

INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
February 09, 2011

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended January 1, 2011
OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada
(State or other jurisdiction of Incorporation or
Organization)

88-0173041
(I.R.S. Employer Identification No.)

9295 Prototype Drive, Reno, Nevada 89521
(Address of Principal Executive Offices)(Zip Code)

Registrant's Telephone Number, Including Area code: (775) 448-7777

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

The number of shares outstanding of each of the registrant's classes of common stock, as of February 4, 2011:
298.8 million shares of common stock at \$.00015625 par value.

TABLE OF CONTENTS

GLOSSARY OF TERMS AND ABBREVIATIONS (as used in this document)	3
PART I – FINANCIAL INFORMATION	4
Item 1. Unaudited Condensed Consolidated Financial Statements	4
CONSOLIDATED INCOME STATEMENTS	4
CONSOLIDATED BALANCE SHEETS	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	8
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
FORWARD LOOKING STATEMENTS	27
OVERVIEW	28
RECENTLY ISSUED ACCOUNTING STANDARDS	29
CRITICAL ACCOUNTING ESTIMATES	29
CONSOLIDATED RESULTS – A Year Over Year Comparative Analysis	30
BUSINESS SEGMENT RESULTS – A Year Over Year Comparative Analysis	33
LIQUIDITY AND CAPITAL RESOURCES	35
Item 3. Quantitative and Qualitative Disclosures about Market Risk	38
Item 4. Controls and Procedures	38
PART II – OTHER INFORMATION	38
Item 1. Legal Proceedings	38
Item 1A. Risk Factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3. Defaults Upon Senior Securities	45
Item 4. (Removed and Reserved)	45
Item 5. Other Information	45

Item 6.

Exhibits

45

2

GLOSSARY OF TERMS AND ABBREVIATIONS (as used in this document)

Fiscal dates as presented:	Fiscal dates -- actual:
December 31, 2010	January 1, 2011
December 31, 2009	January 2, 2010
September 30, 2010	October 2, 2010

Abbreviation/term	Definition
Anchor	Anchor Gaming
ARS	auction rate securities
ASU	Accounting Standards Update
5.5% Bonds	5.5% fixed rate notes due 2020
7.5% Bonds	7.5% fixed rate notes due 2019
bps	basis points
CCSC	Colorado Central Station Casino
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
DCF	discounted cash flow
DigiDeal	DigiDeal Corporation
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation, and amortization
EPA	Environmental Protection Agency
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IP	intellectual property
IRS	Internal Revenue Service
LIBOR	London inter-bank offering rate
JV	joint venture
MDA	management's discussion and analysis of financial condition and results of operations
Notes	3.25% convertible notes due 2014
OSHA	Occupational Safety & Health Administration
pp	percentage points
R&D	research and development
sbX™	IGT's complete server-based player experience management solution
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
UK	United Kingdom
US	United States
UTBs	unrecognized tax benefits
VIE	variable interest entity
WAP	wide area progressive
*	not meaningful (in tables)

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENTS

	Quarters Ended December 31,	
	2010	2009
(In millions, except per share amounts)		
Revenues		
Gaming operations	\$260.6	\$276.7
Product sales	204.2	238.4
Total revenues	464.8	515.1
Costs and operating expenses		
Cost of gaming operations	95.9	104.0
Cost of product sales	92.7	115.3
Selling, general and administrative	84.9	87.3
Research and development	51.7	45.4
Depreciation and amortization	18.2	19.4
Total costs and operating expenses	343.4	371.4
Operating income	121.4	143.7
Other income (expense)		
Interest income	13.4	16.0
Interest expense	(35.4)	(43.2)
Other	4.0	(1.3)
Total other income (expense)	(18.0)	(28.5)
Income from continuing operations before tax	103.4	115.2
Income tax provision	30.0	39.8
Income from continuing operations	73.4	75.4
Income (loss) from discontinued operations, net of tax	0.3	(2.1)
Net income	\$73.7	\$73.3
Basic earnings (loss) per share		
Continuing operations	\$0.25	\$0.26
Discontinued operations	-	(0.01)
Net income	\$0.25	\$0.25
Diluted earnings (loss) per share		
Continuing operations	\$0.25	\$0.26
Discontinued operations	-	(0.01)
Net income	\$0.25	\$0.25
Cash dividends declared per share	\$0.06	\$0.06
Weighted average shares outstanding		
Basic	297.6	295.1
Diluted	298.8	297.4

See accompanying notes

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	September 30, 2010
(In millions, except par value)		
Assets		
Current assets		
Cash and equivalents	\$ 168.7	\$ 158.4
Restricted cash and investment securities	83.6	88.1
Restricted cash and investment securities of VIEs	1.3	2.4
Jackpot annuity investments	49.4	49.5
Jackpot annuity investments of VIEs	15.5	15.6
Accounts receivable, net	297.0	290.3
Current maturities of contracts and notes receivable, net	175.5	184.1
Inventories	113.0	97.6
Deferred income taxes	93.2	84.3
Other assets and deferred costs	177.9	232.1
Total current assets	1,175.1	1,202.4
Property, plant and equipment, net	584.3	586.7
Jackpot annuity investments	295.2	299.1
Jackpot annuity investments of VIEs	61.3	61.7
Contracts and notes receivable, net	147.5	171.9
Goodwill	1,150.5	1,151.6
Other intangible assets, net	190.0	202.1
Deferred income taxes	129.6	136.8
Other assets and deferred costs	179.1	194.7
Total Assets	\$3,912.6	\$4,007.0
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities		
Accounts payable	\$84.8	\$84.6
Jackpot liabilities, current portion	170.0	179.1
Accrued employee benefits	11.0	23.9
Accrued income taxes	1.9	1.8
Dividends payable	17.9	17.9
Other accrued liabilities	235.7	275.0
Total current liabilities	521.3	582.3
Long-term debt	1,568.1	1,674.3
Jackpot liabilities	383.7	391.8
Other liabilities	137.9	124.3
Total Liabilities	2,611.0	2,772.7
Commitments and Contingencies		
Shareholders' Equity		
Common stock: \$.00015625 par value; 1,280.0 shares authorized; 339.8 and 339.1 issued; 298.7 and 298.1 outstanding	0.1	0.1
Additional paid-in capital	1,487.7	1,473.7
Treasury stock at cost: 41.1 and 41.0 shares	(804.2	) (802.0
Retained earnings	607.6	551.8
Accumulated other comprehensive income	10.4	10.7

Total Equity	1,301.6	1,234.3
Total Liabilities and Shareholders' Equity	\$3,912.6	\$4,007.0

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended December 31, (In millions)	2010	2009
Operating		
Net income	\$73.7	\$73.3
Adjustments:		
Depreciation and amortization	55.1	62.7
Discounts and deferred issuance costs	11.0	13.8
Share-based compensation	11.7	9.0
Excess tax benefits from employee stock plans	(1.7)	(2.7)
(Gain) loss on assets sold	(6.2)	(0.6)
Other, net	0.7	5.1
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	18.6	23.3
Inventories	(13.9)	8.8
Other assets and deferred costs	7.4	15.7
Income taxes, net of employee stock plans	23.7	27.4
Accounts payable and accrued liabilities	(54.8)	(58.3)
Jackpot liabilities	(22.9)	(8.8)
Net operating cash flows	102.4	168.7
Investing		
Capital expenditures	(42.3)	(53.3)
Proceeds from assets sold	2.2	0.8
Investment securities, net	-	1.9
Jackpot annuity investments, net	10.3	10.8
Changes in restricted cash	5.5	(5.0)
Loans receivable cash advanced	(0.5)	(17.7)
Loans receivable payments received	7.4	2.1
Unconsolidated affiliates, net	16.5	(4.9)
Business/VIE acquisition/deconsolidation	-	(1.4)
Net investing cash flows	(0.9)	(66.7)
Financing		
Debt proceeds	50.0	946.6
Debt repayments	(130.0)	(1,009.2)
Employee stock plan proceeds	3.8	2.4
Excess tax benefits from employee stock plans	1.7	2.7
Dividends paid	(17.9)	(17.8)
Net financing cash flows	(92.4)	(75.3)
Foreign exchange rates effect on cash and equivalents	1.2	(0.4)
Net change in cash and equivalents	10.3	26.3
Beginning cash and equivalents	158.4	146.7
Ending cash and equivalents	\$168.7	\$173.0

See accompanying notes

SUPPLEMENTAL CASH FLOWS INFORMATION

“Depreciation and amortization” reflected in the cash flows statements are comprised of amounts presented separately on the income statements, plus “depreciation and amortization” included in cost of gaming operations, cost of product sales and discontinued operations.

Three Months Ended December 31, (In millions)	2010	2009
Unconsolidated affiliates		
Investment in	\$-	\$(4.9)
Sales proceeds	16.5	-
Net	\$16.5	\$(4.9)
Jackpot funding		
Change in jackpot liabilities	\$(22.9)	\$(8.8)
Jackpot annuity purchases	(2.4)	(2.4)
Jackpot annuity proceeds	12.7	13.2
Net change in jackpot annuity investments	10.3	10.8
Net jackpot funding	\$(12.6)	\$2.0
Capital expenditures		
Property, plant and equipment	\$(1.4)	\$(5.5)
Gaming operations equipment	(40.6)	(46.3)
Intellectual property	(0.3)	(1.5)
Total	\$(42.3)	\$(53.3)
Payments		
Interest	\$35.1	\$41.1
Income taxes	4.3	11.7
Non-cash investing and financing items:		
Accrued capital asset additions	\$2.3	\$2.7
Interest accretion for jackpot annuity investments	5.7	6.3
Business acquisitions/purchase price adjustments and VIE deconsolidations		
Fair value of assets	\$-	\$(0.8)
Fair value of liabilities	-	(2.2)

See accompanying notes

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND CONSOLIDATION

Our consolidated financial statements include the accounts of International Game Technology (IGT, we, our, or the Company), including all majority-owned or controlled subsidiaries and VIEs for which we are the primary beneficiary. All appropriate inter-company accounts and transactions are eliminated.

We prepare our consolidated financial statements in accordance with SEC and US GAAP requirements and include all adjustments of a normal recurring nature that are necessary to fairly state our consolidated results of operations, financial position, and cash flows for all periods presented. Interim period results are not necessarily indicative of full year results. This quarterly report should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2010.

Our fiscal year is reported on a 52/53-week period ending on the Saturday nearest to September 30 each year. Similarly, our quarters end on the Saturday nearest to the last day of the quarter end month. For simplicity, this report presents all fiscal periods using the calendar month end as outlined in the table below.

	Period End	
	Actual	Presented as
Current quarter	January 1, 2011	December 31, 2010
Prior year quarter	January 2, 2010	December 31, 2009
Prior fiscal year end	October 2, 2010	September 30, 2010

Use of Estimates

Our consolidated financial statements are prepared in conformity with US GAAP. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole, and information available from other outside sources. Our estimates affect reported amounts for assets, liabilities, revenues, expenses, and related disclosures. Actual results may differ from initial estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receivables

Allowances for Credit Losses

We maintain allowances for credit losses related to accounts receivable and customer financing where collectability is uncertain. We evaluate the adequacy of our allowances for credit losses on a quarterly basis and consider a number of factors applicable to all of our customer receivables and financing, including customers' financial condition, historical customer collection experience, receivable aging, economic conditions, legal environment, and regulatory landscape.

Customer Financing

Our customer financing portfolio is comprised of two classes, contracts and notes. Our contracts include extended payment terms granted to qualifying customers for periods from one to five years and are secured by the related products sold. Our notes consist of development financing loans granted to select customers to assist in the funding of new or expanding gaming facilities, generally under terms of one to seven years and are secured by the developed property and/or other assets. Interest income on contracts and notes is recognized at prevailing market rates.

We place an internally assigned risk grade on each contract and note in our customer financing portfolio. Internally assigned risk grades fall into three categories (low, medium, high), based on a number of factors, including customer size, type, financial condition, historical collection experience, account aging, and credit ratings derived from credit reporting agencies and other industry trade reports. The high risk category includes most of our development financing loans in new markets and customers in regions with a history of currency or economic instability, such as South/Central America. Many of our high risk loans are performing according to contract and do not warrant an allowance. Internally assigned risk grades on each contract and note are evaluated on a quarterly basis.

