in sales of our Optical Transport products.
Converged Packet Optical sales primarily reflect increases of $81.6 million of our 6500 Packet-Optical Platform, $68.8 million of our Waveserver stackable interconnect system, $14.3 million of our 5430 Reconfigurable Switching System and $2.1 million of our OTN configuration for the 5410 Reconfigurable Switching System. These increases were partially offset by sales decreases of $31.2 million of our Z-Series Packet-Optical Platform and $6.2 million of our CoreDirector® Multiservice Optical Switches.
Packet Networking sales primarily reflect increases of $33.7 million of our 3000 and 5000 families of service delivery and aggregation switches and $6.2 million of our 8700 Packetwave Platform.
Optical Transport sales have continued to experience significant declines, as expected. Our Optical Transport products have either been previously discontinued, or are expected to be discontinued, reflecting network operators' transition toward next-generation converged network architectures addressed by solutions within our Converged Packet Optical product line.
- Software and Software-Related Services segment revenue increased, primarily reflecting sales increases of $15.7 million in software-related services and $16.2 million of our software platforms. The increase in software-related services is primarily due to sales increases of $10.7 million of software subscription services, $3.4 million of services supporting our Blue Planet software platform and advance software applications, and $1.2 million of software-enabled services. The increase in software platform sales primarily reflects increases of $7.8 million in sales of our Blue Planet software platform and advanced software applications and $6.7 million in sales of our OneControl Unified Management System.
- Global Services segment revenue decreased, primarily reflecting sales decreases of $8.3 million of our installation and deployment services and $3.9 million of our consulting and network design services, partially offset by a sales increase of $2.0 million of our maintenance support and training services.

The table below (in thousands, except percentage data) sets forth the changes in geographic distribution of revenue for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
North America	$1,295,539	63.0	$1,226,222	65.1	$69,317	5.7
EMEA	293,387	14.3	281,163	14.9	12,224	4.3
CALA	120,826	5.8	148,312	7.9	(27,486)	(18.5)
APAC	347,486	16.9	228,685	12.1	118,801	51.9
Total	$2,057,238	100.0	$1,884,382	100.0	$172,856	9.2

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

- North America revenue primarily reflects increases of $53.8 million within our Networking Platforms segment and $23.7 million within our Software and Software-Related Services segment, partially offset by a revenue decrease of $8.2 million within our Global Services segment. The revenue increase within our Networking Platforms segment primarily reflects product line increases of $37.1 million of Converged Packet Optical sales and $20.5 million of Packet Networking sales, partially offset by a product line decrease of $3.8 million in Optical Transport sales. The revenue increase within Converged Packet Optical sales primarily reflects increases of $61.2 million in sales of our Waveserver stackable interconnect system and $10.4 million in sales of our 6500 Packet-Optical Platform, partially offset by a decrease of $30.1 million in sales of our Z-Series Packet-Optical Platform. The revenue increase for our

Waveserver stackable interconnect system primarily reflects increased sales to Web-scale providers. The revenue increase for our 6500 Packet-Optical Platform primarily reflects increased sales to service providers, partially offset by decreases in sales to AT&T, certain Web-scale providers and to a cable and multiservice operator that was acquired

during the third quarter of 2016. The revenue increase within Packet Networking primarily reflects an increase of $19.5 million in sales of our 3000 and 5000 families of service delivery and aggregation switches to AT&T and other communication service providers. The revenue increase within our Software and Software-Related Services segment primarily reflects sales increases of $9.4 million of our software subscription services, $5.3 million in sales of our Blue Planet software platform, $4.9 million of our OneControl Unified Management System and $2.1 million of services supporting our Blue Planet software platform and advance software applications.

- EMEA revenue primarily reflects increases of $10.6 million within our Networking Platforms segment and $3.7 million within our Software and Software-Related Services segment, partially offset by a revenue decrease of $2.1 million within our Global Services segment. Our Networking Platforms segment revenue primarily reflects a product line increase of $15.3 million in Converged Packet Optical sales, primarily due to increased sales of $9.2 million of our 6500 Packet-Optical Platform and $6.0 million of our Waveserver stackable interconnect system.
- CALA revenue primarily reflects decreases of $23.0 million within our Networking Platforms segment and $4.8 million within our Global Services segment. The revenue decrease within our Networking Platforms segment primarily reflects product line decreases of $22.3 million of Converged Packet Optical sales and $4.3 million in Optical Transport sales partially offset by a product line increase of $3.6 million of Packet Networking sales.
- APAC revenue primarily reflects increases of $109.8 million within our Networking Platforms segment, $4.8 million within our Global Services segment and $4.2 million within our Software and Software-Related Services segment. The revenue increase within our Networking Platforms segment primarily reflects product line increases of $99.3 million of Converged Packet Optical sales and $13.2 million of Packet Networking sales, partially offset by a product line decrease of $2.7 million in Optical Transport sales. The revenue increase within Converged Packet Optical reflects an increase of $66.5 million in sales of our 6500 Packet-Optical Platform primarily due to increases in sales through our strategic relationship with Ericsson in Australia, sales to Reliance Jio Infocomm in India and sales to service providers in Japan. The revenue increase within Converged Packet Optical also reflects an increase of $30.7 million of our 5430 Reconfigurable Switching System sales primarily due to increased sales to Reliance Jio Infocomm in India. The timing of revenue recognition for large network projects in this region can result in significant variations in revenue results in any particular quarter.

Cost of Goods Sold and Gross Profit

The tables below (in thousands, except percentage data) set forth the changes in revenue, cost of goods sold and gross profit for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Total revenue	$2,057,238	100.0	$1,884,382	100.0	$172,856	9.2
Total cost of goods sold	1,137,137	55.3	1,041,354	55.3	95,783	9.2
Gross profit	$920,101	44.7	$843,028	44.7	$77,073	9.1

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Product revenue	$1,702,365	100.0	$1,535,017	100.0	$167,348	10.9
Product cost of goods sold	955,303	56.1	851,641	55.5	103,662	12.2
Product gross profit	$747,062	43.9	$683,376	44.5	$63,686	9.3

* Denotes % of product revenue
** Denotes % change from 2016 to 2017

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	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Service revenue	$354,873	100.0	$349,365	100.0	$5,508	1.6
Service cost of goods sold	181,834	51.2	189,713	54.3	(7,879)	(4.2)
Service gross profit	$173,039	48.8	$159,652	45.7	$13,387	8.4

* Denotes % of services revenue
** Denotes % change from 2016 to 2017

- Gross profit as a percentage of revenue reflects improved services gross profit partially offset by reduced product gross profit.
- Gross profit on products as a percentage of product revenue decreased, primarily as a result of market-based price erosion partially offset by product cost reductions and increased software platform sales.
- Gross profit on services as a percentage of services revenue increased, primarily due to sales of higher margin software subscription services and maintenance support services.

Operating Expense

During the first nine months of fiscal 2017, approximately 52% of our operating expense was non-U.S. Dollar denominated, including Canadian Dollars, British Pounds, Euros, Indian Rupees and Brazilian Reais. During the first nine months of fiscal 2017, there was minimal impact of foreign currency exchange rates to our operating expense, in comparison to the first nine months of fiscal 2016. The table below (in thousands, except percentage data) sets forth the changes in operating expense for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Research and development	$356,221	17.3	$339,346	18.0	$16,875	5.0
Selling and marketing	260,292	12.7	252,878	13.4	7,414	2.9
General and administrative	106,423	5.2	100,681	5.3	5,742	5.7
Amortization of intangible assets	29,368	1.4	46,957	2.5	(17,589)	(37.5)
Acquisition and integration costs	—	—	4,613	0.2	(4,613)	(100.0)
Restructuring costs	8,874	0.4	2,057	0.1	6,817	331.4
Total operating expenses	$761,178	37.0	$746,532	39.6	$14,646	2.0

* Denotes % of total revenue
** Denotes % change from 2016 to 2017

- Research and development expense increased by $16.9 million. This increase primarily reflects increases of $9.7 million in employee and compensation costs, $7.0 million in facilities and information technology costs and $1.4 million of depreciation costs. These increases were partially offset by a decrease of $1.0 million in professional services.
- Selling and marketing expense increased by $7.4 million, primarily reflecting increases of $3.3 million in employee and compensation costs, $1.4 million in facilities and information technology costs, $1.2 million in technology and related costs and $1.0 million in selling and marketing costs.
- General and administrative expense increased by $5.7 million, primarily reflecting increases of $3.8 million for professional services and legal fees, $1.3 million for employee and compensation costs, and $1.2 million for facilities and information technology costs.
- Amortization of intangible assets decreased due to certain intangible assets having reached the end of their economic lives.

- Acquisition and integration costs incurred during fiscal 2016 reflects expense for financial, legal and accounting advisors and severance and other employee compensation costs, related to our acquisition of Cyan on August 3, 2015 and our acquisition of certain HSPC assets of TeraXion and its wholly-owned subsidiary on February 1, 2016.
- Restructuring costs increased due to unfavorable lease commitments and relocation costs incurred in connection with the facility transition from our existing research and development center located at Lab 10 on the former Nortel Carling Campus to a new campus facility in Ottawa, Canada.

Other items

The table below (in thousands, except percentage data) sets forth the changes in other items for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2017	%*	2016	%*	(decrease)	%**
Interest and other income (loss), net	$(3,396)	(0.2)	$(11,456)	(0.6)	$ 8,060	70.4
Interest expense	$41,926	2.0	$41,285	2.2	$ 641	1.6
Provision for income taxes	$11,704	0.6	$7,758	0.4	$ 3,946	50.9

* Denotes % of total revenue

** Denotes % change from 2016 to 2017

- Interest and other income (loss), net primarily reflects the improved impact of foreign exchange rates on assets and liabilities denominated in a currency other than the relevant functional currency, net of hedging activity, partially offset by $2.9 million in debt modification expenses related to the 2022 Term Loan that was entered into in the second quarter of fiscal 2017. For additional information about our term loans, see Note 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.
- Interest expense remained relatively unchanged.
- Provision for income taxes increased primarily due to increased foreign and state tax expense.

Segment Profit (Loss)

The table below (in thousands, except percentage data) sets forth the changes in our segment profit for the respective periods:

	Quarter Ended July 31,			
	2017	2016	Increase (decrease)	%*
Segment profit:				
Networking Platforms	$159,649	$150,521	$ 9,128	6.1
Software and Software-Related Services	$11,133	$2,412	$ 8,721	361.6
Global Services	$39,565	$38,855	$ 710	1.8

* Denotes % change from 2016 to 2017

- Networking Platforms segment profit increased, primarily due to higher sales volume, as described above, resulting in increased gross profits, slightly offset by increased research and development costs. Research and development costs primarily reflect increased expenses relating to the continued development of our coherent modem technology, including our WaveLogic Ai coherent optical chipset, and relocation costs as a result of the facility transition from our existing research and development center located at Lab 10 on the former Nortel Carling Campus to a new campus facility in Ottawa, Canada.
- Software and Software-Related Services segment profit increased, primarily due to higher sales volume, as described above, resulting in increased gross profits, slightly offset by increased research and development costs. Research and development costs primarily reflect increased expense relating to the continued development of our Blue Planet

software platform.

- Global Services segment profit increased, primarily due to improved gross margin on consulting and network design services offset by lower sales volume.

The table below (in thousands, except percentage data) sets forth the changes in our segment profit (loss) for the respective periods:

	Nine Months Ended July 31,			
	2017	2016	Increase (decrease)	%*
Segment profit (loss):				
Networking Platforms	$423,859	$390,109	$ 33,750	8.7
Software and Software-Related Services	$23,384	$(970)	$ 24,354	NM**
Global Services	$116,637	$114,543	$ 2,094	1.8

* Denotes % change from 2016 to 2017
** Not meaningful

- Networking Platforms segment profit increased, primarily due to higher sales volume, as described above, resulting in increased gross profits, slightly offset by increased research and development costs. Research and development costs primarily reflect increased expenses relating to the continued development of our coherent modem technology, including our WaveLogic Ai coherent optical chipset, and relocation costs as a result of the facility transition from our existing research and development center located at Lab 10 on the former Nortel Carling Campus to a new campus facility in Ottawa, Canada.
- Software and Software-Related Services segment profit reflects higher sales volume, as described above, and improved gross margin, partially offset by increased research and development costs. Research and development costs primarily reflect increased expenses relating to the continued development of our Blue Planet software platform.
- Global Services segment profit increased, primarily due to improved gross margin, as described above, partially offset by lower sales volume.

