INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
August 13, 2009

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

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

9295 Prototype Drive

Reno, Nevada 89521

(Address of principal executive offices)

(775) 448-7777

(Registrant s telephone number, including area code)

www.IGT.com

(Registrant s website)

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 [X] 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 [X] Accelerated filer [ ] Non-accelerated filer [ ] 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]

At August 10, 2009, there were 296.3 million shares of our $.00015625 par value common stock outstanding.

TABLE OF CONTENTS

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

Acronym	**Terminology**
Anchor	Anchor Gaming
APB	Accounting Principles Board Opinion
ARS	auction rate securities
AVP®	Advanced Video Platform®
Bonds	7.5% Notes due 2019
bps	basis points
CAD	Canadian dollars
CCSC	Colorado Central Station Casino
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLS	China LotSynergy Holdings, Ltd.
DCF	discounted cash flow
Debentures	2.6% Convertible Debentures
EBITDA	earnings before interest, tax, depreciation, and amortization
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
EPS	earnings per share
FAS	Financial Accounting Standard
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation
FSP	FASB Staff Position
GAAP	generally accepted accounting principles
IGT	International Game Technology
IP	intellectual property
IRS	Internal Revenue Service
LIBOR	London Inter-Bank Offering Rate
LVGI	Las Vegas Gaming International
MDA	management s discussion and analysis
Notes	3.25% Convertible Notes due 2014
OSHA	Occupational Safety & Health Administration
Pp	percentage points
PGIC	Progressive Gaming International Corporation
R&D	research and development

SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS 133	Accounting for Derivative Instruments
SFAS 157	Fair Value Measurements
SFAS 159	Fair Value Option for Financial Assets and Liabilities
SOP	Statement of Position
UK	United Kingdom
US	United States
VIE	variable interest entity
VSOE	vendor specific other evidence
WAP	wide area progressive
*	not meaningful (in table)

PART I FINANCIAL INFORMATION

Item 1.

Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENTS

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
(In millions, except per share amounts)				
Revenues				
Gaming operations	$ 287.9	$ 333.6	$ 895.7	$ 1,006.9
Product sales	234.2	343.8	703.7	889.6
Total revenues	522.1	677.4	1,599.4	1,896.5
Costs and operating expenses				
Cost of gaming operations	108.7	131.5	382.2	421.5
Cost of product sales	116.9	158.2	354.9	410.2
Selling, general and administrative	96.8	121.8	320.9	333.6
Research and development	52.1	58.4	158.4	163.5
Restructuring charges	4.1	1.6	29.8	1.6
Depreciation and amortization	19.8	18.9	59.2	56.7
Total costs and operating expenses	398.4	490.4	1,305.4	1,387.1
Operating income	123.7	187.0	294.0	509.4
Other income (expense)				
Interest income	15.1	16.7	46.4	51.0
Interest expense	(34.2)	(23.2)	(92.6)	(73.0)
Other	2.1	1.2	(2.3)	0.3
Total other income (expense)	(17.0)	(5.3)	(48.5)	(21.7)
Income before tax	106.7	181.7	245.5	487.7
Income tax provision	40.4	73.4	75.2	197.2
Net income	$ 66.3	$ 108.3	$ 170.3	$ 290.5
Basic earnings per share	$ 0.23	$ 0.35	$ 0.58	$ 0.93
Diluted earnings per share	$ 0.22	$ 0.35	$ 0.58	$ 0.92

Cash dividends declared per share	$ 0.06	$ 0.14	$ 0.27	$ 0.42
Weighted averages shares outstanding				
Basic	294.3	309.1	293.7	311.9
Diluted	295.0	311.1	294.2	315.1

See accompanying notes

CONSOLIDATED BALANCE SHEETS

(In millions, except par value)	June 30, 2009	September 30, 2008
Assets		
Current assets		
Cash and equivalents	$ 184.0	$ 266.4
Investment securities	21.1	-
Restricted cash and investments	76.8	108.0
Jackpot annuity investments	67.7	67.5
Accounts receivable, net	307.7	436.8
Current maturities of notes and contracts receivable, net	122.4	93.5
Inventories	182.2	218.3
Deferred income taxes	115.5	115.8
Prepaid expenses and other	181.2	163.8
Total current assets	1,258.6	1,470.1
Property, plant and equipment, net	567.5	590.9
Jackpot annuity investments	406.7	423.4
Notes and contracts receivable, net	230.1	148.2
Goodwill	1,152.7	1,158.5
Intangible assets, net	230.9	248.9
Deferred income taxes	175.9	136.9
Other assets	434.9	380.5
	$ 4,457.3	$ 4,557.4
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities		
Current maturities of notes payable	$ 2.2	$ 16.0
Accounts payable	63.6	105.7
Jackpot liabilities	155.8	189.7
Accrued employee benefits	20.2	64.7
Accrued income taxes	7.2	15.3
Dividends payable	17.8	42.9
Other accrued liabilities	269.1	302.4
Total current liabilities	535.9	736.7
Notes payable, net of current maturities	2,301.9	2,247.1
Non-current jackpot liabilities	443.9	461.0