Customer financing is classified as past due when a scheduled payment is not received within 30 days of a payment notice. Initially customer financing with past due payments are collectively evaluated for impairment. Contracts and notes are evaluated individually for impairment (specific reserves) when collectability becomes uncertain due to events and circumstances, such as bankruptcy and tax or legal issues, that cause an adverse change in a customer's cash flows or financial condition. Accounts placed on specific reserve are simultaneously evaluated for probability of collection, which is used to determine the amount of the specific reserve. All changes in the net carrying amount of our contracts and notes are recorded as adjustments to bad debt expense or impairment.

When collection is deemed unlikely (typically reserved at 50% or greater) during our quarterly review as discussed above, the contract or note is placed on nonaccrual status and interest income is recognized on a cash basis. Uncollectible contracts or notes are written off when it is determined that there is minimal chance of any kind of recovery, such as a customer property closure, bankruptcy restructuring or finalization, or other conditions that severely impact a customer's ability to repay amounts owed.

Recently Adopted Accounting Standards or Updates

Credit Quality of Financing Receivables and Allowances for Credit Losses

At the beginning of fiscal 2011, we adopted accounting standards issued in July 2010 to address the FASB concerns about the sufficiency, transparency, and robustness of credit risk disclosures for financing receivables and the related allowances for credit losses. The required information is designed to enable a better understanding of:

- the nature of credit risk inherent in our portfolio of financing receivables
- how credit risk is analyzed to determine the allowances for credit losses
- changes in and reasons for changes in the allowances for credit losses

These ASU disclosures are effective for our first quarter of fiscal 2011, except for the allowance roll-forward disclosures effective with our second quarter of fiscal 2011 and certain disclosures temporarily deferred pending the issuance of revised criteria for the identification of troubled debt restructuring. The adoption of this ASU did not and will not have a material impact on our results of operations, financial position, or cash flow. See Note 7 and Note 2 above.

Consolidation of Variable Interest Entities

At the beginning of fiscal 2011, we adopted accounting standards issued in June 2009, which require reassessment of our primary beneficiary position in VIE arrangements on an on-going basis and adds further disclosures about our involvement in VIEs. The revised standard also replaces the quantitative-based risks and rewards approach with a qualitative approach focused on determining which enterprise has the power to direct VIE activities that most significantly impact its economic performance and is obligated to absorb losses or has the rights to receive the most significant benefit from the VIE. The adoption of this ASU did not have a material impact on our results of operations, financial position, or cash flows.

Recently Issued Accounting Standards or Updates—Not Yet Adopted

Fair Value Measurement Disclosures

In January 2010, the FASB issued an ASU which will require supplemental disclosures related to purchases, sales, issuances, and settlements of fair value instruments within the Level 3 reconciliation. This ASU will be effective for our first quarter of fiscal 2012 and is not expected to have a material impact on our financial statements.

Accruals for Casino Jackpot Liabilities

In April 2010, the FASB issued an ASU clarifying that jackpot liabilities should not be accrued before they are won if the payout can be avoided. The ASU will be applied prospectively with a cumulative-effect adjustment in retained earnings at the beginning of our first quarter of fiscal 2012. We continue to evaluate the extent to which this guidance will impact our results of operations, financial position, or cash flows.

3. VARIABLE INTEREST ENTITIES AND AFFILIATES

Variable Interest Entities

New Jersey regulation requires that annuitized WAP jackpot payments to winners be administered through an individual trust set up for each WAP system. These trusts are VIEs. We determined that IGT was the primary consolidating beneficiary, because these VIE trusts are designed for the sole purpose of administering jackpot payments for IGT WAP winners and IGT guarantees all liabilities of the trusts. The assets of these consolidated VIEs can only be used to settle trust obligations and have been segregated on our balance sheet.

The consolidation of these VIEs primarily increases jackpot liabilities and related assets, as well as interest income and equivalent offsetting interest expense. Consolidated VIE trust assets and equivalent liabilities totaled \$78.1 million at December 31, 2010 and \$79.7 million at September 30, 2010.

Investments in Unconsolidated Affiliates

China LotSynergy Holdings, Ltd.

During the quarter ended December 31, 2010, we sold our CLS stock investment for net proceeds of \$16.5 million and recognized a gain of \$4.3 million.

At December 31, 2010, our CLS convertible note and default put derivative had an adjusted cost and fair value of \$21.3 million. We determined that the conversion option did not qualify as a freestanding derivative requiring bifurcation at December 31, 2010. See Note 15 and Note 16 for additional information about CLS derivatives and fair value assumptions.

We recorded IGT Synergy JV losses of \$0.1 million for the three months ended December 31, 2010 and 2009.

4. INVENTORIES

	December 31, 2010	September 30, 2010
(In millions)		
Raw materials	\$58.7	\$54.5
Work-in-process	5.5	3.9
Finished goods	48.8	39.2
Total	\$113.0	\$97.6

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2010	September 30, 2010
(In millions)		
Land	\$62.6	\$62.7
Buildings	231.0	230.9
Leasehold improvements	15.1	14.6
Machinery, furniture and equipment	288.0	286.0
Gaming operations equipment	808.5	804.9
Total	1,405.2	1,399.1
Less accumulated depreciation	(820.9)	(812.4)
Property, plant and equipment, net	\$584.3	\$586.7

6. SHARE-BASED COMPENSATION

The amount, frequency, and terms of share-based awards may vary based on competitive practices, operating results, and government regulations. SIP grants generally vest over three to five years, either in ratable annual increments or 100% at the end of the vesting period. New shares of IGT common stock are issued upon exercises of stock options, vesting of restricted share units, or restricted share grants. Our current practice is generally to grant restricted share awards in the form of units without dividends. Forfeitures occur primarily when employment is terminated prior to vesting.

At December 31, 2010, 3.7 million shares were available for grant under the IGT SIP. Each restricted share or unit counts as four shares against this allowance. Unrecognized costs related to share-based awards outstanding at December 31, 2010 totaled \$112.5 million and are expected to be recognized over a weighted average period of 2.0 years.

SIP Activity As Of And For The Three Months Ended December 31, 2010

Options	Shares (thousands)	Weighted Average		
		Exercise Price (per share)	Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of fiscal year	16,843	\$21.38		
Granted	4,404	15.60		
Exercised	(353)	10.84		
Forfeited	(171)	16.96		
Expired	(403)	31.36		
Outstanding at end of period	20,320	\$20.15	6.8	\$34.6
Vested and expected to vest	19,674	\$20.28	6.7	\$33.1
Exercisable at end of period	9,550	\$24.40	4.7	\$10.1

Restricted Shares/Units	Shares (thousands)	Fair Value (per share)	Weighted Average		Aggregate Intrinsic Value (millions)
			Grant Date	Remaining Vesting Period (years)	
Outstanding at beginning of fiscal year	2,368	\$ 18.88			
Granted	2,555	14.16			
Vested	(668)	21.25			
Forfeited	(53)	19.50			
Outstanding at end of period	4,202	\$ 15.65	2.2		\$ 74.3
Expected to vest	3,905	\$ 15.69	2.4		\$ 69.1

7. RECEIVABLES

See Note 2 regarding our accounting policies for accounts receivable, customer financing and allowances for credit losses.

Allowances for Credit Losses

	December 31, 2010			September 30, 2010		
	Recorded Investment	Allowance	Net	Recorded Investment	Allowance	Net
(In millions)						
Accounts receivable	\$ 320.6	\$ 23.6	\$ 297.0	\$ 314.9	\$ 24.6	\$ 290.3
Contracts and notes						
Current maturities	\$ 215.7	\$ 40.2	\$ 175.5	\$ 223.9	\$ 39.8	\$ 184.1
Non-current	185.0	37.5	147.5	210.5	38.6	171.9
Total	\$ 400.7	\$ 77.7	\$ 323.0	\$ 434.4	\$ 78.4	\$ 356.0

Customer Financing (Contracts and Notes) at December 31, 2010

Recorded Investment (principal and interest due, net of deferred interest and fees)	Total
(In millions)	
Individually evaluated for impairment	\$ 128.0
Collectively evaluated for impairment	272.7
Total recorded investment	\$ 400.7
Allowances for Credit Losses	Total
(In millions)	
Individually evaluated for impairment	\$ 65.4
Collectively evaluated for impairment	12.3
Total allowances for credit losses	\$ 77.7

Age Analysis of Recorded Investment (In millions)	Contracts	Notes	Total
Past Due:			
1-29 days	\$5.3	\$2.0	\$7.3
30-59 days	2.3	1.7	4.0
60-89 days	2.0	1.2	3.2
Over 90 days	5.3	20.7	26.0
Total past due	\$14.9	\$25.6	\$40.5
Current	193.3	166.9	360.2
Total recorded investment	\$208.2	\$192.5	\$400.7

Customer financing recorded investment:			
Over 90 days and accruing interest	\$2.1	\$0.1	\$2.2
Nonaccrual status (not accruing interest)	8.9	91.2	100.1

Recorded Investment by Credit Quality Indicator Credit Profile by Internally Assigned Risk Grade (In millions)	Contracts	Notes	Total
Low	\$70.1	\$0.2	\$70.3
Medium	32.1	0.5	32.6
High (1)	106.0	191.8	297.8
Total recorded investment	\$208.2	\$192.5	\$400.7

(1) Excluding development financing notes to the Alabama charitable bingo market (see additional information below), approximately 80% of the remaining contracts and notes are performing according to agreed upon terms. All contracts and notes maintain a security interest in the underlying assets that were financed.

Impaired loans (all specific reserves) (In millions)	Contracts	Notes	Total
Recorded investment	\$11.3	\$91.2	\$102.5
Unpaid principal face	11.1	92.3	103.4
Related allowance	5.9	59.5	65.4
Average recorded investment	11.8	92.3	104.1
Interest income recognized:			
Quarter-to-date			
Total	\$0.3	\$0.3	\$0.6
Cash-basis	-	0.3	0.3

Alabama Development Financing

Our impaired contracts and notes include \$83.9 million related to Alabama charitable bingo markets with related allowances of \$51.9 million at December 31, 2010. The legality of electronic charitable bingo in Alabama was challenged during fiscal 2010 and the properties where IGT placed electronic bingo machines closed their operations. At December 31, 2010, these properties remain closed. Any revenues and interest income related to these assets were recorded on the cash basis subsequent to the first quarter of fiscal 2010 as collectability was not reasonably assured.

8. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and equivalents, investments, and receivables. We place short-term investments in high credit quality financial institutions and in short-duration high-quality securities. With the exception of US Government and Agency securities, our short-term investment policy limits the amount of credit exposure in any one financial institution, industry group, or type of investment. Cash on deposit may be in excess of Federal Deposit Insurance Corporation limits.

Our receivables were concentrated in the following legalized gaming regions at December 31, 2010:

North America	
Nevada	10%
Oklahoma	6
Alabama	5
Other (less than 5% individually)	32
	53%
International	
Argentina	23%
Europe	10
Other Latin America	7
Other (less than 5% individually)	7
	47%

9. GOODWILL AND OTHER INTANGIBLES

Goodwill

Activity by Segment For The Three Months Ended December 31, 2010 (In millions)	North America	International	Total
Beginning balance	\$1,042.8	\$108.8	\$1,151.6
Accumulated impairment charges	-	-	-
Adjusted goodwill	1,042.8	108.8	1,151.6
Foreign currency adjustments	-	(1.1)	(1.1)
Ending balance	\$1,042.8	\$107.7	\$1,150.5

Other Intangibles

During the quarter ended December 31, 2010, we capitalized \$0.2 million of patent legal costs with a weighted average life of 5 years.

	December 31, 2010			September 30, 2010		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

(In millions)

Patents	\$385.0	\$ 245.9	\$139.1	\$387.3	\$ 238.8	\$148.5
Developed technology	75.8	48.2	27.6	75.9	46.7	29.2
Contracts	26.2	18.4	7.8	26.2	17.9	8.3
Reacquired rights	13.4	1.3	12.1	13.4	1.0	12.4
Customer relationships	8.8	5.9	2.9	8.8	5.7	3.1
Trademarks	3.4	2.9	0.5	3.5	2.9	0.6
Total	\$512.6	\$ 322.6	\$190.0	\$515.1	\$ 313.0	\$202.1

Aggregate amortization expense totaled \$12.3 million in the current quarter versus \$12.7 million in the prior year quarter.