Liquidity and Capital Resources

For the nine months ended July 31, 2017, we generated $96.3 million in cash to fund our operating needs, as our net income (adjusted for non-cash charges) of $289.3 million exceeded our working capital requirements of $193.0 million. The increase in working capital was primarily driven by inventory increases of $93.9 million and an increase in our accounts receivable of $80.7 million. For additional details, see the discussion below entitled “Cash from Operations.”

Despite our cash generated from operations, our total cash, cash equivalents and investments decreased by $288.9 million during the first nine months of fiscal 2017. This decrease principally reflects the use of cash to fund the repurchase of $46.3 million in aggregate principal amount outstanding of our 0.875 % Convertible Senior Notes, which matured on June 15, 2017 (the “2017 Notes”), repayment at maturity of the remaining $185.3 million in aggregate principal amount outstanding of the 2017 Notes, and $93.6 million for the refinancing of our existing 2019 Term Loan and 2021 Term Loan into a new 2022 Term Loan. See Note 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report for information relating to these transactions. The decrease also reflects cash used in investing activities for capital expenditures totaling $76.0 million, and our settlement of certain foreign currency forward contracts of $1.6 million. Proceeds from the issuance of equity under our employee stock purchase plans provided approximately $20.4 million in cash during the period. The following table sets forth changes in our cash and cash equivalents and investments in marketable debt securities (in thousands):

	July 31, 2017	October 31, 2016	Increase (decrease)
Cash and cash equivalents	$559,540	$777,615	$(218,075)

Short-term investments in marketable debt securities	234,743	275,248	(40,505)
Long-term investments in marketable debt securities	59,874	90,172	(30,298)
Total cash and cash equivalents and investments in marketable debt securities	$854,157	$1,143,035	$(288,878)

Our principal sources of liquidity on hand include our cash, cash equivalents and investments, which as of July 31, 2017 totaled $854.2 million, as well as our ABL Credit Facility. Ciena and certain of its subsidiaries are parties to a senior secured asset-based revolving credit facility (the “ABL Credit Facility”) providing for a total commitment of $250 million with a maturity date of December 31, 2020. We principally use the ABL Credit Facility to support the issuance of letters of credit that arise in the ordinary course of our business and thereby to reduce our use of cash required to collateralize these instruments. As of July 31, 2017, letters of credit totaling $74.1 million were collateralized by our ABL Credit Facility. There were no borrowings outstanding under the ABL Credit Facility as of July 31, 2017.

The amount of cash, cash equivalents and short-term investments held by our foreign subsidiaries was $45.4 million as of July 31, 2017. Given this amount, we do not believe that there are significant amounts held by foreign subsidiaries in which we consider earnings to be permanently reinvested, that may not be available for U.S. operations. In the event such funds held by our foreign subsidiaries were repatriated, we believe that any resulting tax implications would not be material.

As more fully described in Note 22 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report, following the settlement of an exchange offer on August 2, 2017, approximately $288.7 million in aggregate principal amount at maturity of Original Notes were exchanged for New Notes, which provide us with the option, at our election, to settle conversions for cash, shares of our common stock, or a combination of cash and shares. It is our current intent that upon any conversion of the New Notes we will settle the principal amount thereof in cash.

We regularly evaluate our liquidity position, debt obligations, and anticipated cash needs to fund our operating or investment plans and may consider capital raising and other market opportunities that may be available to us. We regularly evaluate alternatives to manage our capital structure and reduce our debt and may continue to opportunistically repurchase our outstanding convertible notes.

Based on past performance and current expectations, we believe that cash from operations, cash, cash equivalents and investments and other sources of liquidity, including our ABL Credit Facility, will satisfy our working capital needs, capital expenditures, and other liquidity requirements associated with our operations, including the settlement of the principal amount of the New Notes in cash upon any conversions prior to maturity, through at least the next 12 months.

Cash from Operations

The following sections set forth the components of our $96.3 million of cash generated from operating activities during the first nine months of fiscal 2017:

Net income (adjusted for non-cash charges)

The following table sets forth our net income (adjusted for non-cash charges) during the period (in thousands):

	Nine months ended July 31, 2017
Net income	$101,897
Adjustments for non-cash charges:	
Depreciation of equipment, building, furniture and fixtures, and amortization of leasehold improvements	55,873
Share-based compensation costs	36,843
Amortization of intangible assets	39,721
Provision for inventory excess and obsolescence	28,727
Provision for warranty	5,188
Other	21,076
Net income (adjusted for non-cash charges)	$289,325

Working Capital

We used $193.0 million of cash for working capital during the period. The following tables set forth the major components of the cash used in working capital (in thousands):

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	Nine months ended July 31, 2017
Cash used in accounts receivable	$(80,652)
Cash used in inventories	(93,896)
Cash used in prepaid expenses and other	(26,450)
Cash used in accounts payable, accruals and other obligations	(5,960)
Cash provided by deferred revenue	13,978
Total cash used for working capital	$(192,980)

As compared to the end of fiscal 2016:

- The $80.7 million of cash used by accounts receivable during the first nine months of fiscal 2017 reflects increased sales volume;
- The $93.9 million of cash used in inventory during the first nine months of fiscal 2017 primarily reflects increases in finished goods to meet customer delivery schedules and deferred costs of sales awaiting customer acceptance;
- Cash used in prepaid expense and other during the first nine months of fiscal 2017 was $26.5 million, primarily reflecting higher prepaid value added taxes and higher deferred deployment expense;
- The $6.0 million of cash used in accounts payable, accruals and other obligations during the first nine months of fiscal 2017 primarily reflects a slight increase in payments to our suppliers; and
- The $14.0 million of cash provided by deferred revenue during the first nine months of fiscal 2017 represents an increase in advanced payments received from customers prior to revenue recognition.

Our days sales outstanding (DSOs) for the first nine months of fiscal 2017 were 86 days, and our inventory turns for the first nine months of fiscal 2017 were 4.6.

Cash Paid for Interest

The following tables set forth the cash paid for interest during the period (in thousands):

	Nine months ended July 31, 2017
0.875% Convertible Senior Notes due June 15, 2017[1]	$1,824
3.75% Convertible Senior Notes due October 15, 2018[2]	6,562
4.0% Convertible Senior Notes due December 15, 2020[3]	7,500
Term Loan due July 15, 2019[4]	2,342
Term Loan due April 25, 2021[5]	2,702
Term Loan due January 30, 2022 [6]	6,584
Interest rate swaps[7]	2,727
ABL Credit Facility[8]	1,180
Capital leases	2,440
Cash paid during period	$33,861

(1) The final interest payment owing on our 0.875% Convertible Senior Notes due June 15, 2017 was paid during the third quarter of fiscal 2017.

(2) Interest on our outstanding 3.75% Convertible Senior Notes due October 15, 2018 is payable on April 15 and October 15 of each year.

(3) Interest on our outstanding 4.0% Convertible Senior Notes due December 15, 2020 is payable on June 15 and December 15 of each year.

(4) Interest on the 2019 Term Loan was payable periodically based on the underlying market index rate selected for borrowing. The 2019 Term Loan bore interest at LIBOR plus a spread of 3.00% subject to a minimum LIBOR rate of 0.75%. On the first day of our second quarter of fiscal 2017, we refinanced and replaced this term loan with the 2022

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Term Loan. See Note 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report for more information.

(5) Interest on the 2021 Term Loan was payable periodically based on the underlying market index rate selected for borrowing. The 2021 Term Loan bore interest at LIBOR plus a spread of 3.25% to 3.50% subject to a minimum LIBOR rate of 0.75%. On the first day of our second quarter of fiscal 2017, we refinanced and replaced this term loan with the 2022 Term Loan. See Note 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report for more information.

(6) Interest on the 2022 Term Loan is payable periodically based on the underlying market index rate selected for borrowing. The 2022 Term Loan bears interest at LIBOR plus a spread of 2.5% subject to a minimum LIBOR rate of 0.75%. As of the end of the third quarter of fiscal 2017, the interest rate on the 2022 Term Loan was 3.73%.

(7) Prior to the term loan refinancing, payments on our interest rate swaps were variable and effectively fixed the total interest rate under the 2019 Term Loan at 5.004% from July 20, 2015 through July 19, 2018 and the 2021 Term Loan at 4.62% to 4.87%, depending on applicable margin, from June 20, 2016 through June 22, 2020. In connection with the refinancing of the 2019 and 2021 Term Loans into the 2022 Term Loan, in order to align our interest rate hedges to the reduced 2022 Term Loan principal value and later maturity date, we reduced the total outstanding value of our interest rate swaps and also entered into new forward starting interest rate swaps in January 2017 and February 2017, respectively. The interest rate swaps, as adjusted, fix 98%, 82% and 77% of the principal value of the 2022 Term Loan from February 2017 through July 2018, July 2018 through June 2020 and June 2020 through January 2021, respectively. The fixed rate on the amounts hedged during the periods described above will be 4.25%, 4.25% and 4.75%, respectively.

(8) During the first nine months of fiscal 2017, we utilized the ABL Credit Facility to collateralize certain standby letters of credit and paid $1.2 million in commitment fees, interest expense and other administrative charges relating to our ABL Credit Facility.

For additional information about our convertible notes and term loans (including the refinancing of our 2019 and 2021 Term Loans into the 2022 Term Loan), ABL Credit Facility and interest rate swaps, see Notes 14, 16 and 17 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Contractual Obligations

The following is a summary of our future minimum payments under contractual obligations as of July 31, 2017 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Principal due at maturity on convertible notes [1]	$567,127	$—	$350,000	$217,127	$—
Principal due on Term Loan due January 30, 2022 [2]	399,000	4,000	8,000	8,000	379,000
Interest due on convertible notes	45,938	20,625	21,563	3,750	—
Interest due on Term Loan due January 30, 2022 [2]	66,838	15,008	29,602	22,228	—
Payments due under interest rate swaps [2]	7,050	2,034	3,461	1,555	—
Operating leases [3]	134,891	30,829	39,066	27,846	37,150
Purchase obligations [4]	250,356	250,356	—	—	—
Capital leases— equipment	3,576	1,717	1,859	—	—
Capital leases— buildings [5]	129,670	7,768	15,656	16,142	90,104
Other obligations	2,132	1,033	1,099	—	—
Total [6]	$1,606,578	$333,370	$470,306	$296,648	$506,254

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(1) Includes the accretion of the principal amount on our outstanding 4.0% Convertible Senior Notes due December 15, 2020 payable at maturity at a rate of 1.85% per year compounded semi-annually, commencing December 27,

2012.

(2) Interest on the 2022 Term Loan and payments due under the interest rate swaps is variable and calculated using the rate in effect on the balance sheet date. For additional information about our term loans and the interest rate swaps, see Notes 14 and 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

(3) Does not include variable insurance, taxes, maintenance and other costs required by the applicable operating lease. These costs are not expected to have a material future impact.

(4) Purchase obligations relate to purchase order commitments to our contract manufacturers and component suppliers for inventory. In certain instances, we are permitted to cancel, reschedule or adjust these orders. Consequently, only a portion of the amount reported above relates to firm, non-cancelable and unconditional obligations.

(5) This represents the total minimum lease payments due for all buildings that are subject to capital lease accounting. Does not include variable insurance, taxes, maintenance and other costs required by the applicable capital lease. These costs are not expected to have a material future impact.

(6) As of July 31, 2017, we also had approximately $15.6 million of other long-term obligations in our Condensed Consolidated Balance Sheet for unrecognized tax positions that are not included in this table because the timing of any cash settlement with the respective tax authority, if any, cannot be reasonably estimated.

Some of our commercial commitments, including some of the future minimum payments in operating leases set forth above and certain commitments to customers, are secured by standby letters of credit collateralized under our ABL Credit Facility or restricted cash. Restricted cash balances are included in other current assets or other long-term assets depending upon the duration of the underlying letter of credit obligation. The following is a summary of our commercial commitments secured by standby letters of credit by commitment expiration date as of July 31, 2017 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Standby letters of credit	$77,803	$40,092	$16,739	$11,885	$ 9,087

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing arrangements. In particular, we do not have any equity interests in so-called limited purpose entities, which include special purpose entities (SPEs) and structured finance entities.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. On an ongoing basis, we reevaluate our estimates, including those related to share-based compensation, bad debts, inventories, intangible and other long-lived assets, goodwill, income taxes, warranty obligations, restructuring, derivatives and hedging, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Among other things, these estimates form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. To the extent that there are material differences between our estimates and actual results, our consolidated financial statements will be affected.