Other liabilities		189.2		203.6
		3,470.9		3,648.4
Commitments and Contingencies				
Stockholders' Equity				
Common stock: $.00015625 par value; 1,280.0 shares authorized;				
336.7 and 334.9 issued; 296.2 and 294.7 outstanding		0.1		0.1
Additional paid-in capital		1,247.1		1,262.0
Treasury stock at cost: 40.5 and 40.2 shares		(799.3)		(798.5)
Retained earnings		535.4		443.5
Accumulated other comprehensive income		3.1		1.9
		986.4		909.0
	$	4,457.3	$	4,557.4

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended June 30,	**2009**	**2008**
(In millions)		
Operations		
Net income	$ 170.3	$ 290.5
Adjustments:		
Depreciation, amortization, and asset charges	212.3	210.4
Discounts and deferred issuance costs	5.5	4.6
Inventory obsolescence	10.1	15.3
Bad debt provisions	25.0	5.5
Share-based compensation	30.1	27.5
(Gain) loss on assets sold	(4.7)	0.5
Loss on investments	2.1	-
Gain on redemption of debt	(6.5)	-
Excess tax benefits from employee stock plans	-	(15.3)
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	73.1	(11.5)
Inventories	30.8	(48.2)
Other current assets	18.0	7.7
Other non-current assets	(6.8)	(45.1)
Income taxes, net of employee stock plans	(41.5)	8.2
Accounts payable and accrued liabilities	(91.7)	(78.2)
Jackpot liabilities	(71.7)	(11.2)
Cash from operations	354.4	360.7
Investing		
Capital expenditures	(175.8)	(221.6)
Proceeds from assets sold	7.7	3.9
Investment securities, net	-	87.3
Jackpot annuity investments, net	37.6	28.6
Changes in restricted cash	31.7	(77.0)
Loans receivable cash advanced	(85.4)	(38.6)
Loans receivable payments received	6.1	18.5
Investments in unconsolidated affiliates	(11.9)	(15.0)
Business acquisitions, net of cash acquired	(15.7)	(12.6)
Cash from investing	(205.7)	(226.5)
Financing		
Debt proceeds	2,789.4	698.0

Debt repayments		(2,749.8)		(303.3)
Debt issuance costs		(63.5)		-
Warrant proceeds		66.8		-
Convertible note hedge purchases		(177.3)		-
Employee stock plan proceeds		5.5		70.7
Share repurchases		-		(474.0)
Excess tax benefits from employee stock plans		-		15.3
Dividends paid		(103.5)		(132.3)
Cash from financing		(232.4)		(125.6)
Foreign exchange rates effect on cash		1.3		4.4
Net change in cash and equivalents		(82.4)		13.0
Beginning cash and equivalents		266.4		261.3
Ending cash and equivalents	$	184.0	$	274.3

See accompanying notes

3

Supplemental Cash Flows Information

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

Nine Months Ended June 30,	**2009**	**2008**
(In millions)		
Investment securities		
Purchases	$ -	$ (30.1)
Proceeds from sales	-	117.4
Net	$ -	$ 87.3
Jackpot funding		
Change in jackpot liabilities	$ (71.7)	$ (11.2)
Jackpot annuity purchases	(10.9)	(19.5)
Jackpot annuity proceeds	48.5	48.1
Net change in jackpot annuity investments	37.6	28.6
Net jackpot funding	$ (34.1)	$ 17.4
Capital expenditures		
Property, plant and equipment	$ (33.2)	$ (78.4)
Gaming operations equipment	(136.7)	(134.1)
Intellectual property	(5.9)	(9.1)
Total	$ (175.8)	$ (221.6)
Payments		
Interest	$ 71.4	$ 52.4
Income taxes	117.8	186.8
Non-cash investing and financing items:		
Accrued capital asset additions	$ 4.7	$ 13.3
Interest accretion for jackpot annuity investments	20.9	21.7
Business acquisitions/purchase price adjustments		
Fair value of assets	$ 21.9	$ 14.9
Fair value of liabilities	6.2	2.3
Accrued share repurchases	$ -	$ 36.9

See accompanying notes

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.

Summary of Significant Accounting Policies

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 present 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 includes subsequent events evaluated through the date of financial statement issuance on August 13, 2009 and should be read in conjunction with our most recent Annual Report on Form 10-K.

Our fiscal year is reported on a 52/53-week period that ends 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. The third quarters of fiscal 2009 and 2008 both include 13 weeks of operations. The nine months ended June 30, 2009 included an extra week due to our 52/53-week accounting year.