	2011	2012	2013	2014	2015
(In millions)					
Estimated annual amortization	\$44.7	\$38.3	\$34.9	\$30.8	\$22.0

10. CREDIT FACILITIES AND INDEBTEDNESS

Outstanding debt at	December 31, 2010	September 30, 2010
(In millions)		
Domestic credit facility	\$ 20.0	\$ 100.0
3.25% Convertible Notes	850.0	850.0
7.5% Bonds	500.0	500.0
5.5% Bonds	300.0	300.0
Total principal	1,670.0	1,750.0
3.25% Convertible Notes discount	(116.6)	(124.1)
7.5% Bonds discount	(2.4)	(2.5)
5.5% Bonds discount	(1.2)	(1.2)
7.5% Swap fair value adjustment (see Note 19)	19.2	33.9
5.5% Swap fair value adjustment (see Note 19)	(0.9)	18.2
Total outstanding debt, net	\$ 1,568.1	\$ 1,674.3

IGT was in compliance with all applicable debt covenants at December 31, 2010. Embedded features of all debt agreements were evaluated and did not require bifurcation at December 31, 2010.

Domestic Credit Facility

At December 31, 2010, \$20.0 million was drawn on our domestic revolving credit facility, \$1.21 billion was available, and \$15.9 million was reserved for letters of credit and performance bonds. As of December 31, 2010, the facility interest rate was LIBOR plus 260 bps with a facility fee of 65 bps. The amount drawn carried a 2.86% weighted average interest rate.

Concurrent with the maturity of the non-extended portion on December 19, 2010, the size of our domestic credit facility was reduced by \$238.0 million. The size of the credit facility was further reduced on December 30, 2010, when we paid in full the term loan in the amount of \$42.0 million issued upon the conversion of half of all amounts outstanding at December 19, 2010. At December 31, 2010, the size of our domestic credit facility was \$1.24 billion.

Foreign Credit Facilities

At December 31, 2010, \$10.2 million was available and nothing was drawn under our revolving credit facility in Australia, which generally renews annually with maturity in March and is guaranteed by the parent company, International Game Technology.

Convertible Debt

Quarters ended December 31, (In millions)	2010	2009
3.25% Convertible Notes		
Contractual interest expense	\$6.9	\$6.9
Discount amortization	7.4	6.9
Remaining discount amortization period	3.3 years	
2.6% Convertible Debentures		
Contractual interest expense	\$-	\$3.8
Discount amortization	-	2.7

Bonds

Interest rate swaps executed in conjunction with our Bonds are described in Note 15.

11. CONTINGENCIES

Litigation

IGT has been named in and has brought lawsuits in the normal course of business. We do not expect the outcome of these suits, including the lawsuits described below, to have a material adverse effect on our future results of operations, financial position, or cash flows.

Bally

2004 Federal District Court of Nevada

On December 7, 2004, IGT filed a complaint in US District Court for the District of Nevada, alleging that defendants Alliance Gaming Corp., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed six US patents held by IGT: US Patent Nos. 6,827,646; 5,848,932; 5,788,573; 5,722,891; 6,712,698; and 6,722,985. On January 21, 2005, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted fourteen counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, and for antitrust violations and intentional interference with prospective business advantage. IGT has successfully moved for partial summary judgment on defendants' counterclaims for intentional interference with prospective business advantage and defendants' antitrust allegations related to the gaming machine market. IGT denies the remaining allegations. On May 9, 2007, the Court issued an order construing disputed terms of the asserted patent claims. On October 16, 2008, the Court issued summary judgment rulings finding certain of IGT's patents, including patents that IGT believes cover bonus wheel gaming machines, invalid as obvious. The rulings also found that Bally was not infringing certain patents asserted by IGT. Bally's antitrust and unfair competition counterclaims remain pending. On November 7, 2008, the Court issued an order staying the proceedings and certifying the summary judgment and claim construction rulings for immediate appeal. On December 1, 2008, IGT appealed the rulings to the US Court of Appeals for the Federal Circuit. On January 8, 2009, Bally moved to dismiss the appeal on jurisdictional grounds. On February 2, 2009, the Federal Circuit denied the Bally motion without prejudice to the parties raising jurisdictional issues in their merits briefs. On October 22, 2009, the Federal Circuit affirmed the District Court's summary judgment rulings. On December 7, 2009, Bally filed a motion to lift the stay and schedule a trial on the remaining issues. A hearing on the motion was held on

February 1, 2010, at which the Court indicated that it would revisit earlier motions for summary judgment on the issues not addressed on appeal, including IGT's motions for summary judgment on Bally's antitrust and unfair competition counterclaims. On November 29, 2010, the Court granted summary judgment in favor of IGT on all antitrust and unfair competition counterclaims by Bally and dismissed all other remaining claims. Bally has appealed the grant of summary judgment.

2006 Federal District Court of Delaware

On April 28, 2006, IGT filed a complaint in US District Court for the District of Delaware, alleging that defendants Bally Technologies, Inc., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed nine US patents held by IGT: US Patent Nos. RE 38,812; RE 37,885; 6,832,958; 6,319,125; 6,244,958; 6,431,983; 6,607,441; 6,565,434; and 6,620,046. The complaint alleges that the "BALLY POWER BONUSING™" technology infringes one or more of the claims of the asserted IGT patents. The lawsuit seeks monetary damages and an injunction. On June 30, 2006, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted twelve counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, antitrust violations, unfair competition, and intentional interference with prospective business advantage. IGT denies these allegations. Pursuant to stipulation of the parties, all claims and counterclaims except those relating to US Patent Nos. RE 37,885 ("the '885 patent"), RE 38,812 ("the '812 patent"), and 6,431,983 have been dismissed. All proceedings relating to Bally's antitrust, unfair competition, and intentional interference counterclaims have been stayed. On April 28, 2009, the court issued a summary judgment ruling finding the '885 and '812 patents valid. The court also ruled that Bally's "Power Rewards" and "ACSC Power Winners" products infringe certain claims of the '885 and '812 patents. The court granted Bally's motion for summary judgment that Bally's "SDS Power Winners" does not infringe the '885 patent and "Power Bank" and "Power Promotions" do not infringe the '983 patent. The court denied Bally's motion for summary judgment that the '983 patent is invalid. The parties have agreed that Bally's counterclaim for a declaratory judgment on invalidity of the '983 patent will be dismissed without prejudice. IGT's motion for a permanent injunction against Bally's infringing products was denied. On April 28, 2010, the court entered an order dismissing without prejudice Bally's remaining counterclaims (antitrust, unfair competition and intentional interference with business relationships) and entered final judgment in favor of IGT and against the Bally defendants. An appeal from the liability judgment is proceeding. A trial to determine the amount of damages incurred by IGT, and related matters, as a result of Bally's infringement has not yet been scheduled.

Aristocrat

2006 Northern Federal District Court of California

On June 12, 2006, Aristocrat Technologies Australia PTY Ltd. and Aristocrat Technologies, Inc. filed a patent infringement lawsuit against IGT. Aristocrat alleged that IGT willfully infringed US Patent No. 7,056,215, which issued on June 6, 2006. On December 15, 2006, Aristocrat filed an amended complaint, adding allegations that IGT willfully infringed US Patent No. 7,108,603, which issued on September 19, 2006. The IGT products named in the original and amended complaints were the Fort Knox® mystery progressive slot machines. On June 13, 2007, the US District Court for the Northern District of California entered an order granting summary judgment in favor of IGT declaring both patents invalid. The US Court of Appeals for the Federal Circuit reversed this decision on September 22, 2008. IGT's request for a rehearing was denied on November 17, 2008. This case has recommenced in the District Court. On May 13, 2010, the District Court entered an Order granting IGT's motion for summary judgment of non-infringement. Aristocrat is appealing this judgment. Proceedings on IGT's claim that Aristocrat committed inequitable conduct in reviving a related patent application are continuing in the District Court. A trial is set on this issue for April 4, 2011.

2010 Central Federal District Court of California

On November 15, 2010, IGT filed a complaint in the US District Court for the Central District of California against Aristocrat Leisure Limited of Australia and its US affiliate Aristocrat Technologies, Inc. (collectively "Aristocrat") seeking a preliminary and permanent injunction and damages for the infringement of US Patent No. 6,620,047 (the "'047 patent") and US Patent No. RE 39,370 (the "'370 patent") in violation of 35 U.S.C. § 271. We assert that Aristocrat

infringes on the '047 and the '370 patents in connection with the sale and distribution of gaming devices, including the Viridian WS slot machine, without authorization or license from IGT.

Rice (formerly Piercey) v Atlantic Lotteries

In May 2010, Atlantic Lotteries commenced an action against International Game Technology, VLC, Inc. and IGT-Canada, wholly-owned subsidiaries of International Game Technology, and other manufacturers of video lottery machines in the Supreme Court of New Foundland and Labrador seeking indemnification for any damages that may be awarded against Atlantic Lotteries in a class action suit also filed in the Supreme Court of New Foundland and Labrador. A motion for class certification has been filed by plaintiff but has not yet scheduled for argument. In the interim, plaintiff has filed a motion to preclude the third party defendants from participating on the motion to certify; plaintiff's motion to preclude is scheduled to be heard on February 23, 2011.

Shareholder Actions

Securities Class Action

On July 30, 2009, International Brotherhood of Electrical Workers Local 697 filed a putative securities fraud class action in the US District Court for the District of Nevada, alleging causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act against IGT and certain of its officers, one of whom is a director. The complaint alleges that between November 1, 2007 and October 30, 2008, the defendants inflated IGT's stock price through a series of materially false and misleading statements or omissions regarding IGT's business, operations, and prospects. The Court has appointed a lead plaintiff. The plaintiffs filed an amended complaint on April 26, 2010 and the defendants moved to dismiss that complaint on June 17, 2010.

Derivative Actions

Between August 20, 2009 and September 17, 2009, the Company was nominally sued in a series of derivative lawsuits filed in the US District Court for the District of Nevada, captioned Fossbre v. Matthews et al., Case No. 3:09-cv-00467; Calamore v. Matthews et al., Case No. 3:09-cv-00489-ECR-VPC; Israni v. Bittman, et al., Case No. 3:09-cv-00536; and Aronson v. Matthews et al., Case No. 3:09-cv-00542-RCJ-VPC. Plaintiffs purportedly brought their respective actions on behalf of the Company. The complaints asserted claims against various current and former officers and directors of the Company, for breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and contribution and indemnification. The complaints sought an unspecified amount of damages and allege similar facts as the securities class action lawsuit. The complaints additionally alleged that certain individual defendants engaged in insider trading and that the director defendants improperly handled Thomas J. Matthews' resignation as Chief Executive Officer of the Company. The actions were consolidated and subsequently a consolidated derivative complaint was filed in December 2009. Defendants moved to dismiss that complaint. On July 6, 2010, the Court granted the defendants' motion to dismiss, with leave to amend. The plaintiff in Israni v. Bittman, et al. has appealed the order of dismissal.

On September 30, 2009, the Company was nominally sued in a derivative lawsuit filed in the Second Judicial District Court of the State of Nevada, County of Washoe. Plaintiff purportedly filed the action on behalf of the Company. The lawsuit, captioned Kurz et al. v. Hart et al., Case No. cv-0-9-02982, asserted claims against various current and former officers and directors for breach of fiduciary duties and unjust enrichment. The complaint generally made the same allegations as the federal derivative complaints and seeks an unspecified amount of damages. The action has been dismissed by stipulation of the parties.

In a letter dated October 7, 2009 to the Company's Board of Directors, a shareholder made factual allegations similar to those set forth in the above derivative and securities class actions and demanded that the Board investigate, address and remedy the harm allegedly inflicted on IGT. In particular, the letter alleges that certain officers and directors grossly mismanaged the Company by overspending in the area of R&D of server-based game technology despite a looming recession to which the Company was particularly vulnerable; by making or allowing false and misleading statements regarding the Company's growth prospects and earnings guidance; and by wasting corporate assets by causing the Company to repurchase Company stock at inflated prices. The letter asserts that this alleged conduct resulted in breaches of fiduciary duties and violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5. On July 9, 2010, the Company was nominally sued in a derivative lawsuit filed in the US District Court for the District of Nevada, captioned Sprando v. Hart, et al., Case No. 3:10-cv-00415-RCJ-VPC and asserting claims similar to those described above. Motions to dismiss have filed.

ERISA Actions

On October 2, 2009, two putative class action lawsuits were filed on behalf of participants in the Company's employee pension plans, naming as defendants the Company, the IGT Profit Sharing Plan Committee, and several current and former officers and directors. The complaints (which seek unspecified damages) allege breaches of fiduciary duty under the Employee Retirement Income Security Act, 29 U.S.C §§ 1109 and 1132. The complaints allege similar facts as the securities class action lawsuit. The complaints further allege that the defendants breached fiduciary duties to Plan Participants by failing to disclose material facts to Plan Participants, failing to exercise their fiduciary duties solely in the interest of the Participants, failing to properly manage Plan assets, failing to diversify Plan assets, and permitting Participants to elect to invest in Company stock. The actions, filed in the US District Court for the District of Nevada, are captioned Carr et al. v. International Game Technology et al., Case No. 3:09-cv-00584, and Jordan et al. v. International Game Technology et al., Case No. 3:09-cv-00585. In October 2009, plaintiffs moved for consolidation of the two actions which motion was granted. On April 9, 2010, defendants moved to dismiss the consolidated complaint.