We believe that the following critical accounting policies reflect those areas where significant judgments and estimates are used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed or determinable; and collectibility is reasonably assured. Customer purchase agreements and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and evidence of customer acceptance, when applicable, are used to verify delivery or services rendered. We assess whether the price is fixed or determinable based on the payment

terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history. Revenue for maintenance services is deferred and recognized ratably over the period during which the services are to be performed. Shipping and handling fees billed to customers are included in revenue, with the associated expenses included in product cost of goods sold.

Software revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. In instances where final acceptance criteria of the software are specified by the customer, revenue is deferred until there are no uncertainties regarding customer acceptance.

We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

Revenue for multiple element arrangements is allocated to each unit of accounting based on the relative selling price of each delivered element, with revenue recognized for each delivered element when the revenue recognition criteria are met. We determine the selling price for each deliverable based upon the selling price hierarchy for multiple-deliverable arrangements. Under this hierarchy, we use vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third party evidence ("TPE") of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, we use our best estimate of selling price ("BESP") for that deliverable. For multiple element software arrangements where VSOE of undelivered maintenance does not exist, revenue for the entire arrangement is recognized over the maintenance term.

VSOE, when determinable, is established based on our pricing and discounting practices for the specific product or service when sold separately. In determining whether VSOE exists, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. We have generally been unable to establish TPE of selling price because our go-to-market strategy differs from that of others in our markets, and the extent of customization and differentiated features and functions varies among comparable products or services from our peers. We determine BESP based upon management-approved pricing guidelines, which consider multiple factors including the type of product or service, gross margin objectives, competitive and market conditions, and the go-to-market strategy, all of which can affect pricing practices.

Our total deferred revenue for products was $61.9 million and $45.2 million as of July 31, 2017 and October 31, 2016, respectively. Our services revenue is deferred and recognized ratably over the period during which the services are to be performed. Our total deferred revenue for services was $135.6 million and $137.7 million as of July 31, 2017 and October 31, 2016, respectively.

Share-Based Compensation

We estimate the fair value of our restricted stock unit awards based on the fair value of our common stock on the date of grant. Our outstanding restricted stock unit awards are subject to service-based vesting conditions and/or performance-based vesting conditions. We recognize the estimated fair value of service-based awards, net of estimated forfeitures, as share-based expense ratably over the vesting period on a straight-line basis. Awards with performance-based vesting conditions require the achievement of certain financial or other performance criteria or targets as a condition to the vesting, or acceleration of vesting. We recognize the estimated fair value of performance-based awards, net of estimated forfeitures, as share-based expense over the performance period, using graded vesting, which considers each performance period or tranche separately, based upon our determination of whether it is probable that the performance targets will be achieved. At the end of each reporting period, we reassess the probability of achieving the performance targets and the performance period required to meet those targets, and the expense is adjusted accordingly. Determining whether the performance targets will be achieved involves judgment, and the estimate of expense may be revised periodically based on changes in the probability of achieving the performance targets. Revisions are reflected in the period in which the estimate is changed. If any performance goals are not met, no compensation cost is ultimately recognized against that goal and, to the extent previously recognized, compensation cost is reversed.

Because share-based compensation expense is based on awards that are ultimately expected to vest, the amount of expense takes into account estimated forfeitures. We estimate forfeitures at the time of grant and revise these estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in these estimates and assumptions can materially affect the measurement of estimated fair value of our share-based

compensation. See Note 19 to our Condensed Consolidated Financial Statements in Item 1 of Part I of this report for information regarding our assumptions related to share-based compensation and the amount of share-based compensation expense we incurred for the periods covered in this report. As of July 31, 2017, total unrecognized compensation expense was $76.5 million: (i) $0.2 million, which relates to unvested stock options and is expected to be recognized over a weighted-average period of 1.1 years; and (ii) $76.3 million, which relates to unvested restricted stock units and is expected to be recognized over a weighted-average period of 1.4 years.

We recognize windfall tax benefits associated with the exercise of stock options or release of restricted stock units directly to stockholders' equity only when realized. A windfall tax benefit occurs when the actual tax benefit realized by us upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that we had recorded. When assessing whether a tax benefit relating to share-based compensation has been realized, we follow the "with-and-without" method. Under the with-and-without method, the windfall is considered realized and recognized for financial statement purposes only when an incremental benefit is provided after considering all other tax benefits including our net operating losses. The with-and-without method results in the windfall from share-based compensation awards always being effectively the last tax benefit to be considered. Consequently, the windfall attributable to share-based compensation will not be

considered realized in instances where our net operating loss carryover (that is unrelated to windfalls) is sufficient to offset the current year's taxable income before considering the effects of current-year windfalls.

Incentive Compensation Expense

We provide incentive-based compensation opportunities to employees through cash incentive awards and, as described in "Share-Based Compensation" above, performance-based equity awards. The expense associated with these awards is reflected as a component of employee-related expense within our operating expense and costs of goods sold, as applicable.

For fiscal 2017, the Compensation Committee has approved an annual cash incentive arrangement generally applicable to full-time employees excluding commissioned salespersons, with the aggregate amount of any awards payable dependent upon the achievement of certain financial and operational goals for fiscal 2017. Given that the awards are generally contingent upon achieving annual objectives, the payment of cash incentive awards is not expected to be made until after fiscal year-end results are finalized. As a result, the expense that we accrue for cash incentive compensation in any interim period in fiscal 2017 is based upon estimates of expected financial results for the year and expected performance against relevant operating objectives. Because assessing actual performance against many of these objectives cannot generally occur until at or near fiscal year-end, determining the amount of expense that we incur in our interim financial statements for incentive compensation involves the judgment of management. Amounts accrued are subject to change in future interim periods if actual future financial results or operational performance are better or worse than expected. We incurred an aggregate of $45.0 million of expense in the first nine months of fiscal 2017 associated with our cash incentive bonus plan for fiscal 2017.

Reserve for Inventory Obsolescence

We make estimates about future customer demand for our products when establishing the appropriate reserve for excess and obsolete inventory. We write down inventory that has become obsolete or unmarketable by an amount equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. Inventory write downs are a component of our product cost of goods sold. Upon recognition of the write down, a new lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. In an effort to limit our exposure to delivery delays and to satisfy customer needs we purchase inventory based on forecasted sales across our product lines. In addition, part of our research and development strategy is to promote the convergence of similar features and functionalities across our product lines. Each of these practices exposes us to the risk that our customers will not order products for which we have forecasted sales, or will purchase less than we have forecasted. Historically, we have experienced write downs due to changes in our strategic direction, discontinuance of a product and declines in market conditions. We recorded charges for excess and obsolete inventory of $28.7 million and $26.7 million in the first nine months of fiscal 2017 and 2016, respectively. The charges in fiscal 2017 primarily were related to a decrease in the forecasted demand for certain Networking Platform products. Our inventory net of allowance for excess and obsolescence was $276.4 million and $211.3 million as of July 31, 2017 and October 31, 2016, respectively.

Allowance for Doubtful Accounts Receivable

Our allowance for doubtful accounts receivable is based on management's assessment, on a specific identification basis, of the collectibility of customer accounts. We perform ongoing credit evaluations of our customers and generally have not required collateral or other forms of security from customers. In determining the appropriate balance for our allowance for doubtful accounts receivable, management considers each individual customer account receivable in order to determine collectibility. In doing so, we consider creditworthiness, payment history, account activity and communication with such customer. If a customer's financial condition changes, or if actual defaults are higher than our historical experience, we may be required to take a charge for an allowance for doubtful accounts receivable, which could have an adverse impact on our results of operations. Our accounts receivable, net of

allowance for doubtful accounts, was $653.2 million and $576.2 million as of July 31, 2017 and October 31, 2016, respectively. Our allowance for doubtful accounts was $3.6 million and $4.0 million as of July 31, 2017 and October 31, 2016, respectively.

Goodwill

Our goodwill was generated from the acquisition of Cyan during fiscal 2015 and the acquisition of the HSPC assets from TeraXion during fiscal 2016, and is primarily related to expected synergies. Goodwill is the excess of the purchase price over the fair values assigned to the net assets acquired in a business combination. We test goodwill for impairment on an annual basis, which we have determined to be the last business day of fiscal September each year. We also test goodwill for impairment between annual tests if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value.

The first step in the process of assessing goodwill impairment is to compare the fair value of the reporting unit with the unit's carrying amount, including goodwill. If this test indicates that the fair value is less than the carrying value, then step two as amended by ASU No. 2017-04, which we adopted in the first quarter in fiscal 2017, requires goodwill impairments to be measured on the basis of the fair value of the reporting unit relative to the reporting unit's carrying amount. A non-cash goodwill impairment charge would have the effect of decreasing earnings or increasing losses in such period. If we are required to take a substantial impairment charge, our operating results would be materially adversely affected in such period. As of July 31, 2017 and October 31, 2016, the goodwill balance was $267.8 million and $267.0 million, respectively.

Long-lived Assets

Our long-lived assets include: equipment, building, furniture and fixtures; finite-lived intangible assets; in-process research and development; and maintenance spares. As of July 31, 2017 and October 31, 2016, these assets totaled $468.4 million and $484.7 million, net, respectively. We test long-lived assets for impairment whenever events or changes in circumstances indicate that the assets' carrying amount is not recoverable from its undiscounted cash flows. Our long-lived assets are assigned to asset groups, which represent the lowest level for which we identify cash flows. We measure impairment loss as the amount by which the carrying amount of the asset or asset group exceeds its fair value.

Deferred Tax Valuation Allowance

We provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because we have concluded that it is more likely than not that such deferred tax assets will ultimately not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible. We assess available positive and negative evidence regarding our ability to realize our deferred tax assets and record a valuation allowance when it is more likely than not that deferred tax assets will not be realized. To form a conclusion, management considers our recent financial results and trends and makes judgments and estimates related to projections of profitability, the timing and extent of the use of net operating loss carryforwards, and tax planning strategies. At July 31, 2017, we were not in a three-year cumulative loss position in the United States. However, management determined that a valuation allowance is still necessary, due to, among other things, the relatively low level of cumulative pre-tax income during this period — cumulative 12-quarter profit was only recently achieved in the second half of fiscal 2016 — and our lengthy history of operating losses. We are in the process of completing the annual update to our budget and forecasting of expected financial performance for future fiscal periods, which we expect to finalize in the fourth quarter of fiscal 2017. We will consider these items together with our actual performance for fiscal 2017 as part of our ongoing evaluation of whether sufficient evidence exists to support reversal of all or a portion of the valuation allowance. Any future release of valuation allowance may be recorded as a tax benefit increasing net income or as an adjustment to paid-in capital, based on tax ordering requirements. The valuation allowance balance at July 31, 2017 was $1.4 billion.

Warranty

Our liability for product warranties, included in other accrued liabilities, was $44.3 million and $52.3 million as of July 31, 2017 and October 31, 2016, respectively. Our products are generally covered by a warranty for periods ranging from one to five years. We accrue for warranty costs as part of our cost of goods sold based on associated material costs, technical support labor costs and associated overhead. Material cost is estimated based primarily upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is estimated based primarily upon historical trends and the cost to support the

customer cases within the warranty period. The provision for product warranties was $5.2 million and $13.1 million for the first nine months of fiscal 2017 and 2016, respectively. See Note 13 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report. The provision for warranty claims may fluctuate on a quarterly basis depending upon the mix of products and customers in that period. If actual product failure rates, material replacement costs, service or labor costs differ from our estimates, revisions to the estimated warranty provision would be required. An increase in warranty claims or the related costs associated with satisfying our warranty obligations could increase our cost of sales and negatively affect our gross margin.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates.

Interest Rate Sensitivity. We currently hold investments in U.S. government obligations and commercial paper with varying maturities. See Notes 5 and 6 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report for information relating to investments and fair value. These investments are sensitive to interest rate movements, and their fair value will decline as interest rates rise and increase as interest rates decline. We estimate that a 100 basis point (1.0%) increase in interest rates across the yield curve from rates in effect as of the balance sheet date would cause a $1.8 million decline in value.