	Period End	
	Actual	**Presented as**
Current quarter	July 4, 2009	June 30, 2009
Prior year quarter	June 28, 2008	June 30, 2008
Prior fiscal year end	September 27, 2008	September 30, 2008

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.

Derivatives

We use derivative financial instruments to manage certain interest rate and foreign currency exchange risks. We enter into derivative financial instruments with high-credit quality counterparties and diversify our positions among such counterparties to reduce our exposure to credit losses.

We recognize derivative financial instruments as either assets or liabilities at fair value. Accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. We are not party to leveraged derivatives and do not hold or issue financial instruments for speculative purposes. We record derivative financial instruments on a net basis with counterparties for which a master netting arrangement has been executed. Derivative gains and losses are generally recognized in other income (expense).

Foreign Currency Hedging

We routinely use derivative financial instruments to minimize our market risk exposure related to our monetary assets and liabilities denominated in nonfunctional foreign currencies. The primary business objective of our economic hedging program is to minimize the impact to earnings from changes in foreign exchange rates. These hedging instruments are subject to fluctuations in value that are generally offset by the value of the underlying exposures being hedged. Counterparties to our agreements are major commercial banks. These forward exchange contracts are generally not designated SFAS 133 hedges, and gains or losses are recognized in other income (expense).

We hedge significant investments denominated in foreign currency with forward exchange contracts to protect the US dollar value of our investment. These forward exchange contracts are designated SFAS 133 fair value hedges. These derivative gains and losses are recorded in other income (expense) together with the offsetting gain or loss on the change in the investment s fair value attributable to the changes in foreign currency rates. Time value is excluded from effectiveness testing.

Interest Rate Management

We enter into interest rate swap derivatives to diversify our debt portfolio between fixed and variable rate instruments. The amount and term of each swap is matched with all or a portion of outstanding principal and remaining term of a specific obligation. Our swaps exchange fixed rates for variable rates without an exchange of the notional amount upon which they are based.

These swaps are designated SFAS 133 fair value hedges because they protect us against changes in the fair value of a portion of our fixed rate borrowings due to interest rate movements. We recognize the gains or losses from the changes in fair value of the swaps, as well as the offsetting change in the fair value of the hedged designated portion of long-term debt, in other income (expense). Ineffectiveness, if any, is also recorded in other income (expense). Amounts receivable or payable under the swaps are net settled and recorded as a net receivable or payable with corresponding adjustments to interest expense.

Recently Issued Accounting Standards

SFAS 157 (including FSPs)

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. We adopted this statement for financial assets and liabilities effective October 1, 2008 and will apply SFAS 157 for nonfinancial assets and liabilities effective October 1, 2009 in accordance with FSP FAS 157-2, effective date of FASB Statement No.157. The adoption of SFAS 157 had only a minimal impact on our financial statements. See Note 17.

SFAS 159

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, permitting entities to elect fair value measurement for many financial instruments and certain other items. Unrealized gains and losses on designated items will be recognized in earnings at each subsequent period. SFAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. We adopted this statement effective October 1, 2008 and elected the fair value option for our ARS put rights obtained in November 2008. The adoption of SFAS 159 did not have a material impact on our financial statements. See Notes 9 and 17.

SFAS 161

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities*. This statement requires disclosures about derivatives and hedging activities, including enhanced disclosure about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, and (c) how derivative instruments and related hedged items affect financial position, financial performance, and cash flows. This statement was effective for periods beginning after November 15, 2008 and our adoption in the second quarter of fiscal 2009 resulted in expanded disclosures concerning our derivative instruments and hedging activities. See Note 16.

FSP FAS 115-2 & FAS 124-2

In April 2009, the FASB issued FSP FAS 115-2 & FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP requires that an entity determine whether an impairment of debt securities has occurred. If the entity intends to sell the security or it is more likely than not that it will be required to sell the security before recovery, the entire impairment loss is recorded in earnings. If the entity does not expect to recover the entire amortized cost basis of the security, the amount representing the credit loss is recognized in earnings and the amount due to other factors is recognized in other comprehensive income. The FSP also requires disclosures in interim and annual periods of major security types with the related amortized cost basis and the method and significant inputs used to measure credit losses along with a tabular roll forward (required if only a portion of the impairment loss is recognized in earnings). This guidance is effective for the current quarter ended June 30, 2009 and had only a minimal impact on our disclosures.

FSP FAS 107-1 and APB 28-1

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires quarterly disclosures of the fair value of financial instruments that were previously required only annually, with additional disclosures about the methods and significant assumptions used to estimate the fair value. With the adoption of this FSP at June 30, 2009, we expanded our interim disclosures. See Note 17.