Environmental Matters

CCSC, a casino operation sold by IGT in April 2003, is located in an area that has been designated by the EPA as an active Superfund site because of contamination from historic mining activity in the area. In order for Anchor Coin, an entity IGT acquired in December 2001, to develop the CCSC site, it voluntarily entered into an administrative order of consent with the EPA to conduct soil removal and analysis (a requirement imposed on similarly situated property developers within the region) in conjunction with re-routing mine drainage. The work and obligations contemplated by the agreement were completed by Anchor in June 1998, and the EPA subsequently issued a termination of the order.

The EPA, together with other property developers excluding CCSC, continues remediation activities at the site. While we believe our remediation obligations are complete, it is possible that additional contamination may be identified and we could be obligated to participate in remediation efforts. Under accounting guidance for environmental remediation liabilities, we determined the incurrence of additional remediation costs is neither probable nor reasonably estimable and no liability has been recorded.

OSHA / Wrongful Termination Matter

On July 8, 2004, two former employees filed a complaint with the US Department of Labor, OSHA alleging retaliatory termination in violation of the Sarbanes-Oxley Act of 2002. The former employees allege that they were terminated in retaliation for questioning whether Anchor and its executives failed to properly disclose information allegedly affecting the value of Anchor's patents in connection with IGT's acquisition of Anchor in December 2001. The former employees also allege that the acquired patents were overvalued on the financial statements of IGT. Outside counsel, retained by an independent committee of our Board of Directors, reviewed the allegations and found them to be entirely without merit.

On November 10, 2004, the employees withdrew their complaint filed with OSHA and filed a notice of intent to file a complaint in federal court. On December 1, 2004, a complaint was filed under seal in the US District Court for the District of Nevada, based on the same facts set forth above regarding their OSHA complaint. IGT filed a motion for summary judgment as to all claims in plaintiffs' complaint. On June 14, 2007, the US District Court for the District of Nevada entered an order granting summary judgment in favor of IGT as to plaintiffs' Sarbanes-Oxley whistle-blower claims and dismissed their state law claims without prejudice. Plaintiffs' motion for reconsideration of the District Court's decision was denied. Plaintiffs appealed to the US Court of Appeals for the Ninth Circuit. Oral argument was heard on March 12, 2009, and on August 3, 2009, the Ninth Circuit reversed the District Court's decision. IGT's motion for summary judgment on plaintiffs' state law claims was argued on October 22, 2009 and granted in IGT's favor on December 8, 2009. On April 13, 2010, the District Court granted IGT's motion to strike the plaintiffs' jury demand and granted IGT's motion to retax costs and fees. It denied plaintiffs' motion for certification and/or reconsideration. On February 8, 2011, a jury verdict was entered in favor of the plaintiffs as to their Sarbanes-Oxley claims and awarded damages in an amount equal to approximately \$2.2 million. IGT is evaluating its options in response to this jury verdict.

In conjunction with the Anchor acquisition purchase price allocation as of December 31, 2001, IGT used the relief of royalty valuation methodology to estimate the fair value of the patents at \$164.4 million. The carrying value of the patents at December 31, 2010 totaled \$37.4 million.

Arrangements with Off-Balance Sheet Risks

In the normal course of business, we are party to financial instruments with off-balance sheet risk, such as performance bonds not reflected in our balance sheet. We do not expect any material losses to result from these

arrangements and are not dependent on off-balance sheet financing arrangements to fund our operations.

Performance Bonds

Performance bonds outstanding related to certain gaming operations equipment totaled \$6.8 million at December 31, 2010. We are liable to reimburse the bond issuer in the event of exercise due to nonperformance.

Letters of Credit

Outstanding letters of credit issued under our domestic credit facility to ensure payment to certain vendors and governmental agencies totaled \$9.1 million at December 31, 2010.

IGT Licensor Arrangements

Our sales agreements that include software and IP licensing arrangements may require IGT to indemnify the third-party licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark infringement, or trade secret misappropriation. Should such a claim occur, we could be required to make payments to the licensee for any liabilities or damages incurred. Historically, we have not incurred any significant settlement costs due to infringement claims. As we consider the likelihood of incurring future costs to be remote, no liability has been recorded.

Product Warranties

The majority of our products are generally covered by a warranty for periods ranging from 90 days to one year. We estimate accrued warranty costs in the table below based on historical trends in product failure rates and expected costs to provide warranty services.

Three Months Ended December 31, (In millions)	2010	2009
Balance at beginning of year	\$9.3	\$7.9
Reduction for payments made	(1.4)	(2.1)
Accrual for new warranties issued	2.4	3.1
Adjustments for pre-existing warranties	(0.5)	(1.8)
Balance at end of period	\$9.8	\$7.1

Self-Insurance

We are self-insured for various levels of workers' compensation, directors' and officers' liability, and electronic errors and omissions liability, as well as employee medical, dental, prescription drug, and disability coverage. We purchase stop loss coverage to protect against unexpected claims. Accrued insurance claims and reserves include estimated settlements for known claims, and actuarial estimates for claims incurred but not reported.

State and Federal Taxes

We are subject to sales, use, income, gaming and other tax audits and administrative proceedings in various US federal, state, local, and foreign jurisdictions. While we believe we have properly reported our tax liabilities in each jurisdiction, we can give no assurance that taxing authorities will not propose adjustments that increase our tax liabilities.

12. INCOME TAXES

Our provision for income taxes is based on estimated effective annual income tax rates as well as the impact of discrete items, if any, occurring during the quarter. The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement purposes than for tax return purposes. We reduce deferred tax assets by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Our effective tax rate for the three months ended December 31, 2010 decreased to 29.0% from 34.5% for the same prior year period as a result of the realization of benefits from an increase in the manufacturing deduction and the retroactive reinstatement of the R&D tax credit.

As of December 31, 2010, we had \$99.5 million of gross UTBs excluding related accrued interest and penalties of \$24.6 million. As of December 31, 2010, \$65.9 million of our UTBs, including related accrued interest and penalties, would affect our effective tax rate, if recognized. During the three months ended December 31, 2010, our UTBs increased \$15.7 million comprised of \$7.7 million related to positions taken during a prior year and \$8.0 million related to positions taken during the current year. Also during the three months ended December 31, 2010, related interest and penalties increased \$1.9 million.

We are also subject to examination in state and foreign jurisdictions. We believe we have recorded all appropriate provisions for outstanding issues for all jurisdictions and open years. However, we can give no assurance that taxing authorities will not propose adjustments that increase our tax liabilities.

13. EARNINGS PER SHARE

	Quarters Ended December 31,	
	2010	2009
(In millions, except per share amounts)		
Income from continuing operations available to common shares (1)	\$73.4	\$75.4
Basic weighted average shares outstanding	297.6	295.1
Dilutive effect of non-participating share-based awards	1.2	2.3
Diluted weighted average common shares outstanding	298.8	297.4
Basic earnings per share from continuing operations	\$0.25	\$0.26
Diluted earnings per share from continuing operations	\$0.25	\$0.26
Weighted average shares excluded from diluted EPS because the effect would be anti-dilutive:		
Share-based awards	16.4	9.8
Debentures	-	0.1
Notes	42.6	42.6
Note hedges	(42.6)	(42.6)
Warrants	42.6	42.6

(1) Income from continuing operations available to participating securities was not significant

14. OTHER COMPREHENSIVE INCOME

	Quarters Ended December 31,	
	2010	2009
(In millions)		
Net income	\$73.7	\$73.3
Currency translation adjustments	0.2	3.1
Investment unrealized gains (losses)	(0.5)	6.0
Comprehensive income	\$73.4	\$82.4

15. FINANCIAL DERIVATIVES

Foreign Currency Hedging

We hedge our net foreign currency exposure related to monetary assets and liabilities denominated in nonfunctional currency. The notional amount of foreign currency contracts hedging this exposure totaled \$27.3 million at December 31, 2010 and \$26.7 million at September 30, 2010.

In May 2007, we executed five-year forward contracts designated as a fair value hedge to protect a portion of the US dollar value of our Hong Kong dollar investment in the CLS convertible note (See Note 3). In conjunction with the early redemption of our CLS investment negotiated in September 2010, we executed additional contracts which effectively reduced the cumulative amount of forward contracts. The notional amount of foreign currency contracts hedging this exposure totaled \$15.0 million for which there was no ineffectiveness for the three months ended December 31, 2010.

Interest Rate Management

In conjunction with our 7.5% Bonds issued in June 2009, we executed \$250.0 million notional value of interest rate swaps that terminate on June 15, 2019. These swaps effectively exchange 7.5% fixed interest payments for variable rate interest payments at one-month LIBOR plus 342 bps reset on the 15th of each month. Net amounts receivable or payable under the swaps settle semiannually on June 15 and December 15. The interest rate swaps are designated fair value hedges against changes in the fair value of a portion of our 7.5% Bonds. Our assessment determined that the interest rate swaps are highly effective.

In conjunction with our 5.5% Bonds issued in June 2010, we executed \$300.0 million notional value of interest rate swaps that terminate on June 15, 2020. These swaps effectively exchange 5.5% fixed interest payments for variable rate interest payments based on the six-month LIBOR plus 186 bps set in arrears on June 13 and December 13 of each year. Net amounts receivable or payable under the swaps will be settled semiannually on June 15 and December 15. The interest rate swaps are designated fair value hedges against changes in the fair value of a portion of our 5.5% Bonds. Our assessment determined that the interest rate swaps are highly effective.

Presentation of Derivative Amounts

Balance Sheet Location and Fair Value (In millions)	December 31 2010	September 30, 2010
Non-designated Hedges		
Foreign currency contracts: Other assets and deferred costs (current)	\$0.3	\$-
Foreign currency contracts: Other liabilities (current)	1.7	2.2
Designated Hedges		
Interest rate swaps: Other assets (noncurrent)	\$19.4	\$52.1
Interest rate swaps: Long-term debt	18.3	52.1
		Quarters Ended December 31,
Income Statement Location and Gain (loss) (In millions)	2010	2009
Non-designated Hedges		

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

Foreign currency contracts: Other income (expense)	\$0.7	\$0.4
Designated Hedges		
Foreign currency contracts: Other income (expense)	\$-	\$0.1
Interest rate swap - ineffectiveness: Other income (expense)	0.5	0.5
Interest rate swap - effectiveness: Interest expense	4.6	2.3

16. FAIR VALUE MEASUREMENTS

Financial Assets (Liabilities) Carried at Fair Value

	Fair Value	Level 1	Level 2	Level 3
(In millions)				
December 31, 2010				
Money market funds	\$133.9	\$133.9	\$-	\$-
Investments in unconsolidated affiliates	21.3	-	-	21.3
Derivative assets	19.7	-	19.7	-
Derivative liabilities	(20.0)	-	(20.0)	-
September 30, 2010				
Money market funds	\$137.5	\$137.5	\$-	\$-
Investments in unconsolidated affiliates	34.0	12.7	-	21.3
Derivative assets	52.1	-	52.1	-
Derivative liabilities	(54.3)	-	(54.3)	-

Reconciliation of Items Carried at Fair Value Using Significant Unobservable Inputs (Level 3)

	December 31, 2010	December 31, 2009	December 31, 2009
	Investments in Unconsolidated Affiliates	Investments in Unconsolidated Affiliates	Investments in ARS and Put Rights
(In millions)			
Beginning balance	\$21.3	\$78.4	\$21.3
Total gain (loss):			
Included in other income (expense) - other	(0.6)	-	0.1
Included in other comprehensive income	-	5.0	-
Purchases, issuances, accretion, settlements	0.6	0.8	(1.8)
Ending balance	\$21.3	\$84.2	\$19.6
Net change in unrealized gain (loss) included in earnings related to instruments still held	\$(0.6)	\$-	\$0.1

Valuation Techniques and Balance Sheet Presentation

Investments in unconsolidated affiliates carried at fair value are estimated using quoted market prices when available or DCF models incorporating market participant assumptions, including credit quality and market interest rates and/or a Black-Scholes formula or an integrated lattice model with assumptions for stock price volatility and default recovery rates. These investments are presented as a component of other assets. See Note 3.