Our earnings and cash flows from operations would be exposed to changes in interest rates because of the floating rate of interest in our 2022 Term Loan if such loan was not hedged using floating to fixed rate interest rate swaps. See Note 14 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report. The 2022 Term Loan bears interest at LIBOR plus a spread of 2.5%, subject to a minimum LIBOR rate of 0.75%. We have entered into interest rate swap arrangements ("interest rate swaps") that hedge 77% to 98% of the 2022 Term Loan principal value through January 2021. As such, a 100 basis point (1.0%) increase in the LIBOR rate as of our most recent LIBOR rate setting would have an immaterial impact in annualized interest expense on our 2022 Term Loan as recognized in our Condensed Consolidated Financial Statements.

Foreign Currency Exchange Risk. As a global concern, our business and results of operations are exposed to and can be impacted by movements in foreign currency exchange rates. For example, the announcement of the United Kingdom (UK) referendum in which voters approved an exit from the European Union (EU), commonly referred to as "Brexit," has previously caused, and may continue to cause, significant volatility in currency exchange rate fluctuations. Because we sell globally, some of our sales transactions and revenue are non-U.S. Dollar denominated, with the Canadian Dollar, Euro, Argentina Peso and Brazilian Real being our most significant foreign currency revenue exposures. If the U.S. Dollar strengthens against these currencies, our revenue for these transactions reported in U.S. Dollars would decline. For our U.S. Dollar denominated sales, an increase in the value of the U.S. Dollar would increase the real costs of our products to customers in markets outside the United States, which could impact our competitive position. During the first nine months of fiscal 2017, approximately 18.0% of revenue was non-U.S. Dollar denominated. During the first nine months of fiscal 2017 as compared to the first nine months of fiscal 2016, the U.S. Dollar strengthened against the Argentina Peso, British Pound and the Euro, primarily offset by weakening against the Brazilian Real, consequently, our revenue reported in U.S. Dollars was slightly reduced by approximately $6.7 million or 0.3%. As they relate to costs of goods sold, employee-related and facilities costs associated with certain manufacturing-related operations in Canada represent our primary exposure to foreign currency exchange risk. With regard to operating expense, our primary exposure to foreign currency exchange risk relates to the Canadian Dollar, British Pound, Euro, Indian Rupee and Brazilian Real. During the first nine months of fiscal 2017, approximately 52% of our operating expense was non-U.S. Dollar denominated. If these or other currencies strengthen, costs reported in U.S. Dollars will increase. During the first nine months of fiscal 2017, there was minimal impact of foreign currency exchange rates to our operating expense, in comparison to the first nine months of fiscal 2016.

From time to time, we use foreign currency forward contracts to reduce variability in certain forecasted non-U.S. Dollar denominated cash flows. Generally, these derivatives have maturities of 12 months or less and are designated as cash flow hedges. At the inception of the cash flow hedge, and on an ongoing basis, we assess whether the forward contract has been effective in offsetting changes in cash flows attributable to the hedged risk during the hedging period. The effective portion of the derivative's net gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and, upon the occurrence of the forecasted transaction, is subsequently reclassified to the line item in the Condensed Consolidated Statement of Operations to which the hedged transaction relates. Any net gain or loss associated with the ineffectiveness of the hedging instrument is reported in interest and other income (loss), net.

Ciena Corporation, as the U.S. parent entity, uses the U.S. Dollar as its functional currency; however, some of our foreign branch offices and subsidiaries use the local currency as their functional currency. During the first nine months of fiscal 2017, we recorded $4.1 million in foreign currency exchange losses, as a result of monetary assets and

liabilities that were transacted in a currency other than the entity's functional currency, and the re-measurement adjustments were recorded in interest and other income (loss), net on the Condensed Consolidated Statement of Operations. From time to time, we use foreign currency forwards to hedge these balance sheet exposures. These forwards are not designated as hedges for accounting purposes and any net gain or loss associated with these derivatives is reported in interest and other income (loss), net on the Condensed Consolidated Statement of Operations. During first nine months of fiscal 2017, we recorded losses of $0.9 million from these derivatives. See Note 2, Note 4 and Note 14 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Convertible Notes Outstanding. The fair market value of each of our outstanding issues of convertible notes is subject to interest rate and market price risk due to the convertible feature of the notes and other factors. Generally the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of the notes

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may also increase as the market price of our stock rises or due to increased volatility in our stock price, and decrease as the market price of our stock falls or due to decreased volatility in our stock price. Interest rate and market value changes affect the fair market value of the notes, and may affect the prices at which we would be able to repurchase such notes were we to do so. These changes do not impact our financial position, cash flows or results of operations. For additional information on the fair value of our outstanding notes, see Note 16 to our Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, 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). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From May 15 through June 3, 2015, five separate putative class action lawsuits in connection with Ciena’s then-pending acquisition of Cyan, Inc. (“Cyan”) were filed in the Court of Chancery of the State of Delaware. On June 23, 2015, each of these lawsuits was consolidated into a single case captioned In Re Cyan, Inc. Shareholder Litigation, Consol. C.A. No. 11027-CB. On July 15, 2016, the plaintiffs filed a third amended complaint against the members of Cyan's board of directors, which generally alleged that they breached their fiduciary duties by engaging in a conflicted and unfair sales process, failing to maximize stockholder value in the acquisition, taking steps to preclude competitive bidding, and failing to disclose material information necessary for stockholders to make an informed decision regarding the acquisition. On August 5, 2016, the defendants filed a motion to dismiss the third amended complaint. On May 11, 2017, the Court of Chancery granted the defendants' motion to dismiss the third amended complaint with prejudice.

As a result of our acquisition of Cyan in August 2015, we became a defendant in a securities class action lawsuit. On April 1, 2014, a purported stockholder class action lawsuit was filed in the Superior Court of California, County of San Francisco, against Cyan, the members of Cyan’s board of directors, Cyan’s former Chief Financial Officer, and the underwriters of Cyan’s initial public offering. On April 30, 2014, a substantially similar lawsuit was filed in the same court against the same defendants. The two cases have been consolidated as Beaver County Employees Retirement Fund, et al. v. Cyan, Inc. et al., Case No. CGC-14-538355. The consolidated complaint alleges violations of federal securities laws on behalf of a purported class consisting of purchasers of Cyan’s common stock pursuant or traceable to the registration statement and prospectus for Cyan’s initial public offering in April 2013, and seeks unspecified compensatory damages and other relief. On May 19, 2015, the proposed class was certified. On August 25, 2015, the defendants filed a motion for judgment on the pleadings based on an alleged lack of subject matter jurisdiction over the case, which motion was denied on October 23, 2015. On May 24, 2016, the defendants filed a petition for a writ of certiorari on the jurisdiction issue with the United States Supreme Court, which petition was granted on June 27, 2017. The matter is expected to be heard during the Supreme Court’s October 2017 Term. On November 18, 2016, the Superior Court stayed the case pending the outcome of the Supreme Court’s decision. We believe that the consolidated lawsuit is without merit and intend to defend it vigorously.

On May 29, 2008, Graywire, LLC filed a complaint in the United States District Court for the Northern District of Georgia against Ciena and four other defendants, alleging, among other things, that certain of the parties' products infringe U.S. Patent 6,542,673 (the "'673 Patent"), relating to an identifier system and components for optical assemblies. The complaint seeks injunctive relief and damages. In July 2009, upon request of Ciena and certain other defendants, the U.S. Patent and Trademark Office ("PTO") granted the defendants' inter partes application for reexamination with respect to certain claims of the '673 Patent, and the district court granted the defendants' motion to stay the case pending reexamination of all of the patents-in-suit. In December 2010, the PTO confirmed the validity of some claims and rejected the validity of other claims of the '673 Patent, to which Ciena and other defendants filed an appeal. On March 16, 2012, the PTO on appeal rejected multiple claims of the

‘673 Patent, including the two claims on which Ciena is alleged to infringe. Thereafter, on May 28, 2013, the plaintiff filed an amendment with the PTO in which it canceled the claims of the ‘673 Patent on which Ciena is alleged to infringe. The case currently remains stayed, and there can be no assurance as to whether or when the stay will be lifted.
In addition to the matters described above, we are subject to various legal proceedings and claims arising in the ordinary course of business, including claims against third parties that may involve contractual indemnification obligations on the part of Ciena. We do not expect that the ultimate costs to resolve these matters will have a material effect on our results of operations, financial position or cash flows.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. In addition to the other information contained in this report, you should consider the following risk factors before investing in our securities.

Our revenue and operating results can fluctuate significantly and unpredictably from quarter to quarter.
Our revenue and results of operations can fluctuate significantly and unpredictably from quarter to quarter. We budget our expense levels based on our technology roadmap, our projections of resources needed in the field, and our plans to upgrade our support processes and organization, informed by our visibility into customer spending plans and our projections of future revenue and gross margin. Customer spending levels are uncertain and subject to change, and reductions in our expense levels can take significant time to implement. A significant portion of our quarterly revenue is generated from customer orders received in that same quarter (which we refer to as “book to revenue”). Increased reliance on book to revenue introduces a number of risks, including the inherent difficulty in forecasting the amount and timing of book to revenue in any given quarter, and may increase the likelihood of fluctuations in our results. Accordingly, our revenue for a particular quarter is difficult to predict, and a shortfall in expected orders in a given quarter can materially adversely affect our revenue and results of operations for that quarter or future quarterly periods. Additional factors that contribute to fluctuations in our revenue and operating results include:

- broader macroeconomic conditions, including weakness and volatility in global markets, that affect our customers;
- changes in capital spending by customers, in particular our large communications service provider customers;
- changes in networking strategies;
- order timing, volume and cancellations;
- backlog levels;
- the level of competition and pricing pressure in our industry;
- the impact of commercial concessions or unfavorable commercial terms required to maintain incumbency or secure new opportunities with key customers;
- our level of success in achieving cost reductions and improved efficiencies in our supply chain;
- the pace and impact of price erosion that we regularly encounter in our markets;
- our incurrence of start-up costs, including lower margin phases of projects required to support initial deployments, gain new customers or enter new markets;
- the timing of revenue recognition on sales, particularly relating to large orders;
- the mix of revenue by product segment, geography and customer in any particular quarter;
- installation service availability and readiness of customer sites;
- availability of components and manufacturing capacity;
- adverse impact of foreign exchange; and
- seasonal effects in our business.

Quarterly fluctuations from these and other factors may also cause our results of operations to fall short of or to exceed significantly the expectations of securities analysts or investors, which may cause volatility in our stock price.

A small number of customers, including large communications service providers, account for a significant portion of our revenue. The loss of any of these customers or a significant reduction in their spending could have a material adverse effect on our business and results of operations.

While our customer base has diversified in recent years to include network operators in additional customer segments and geographies, a significant portion of our revenue remains concentrated among a small number of customers, including large communications service providers. For example, AT&T accounted for approximately 18.4% of fiscal 2016 revenue, and our ten largest customers contributed 51.1% of fiscal 2016 revenue. Consequently, our financial results are closely correlated with the

spending of a relatively small number of customers. Our business and results of operations can be materially adversely impacted by reductions in spending or capital expenditure budgets by our largest customers. A number of our large service provider customers, including AT&T, from which we experienced a decline in annual revenue during fiscal 2016, have announced various procurement initiatives or efforts to reduce capital expenditures on network infrastructure in future periods. Moreover, because we do not have long-term contracts that obligate AT&T or our other customers to purchase any minimum or guaranteed order volumes, and customers often have the right to modify or cancel orders, there can be no assurance as to customer spending levels, which can be unpredictable, and sales to any customer could significantly decrease or cease at any time.

Because a number of our largest customers are communications service providers, our business and results of operations can be significantly affected by market, industry or competitive dynamics adversely affecting this segment. Our communications service provider customers face a rapidly shifting competitive landscape as cloud service operators,"over-the-top", and other content providers challenge their traditional business models and network infrastructures. Moreover, a number of our communications service provider and cable operator customers, including AT&T, Verizon and Centurylink, have either recently announced significant acquisition transactions or are in the process of significant related integration activities. Such transactions have in the past, and may in the future, result in spending delays or deferrals, or changes in preferred vendors, as the integration of combined network infrastructures proceeds and procurement strategies are determined. There can be no assurance that we will be able to maintain the revenue levels we have previously achieved with customers, including our communications service provider customers. The loss of any of our largest customers, or a significant reduction in their spending, could have a material adverse effect on our business and results of operations.