SFAS 165

In May 2009, the FASB issued SFAS 165, *Subsequent Events*, which establishes principles and requirements for reporting events or transactions occurring after the balance sheet date. It requires an entity to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued. It also requires an entity to consider supplementing the financial statements with pro forma financial information if an unrecognized subsequent event is significant and to reissue financial statements filed with the SEC or other regulatory agencies if failure to do so could make the financial statements misleading. We adopted this statement for the quarter ended June 30, 2009 and updated our disclosures accordingly.

SFAS 168

In June 2009, the FASB issues SFAS 168, *Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles*, which establishes the Codification as the single source of authoritative US GAAP. This statement is effective for interim and annual statements issued after September 15, 2009 and will change the way we reference accounting standards in future disclosures.

SFAS 141(R) and SFAS 160 (including FSPs)

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*, and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin 51*. These statements will change the way we account for business combinations and noncontrolling interests (i.e. minority interests), requiring more assets and liabilities to be measured at fair value as of the acquisition date. Contingent consideration liabilities will require remeasurement at fair value in each subsequent reporting period. Acquisition related costs, such as fees for attorneys, accountants, and investment bankers, will be expensed as incurred and no longer be capitalized as part of the business purchase price. Noncontrolling interests will initially be measured at fair value and classified as a separate component of equity.

Both statements provide for prospective application in fiscal years beginning on or after December 15, 2008, which is IGT s fiscal 2010, and earlier application is prohibited. SFAS 141(R) applies only to business combinations consummated after fiscal years beginning on or after the effective date, with the exception of income taxes. For all acquisitions, regardless of the consummation date, deferred tax assets and uncertain tax position adjustments occurring after the measurement period will be recorded as a component of income tax expense, rather than adjusted through goodwill. SFAS 160 will require retrospective application for presentation and disclosures in comparative financial statements (e.g. reclassification of noncontrolling interests to appear in equity).

FSP EITF 03-6-1

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP mandates that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents be considered participating securities and be included in the computation of EPS pursuant to the two-class method. This change will become effective for fiscal years beginning after December 15, 2008, or the first quarter of IGT s fiscal 2010, and requires retrospective application for all periods presented. We estimate the computation under the two-class method incorporating unvested restricted stock awards as participating securities may reduce our annual diluted EPS by up to $0.01 per share.

EITF 07-5

In June 2008, the FASB ratified EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*. EITF 07-5 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. It is effective for fiscal years (including interim periods) beginning after December 15, 2008, which is the first quarter of IGT s fiscal 2010. We do not expect the adoption of this issue will have a material impact on our results of operations, financial position, or cash flows.

FSP APB 14-1

In May 2008, the FASB issued FSP APB 14-1, *Accounting For Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)*. This FSP requires the separation of debt and equity components for convertible debt instruments that may be settled in cash upon conversion. The debt component will be equal to the fair value of a similar liability and reflect the entity's borrowing rate for nonconvertible instruments. The equity component will be the residual difference between the proceeds and the value of the debt component. This FSP is effective for fiscal years (including interim periods) beginning after December 15, 2008 and requires retrospective restatement of all periods presented. We will adopt FSP APB 14-1 in the first quarter of our fiscal 2010 and estimate it will increase quarterly interest expense between $6.0 million and $10.0 million and reduce quarterly diluted EPS between $0.01 and $0.02 related to our Debentures and Notes for fiscal years 2009 and 2010.

SFAS 167

In June 2009, the FASB issued SFAS 167, *Amendments to FASB Interpretation 46 (R)*, which requires us to re-evaluate all existing and future VIE arrangements as to whether we are the consolidating primary beneficiary based on qualitative factors, in addition to the quantitative analysis, and reassess our position on an on-going basis. This SFAS is effective for fiscal years (including interim periods) beginning after November 15, 2009, which is the first quarter of IGT's fiscal 2011, and must be adopted through a cumulative-effect adjustment (with a retrospective option). We continue to evaluate the extent to which SFAS 167 will impact our results of operations, financial position, or cash flows.

2.

Restructuring Costs

In response to reduced demand, we have been conducting an ongoing company-wide strategic review of our costs and organizational structure for further opportunities to maximize efficiency and align our expenses with the current and long-term business outlook. Through July 2009, we have reduced our global workforce by approximately 15% from

September 30, 2008 levels, through a combination of voluntary and involuntary separation arrangements.

We recognized third quarter restructuring charges of $4.1 million, net of $1.0 million in forfeited stock compensation, and $29.8 million, net of $2.7 million in forfeited stock compensation, for the nine months ended June 30, 2009. The remaining accrued costs are expected to be paid over the next several quarters.

Accrued restructuring costs as of and for the nine months ended June 30, 2009

(In millions)		
Severance and benefits	$	31.9
Other costs		0.6
Total cash costs		32.5
Cash paid		(26.3)
Ending accrued cash costs	$	6.2