Investments in ARS were valued using DCF, with certain assumptions related to lack of liquidity and observable market transactions. Related put rights were valued based on the difference between the ARS par and fair value, discounted for the broker's non-performance risk and the time remaining until the exercise period. Our entire portfolio of ARS was sold during fiscal 2010.

Derivative assets and liabilities are valued using quoted forward pricing from bank counterparties and LIBOR credit default swap rates for non-performance risk, and approximate the net settlement amount if the contracts were settled at the reporting date. These are presented primarily as components of other assets, other liabilities, and notes payable. See Note 15.

Financial Assets (Liabilities) Not Carried at Fair Value

December 31, 2010 (In millions)	Carrying Amount	Fair Value	Unrealized Gain	Unrealized Loss
Jackpot investments	\$421.4	\$471.7	\$54.3	\$4.0
Notes & contracts receivable	323.0	325.1	2.1	-
Jackpot liabilities	(553.7)	(535.2)	18.5	-
Debt	(1,549.8)	(1,862.3)	-	312.5

September 30, 2010 (In millions)	Carrying Amount	Fair Value	Unrealized Gain	Unrealized Loss
Jackpot investments	\$425.9	\$495.2	\$73.1	\$3.8
Notes & contracts receivable	356.0	356.8	0.8	-
Jackpot liabilities	(570.9)	(567.5)	3.4	-
Debt	(1,622.2)	(1,933.2)	-	311.0

Valuation Techniques and Balance Sheet Presentation

Jackpot investments are valued based on quoted market prices.

Notes and contracts receivable are valued using DCF incorporating expected payments and current market interest rates relative to the credit risk of each customer.

Jackpot liabilities are valued using DCF models incorporating estimated funding rates, future payment timing, and IGT's nonperformance credit risk.

Debt fair value was determined using quoted market prices or dealer quotes for the identical financial instrument when traded as an asset in an active market, when available. Otherwise, the fair value is determined using DCF models of expected payments on outstanding borrowings at current borrowing rates. The swap fair value adjustment reported as a component of debt has been excluded from the carrying amount above. The fair value for convertible debt includes the equity component that is not included in the liability carrying amounts.

17. BUSINESS SEGMENTS

We view our business in the following two operating segments:

- North America includes our operations associated with customers located in the US and Canada
- International includes our operations associated with customers located in all other jurisdictions

Certain income and expenses related to company-wide initiatives are managed at the corporate level and not allocated to any operating segment. We do not recognize inter-company revenues or expenses upon the transfer of gaming products between operating segments. Segment accounting policies are consistent with those of our consolidated financial statements and segment profit is measured on the basis of operating income.

Our business segments are designed to allocate resources within a framework of management responsibility. Operating costs from one segment may benefit other segments. Realignment of our business development and administrative functions, as well as discontinued operations resulted in changes to segment allocations. Elements pertaining to prior periods' operating income presented have been recast accordingly.

Business Segment Information

	Quarters Ended	
	2010	2009
(In millions)		
NORTH AMERICA		
Revenues	\$351.8	\$369.1
Gaming operations	218.0	233.8
Product sales	133.8	135.3
Gross profit	210.0	214.7
Gaming operations	134.0	141.6
Product sales	76.0	73.1
Operating income	113.0	118.0
INTERNATIONAL		
Revenues	\$113.0	\$146.0
Gaming operations	42.6	42.9
Product sales	70.4	103.1
Gross profit	66.2	81.1
Gaming operations	30.7	31.1
Product sales	35.5	50.0
Operating income	31.6	46.8
CORPORATE (unallocated)		
Operating expenses	\$(23.2)	\$(21.1)
CONSOLIDATED		
Revenues	\$464.8	\$515.1
Gaming operations	260.6	276.7
Product sales	204.2	238.4

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

Gross profit	276.2	295.8
Gaming operations	164.7	172.7
Product sales	111.5	123.1
Operating income	121.4	143.7

18. DISCONTINUED OPERATIONS

Discontinued operations included the closure of our international operations in Japan and the divestiture of our equity interest in DigiDeal during fiscal 2010. A legal action regarding an outstanding third party contractual dispute related to our Japan operations is still pending.

Summary of Results in Discontinued Operations

Quarters Ended December 31, (In millions)	2010	2009
Revenues	\$ -	\$ 0.6
Income (loss) before tax	\$ 0.3	\$ (3.2)
Income tax benefit (provision)	-	1.1
Income (loss) from discontinued operations, net of tax	\$ 0.3	\$ (2.1)

Summary of Assets and Liabilities of Discontinued Operations

Assets of discontinued operations were presented as a component of current other assets and deferred costs, and liabilities of discontinued operations were presented as a component of other accrued liabilities below.

(In millions)	December 31, 2010	September 30, 2010
Assets		
Current assets	\$0.1	\$0.2
Non-current assets	0.1	0.1
Total assets of discontinued operations	\$0.2	\$0.3
Liabilities		
Current liabilities		
Accounts payable	\$-	\$0.3
Other accrued liabilities	5.4	5.2
Total liabilities of discontinued operations	\$5.4	\$5.5

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

The following MDA is intended to enhance the reader's understanding of our operations and current business environment. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2010, as well as the accompanying Unaudited Condensed Consolidated Financial Statements and Notes included in Item 1 of this Form 10-Q.

Unless the context indicates otherwise, International Game Technology, IGT, we, our, or the Company refers to International Game Technology and its consolidated entities. Italicized text in this document with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors. All comparisons herein refer to the first quarter ended December 31, 2010 as compared with the first quarter ended December 31, 2009, unless otherwise noted. As used in this report, "current" refers to the fiscal period ended December 31, 2010.

FORWARD LOOKING STATEMENTS

This report contains statements that do not relate to historical or current facts, but are "forward looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments, or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, appear, believe, could, would, estimate, expect, indicate, intend, may, plan, predict, project, pursue, will, continue, and other similar terms and phrases, as well as the use of the future tense.

Examples of forward looking statements in this report include, but are not limited to, the following categories of expectations about:

- our ability to successfully introduce new products and their impact on replacement demand
- the timing, features, benefits, and expected continued or future success of new product introductions and ongoing product and marketing initiatives
 - our leadership position in the gaming industry
- the advantages offered to customers by our anticipated products and product features
 - gaming growth, expansion, and new market opportunities
 - fluctuations in future gross margins and tax rates
 - increasing product sales or machine placements
- legislative or regulatory developments and related market opportunities
- available capital resources to fund future operating requirements, capital expenditures, payment obligations, and share repurchases
 - losses from off-balance sheet arrangements
 - financial returns to shareholders related to management of our costs

- the impact of recently adopted accounting pronouncements
- the outcome and expense of litigation
- anticipated increased revenue yields and operating margin if general economic conditions improve

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See Part 2, Item 1A, Risk Factors, in this report for a discussion of these and other risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances.

OVERVIEW

International Game Technology is a global company specializing in the design, manufacture, and marketing of electronic gaming equipment and systems products. We are a leading supplier of gaming products in substantially all legal jurisdictions worldwide and provide a diverse offering of quality products and services at competitive prices, designed to increase the potential for gaming operator profits by enhancing the player's experience.

We manage our operations in two geographic business segments, North America and International, with certain unallocated income and expenses managed at the corporate level. See BUSINESS SEGMENT RESULTS below and Note 17 of our Unaudited Condensed Consolidated Financial Statements for additional business segment information.

The results of our quarter ended December 31, 2010 reflect improvement in gross margins as a result of a more favorable product mix despite decreased revenues compared to the prior year quarter. Decreased revenues were negatively affected by intense competition, fewer new casino openings or expansions, and conservative customer spending in a lagging economic recovery. Additionally, our gaming operations installed base has been reduced primarily due to property closures in the Alabama electronic charitable bingo market. Operating expenses increased 2% over the prior year quarter as we continue to focus on maintaining cost efficiencies achieved while balancing the need to invest in people and processes essential for taking advantage of an expected industry turnaround and new business opportunities.

During the first quarter of fiscal 2011, we continued progress toward our objectives to deliver future revenue growth and improved gaming operations yields (revenue per unit per day). We are proactively removing older, lower-yielding games and replacing them with new, higher-performing game titles, including our high-performing Sex and the City™ participation placements (non-WAP), which grew to over 1,800 units at December 31, 2010. With more standardized platforms and a significant list of new games available, we believe the rate at which customers update older game titles and platforms may accelerate and/or we may increase customer financing to contribute to revenue growth. We have supported our latest unlimited content platform innovations, such as Center Stage and the quick-change G23 stand-alone, with an ample supply of new games.

Our installations of gaming systems continued to grow worldwide during the first quarter of fiscal 2011, with the addition of seven new Advantage® and eight new sbX® customers. Five of these installations combined the power of our Advantage® system with our sbX® solution. As of December 31, 2010, we had completed 27 sbX® installations. We believe our open network strategy will drive customers and content developers to create sbX® applications that differentiate the next-generation slot floor.

Our efforts are focused on making IGT financially stronger and operationally more efficient. During the first quarter of fiscal 2011, we further reduced the size of our domestic credit facility and reduced outstanding debt obligations by \$80.0 million. We expect to reduce the outstanding balance under the credit facility to zero during our second quarter of fiscal 2011 and we will have more flexibility in deploying our cash.

We continue to monitor new market opportunities we believe will arise as new jurisdictions consider gaming tax revenues as a means to address budget shortfalls. We are cautiously optimistic about sales opportunities in Illinois, Ohio, Maryland, Canada, and Italy over the next two years. Most US state legislatures will convene in 2011 facing significant revenue shortages. Legislation to legalize or expand some form of gaming is expected in several states. In addition to traditional gaming, several states have already introduced legislation to legalize intrastate internet gaming.

As we implement our long-term vision, we continue to assess if and how existing organizational elements fit into our core business strategy. During fiscal 2010, we discontinued operations in Japan and divested our majority interest in DigiDeal. See Note 18 of our Unaudited Condensed Consolidated Financial Statements for additional information

about discontinued operations.

28

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards that may impact our financial statements are discussed further in Note 2 of our Unaudited Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements were prepared in conformity with US GAAP. Accordingly, we are required to make estimates incorporating judgments and assumptions we believe are reasonable based on our historical experience, contract terms, trends in our company and the industry as a whole, as well as information available from other outside sources. Our estimates affect amounts recorded in the financial statements and actual results may differ from initial estimates.

We consider the following accounting estimates to be the most critical to fully understand and evaluate our reported financial results. They require us to make subjective or complex judgments about matters that are inherently uncertain or variable. The following accounting estimates are considered the most sensitive to changes from external factors.

- revenue recognition
- goodwill, other intangible assets, royalties, and affiliate investments
- jackpot liabilities and expenses
- inventory and gaming operations equipment
- income taxes

There have been no significant changes in our critical accounting estimates since those presented in Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

CONSOLIDATED RESULTS – A Year Over Year Comparative Analysis

	Quarters Ended December 31,		Favorable (Unfavorable)		
	2010	2009	Amount		%
(In millions except units & EPS)					
Revenues	\$464.8	\$515.1	\$(50.3)	) -10	%
Gaming operations	260.6	276.7	(16.1)	) -6	%
Product sales	204.2	238.4	(34.2)	) -14	%
Machines	123.3	161.2	(37.9)	) -24	%
Non-machine	80.9	77.2	3.7	5	%
Gross profit	\$276.2	\$295.8	\$(19.6)	) -7	%
Gaming operations	164.7	172.7	(8.0)	) -5	%
Product sales	111.5	123.1	(11.6)	) -9	%
Gross margin	59	% 57		2 pp 4	%
Gaming operations	63	% 62		1 pp 2	%
Product sales	55	% 52		3 pp 6	%
Units					
Gaming operations installed base	56,700	62,100	(5,400)	) -9	%
Fixed	10,000	9,700	300	3	%
Variable	46,700	52,400	(5,700)	) -11	%
Product sales shipped (1)	8,700	11,200	(2,500)	) -22	%
New	2,200	4,200	(2,000)	) -48	%
Replacement	6,500	7,000	(500)	) -7	%
Product sales recognized (2)	9,400	11,900	(2,500)	) -21	%
Operating income	\$121.4	\$143.7	\$(22.3)	) -16	%
Operating margin	26	% 28		(2) pp -7	%
Income from continuing operations	\$73.4	\$75.4	\$(2.0)	) -3	%
Loss from discontinued operations	0.3	(2.1)	2.4	*	
Net income	73.7	73.3	0.4	1	%
Diluted EPS					
Continuing operations	\$0.25	\$0.26	\$(0.01)	) -4	%
Discontinued operations	\$0.00	\$(0.01)	\$0.01	*	
Net income	\$0.25	\$0.25	\$0.00	-	

(1) includes units where revenues were deferred to future periods

(2) correlates with revenues recognized during the period

Three months ended December 31, 2010 compared with three months ended December 31, 2009

Operating income decreased with revenue declines in both gaming operations and product sales, primarily attributable to intense competition, fewer new casino openings or expansions, and conservative customer spending in a lagging economic recovery. Additionally, our gaming operations installed base has been reduced largely due to property closures in the Alabama electronic charitable bingo market. Revenue declines were partially offset by favorable changes in foreign exchange rates, which increased current quarter revenues by approximately \$1.5 million. Gross margin improvement was primarily due to changes in product mix. Decreased operating margin was attributable to

both decreased revenues and increased operating expenses.