We face intense competition that could hurt our sales and results of operations, and we expect the competitive landscape in which we operate to continue to broaden to include additional solutions providers.
We face an intense competitive market for sales of communications networking equipment, software and services. Competition is intense on a global basis, as we and our competitors aggressively seek to capture market share and displace incumbent equipment vendors. A small number of very large vendors have historically dominated our industry, many of which have substantially greater financial and marketing resources, broader product offerings, and more established relationships with service providers and other customer segments than we do. Moreover, certain customers are adopting procurement strategies that seek to purchase a broader set of networking solutions from a single or small number of vendors. Because of their scale and resources, and a more diverse offering, certain of our larger competitors may be perceived to be a better fit for the procurement or network operating and management strategies of large service providers. We also compete with a number of smaller companies that provide significant competition for a specific product, application, customer segment or geographic market. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly or may be more attractive to customers in a particular product niche.

Generally, competition in our markets is based on any one or a combination of the following factors:

- product functionality, speed, capacity, scalability and performance;
- price and total cost of ownership of our solutions;
- incumbency and strength of existing business relationships;
- ability to offer comprehensive networking solutions, consisting of equipment, software and network consulting services;
- ability to adapt to customer needs and accommodate different consumption models;
- product development plans and the ability to meet customers’ immediate and future network requirements;
- flexibility and openness of platforms, including ease of integration, interoperability and integrated software programmability and management;
- space and power considerations;

- manufacturing and lead-time capability; and
- services and support capabilities.

In an effort to maintain our incumbency or to secure new customer opportunities, we have in the past, and may in the future, agree to aggressive pricing, commercial concessions and other unfavorable terms that result in low or negative gross margins on a particular order or group of orders. Competition can also result in commercial and legal terms and conditions that place a disproportionate amount of risk on us.

We expect the competitive landscape in which we operate to continue to broaden and to increase, as network operators pursue a diverse range of consumption models and network strategies. As these changes occur, we expect that our business will compete more directly with additional networking solution suppliers, including IP router vendors, data center switch providers

and other suppliers or integrators of networking technology. In addition, as we seek increased customer adoption of our Blue Planet software platform, and network operator demands for software programmability, management and control increase, we expect to compete more directly with software vendors and information technology vendors or integrators of these solutions. We may also face competition from system and component vendors, including those in our supply chain, that develop networking products based on off-the-shelf or commoditized hardware technology, referred to as “white box” hardware, particularly where a customer's network strategy seeks to emphasize deployment of such product offerings or adopt a disaggregated approach to the procurement of hardware and software. The expansion of our competitive landscape, and entry of new competitors into our markets and customers, may adversely impact our business and results of operations. If competitive pressures increase, or if we fail to compete successfully in our markets, our business and results of operations could suffer.

Our business and operating results could be adversely affected by unfavorable changes in macroeconomic and market conditions and reductions in the level of spending by customers in response to these conditions.
Our business and operating results, which depend significantly on general economic conditions and demand for our products and services, could be materially adversely affected by unfavorable or uncertain macroeconomic and market conditions, globally or with respect to a particular region or country where we operate. Global financial markets experienced periods of significant volatility and instability during fiscal 2016. Broad macroeconomic weakness and market volatility have previously resulted in sustained periods of decreased demand for our products and services, which has adversely affected our operating results. Macroeconomic and market conditions could be adversely affected by a variety of political, economic or other factors in the United States and international markets, that could in turn adversely affect spending levels of our customers and their end users, and could create volatility or deteriorating conditions in the markets in which we operate. Macroeconomic uncertainty or weakness could result in:

- reductions in customer spending and delay, deferral or cancellation of network infrastructure initiatives;
- increased competition for fewer network projects and sales opportunities;
- increased pricing pressure that may adversely affect revenue, gross margin and profitability;
- difficulty forecasting operating results and making decisions about budgeting, planning and future investments;
- increased overhead and production costs as a percentage of revenue;
- tightening of credit markets needed to fund capital expenditures by us or our customers;
- customer financial difficulty, including longer collection cycles and difficulties collecting accounts receivable or write-offs of receivables; and
- increased risk of charges relating to excess and obsolete inventories and the write-off of other intangible assets.

Reductions in customer spending in response to unfavorable or uncertain macroeconomic and market conditions, globally or with respect to a particular region where we operate, would adversely affect our business, results of operations and financial condition.

Our reliance upon third party component suppliers, including sole and limited source suppliers, exposes our business to additional risk and could limit our sales, increase our costs and harm our customer relationships.

We maintain a global sourcing strategy and depend on third party suppliers in international markets for support in our product design and development, and in the sourcing of key product components and subsystems. Our products include optical and electronic components for which reliable, high-volume supply is often available only from sole or limited sources. Increases in market demand or scarcity of resources or manufacturing capability have resulted, and may in the future result, in shortages in availability of important components for our solutions, product allocation challenges, deployment delays and increased lead times. We are exposed to risks relating to unfavorable economic conditions or other similar challenges affecting the businesses and results of operations of our component providers that can affect their liquidity levels, ability to continue investing in their businesses, ability to meet development commitments and manufacturing capability. These and other challenges affecting our suppliers could expose our

business to increased costs, loss or lack of supply, or discontinuation of components that can result in lost revenue, additional product costs, increased lead times and deployment delays that could harm our business and customer relationships. We do not have any guarantees of supply from these third parties, and in certain cases are relying upon temporary commercial arrangements or standard purchase orders. As a result, there is no assurance that we will be able to secure the components or subsystems that we require, in sufficient quantity and quality, and on reasonable terms. Moreover, our access to necessary components could be adversely impacted by competition from component vendors, including those in our supply chain, that develop competing networking products based on off-the-shelf or commoditized hardware technology, referred to as “white box” hardware. The loss of a source of supply, or lack of sufficient availability of key components, could require that we locate an alternate source or redesign our products, either of which could result in

business interruption and increased costs and could negatively affect our product gross margin and results of operations. Our business and results of operations would be negatively affected if we were to experience any significant disruption or difficulties with key suppliers affecting the price, quality, availability or timely delivery of required components.

Investment of research and development resources in communications networking technologies for which there is not an adequate matching market opportunity, or failure to sufficiently or timely invest in technologies for which there is market demand, would adversely affect our revenue and profitability.

The market for communications networking hardware and software solutions is characterized by rapidly evolving technologies, changes in market demand and increasing adoption of software-based networking solutions. We continually invest in research and development to sustain or enhance our existing hardware and software solutions and to develop or acquire new technologies including new software platforms. There is often a lengthy period between commencing these development initiatives and bringing new or improved solutions to market. During this time, technology preferences, customer demand and the markets for our solutions, or those introduced by our competitors, may move in directions that we had not anticipated. There is no guarantee that our new products, including our Blue Planet software platform, or enhancements to other solutions, will achieve market acceptance or that the timing of market adoption will be as predicted. As a result, there is a significant possibility that some of our development decisions, including significant expenditures on acquisitions, research and development costs, or investments in technologies, will not meet our expectations, and that our investment in some projects will be unprofitable. There is also a possibility that we may miss a market opportunity because we failed to invest, or invested too late, in a technology, product or enhancement sought by our customers. Changes in market demand or investment priorities may also cause us to discontinue existing or planned development for new products or features, which can have a disruptive effect on our relationships with customers. If we fail to make the right investments or fail to make them at the right time, our competitive position may suffer, and our revenue and profitability could be adversely affected.
Network equipment sales to communications service providers, Web-scale providers and other large customers often involve lengthy sales cycles and protracted contract negotiations that may require us to agree to commercial terms or conditions that negatively affect pricing, risk allocation, payment and the timing of revenue recognition.

Our sales initiatives, particularly with communications service providers, Web-scale providers and other large customers, often involve lengthy sales cycles. These selling efforts often involve a significant commitment of time and resources by us and our customers that may include extensive product testing, laboratory or network certification, network or region-specific product certification and homologation requirements for deployment in networks. Even after a customer awards its business to us or decides to purchase our solutions, the length of deployment time can vary depending upon the customer’s schedule, site readiness, the size of the network deployment, the degree of custom configuration required and other factors. Additionally, these sales also often involve protracted and sometimes difficult contract negotiations in which we may deem it necessary to agree to unfavorable contractual or commercial terms that adversely affect pricing, expose us to penalties for delays or non-performance, and require us to assume a disproportionate amount of risk. To maintain incumbency with key customers for existing and future business opportunities, we may be required to offer discounted pricing, make commercial concessions or offer less favorable terms as compared to our historical business arrangements with these customers. We may also be requested to provide deferred payment terms, vendor or third-party financing or other alternative purchase structures that extend the timing of payment and revenue recognition. Alternatively, customers may insist upon terms and conditions that we deem too onerous or not in our best interest, and we may be unable to reach a commercial agreement. As a result, we may incur substantial expense and devote time and resources to potential sales opportunities that never materialize or result in lower than anticipated sales.
If the market for software solutions does not evolve in the way we anticipate or if customers do not adopt our Blue Planet solutions, we may not be able to realize a key part of our business strategy.

A key part of our business strategy will depend on our ability to gain market adoption for our Blue Planet software platform. If the markets relating to software solutions, including SDN, NFV, service orchestration and software management and control, do not develop as we anticipate, or if we are unable to increase market awareness and adoption of our Blue Planet solutions as a preferred solution within those markets, demand for our Blue Planet solutions may not grow. As a result, our long-term success in the software market will depend to a significant extent on potential customers recognizing the benefits of our next-generation Blue Planet software solutions, and the willingness of service providers and high-performance data center and other network operators to increase their use of SDN and NFV solutions in their networks. The market for these solutions is at an early stage, and it is difficult to predict important trends, including the potential growth, if any, of this market. If the market for these software solutions does not evolve in the way we anticipate or if customers do not adopt our solutions, we may not to be able to increase sales of our Blue Planet platform, and a key part of our business strategy would be adversely affected.

Changes in networking or procurement strategies among our customers could adversely affect our business, competitive position and results of operations.
Growing bandwidth demands, network operator efforts to reduce costs and requirements for enhanced network programmability and automation are causing network operators to consider a diverse range of approaches to the design and procurement of network infrastructure. We refer to these different approaches as "consumption models." These consumption models can include: the traditional systems procurement of fully integrated solutions including hardware, software and services from the same vendor; the procurement of a fully integrated hardware solution from one vendor with the separate use of a network operator's own SDN-based controller; the procurement of an integrated photonic line system with open interfaces from one vendor and the separate or "disaggregated" procurement of modem technology from a different vendor; or the use of published reference designs and open source specifications for the procurement of off-the-shelf or commoditized hardware (often referred to as "white box" hardware) to be used with open source software. We believe that network operators will continue to consider a variety of different consumption models. Many of these approaches are in their very early stages of development and evaluation, and the types of models and their levels of adoption will depend in significant part on the nature of the operator and its particular network and network applications. Among our customers, AT&T is pursuing network strategies that emphasize enhanced software programmability, management and control of networks, and deployment of "white box" hardware. Other network operator customers, including Web-scale providers, are playing a leading role in the transition to software-defined networking or the standardization of communications network solutions. The potential for different approaches to the procurement of networking infrastructure will require network operators and vendors to assess and possibly broaden their existing commercial models over time. Adoption of a range of consumption models may alter and broaden our competitive landscape to include other technology vendors, including component vendors and software vendors. If we are unable to offer attractive solutions that accommodate the range of consumption models ultimately adopted by our customers or within our markets, or if we are unable to modify or existing commercial model accordingly, our business, competitive position and results of operations could be adversely affected.

We may experience delays in the development and production of our products that may negatively affect our competitive position and business.

Our hardware and software networking solutions, including our Blue Planet software platform, are based on complex technology, and we can experience unanticipated delays in developing, manufacturing and introducing these solutions to market. Delays in product development efforts by us or our supply chain may affect our reputation with customers, affect our ability to seize market opportunities and impact the timing and level of demand for our products. The development of new technologies may increase the complexity of supply chain management or require the acquisition, licensing or interworking with the technology of third parties. As a result, each step in the development cycle of our products presents serious risks of failure, rework or delay, any one of which could adversely affect the cost-effectiveness and timely development of our products. We may encounter delays relating to engineering development activities and software, design, sourcing and manufacture of critical components, and the development of prototypes. In addition, intellectual property disputes, failure of critical design elements, and other execution risks may delay or even prevent the release of these products. If we do not successfully develop or produce products in a timely manner, our competitive position may suffer, and our business, financial condition and results of operations could be harmed.