Current quarter income from continuing operations was favorably impacted by discrete tax benefit items of \$7.0 million discussed below under “Income Tax Provision”, as well as \$4.3 million in gain on the sale of an equity investment in CLS discussed below under “Other Income (Expense).”

30

Consolidated Gaming Operations

Gaming operations revenues and gross profit decreased primarily due to a lower installed base, largely from the closure of certain charitable bingo facilities in Alabama (4,900 units) during fiscal 2010, as well as the conversion of gaming operations units to for-sale units in Mexico (1,000 units). Gross margins were favorably impacted by the removal of lower-yielding machines in Alabama.

Consolidated Product Sales

Product sales revenues and gross profit decreased primarily due to fewer new openings in both the North America and International segments. Gross margin improvement was primarily attributable to increased non-machine contribution and improved geographic mix within international sales.

Deferred revenue decreased \$13.2 million during the first quarter of fiscal 2011 to \$77.0 million at December 31, 2010, primarily related to the completion of obligations under multi-element contracts. During the first quarter of fiscal 2011, we shipped 600 units for which revenues were deferred and recognized revenues for 1,300 units previously shipped, for a net decrease of 700 units in deferred revenue.

Operating Expenses

	Quarters Ended December 31,		Favorable (Unfavorable)		
	2010	2009	Amount	%	
(In millions)					
Selling, general and administrative	\$84.9	\$87.3	\$2.4	3	%
Research and development	51.7	45.4	(6.3)	-14	%
Depreciation and amortization	18.2	19.4	1.2	6	%
Total operating expenses	\$154.8	\$152.1	\$(2.7)	-2	%
Percent of revenues	33	% 30	%		

Three months ended December 31, 2010 compared with three months ended December 31, 2009

The increase in operating expenses in the first quarter of fiscal 2011 was primarily due to increased R&D, partially offset by reduced bad debt provisions (\$2.1 million) and lower depreciation.

Other Income (Expense)

	Quarters Ended December 31,		Favorable (Unfavorable)		
	2010	2009	Amount	%	
(In millions)					
Interest Income	\$13.4	\$16.0	\$(2.6)	-16	%
WAP investments	5.8	6.4	(0.6)	-9	%
Receivables and investments	7.6	9.6	(2.0)	-21	%
Interest Expense	(35.4)	(43.2)	7.8	18	%
WAP jackpot liabilities	(5.7)	(6.3)	0.6	10	%
Borrowings	(22.5)	(27.3)	4.8	18	%
Convertible debt equity discount	(7.2)	(9.6)	2.4	25	%
Other	4.0	(1.3)	5.3	*	

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

Total other income (expense)	\$ (18.0)	\$ (28.5)	\$ 10.5	37	%
------------------------------	----------	---	----------	---	---------	----	---

Three months ended December 31, 2010 compared with three months ended December 31, 2009

The favorable variance in total other income (expense) was primarily due to decreased interest expense on lower borrowings and gain on the sale of our CLS equity investment of \$4.3 million.

31

WAP interest income and expense relates to previous jackpot winner liabilities and accretes at approximately the same rate. WAP interest income also includes earnings on restricted cash and investments held for future winner payments.

Income Tax Provision (See Note 12 of our Unaudited Condensed Consolidated Financial Statements)

(In millions)	Quarters Ended		Favorable (Unfavorable) Amount
	December 31, 2010	2009	
Income tax provision	\$30.0	\$39.8	\$9.8
Effective tax rate	29.0	% 34.5	% 5.5pp

Our effective tax rate on income from continuing operations for the first quarter of fiscal 2011 benefited from certain favorable discrete tax items of \$7.0 million in the current quarter related to an increase in the manufacturing deduction and the retroactive reinstatement of the Research and Development Tax Credit. Without these discrete tax benefits, our effective rate for the first quarter of fiscal 2011 would have been 35.8%.

Differences between our effective tax rate and the US federal statutory rate of 35% principally result from the geographical distribution of taxable income, differences between the book and tax treatment of certain items, and changes in uncertain tax positions.

BUSINESS SEGMENT RESULTS – A Year Over Year Comparative Analysis

Operating income for the North America and International segments below reflects applicable operating expenses. See Note 17 of our Unaudited Condensed Consolidated Financial Statements for additional business segment information.

North America

	Quarters Ended December 31,		Favorable (Unfavorable)	
	2010	2009	Amount	%
(In millions except units)				
Revenues	\$ 351.8	\$ 369.1	\$ (17.3)	-5 %
Gaming operations	218.0	233.8	(15.8)	-7 %
Product sales	133.8	135.3	(1.5)	-1 %
Machines	75.5	83.7	(8.2)	-10 %
Non-machine	58.3	51.6	6.7	13 %
Gross profit	\$ 210.0	\$ 214.7	\$ (4.7)	-2 %
Gaming operations	134.0	141.6	(7.6)	-5 %
Product sales	76.0	73.1	2.9	4 %
Gross margin	60 %	58 %	2 pp	3 %
Gaming operations	61 %	61 %	- pp	-
Product sales	57 %	54 %	3 pp	6 %
Units				
Gaming operations				
installed base	41,000	45,700	(4,700)	-10 %
Fixed	7,100	6,600	500	8 %
Variable	33,900	39,100	(5,200)	-13 %
Product sales shipped	4,500	5,300	(800)	-15 %
New	1,400	2,300	(900)	-39 %
Replacement	3,100	3,000	100	3 %
Product sales				
recognized	5,100	5,500	(400)	-7 %
Operating income	\$ 113.0	\$ 118.0	\$ (5.0)	-4 %
Operating margin	32 %	32 %	-pp	-

Three months ended December 31, 2010 compared with three months ended December 31, 2009

North America operating income decreased primarily due to revenue declines in both gaming operations and product sales, attributable to intense competition, fewer new casino openings or expansions, and conservative customer spending in a lagging economic recovery.

North America gaming operations revenues and gross profit decreased primarily due to our lower installed base, largely related to the closure of charitable gaming operations in Alabama. Margin improvement was primarily the result of a lesser contribution from lower-yielding Alabama units and a greater mix of games that do not include an IGT-sponsored jackpot (non-WAP).

North America product sales revenues and gross profit decreases were primarily attributable to fewer new/expansion units, partially offset by increased replacement units. Gross profit and margin were favorably impacted by a greater contribution from higher-margin non-machine sales and lower obsolescence charges.

International

	Quarters Ended December 31,		Favorable (Unfavorable)	
	2010	2009	Amount	%
(In millions except units)				
Revenues	\$ 113.0	\$ 146.0	\$ (33.0)	-23 %
Gaming operations	42.6	42.9	(0.3)	-1 %
Product sales	70.4	103.1	(32.7)	-32 %
Machines	47.8	77.5	(29.7)	-38 %
Non-machine	22.6	25.6	(3.0)	-12 %
Gross profit	\$ 66.2	\$ 81.1	\$ (14.9)	-18 %
Gaming operations	30.7	31.1	(0.4)	-1 %
Product sales	35.5	50.0	(14.5)	-29 %
Gross margin	59 %	56 %	3 pp	5 %
Gaming operations	72 %	72 %	- pp	-
Product sales	50 %	48 %	2 pp	4 %
Units				
Gaming operations				
installed base	15,700	16,400	(700)	-4 %
Fixed	2,900	3,100	(200)	-6 %
Variable	12,800	13,300	(500)	-4 %
Product sales shipped	4,200	5,900	(1,700)	-29 %
New	800	1,900	(1,100)	-58 %
Replacement	3,400	4,000	(600)	-15 %
Product sales recognized	4,300	6,400	(2,100)	-33 %
Operating income	\$ 31.6	\$ 46.8	\$ (15.2)	-32 %
Operating margin	28 %	32 %	(4)pp	-13 %

Three months ended December 31, 2010 compared with three months ended December 31, 2009

International operating income decreased primarily due to lower product sales volume. Favorable foreign exchange rates increased international revenues by approximately \$1.1 million.

International gaming operations revenues and gross profit were relatively comparable to the prior year quarter. International installed base decreases in Mexico were partially offset by increases in Africa, the UK, and South America.

International product sales units and revenues decreased in most jurisdictions, most significantly in Latin America and Europe compared with large new and expansion sales recognized in the prior year quarter. Gross margin benefited from lower machine costs, primarily related to 1,000 leased units converted to for-sale units in Mexico, and a lesser mix of low-payout units.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Selected Financial Information and Statistics

	December 31, 2010	September 30, 2010	Increase (Decrease)
(In millions)			
Cash and equivalents	\$ 168.7	\$ 158.4	\$ 10.3
Accounts receivable, net	297.0	290.3	6.7
Inventories	113.0	97.6	15.4
Working Capital	653.8	620.1	33.7
Trailing-twelve month statistics, excluding discontinued operations:			
Average days sales outstanding (excluding contracts and notes)	56	53	3
Inventory turns	3.6	4.4	(0.8)

At December 31, 2010, our principal sources of liquidity were cash and equivalents and \$1.2 billion available on our credit facilities worldwide. Other potential sources of capital include, but are not limited to, the issuance of debt securities, bank credit facilities and the issuance of equity securities. Based on past performance and current expectations, we believe the combination of these resources will satisfy our needs for working capital, jackpot liabilities, capital expenditures, debt service, and other liquidity requirements associated with our existing operations for the foreseeable future.

Restricted cash and investments, as well as jackpot annuity investments, are used only for funding jackpot winner payments. VIE assets are used only for funding related VIE jackpot winner payments. See Note 3 our Unaudited Condensed Consolidated Financial Statements for additional information about our VIEs.

Cash and equivalents increased \$10.3 million during the three months ended December 31, 2010, primarily due to cash generated from operations of \$102.4 million and net proceeds from investments and loans of \$41.4 million, offset by capital expenditures of \$42.3 million and net debt repayments of \$80.0 million. The remaining decrease was comprised mostly of dividends paid of \$17.9 million, partially offset by net employee stock plan proceeds of \$5.5 million.

Inventory turns decreased with higher inventory primarily due to delay of customer deliveries into the second quarter and new production parts. Average days sales outstanding increased with lower revenues and higher accounts receivable.

Cash Flows Summary - A Year Over Year Comparative

The first three months of fiscal 2011 compared to the first three months of fiscal 2010

Three Months Ended December 31, (In millions)	2010	2009	Favorable (Unfavorable)
Operations	\$ 102.4	\$ 168.7	\$ (66.3)
Investing	(0.9)	(66.7)	65.8

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

Financing	(92.4	)	(75.3	)	(17.1)
Effects of exchange rates	1.2		(0.4	)	1.6	
Net Change	\$10.3		\$26.3		\$ (16.0)

Operating Cash Flows

The first three months of fiscal 2011 provided lower operating cash flows, primarily due to increased cash used for working capital. Increased cash used for inventory and jackpot liabilities and less cash provided from other assets and receivables were partially offset by less cash used for accounts payable and accrued liabilities. Inventory increase was primarily due to delay of customer deliveries into the second quarter and new production parts. Cash flows related to jackpot liabilities fluctuate based on the timing of jackpots and winner payments, volume of play, and market variations in applicable interest rates.

Investing Cash Flows

We used less cash for investing during the three months ended December 31, 2010, primarily due to decreased cash used for development financing loans and capital expenditures, along with increased cash provided from affiliate investments and restricted cash.

Capital Expenditures Three Months Ended December 31, (In millions)	2010	2009	Increase (Decrease)
Property, plant and equipment	\$ 1.4	\$ 5.5	\$ (4.1)
Gaming operations equipment	40.6	46.3	(5.7)
Intellectual property	0.3	1.5	(1.2)
Total capital expenditures	\$ 42.3	\$ 53.3	\$ (11.0)

Financing Cash Flows

Increased cash used for financing during the three months of fiscal 2011 was primarily related to debt repayment.