Product performance problems and undetected errors affecting the performance, reliability or security of our products could damage our business reputation and negatively affect our results of operations.
The development and production of sophisticated hardware and software for communications network equipment is highly complex. Some of our products can be fully tested only when deployed in communications networks or when carrying traffic with other equipment, and software products may contain bugs that can interfere with expected performance. As a result, undetected defects or errors, and product quality, interoperability, reliability and performance problems are often more acute for initial deployments of new products and product enhancements. We

have recently launched, and are in the process of launching, a number of new hardware and software platforms, including our Blue Planet software platform, and other solutions targeting metro network applications and data center interconnect. Unanticipated product performance problems can relate to the design, manufacturing, installation, operation and interoperability of our products. Undetected errors can also arise as a result of defects in components, software or manufacturing, installation or maintenance services supplied by third parties, and technology acquired from or licensed by third parties. From time to time we have had to replace certain components, provide software remedies or other remediation in response to defects or bugs, and we may have to do so again in the future. There can be no assurance that such remediation would not have a material impact on our business and results of operations. In addition, unanticipated security vulnerabilities relating to our products or the activities of our supply chain, including any actual or perceived exposure of our solutions to malicious software or cyber-attacks, could adversely affect our business and reputation.

Product performance, reliability, security and quality problems can negatively affect our business, and may result in some or all of the following effects:

- damage to our reputation, declining sales and order cancellations;
- increased costs to remediate defects or replace products;
- payment of liquidated damages, contractual or similar penalties, or other claims for performance failures or delays;
- increased warranty expense or estimates resulting from higher failure rates, additional field service obligations or other rework costs related to defects;
- increased inventory obsolescence;
- costs and claims that may not be covered by liability insurance coverage or recoverable from third parties; and
- delays in recognizing revenue or collecting accounts receivable.

These and other consequences relating to undetected errors affecting the quality, reliability and security of our products could negatively affect our business and results of operations.

Direct or indirect efforts to increase our sales and market share in targeted international markets and customer segments may be unsuccessful.
Part of our business and growth strategy is to expand our geographic reach and increase market share in international markets. This strategy includes selling to Web-scale network operators with global operations as well as to service provider customers in additional geographies, including Asia-Pacific and India. This diversification of our markets and customer base has been a significant component of the growth of our business. Our efforts to continue to increase our sales and market share in international markets may ultimately be unsuccessful, and failure to do so could limit our growth and could harm our results of operations.

In addition, in order to sell our products into new geographic markets, diversify our customer base and broaden the application for our solutions in communications networks, we continue to promote sales initiatives and foster strategic channel sales relationships. Specifically, we are targeting sales opportunities around the world with Web-scale providers, cloud infrastructure providers, communications service providers, enterprises, wireless operators, cable and multiservice operators, submarine network operators, research and education institutions, and federal, state and local governments. To succeed in some of these geographic markets and customer segments, we often need to leverage strategic sales channels and distribution arrangements, and we expect these relationships to be an important part of our business. There can be no assurance we will realize the expected benefits of these third party sales relationships. We compete in certain business areas with our third party channel partners or may have divergent interests. Our efforts to manage and drive the intended benefits of such sales relationships may ultimately be unsuccessful, and difficulties selling through third party channels could limit our growth and could harm our results of operations.

The international scale of our sales and operations exposes us to additional risk and expense that could adversely affect our results of operations.
We market, sell and service our products globally, maintain personnel in numerous countries, and rely upon a global supply chain for sourcing important components and manufacturing our products. Our international sales and operations are subject to inherent risks, including:

- the impact of economic conditions in countries outside the United States;
- effects of adverse changes in currency exchange rates;
- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulty and cost of staffing and managing foreign operations;
- less protection for intellectual property rights in some countries;
- tax and customs changes that adversely impact our global sourcing strategy, manufacturing practices, transfer-pricing, or competitiveness of our products for global sales;

- social, political and economic instability;
- compliance with certain testing, homologation or customization of products to conform to local standards;
- higher incidence of corruption or unethical business practices that could expose us to liability or damage our reputation;
- significant changes to free trade agreements, trade protection measures, tariffs, export compliance, domestic preference procurement requirements, qualification to transact business and additional regulatory requirements; and
- natural disasters, epidemics and acts of war or terrorism.

Our international operations are also subject to complex foreign and U.S. laws and regulations, including anti-corruption laws, antitrust or competition laws, environmental regulations, and data privacy laws, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in certain geographies, and significant harm to our business reputation. There can be no assurance that any individual employee, contractor, agent or other business partner will not violate these legal requirements or our policies to mitigate these risks. Additionally, the costs of complying with these laws (including the costs of investigations, auditing and monitoring) could also adversely affect our current or future business.

The U.S. government has indicated a willingness to revise, renegotiate, or terminate various, existing multilateral trade agreements and to impose new taxes on certain goods imported into the U.S. Because we rely upon a global sourcing strategy and third party contract manufacturers in markets outside of the U.S. to perform substantially all of the manufacturing of our products, such steps, if adopted, could adversely impact our business and operations, and may make our products less competitive in the U.S. and other markets. At this time, it remains unclear what actions, if any, the U.S. government will take with respect to such trade agreements, tax policy related to international commerce, or imposition of tariffs on goods imported into the U.S. There can be no assurance that any future legislation or executive action in the U.S. relating to tax policy and trade regulation would not adversely affect our business, operations and financial results.

The success of our international sales and operations will depend, in large part, on our ability to anticipate and manage effectively these risks. Our failure to manage any of these risks could harm our international operations, reduce our international sales, and could give rise to liabilities, costs or other business difficulties that could adversely affect our operations and financial results.

We may be required to write off significant amounts of inventory as a result of our inventory purchase practices, the obsolescence of product lines or unfavorable market or contractual conditions.

To avoid delays and meet customer demand for shorter delivery terms, we place orders with our contract manufacturers and component suppliers based on forecasts of customer demand. In a number of cases these suppliers may require longer lead times for fulfillment than we have with our customers. Thus, our practice of buying inventory based on forecasted demand exposes us to the risk that our customers ultimately may not order the products we have forecast or will purchase fewer products than forecast. As a result, we may purchase inventory in anticipation of sales that ultimately do not occur. We regularly incur, on a quarterly basis, expense provisions against excess or obsolete inventory. Market uncertainty can also limit our visibility into customer spending plans and compound the difficulty of forecasting inventory at appropriate levels. Moreover, our customer purchase agreements generally do not include any minimum purchase commitment. Also, customers often have the right to modify, reduce or cancel purchase quantities, and spending levels can be uncertain and subject to significant fluctuation. Our products are highly configurable, and certain new products have overlapping feature sets or application as existing products. Accordingly, it is increasingly possible that customers may forgo purchases of certain products we have inventoried in favor of a similar, newer product. We may also be exposed to the risk of inventory write-offs as a result of certain supply chain initiatives, including consolidation and transfer of key manufacturing activities. If we are required to write off or write down a significant amount of inventory, our results of operations for the applicable period would be materially adversely affected.

Our new distribution channel for our WaveLogic coherent technology could be unprofitable, could expose us to increased or new forms of competition, and could adversely affect our systems business and competitive position.

Our new distribution relationships with Lumentum, NeoPhotonics and Oclaro present a number of risks for our business as we make available and distribute key elements of our WaveLogic coherent optical technology as a component for the first time. In order to develop these components and design the module to be sold by our partners, we will be required to incur additional research and development costs. However, this form of distribution channel for an existing system vendor is new in our industry and unproven in the market. The success of these distribution relationships will depend on, among other things, our ability to adapt to this new component market and commercial model and the ability of our partners to manufacture, market and sell optical modules containing our components in

the "merchant" market. There is no guarantee that the modules containing our components will achieve market acceptance or that the timing of market adoption will be as predicted. As a result, it is possible that our research and development investments in this new distribution channel will be unprofitable.

Lumentum, NeoPhotonics and Oclaro each have the unrestricted ability to sell such modules to end users, including our customers, our competitors, and other vendors or network operators that plan to build or use "white box" hardware. Making our critical technology available in this manner could adversely impact the sale of products in our existing systems business. For example, our customers may choose to adopt disaggregated consumption models or third party solutions using these Ciena-designed optical modules instead of purchasing systems-based solutions from us. Alternatively, we may encounter situations where we are competing for opportunities in the market directly against a system from one of our competitors that incorporates

Ciena-designed modules. In addition, making this key technology available and enabling a third-party partner to manufacture Ciena-designed modules may adversely affect our competitive position and increase the risk that third parties misappropriate or attempt to use our technology or related intellectual property without our authorization. These and other risks or unanticipated liabilities or costs associated with our new distribution strategy could harm our reputation and adversely affect our business and our results of operations.

Our intellectual property rights may be difficult and costly to enforce.

We generally rely on a combination of patents, copyrights, trademarks and trade secret laws to establish and maintain proprietary rights in our products and technology. Although we have been issued numerous patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated or circumvented, or that our rights will provide us with any competitive advantage. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any patents will be sufficiently broad to protect our technology. Further, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States.

We are subject to the risk that third parties may attempt to access, divert or use our intellectual property without authorization. Protecting against the unauthorized use of our products, technology and other proprietary rights is difficult, time-consuming and expensive, and we cannot be certain that the steps that we are taking will prevent or minimize the risks of such unauthorized use. In addition, our intellectual property strategy must continually evolve to protect our proprietary rights in new solutions, including our software solutions. Litigation may be necessary to enforce or defend our intellectual property rights or to determine the validity or scope of the proprietary rights of others. Such litigation could result in substantial cost and diversion of management time and resources, and there can be no assurance that we will obtain a successful result. Any inability to protect and enforce our intellectual property rights could harm our ability to compete effectively.

We may incur significant costs in response to claims by others that we infringe their intellectual property rights.

From time to time third parties may assert claims or initiate litigation or other proceedings related to patent, copyright, trademark and other intellectual property rights to technologies and related standards that are relevant to our business. The rate of infringement assertions by patent assertion entities is increasing, particularly in the United States. Generally, these patent owners neither manufacture nor use the patented invention directly, and they seek to derive value from their ownership solely through royalties from patent licensing programs.

We could be adversely affected by litigation, other proceedings or claims against us, as well as claims against our manufacturers, suppliers or customers, alleging infringement of third party proprietary rights by our products and technology, or components thereof. Regardless of the merit of these claims, they can be time-consuming, divert the time and attention of our technical and management personnel, and result in costly litigation. These claims, if successful, could require us to:

- pay substantial damages or royalties;
- comply with an injunction or other court order that could prevent us from offering certain of our products;
- seek a license for the use of certain intellectual property, which may not be available on commercially reasonable terms or at all;
- develop non-infringing technology, which could require significant effort and expense and ultimately may not be successful; and
- indemnify our customers or other third parties pursuant to contractual obligations to hold them harmless or pay expenses or damages on their behalf.

Any of these events could adversely affect our business, results of operations and financial condition. Our exposure to risks associated with the use of intellectual property may increase as a result of acquisitions, as we would have a lower level of visibility into the development process with respect to such technology and the steps taken to safeguard against the risks of infringing the rights of third parties.

Our products incorporate software and other technology under license from third parties, and our business would be adversely affected if this technology were no longer available to us on commercially reasonable terms.

We integrate third party software and other technology into our operating system, network management and control platforms and other products. As network operators adopt software management and control and virtualized network functions, we believe that we will be increasingly required to work with third party technology providers. As a result, we may be required to license certain software or technology from third parties, including competitors. Licenses for software or other technology may not be available or may not continue to be available to us on commercially reasonable terms. Third party licensors may insist on unreasonable financial or other terms in connection with our use of such technology. Our failure to comply with the

terms of any license may result in our inability to continue to use such license, which may result in significant costs, harm our market opportunities and require us to obtain or develop a substitute technology.

Our solutions, including our Blue Planet software platform, utilize elements of open source or publicly available software. As network operators seek to enhance programmability of networks, we expect that we and other communications networking solutions vendors will increasingly contribute to and use technology or open source software developed by standards settings bodies or other industry forums that seek to promote the integration of network layers and functions. The terms of such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. This increases our risks associated with our use of such software and may require us to seek licenses from third parties, to re-engineer our products or to discontinue the sale of such solutions. Difficulty obtaining and maintaining technology licenses with third parties may disrupt development of our products, increase our costs and adversely affect our business.

We rely upon third party contract manufacturers and our business and results of operations may be adversely affected by risks associated with their businesses, financial condition, and the geographies in which they operate.

We rely upon third party contract manufacturers with facilities in Canada, Mexico, Thailand and the United States to perform substantially all of the manufacturing of our products. There are a number of risks associated with our dependence on contract manufacturers, including:

- reduced control over delivery schedules and planning;
- reliance on the quality assurance procedures of third parties;
- potential uncertainty regarding manufacturing yields and costs;
- availability of manufacturing capability and capacity, particularly during periods of high demand;
- risks and uncertainties associated with the locations or countries where our products are manufactured, including potential manufacturing disruptions caused by social, geopolitical or environmental factors;
- changes in U.S. law or policy governing foreign trade, manufacturing, development and investment in the countries where we currently manufacture our products, including the World Trade Organization Information Technology Agreement or other free trade agreements;
- limited warranties provided to us; and
- potential misappropriation of our intellectual property.

These and other risks could impair our ability to fulfill orders, harm our sales and impact our reputation with customers. If our contract manufacturers are unable or unwilling to continue manufacturing our products or components of our products, or if our contract manufacturers discontinue operations, we may be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. The process of qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming, and if we are required to change or qualify a new contract manufacturer, we would likely lose sales revenue and damage our existing customer relationships.

A substantial portion of our products are manufactured by third party contract manufacturers in Mexico. The U.S. government has indicated a willingness to revise, renegotiate, or terminate various multilateral trade agreements and to impose new taxes on certain goods imported into the U.S. Such steps, if adopted, could adversely impact our business and operations, and may make our products less competitive in the U.S. and other markets. At this time, it remains unclear what actions, if any, will be taken by the U.S. government with respect to such trade agreements, tax policy related to international commerce, or the imposition of tariffs on goods imported into the U.S. There can be no assurance that any future legislation or executive action in the in the U.S. relating to tax policy and trade regulation would not adversely affect our business, operations and financial results.

Data security breaches and cyber-attacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.

In the ordinary course of our business, we maintain on our network systems, and the networks of third party providers, certain information that is confidential, proprietary or otherwise sensitive in nature. This information includes intellectual property, financial information and confidential business information relating to us and our customers, suppliers and other business partners. We also produce networking equipment solutions and software used by network operators to ensure security and reliability in their management and transmission of data. Our customers, particularly those in regulated industries, are increasingly focused on the security features of our technology solutions, and maintaining the security of information sensitive to us and our business partners is critical to our business and reputation. Companies in the technology industry have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access to

networks or sensitive information. Our network systems and storage applications, and those systems and storage applications maintained by our third party providers, may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. The network solutions we sell to end customers may be exposed to similar risks. In some cases, it is difficult to anticipate or to detect immediately such incidents and the damage caused thereby. If an actual or perceived breach of network security occurs in our network or in the network of a business partner, the market perception of our products could be harmed. While we continually work to safeguard our products and internal network systems to mitigate these potential risks, there is no assurance that such actions will be sufficient to prevent cyber-attacks or security breaches. Security incidents involving access or improper use of our systems, networks or products could compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. These security events could also negatively impact our reputation and our competitive position and could result in litigation with third parties, regulatory action, loss of business, potential liability and increased remediation costs, any of which could have a material adverse effect on our financial condition and results of operations.

Our failure to manage our relationships with third party service partners effectively could adversely impact our financial results and relationship with customers.

We rely on a number of third party service partners, both domestic and international, to complement our global service and support resources. We rely upon these partners for certain installation, maintenance and support functions. In addition, as network operators increasingly seek to rely on vendors to perform additional services relating to the design, construction and operation of their networks, the scope of work performed by our support partners is likely to increase and may include areas where we have less experience providing or managing such services. We must successfully identify, assess, train and certify qualified service partners in order to ensure the proper installation, deployment and maintenance of our products, as well as to ensure the skillful performance of other services associated with expanded solutions offerings, including site assessment and construction-related services. Vetting and certification of these partners can be costly and time-consuming, and certain partners may not have the same operational history, financial resources and scale as Ciena. Moreover, certain service partners may provide similar services for other companies, including our competitors. We may not be able to manage our relationships with our service partners effectively, and we cannot be certain that they will be able to deliver services in the manner or time required or that we will be able to maintain the continuity of their services. We may also be exposed to a number of risks or challenges relating to the performance of our service partners, including:

- delays in recognizing revenue;
- liability for injuries to persons, damage to property or other claims relating to the actions or omissions of our service partners;
- our services revenue and gross margin may be adversely affected; and
- our relationships with customers could suffer.

As our service offering expands and customers look to identify vendors capable of managing, integrating and optimizing multi-domain, multi-vendor networks with unified software, our relationships with third party service partners will become increasingly important. If we do not effectively manage our relationships with third party service partners, or if they fail to perform these services in the manner or time required, our financial results and relationships with customers could be adversely affected.

We may be adversely affected by fluctuations in currency exchange rates.

As a company with global operations, we face exposure to movements in foreign currency exchange rates. For example, the announcement of Brexit and the outcome of the U.S. presidential election each have caused, and may continue to cause, significant volatility in currency exchange rates. Due to our global presence, a significant percentage of our revenue, operating expense and assets and liabilities are non-U.S. Dollar denominated and therefore

subject to foreign currency fluctuation. We face exposure to currency exchange rates as a result of the growth in our non-U.S. Dollar denominated operating expense in Canada, Europe, Asia and Latin America. An increase in the value of the U.S. Dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in Dollars, and a weakened Dollar could increase the cost of local operating expenses and procurement of materials or service that we purchase in foreign currencies. From time to time, we may hedge against currency exposure associated with anticipated foreign currency cash flows or assets and liabilities denominated in foreign currency. Such attempts to offset the impact of currency fluctuations are costly, and we cannot hedge against all foreign exchange rate volatility. Losses associated with these hedging instruments and the adverse effect of foreign currency exchange rate fluctuation may negatively affect our results of operations.

We may be exposed to unanticipated risks and additional obligations in connection with our resale of complementary products or technology of other companies.

We have entered into agreements with strategic supply partners that permit us to distribute their products or technology. We may rely upon these relationships to add complementary products or technologies, diversify our product portfolio, or address a particular customer or geographic market. We may enter into additional original equipment manufacturer (OEM), resale or similar strategic arrangements in the future. We may incur unanticipated costs or difficulties relating to our resale of third party products. Our third party relationships could expose us to risks associated with the business, financial condition, intellectual property rights and supply chain continuity of such partners, as well as delays in their development, manufacturing or delivery of products or technology. We may also be required by customers to assume warranty, indemnity, service and other commercial obligations, including potential liability to customers, greater than the commitments, if any, made to us by our technology partners. Some of our strategic supply partners are relatively small companies with limited financial resources. If they are unable to satisfy their obligations to us or our customers, we may have to expend our own resources to satisfy these obligations. Exposure to these risks could harm our reputation with key customers and could negatively affect our business and our results of operations.

Our exposure to the credit risks of our customers and resellers may make it difficult to collect receivables and could adversely affect our revenue and operating results.

In the course of our sales to customers and resale channel partners, we may have difficulty collecting receivables, and our business and results of operations could be exposed to risks associated with uncollectible accounts. Lack of liquidity in the capital markets, macroeconomic weakness and market volatility may increase our exposure to these credit risks. Our attempts to monitor customer payment capability and to take appropriate measures to protect ourselves may not be sufficient, and it is possible that we may have to write down or write off accounts receivable. Such write-downs or write-offs could negatively affect our operating results for the period in which they occur, and, if large, could have a material adverse effect on our revenue and operating results.

Our business is dependent upon the proper functioning of our internal business processes and information systems, and modification or interruption of such systems or external factors may disrupt our business, processes and internal controls.

We rely upon a number of internal business processes and information systems to support key business functions, and the efficient operation of these processes and systems is critical to managing our business. Our business processes and information systems must be sufficiently scalable to support the growth of our business and may require modifications or upgrades that expose us to a number of operational risks. We continually pursue initiatives to transform and optimize our business operations through the reengineering of certain processes, investment in automation, and engagement of strategic partners or resources to assist with certain business functions. These changes require a significant investment of capital and human resources and may be costly and disruptive to our operations, and they could impose substantial demands on management time. These changes may also require changes in our information systems, modification of internal control procedures and significant training of employees or third party resources. There can be no assurance that our business and operations will not experience disruption in connection with our current system upgrade or other initiatives. Even if we do not encounter these adverse effects or disruption in our business, the design and implementation of these new systems may be more costly than anticipated.

Our information technology systems, and those of third party information technology providers or business partners, may also be vulnerable to damage or disruption caused by circumstances beyond our control, including catastrophic events, power anomalies or outages, natural disasters, viruses or malware, and computer system or network failures. We may also be exposed to cyber-security related incidents, including unauthorized access of information systems and disclosure or diversion of intellectual property or confidential data. There can be no assurance that our business systems or those of our third party business partners would not be subject to similar incidents, exposing us to

significant cost, reputational harm and disruption or damage to our business.

Outstanding indebtedness under our convertible notes and senior secured credit facilities may adversely affect our liquidity and results of operations and could limit our business.

As of the date of this report, we had approximately $567.1 million in indebtedness repayable at maturity under our outstanding convertible notes. In the event that some or all of these notes are converted into common stock, the ownership interests of our existing stockholders will be diluted, and any sales of such shares in the public market following conversion may adversely affect the market price for our common stock. We are also a party to credit agreements relating to a $250 million senior secured asset-based revolving credit facility and an outstanding senior secured term loan with $399.0 million repayable at maturity. The agreements governing these credit facilities contain certain covenants that limit our ability, among other things, to incur additional debt, create liens and encumbrances, pay cash dividends, redeem or repurchase stock, enter into certain

acquisition transactions or transactions with affiliates, repay certain indebtedness, make investments or dispose of assets. The agreements also include customary remedies, including the right of the lenders to take action with respect to the collateral securing the loans, that would apply should we default or otherwise be unable to satisfy our debt obligations.

Our indebtedness could have important negative consequences, including:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing, particularly in unfavorable capital and credit market conditions;
- debt service and repayment obligations that may adversely impact our results of operations and reduce the availability of cash resources for other business purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate; and
- placing us at a possible competitive disadvantage relative to competitors that have better access to capital resources.

We may also enter into additional transactions or credit facilities, including equipment loans, working capital lines of credit and other long-term debt, which may increase our indebtedness and result in additional restrictions upon our business. In addition, major debt rating agencies regularly evaluate our debt based on a number of factors. There can be no assurance that we will be able to maintain our existing debt ratings, and failure to do so could adversely affect our cost of funds, liquidity and access to capital markets.

Significant volatility and uncertainty in the capital markets may limit our access to funding on favorable terms or at all.
The operation of our business requires significant capital. We have accessed the capital markets in the past and have successfully raised funds, including through the issuance of equity, convertible notes and other indebtedness, to increase our cash position, support our operations and undertake strategic growth initiatives. We regularly evaluate our liquidity position, debt obligations, and anticipated cash needs to fund our long-term operating plans, and we may consider it necessary or advisable to raise additional capital or incur additional indebtedness in the future. If we raise additional funds through further issuance of equity or securities convertible into equity, or undertake certain transactions intended to address our existing indebtedness, our existing stockholders could suffer dilution in their percentage ownership of our company or our leverage and outstanding indebtedness could increase. Global capital markets have undergone periods of significant volatility and uncertainty in the past, and there can be no assurance that such financing alternatives would be available to us on favorable terms or at all, should we determine it necessary or advisable to seek additional capital.

Facilities transitions could be disruptive to our operations and may result in unanticipated expense and adverse effects to our cash position and cash flows.

We have undertaken and expect to undertake in the future the transition of two of our significant research and development facilities, which will affect a large number of our employees. The lease for our Lab 10 building on the Carling Campus in Ottawa, Canada will expire in fiscal 2018, and the leases for our facilities in Gurgaon, India will expire in fiscal 2018 and fiscal 2019. The Ottawa and Gurgaon facilities represent our two largest research and development sites, and they house both significant headcount including key engineering personnel and a large amount of sophisticated lab equipment. In Ottawa, we are in the process of transitioning our existing operations and personnel to a new research and development campus. In Gurgaon, we recently entered into a lease for a new building adjacent to one of our existing facilities, and we will be transitioning certain of our existing operations and personnel to the new building during 2017 and 2018. Relocating our engineering operations may be costly, and there can be no assurance that the transition of key engineering functions to a successor facility will not be disruptive or adversely

affect productivity. Significant facilities transitions could be disruptive to our operations and may result in additional or unanticipated expense and adverse effects on our cash position and cash flows.