Credit Facilities and Indebtedness

(See Note 10 of our Unaudited Condensed Consolidated Financial Statements)

At December 31, 2010, \$1.22 billion was available on our revolving credit facilities worldwide. At December 31, 2010, \$1.21 billion was available on our domestic revolving credit facility, \$20.0 million was drawn, and \$15.9 million was reserved for letters of credit and performance bonds. Also at December 31, 2010, \$10.2 million was available and nothing was drawn under our revolving credit facility in Australia, which generally renews annually with maturity in March.

Concurrent with the maturity of the non-extended portion on December 19, 2010, the size of our domestic credit facility was reduced by \$238.0 million. The size of our domestic credit facility was further reduced on December 30, 2010, when we paid in full the term loan in the amount of \$42.0 million issued upon the conversion of half of all amounts outstanding at December 19, 2010. At December 31, 2010, the size of our domestic credit facility was \$1.24 billion.

The domestic credit facility includes the following financial and restrictive covenants (all terms as defined per the domestic credit facility):

- a minimum ratio of adjusted EBITDA to interest expense (interest coverage ratio or ICR)
- a maximum ratio of Total Debt to adjusted EBITDA (total leverage ratio or TLR)
- certain restrictions on our ability to:
 - § incur or guaranty additional debt, or enter into swap agreements
 - § incur liens
 - § merge with or acquire other companies, liquidate or dissolve

§ sell, transfer, lease or dispose of substantially all assets

§ change the nature of our business

§ declare or make cash dividends or distributions or pay cash for the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of our capital stock or equity interests or any return of capital to shareholders, provided that we may, as long as no continuing default has occurred, pay dividends of up to the lesser of \$0.06 per common share per fiscal quarter or \$25.0 million in any fiscal quarter.

We were in compliance with all debt covenants at December 31, 2010, with our ICR at 9.0 (minimum allowed 3.0) and TLR at 2.3 (maximum allowed 3.5, reducing to 3.25 on April 1, 2011). Our ability to comply with these financial covenants may be adversely impacted by an extended economic downturn.

Financial Condition

	December 31, 2010	September 30, 2010	Increase (Decrease)
(In millions)			
Assets	\$3,912.6	\$4,007.0	\$(94.4)
Liabilities	2,611.0	2,772.7	(161.7)
Total Equity	1,301.6	1,234.3	67.3

Changes During The Three Months Ended December 31, 2010

Total assets decreased largely related to lower sales volume. The most significant decreases included other assets of \$35.5 million, taxes receivable and deferred taxes of \$32.6 million, and customer receivables of \$26.3 million.

Liabilities decreased primarily due to reductions of \$106.2 million in net debt, \$21.7 million in accrued interest, \$17.2 million in jackpot liabilities, and \$13.2 million in deferred revenues. Shareholders' equity increased primarily due to earnings.

Arrangements with Off-Balance Sheet Risk

In the normal course of business, we are a party to financial instruments with off-balance sheet risk, such as performance bonds, guarantees and product warranties not reflected in our balance sheet. We may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including but not limited to, losses arising:

- out of our breach of agreements with those parties
- from services to be provided by us
- from IP infringement claims made by third parties

Additionally, we have agreements with our directors and certain officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We have also agreed to indemnify certain former officers and directors of acquired companies. We maintain director and officer insurance, which may cover our liabilities arising from these indemnification obligations in certain circumstances.

It is not possible to determine the maximum potential obligations under these indemnification undertakings due to the unique facts and circumstances involved in each particular agreement. Such indemnification undertakings may not be subject to maximum loss clauses. Historically, we have not incurred material costs related to indemnification obligations.

We do not expect any material losses to result from these arrangements and do not rely on off-balance sheet financing arrangements to fund our operations. See also Note 11 of our Unaudited Condensed Consolidated Financial

Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk profile has not changed materially during the first three months of fiscal 2011 since those presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2010.

37

Item 4.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure. We recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives. Judgment is required when designing and evaluating the cost-benefit relationship of potential controls and procedures.

As of the end of the period covered by this report, with the supervision and participation of management, including our CEO and CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

As a part of our normal operations, we update our internal controls as necessary to accommodate any modifications to our business processes or accounting procedures. During the first quarter of fiscal 2011, we completed the conversion of one international subsidiary accounting system to integrate directly with our corporate enterprise resource planning system. We expect to continue this conversion process at other international locations over the next two years. No other change occurred during the most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material legal proceedings, see Note 11 of our Unaudited Condensed Consolidated Financial Statements, which is incorporated by reference in response to this item.

Item 1A. Risk Factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. We have revised the risk factors that relate to our business, below. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended September 30, 2010. Our business is vulnerable to changing economic conditions and to other factors that adversely affect the casino industry, which have negatively impacted and could continue to negatively impact the play levels of our participation games, our product sales, and our ability to collect outstanding receivables from our customers.

Our business is vulnerable to changing economic conditions and to other factors that adversely affect the casino industry, which have negatively impacted and could continue to negatively impact the play levels of our participation games, our product sales, and our ability to collect outstanding receivables.

Demand for our products and services depends largely upon favorable conditions in the casino industry, which is highly sensitive to casino patrons' disposable incomes and gaming activities. Discretionary spending on entertainment activities could further decline for reasons beyond our control, such as continued negative economic conditions, natural disasters, acts of war or terrorism, transportation disruptions or health issues. Any prolonged or significant decrease in consumer spending on entertainment activities could result in reduced play levels on our participation games, causing our cash flows and revenues from a large share of our recurring revenue products to decline. Unfavorable economic conditions have also resulted in a tightening in the credit markets, decreased liquidity in many financial markets, and significant volatility in the credit and equity markets.

A decline in the relative health of the gaming industry and the difficulty or inability of our customers to obtain adequate levels of capital to finance their ongoing operations reduces their resources available to purchase our products and services, which adversely affects our revenues. If we experience a significant unexpected decrease in demand for our products, we could also be required to increase our inventory obsolescence charges.

Furthermore, the extended economic downturn has impacted and could continue to impact the ability of our customers to make timely payments to us which could adversely affect our results of operations. We have, and may continue, to incur additional provisions for bad debt related to credit concerns on certain receivables.

Our ability to operate in our existing markets or expand into new jurisdictions could be adversely affected by changing regulations, new interpretations of existing laws, and difficulties or delays in obtaining or maintaining needed licenses or approvals.

We operate only in jurisdictions where gaming is legal. The gaming industry is subject to extensive governmental regulation by US federal, state and local governments, as well as tribal officials or organizations and foreign governments. While the regulatory requirements vary by jurisdiction, most require:

- licenses and/or permits
- findings of suitability
- documentation of qualifications, including evidence of financial stability
- other required approvals for companies who manufacture or distribute gaming equipment and services
 - individual suitability of officers, directors, major shareholders and key employees

Any license, permit, approval or finding of suitability may be revoked, suspended or conditioned at any time. We may not be able to obtain or maintain all necessary registrations, licenses, permits or approvals, or could experience delays related to the licensing process which could adversely affect our operations and our ability to maintain key employees.

To expand into new jurisdictions, we may need to be licensed, obtain approvals of our products and/or seek licensure of our officers, directors, major stockholders, key employees or business partners. If we fail to seek, do not receive or receive a revocation of a license in a particular jurisdiction for our games and gaming machines, hardware or software, we cannot sell or place on a participation or leased basis our products in that jurisdiction. Any delays in obtaining or difficulty in maintaining regulatory approvals needed for expansion within existing markets or into new jurisdictions can negatively affect our opportunities for growth.

Further, changes in existing gaming regulations or new interpretations of existing gaming laws may hinder or prevent us from continuing to operate in those jurisdictions where we currently do business, which would harm our operating results. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at manufacturers or gaming operators, such as referendums to increase gaming taxes or requirements to use local distributors, would likely have a negative impact on our operations.

Slow growth in the establishment of new gaming jurisdictions or the number of new casinos, declines in the rate of replacement of existing gaming machines and ownership changes and consolidation in the casino industry could limit or reduce our future profits.

Demand for our products is driven substantially by the establishment of new gaming jurisdictions, the addition of new casinos or expansion of existing casinos within existing gaming jurisdictions and the replacement of existing gaming machines. The establishment or expansion of gaming in any jurisdiction typically requires a public referendum or other legislative action. As a result, gaming continues to be the subject of public debate, and there are numerous active organizations that oppose gaming. Opposition to gaming could result in restrictions on or even prohibitions of gaming

operations or the expansion of operations in any jurisdiction.

In addition, the construction of new casinos or expansion of existing casinos fluctuates with demand, general economic conditions and the availability of financing. The rate of gaming growth in North America has diminished and machine replacements are at historically low levels. Slow growth in the establishment of new gaming jurisdictions or delays in the opening of new or expanded casinos and continued declines in, or low levels of demand for, machine replacements could reduce the demand for our products and our future profits. Because a substantial portion of our sales come from repeat customers, our business could be affected if one or more of our customers is sold to or merges with another entity that utilizes more of the products and services of one of our competitors or that reduces spending on our products or causes downward pricing pressures. Such consolidations could lead to order cancellations, a slowing in the rate of gaming machine replacements, or require our current customers to switch to our competitors' products, any of which could negatively impact our results of operations.

Demand for our products and the level of play of our products could be adversely affected by changes in player and operator preferences.

As a supplier of gaming machines, we must offer themes and products that appeal to gaming operators and players. There is constant pressure to develop and market new game content and technologically innovative products. Our revenues are dependent on the earning power and life span of our games. We therefore face continuous pressure to design and deploy new and successful game themes to maintain our revenue and remain competitive. If we are unable to anticipate or react timely to any significant changes in player preferences, such as a negative change in the trend of acceptance of our newest systems innovations or jackpot fatigue (declining play levels on smaller jackpots), the demand for our gaming products and the level of play of our gaming products could decline. Further, our products could suffer a loss of floor space to table games or other more technologically advanced games or operators may reduce revenue sharing arrangements, each of which would harm our sales and financial results. In addition, general changes in consumer behavior, such as reduced travel activity or redirection of entertainment dollars to other venues, could result in reduced demand and reduced play levels for our gaming products.

The gaming industry is intensely competitive. We face competition from a growing number of companies and, if we are unable to compete effectively, our business could be negatively impacted.

Competition among manufacturers of electronic gaming equipment and systems products is intense. Competition in our industry is primarily based on the amount of profit our products generate for our customers, together with cost savings, convenience, and other benefits. Additionally, we compete on the basis of price and financing terms made available to customers, the appeal of game content and features to the end player, and the features and functionality of our hardware and software products. Our competitors range from small, localized companies to large, multi-national corporations, several of which have substantial resources.

Competition in the gaming industry is intense due to the increasing number of providers, combined with the limited number of casino operators and jurisdictions in which they operate. This combination of a growing number of providers and a limited number of casino operators has resulted in an increased focus on price to value. To compete effectively, providers must offer innovative products, with increasing features and functionality benefiting the operators along with game content appealing to the end player, at prices that are attractive to operators.

Obtaining space and favorable placement on casino gaming floors is also a competitive factor in our industry. In addition, the level of competition among equipment providers has increased significantly due to consolidation among casino operators and cutbacks in capital spending by casino operators resulting from the economic downturn and decreased player spend.

Our success in the competitive gaming industry depends in large part on our ability to develop and manage frequent introductions of innovative products.

The gaming industry is characterized by dynamic customer demand and technological advances. As a result, we must continually introduce and successfully market new themes and technologies in order to remain competitive and effectively stimulate customer demand. To remain competitive, we have invested resources towards our research and development efforts to introduce new and innovative games with dynamic features to attract new customers and retain existing customers.

We intend to continue investing resources toward our research and development efforts. There is no assurance that our investments in research and development will lead to successful new technologies or timely new products. We invest heavily in product development in various disciplines from hardware, software, and firmware engineering to game design, video, multimedia, graphics, and sound. Because our newer products are generally more technologically

sophisticated than those we have produced in the past, we must continually refine our production capabilities to meet the needs of our product innovation. If we cannot efficiently adapt our manufacturing infrastructure to meet the needs of our product innovations, or if we are unable to make upgrades in our production capacity in a timely manner, our business could be negatively impacted.