The potential effects of the referendum on the UK's membership in the European Union remain uncertain.
On June 23, 2016, the United Kingdom (UK) held a referendum in which voters approved an exit from the European Union (EU), commonly referred to as "Brexit," and on March 29, 2017 notified the EU that it intended to exit as provided in Article 50 of the Treaty on European Union. The terms of the withdrawal are subject to a negotiation period that could last at least two years from the withdrawal notification date. This will be either accompanied or followed by additional negotiations between the EU and the UK concerning the future relations between the parties. Nevertheless, Brexit has created significant uncertainty about the future relationship between the UK and the EU. It is possible that the level of economic activity in this region will be adversely impacted and that there will be increased regulatory and legal complexities, including those relating to tax, trade, security, and employees. Such changes could be costly and potentially disruptive to our operations and business

relationships in these markets. In addition, Brexit could lead to economic uncertainty, including significant volatility in global stock markets and currency exchange rates, that may adversely impact our business. While we have adopted certain financial measures to reduce the risks of doing business internationally, we cannot ensure that such measures will be adequate to allow us to operate without disruption or adverse impact to our business and financial results in the affected regions.

Restructuring activities could disrupt our business and affect our results of operations.

We have often taken steps, including reductions in force, office closures, and internal reorganizations to reduce the size and cost of our operations, improve efficiencies, or realign our organization and staffing to better match our market opportunities and our technology development initiatives. We may take similar steps in the future as we seek to realize operating synergies, to optimize our operations to achieve our target operating model and profitability objectives, or to reflect more closely changes in the strategic direction of our business. These changes could be disruptive to our business, including our research and development efforts, and could result in significant expense, including accounting charges for inventory and technology-related write-offs, workforce reduction costs and charges relating to consolidation of excess facilities. Substantial expense or charges resulting from restructuring activities could adversely affect our results of operations and use of cash in those periods in which we undertake such actions.

If we are unable to attract and retain qualified personnel, we may be unable to manage our business effectively.

Competition to attract and retain highly skilled technical, engineering and other personnel with experience in our industry is intense, and our employees have been the subject of targeted hiring by our competitors. Competition is particularly intense in certain jurisdictions where we have research and development centers, including the Silicon Valley area of northern California, and we may experience difficulty retaining and motivating existing employees and attracting qualified personnel to fill key positions. Because we rely upon equity awards as a significant component of compensation, particularly for our executive team, a lack of positive performance in our stock price, reduced grant levels, or changes to our compensation program may adversely affect our ability to attract and retain key employees. In addition, none of our executive officers is bound by an employment agreement for any specific term. The loss of members of our management team or other key personnel could be disruptive to our business, and, were it necessary, it could be difficult to replace members of our management team or other key personnel. If we are unable to attract and retain qualified personnel, we may be unable to manage our business effectively, and our operations and financial results could suffer.

Strategic acquisitions and investments could disrupt our operations and may expose us to increased costs and unexpected liabilities.

We may acquire or make investments in other technology companies, or enter into other strategic relationships, to expand the markets we address, diversify our customer base or acquire, or accelerate the development of, technology or products. To do so, we may use cash, issue equity that could dilute our current stockholders, or incur debt or assume indebtedness. Strategic transactions can involve numerous additional risks, including:

- failure to achieve the anticipated transaction benefits or the projected financial results and operational synergies;
- greater than expected acquisition and integration costs;
- disruption due to the integration and rationalization of operations, products, technologies and personnel;
- diversion of management attention;
- difficulty completing projects of the acquired company and costs related to in-process projects;
- difficulty managing customer transitions or entering into new markets;
- the loss of key employees;
-

- disruption or termination of business relationships with customers, suppliers, vendors, landlords, licensors and other business partners;
- ineffective internal controls over financial reporting;
- dependence on unfamiliar suppliers or manufacturers;
- assumption of or exposure to unanticipated liabilities, including intellectual property infringement or other legal claims; and
- adverse tax or accounting impact.

As a result of these and other risks, our acquisitions, investments or strategic transactions may not realize the intended benefits and may ultimately have a negative impact on our business, results of operation and financial condition.
Adverse resolution of litigation may harm our operating results or financial condition.

We are a party to claims and litigation in the normal course of our business. Such litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and may harm our operating results or financial condition. For additional information regarding certain of the legal proceedings in which we are involved, see Item 1, “Legal Proceedings,” contained in Part II of this report.

Changes in government regulation affecting the communications industry and the businesses of our customers could harm our prospects and operating results.

The Federal Communications Commission, or FCC, has jurisdiction over the U.S. communications industry, and similar agencies have jurisdiction over the communication industries in other countries. Many of our largest customers, including service providers and multiservice network operators, are subject to the rules and regulations of these agencies, while others participate in and benefit from government-funded programs that encourage the development of network infrastructures. These regulatory requirements and funding programs are subject to changes that may adversely impact our customers, with resulting impacts on our business. During 2015, the FCC approved rules that would regulate broadband internet service providers as telecommunications service carriers under Title II of the Telecommunications Act and adopted net neutrality regulations that prohibit blocking, degrading or prioritizing certain types of internet traffic. The future impact of these rules is uncertain in light of the recent change in FCC leadership. In addition to the net neutrality rules, similar changes in regulatory requirements covering access to, management of, or carriage of traffic on the internet in the United States and internationally could serve as a disincentive to certain wireline or wireless network operators, including certain of our customers, to invest in their network infrastructures or introduce new services. Such changes could adversely affect the sale of our products and services. Similarly, changes in regulatory tariff requirements or other regulations relating to pricing or terms of carriage on communications networks could slow the development or expansion of network infrastructures and adversely affect our business, operating results, and financial condition.

Government regulations affecting the use, import or export of products could adversely affect our operations, negatively affect our revenue and increase our costs.

The United States and various foreign governments have established certain trade and tariff requirements under which we have implemented a global approach to the sourcing and manufacture of our products, as well as the distribution and fulfillment to customers around the world. Changes or restrictions impacting the import of our components to manufacturing facilities outside of the U.S., the importation of finished goods to the U.S., or the export of products globally, would adversely affect our operations, increase our costs and adversely impact our revenue. Government regulation of usage, import or export of our products, or our technology within our products, or our failure to obtain required approvals for our products, could harm our international and domestic sales and adversely affect our revenue and costs of sales. Failure to comply with such regulations could result in enforcement actions, fines, penalties or restrictions on export privileges. In addition, costly tariffs on our equipment, restrictions on importation, trade protection measures and domestic preference requirements of certain countries could limit our access to these markets and harm our sales. These regulations could adversely affect the sale or use of our products, substantially increase our cost of sales and adversely affect our business and revenue.

Government regulations related to the environment, potential climate change and other social initiatives could adversely affect our business and operating results.

Our operations are regulated under various federal, state, local and international laws relating to the environment and potential climate change. If we were to violate or become liable under these laws or regulations, we could incur fines, costs related to damage to property or personal injury, and costs related to investigation or remediation activities. Our product design efforts and the manufacturing of our products are also subject to evolving requirements relating to the presence of certain materials or substances in our equipment, including regulations that make producers for such

products financially responsible for the collection, treatment and recycling of certain products. For example, our operations and financial results may be negatively affected by environmental regulations, such as the Waste Electrical and Electronic Equipment (WEEE) and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) that have been adopted by the European Union. Compliance with these and similar environmental regulations may increase our cost of designing, manufacturing, selling and removing our products. The SEC has adopted disclosure requirements regarding the use of “conflict minerals” mined from the Democratic Republic of Congo and adjoining countries (“DRC”) and disclosure requirements with respect to procedures regarding a manufacturer’s efforts to prevent the sourcing of such minerals from the DRC. Certain of these minerals are present in our products. SEC rules implementing these requirements may have the effect of reducing the pool of suppliers that can supply DRC “conflict free” components and parts, and we may not be able to obtain conflict free products or supplies in sufficient quantities for our operations. Because our supply chain is complex, we may face reputational challenges with our customers, stockholders and other stakeholders if we are unable to verify sufficiently the origins for the “conflict minerals” used in our products and cannot assert that our products are “conflict free.” Environmental or similar social

initiatives may also make it difficult to obtain supply of compliant components or may require us to write off non-compliant inventory, which could have an adverse effect on our business and operating results.

We may be required to write down goodwill or long-lived assets, and these impairment charges would adversely affect our operating results.

As of July 31, 2017 our balance sheet includes $267.8 million of goodwill. We test each reporting unit for impairment of goodwill on an annual basis, and between annual tests if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. As of July 31, 2017, our balance sheet also includes $468.4 million in long-lived assets, which includes $107.0 million of intangible assets. Valuation of our long-lived assets requires us to make assumptions about future sales prices and sales volumes for our products. These assumptions are used to forecast future, undiscounted cash flows upon which our estimates are based. Periods of significant uncertainty or instability of macroeconomic conditions can make forecasting future business difficult. If actual market conditions differ or our forecasts change for our business or any particular operating segment, we may be required to reassess goodwill or long-lived assets, and we could record an impairment charge. Any impairment charge relating to goodwill or long-lived assets would have the effect of decreasing our earnings or increasing our losses in such period. If we are required to take a substantial impairment charge, our operating results would be materially adversely affected in such period.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business, operating results and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report a report containing management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs and the commitment of time and operational resources. Certain ongoing initiatives, including efforts to transform business processes or to transition certain functions to third party resources or providers, will necessitate modifications to our internal control systems, processes and related information systems as we optimize our business and operations. Our expansion into new regions could pose further challenges to our internal control systems. We cannot be certain that our current design for internal control over financial reporting, or any additional changes to be made, will be sufficient to enable management to determine that our internal controls are effective for any period, or on an ongoing basis. If we are unable to assert that our internal controls over financial reporting are effective, market perception of our financial condition and the trading price of our stock may be adversely affected, and customer perception of our business may suffer.

Our stock price is volatile.

Our common stock price has experienced substantial volatility in the past and may remain volatile in the future. Volatility in our stock price can arise as a result of a number of the factors discussed in this “Risk Factors” section. During fiscal 2016, our closing stock price ranged from a high of $25.30 per share to a low of $15.73 per share. The stock market has experienced significant price and volume fluctuation that has affected the market price of many technology companies, with such volatility often unrelated to the operating performance of these companies. Divergence between our actual or anticipated financial results and published expectations of investment analysts, or the expectations of the market generally, can cause significant swings in our stock price. Our stock price can also be affected by market conditions in our industry as well as announcements that we, our competitors, vendors or our customers may make. These may include announcements of financial results or changes in estimated financial results, technological innovations, the gain or loss of customers, or key opportunities. Our common stock is also included in certain market indices, and any change in the composition of these indices to exclude our company would adversely affect our stock price. These and other factors affecting macroeconomic conditions or financial markets may

materially adversely affect the market price of our common stock in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Not applicable.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
Not applicable.

Item 6. Exhibits

4.1	Indenture dated August 2, 2017 between Ciena Corporation and The Bank of New York Mellon, N.A., as trustee, for 3.75% Convertible Senior Notes due 2018, including the Form of Note attached as Exhibit A thereto*
10.1	Amended and Restated 2003 Employee Stock Purchase Plan**
10.2	Employee Stock Purchase Plan Enrollment Agreement**
10.3	Third Amendment to Credit Agreement, dated June 29, 2017, by and among Ciena Corporation, Ciena Communications, Inc., Ciena Canada, Inc., Bank of America, N.A., as Administrative Agent, and the lenders party thereto
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*	Incorporated by reference from Ciena’s Current Report on Form 8-K filed August 2, 2017
**	Incorporated by reference from Ciena’s Quarterly Report on Form 10-Q filed June 7, 2017

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.

			Ciena Corporation
Date:	September 7, 2017	By:	/s/ Gary B. Smith Gary B. Smith President, Chief Executive Officer and Director (Duly Authorized Officer)
Date:	September 7, 2017	By:	/s/ James E. Moylan, Jr. James E. Moylan, Jr. Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)

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