Our customers will accept a new product only if it is likely to increase operator profits more than competitors' products. The amount of operator profits primarily depends on consumer play levels, which are influenced by player demand for our product. There is no certainty that our new products will attain this market acceptance or that our competitors will not more effectively anticipate or respond to changing customer preferences. In addition, any delays by us in introducing new products on schedule could negatively impact our operating results by providing an opportunity for our competitors to introduce new products and gain market share ahead of us. For example, our business and results could be adversely affected if we experience delays or problems in our continued deployment of sbX™ gaming management systems, or if we do not gain market acceptance for these or other systems that are currently under development.

New products require regulatory approval and may be subject to complex and dynamic revenue recognition standards, which could materially affect our financial results.

As we introduce new products and transactions become increasingly complex, additional analysis and judgment is required to account for and recognize revenues in accordance with generally accepted accounting principles. Transactions may include multiple element arrangements and/or software components and applicable accounting principles or regulatory product approval delays could further change the timing of revenue recognition and could adversely affect our financial results for any given period. Fluctuations may occur in our deferred revenues and reflect our continued shift toward more multiple element contracts that include systems and software.

A decline in and/or sustained low interest rates causes an increase in our jackpot expense which could limit or reduce our future profits.

Changes in prime and/or treasury and agency interest rates during a given period cause fluctuations in jackpot expense largely due to the revaluation of future winner liabilities. When rates increase, jackpot liabilities are reduced as it costs less to fund the liability. However, when interest rates decline or remain low the value of the liability (and related jackpot expense) increases because the cost to fund the liability increases. Our results may continue to be negatively impacted by continuing low interest rates or further declines in interest rates, resulting in increased jackpot expense and a reduction of our investment income, which could limit or reduce our future profits.

We may be unable to protect our IP.

A significant portion of our revenues is generated from products using certain IP rights and our operating results would be negatively impacted if we are unsuccessful in protecting these rights from infringement. In addition, some of our most popular games and features are based on trademarks, patents and other IP licensed from third parties. Our future success may depend upon our ability to obtain, retain and/or expand licenses for popular IP rights with reasonable terms in a competitive market. In the event that we cannot renew and/or expand existing licenses, we may be required to discontinue or limit our use of the games or gaming machines that use the licensed technology or bear the licensed marks.

Our success may depend in part on our ability to obtain trademark protection for the names or symbols under which we market our products and to obtain copyright protection and patent protection of our proprietary technologies, intellectual property and other game innovations. We may not be able to build and maintain goodwill in our trademarks or obtain trademark or patent protection, and there can be no assurance that any trademark, copyright or issued patent will provide competitive advantages for us or that our intellectual properties will not be successfully challenged or circumvented by competitors.

We also rely on trade secrets and proprietary know-how to protect certain proprietary knowledge and have entered into confidentiality agreements with our employees and independent contractors regarding our trade secrets and

proprietary information. However, there can be no guarantees that our employees and consultants will not breach these agreements, and if these agreements are breached it is unlikely that the remedies available to us will be sufficient to compensate us for the damages suffered. Additionally, despite various confidentiality agreements and other trade secret protections, our trade secrets and proprietary know-how could become known to, or independently developed by, competitors.

We may be subject to claims of IP infringement or invalidity and adverse outcomes of litigation could unfavorably affect our operating results.

Competitors and others may infringe on our intellectual property rights, or may allege that we have infringed on theirs. Monitoring infringement and misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect infringement or misappropriation of our proprietary rights. We may also incur significant litigation and other expenses protecting our intellectual property or defending our use of intellectual property, reducing our ability to bring new products to market in the future. These expenses could have an adverse effect on our future cash flows and results of operations. Our assessment of current IP litigation could change in light of the discovery of facts not presently known to us or determinations by judges, juries or others that do not agree with our evaluation of the possible liability or outcome of such litigation. If we are found to infringe on the rights of others we could be required to discontinue offering certain products or systems, to pay damages, or purchase a license to use the intellectual property in question from its owner. Litigation can also distract management from the day-to-day operations of the business. There can be no assurances that certain of our products, including those with currently pending patent applications, will not be determined to have infringed upon an existing third party patent.

The risks related to operations in foreign countries and outside of traditional US jurisdictions could negatively affect our results.

We operate in many countries outside of the US and in tribal jurisdictions with sovereign immunity which subjects us to certain inherent risks. Developments such as noted below could adversely affect our financial condition and results of operations:

- social, political or economic instability
- additional costs of compliance with international laws or unexpected changes in regulatory requirements
- tariffs and other trade barriers
- fluctuations in foreign exchange rates outside the US
- adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts
- expropriation, nationalization and restrictions on repatriation of funds or assets
- difficulty protecting our intellectual property
- recessions in foreign economies
- difficulties in maintaining foreign operations
- changes in consumer tastes and trends
- acts of war or terrorism
- US government requirements for export.

Our outstanding domestic credit facility subjects us to financial covenants which may limit our flexibility.

Our domestic credit facility subjects us to a number of financial covenants, including a minimum ratio of Adjusted EBITDA to interest expense minus interest on jackpot liabilities and a maximum ratio of debt to Adjusted EBITDA. Our failure or inability to comply with these covenants will cause an event of default that, if not cured, could cause the entire outstanding borrowings under our domestic credit facility, 5.5% Bonds, 7.5% Bonds and Notes to become immediately due and payable. In addition, our interest rate under the domestic credit facility can vary based on our public credit rating or our debt-to-capitalization ratio. Each of these measures may be adversely impacted by unfavorable economic conditions. The domestic credit facility also includes restrictions that may limit our flexibility in planning for, or reacting to, changes in our business and the industry.

Our obligations under our domestic credit facility are generally unsecured, except that we have agreed that, in the event of certain declines in our debt ratings as described in the domestic credit facility, as soon as reasonably practicable thereafter, we will grant a lien on 100% of the equity interests of IGT's direct and wholly-owned domestic subsidiaries and 66% of the equity interests of IGT's direct and wholly-owned foreign subsidiaries. Additionally, holders of the Notes issued and sold by us in May 2009, the 7.5% Bonds, 5.5% Bonds or similar securities issued by us and certain interest rate hedges provided by lenders under our domestic credit facility or their affiliates are permitted to share in any collateral that may be granted in the event our debt rating declines. To the extent a lien is granted such lien will be subsequently released if we thereafter satisfy the minimum debt rating requirements set forth in our domestic credit facility for at least three consecutive calendar months.

Initially, and in the future our 7.5% Bonds and 5.5% Bonds are not expected to, be secured by any of our assets. We may be required in connection with any future indebtedness, or the terms with respect to existing indebtedness including under our domestic credit facility, to provide a lien against some or all of our assets. To the extent that a lien on our assets is not also granted on an equal and ratable basis with our domestic credit facility in favor of the 7.5% Bonds and 5.5% Bonds, then if we become insolvent or are liquidated, or in the event that our existing indebtedness becomes secured, as described above, and payment of such secured indebtedness is accelerated, the holders of the secured indebtedness will be entitled to exercise the remedies available to them under applicable law, including the ability to foreclose on and sell the assets securing such indebtedness in order to satisfy such indebtedness. In any such case, any remaining assets may be insufficient to repay the notes and our other unsecured indebtedness.

Our outstanding Notes subject us to additional risks.

Our Notes issued in May 2009 contain a net settlement feature, which entitles holders to receive cash up to \$1,000 per Note and shares for any excess conversion value as determined by the respective governing indentures. Consequently, if a significant number of Notes are converted or redeemed, we would be required to make significant cash payments to the holders who convert or redeem the Notes.

In connection with the offering of the Notes, we entered into additional separate transactions for note hedges and warrant transactions. In connection with these transactions, the hedge counterparties and/or their respective affiliates may enter into various derivative transactions with respect to our common stock and may enter into or unwind various derivative transactions and/or purchase or sell our common stock in secondary market transactions prior to maturity of the Notes. These activities could have the effect of increasing or preventing a decline in, or having a negative effect on, the value of our common stock and could have the effect of increasing or preventing a decline in the value of our common stock during any conversion reference period related to a conversion of the Notes. The warrant transactions could separately have a dilutive effect from the issuance of our common stock pursuant to the warrants.

Our gaming machines and online operations may experience losses due to technical problems or fraudulent activities.

Our success depends on our ability to avoid, detect, replicate and correct software and hardware anomalies and fraudulent manipulation of our gaming machines. We incorporate security features into the design of our gaming machines and other systems, including those responsible for our online operations, which are designed to prevent us and our patrons from being defrauded. We also monitor our software and hardware to avoid, detect and correct any technical errors. However, there can be no guarantee that our security features or technical efforts will continue to be effective in the future. If our security systems fail to prevent fraud or if we experience any significant technical difficulties, our operating results could be adversely affected. Additionally, if third parties breach our security systems and defraud our patrons, or if our hardware or software experiences any technical anomalies, the public may lose confidence in our gaming machines and operations or we could become subject to legal claims by our customers or to investigation by gaming authorities.

Our gaming machines have experienced anomalies and fraudulent manipulation in the past. Games and gaming machines may be replaced by casinos and other gaming machine operators if they do not perform according to expectations, or may be shut down by regulators. The occurrence of anomalies in, or fraudulent manipulation of, our gaming machines may give rise to claims for lost revenues and related litigation by our customers and may subject us to investigation or other action by gaming regulatory authorities including suspension or revocation of our gaming licenses, or disciplinary action.

Business combinations and investments in intellectual properties or affiliates present risk, and we may not be able to realize the financial and strategic goals that were contemplated at the time of the transaction, which could materially affect our financial results.

We have invested and may continue to invest in strategic business combinations and acquisitions of important technologies and IP that we believe will expand our geographic reach, product lines, and/or customer base. We may encounter difficulties in the assimilation of acquired operations, technologies and/or products, or an acquisition may prove to be less valuable than the price we paid. We also may encounter difficulties applying our internal controls to an acquired business. Any of these events or circumstances may have an adverse effect on our business by requiring us to, among other things, record substantial impairment charges on goodwill and other intangible assets, resulting in a negative impact on our operating results.

Moreover, as we continue the process of evaluating our business in conjunction with an assessment of our long-term strategic goals, we will also further evaluate past and potential investments to determine if and how they will fit into our organizational structure going forward. If an event or change occurs in affiliate relationships or agreements associated with business combinations, we may be required to reassess cash flows, recoverability, useful lives, and fair value measurements, which may result in material impairment charges.

Failure to attract, retain and motivate key employees may adversely affect our ability to compete.

Our success depends largely on recruiting and retaining talented employees. The market for qualified executives and highly skilled, technical workers is intensely competitive. The loss of key employees or an inability to hire a sufficient number of technical staff could limit our ability to develop successful products and cause delays in getting new products to market.

Investments and development financing loans could adversely impact liquidity or cause us to incur loan losses or record a charge to earnings if our investments become impaired.

We invest in and/or provide financing for expansion or construction of gaming locations and other business purposes, including locations abroad. Such investment and financing activities subject us to increased credit risk in certain regions, which could be exacerbated by current unfavorable economic conditions or other political or economic instability in those regions. We monitor our investments and financing activities to assess impairment on a quarterly basis.

We have in the past and may in the future incur losses on these types of investments and loans. Our results of operations, liquidity or financial position may be negatively impacted if we are unable to collect on loans or derive benefit from our investments.

Current environmental laws and regulations, or those enacted in the future, could result in additional liabilities and costs.

The manufacturing of our products may require the use of materials that are subject to a variety of environmental, health and safety laws and regulations (such as climate change legislation). Compliance with these laws could increase our costs and impact the availability of components required to manufacture our products. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations, financial position or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

The purpose of our 1990 common stock repurchase authorization, as amended, is to return value to our shareholders and reduce the number of shares outstanding. We use open market or privately negotiated transactions, as well as Rule 10b5-1 trading plans, depending on market conditions and other factors. The authorization does not specify an expiration date.

Our share repurchases for the quarter ended December 31, 2010 summarized below consist only of shares of common stock tendered by employees to satisfy tax withholding obligations arising from restricted stock or units vested under our SIP. The shares were repurchased for their fair market value on the vesting date and were not part of a publicly announced program to purchase our common stock.

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of a Publicly Announced Plan	Maximum Number of Shares Still Available for Purchase Under the Plan (millions)
October 3 - October 30, 2010	-	\$ -	-	7.7
October 31 - November 27, 2010	66,902	16.27	-	7.7
November 28 - January 1, 2011	71,855	15.64	-	7.7
Total	138,757	\$ 15.94	-	

Item 3.Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6.Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) of the Exchange Act, 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) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(b) of the Exchange Act and section 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 Rule 13a – 14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities and Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 9, 2011

INTERNATIONAL GAME TECHNOLOGY

By: /s/ Patrick W. Cavanaugh
Patrick W. Cavanaugh
Executive Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)